

VENKATESH GANAPATHY

# Modern Day Retail Marketing Management



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# **MODERN DAY RETAIL MARKETING MANAGEMENT**

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1<sup>st</sup> edition

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CYLINDERS, Mumbai

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# 1 PLAYING THE RETAIL GAME

## Learning objectives:

- To understand what retail marketing management entails
- To learn about the economic value of retailing
- To understand the functions of the retailer
- To learn about retail store atmospherics
- To review the theories of retail development
- To identify the different phases of organized retail

*Retailing* involves selling products and services to consumers for their personal or family use. *Retailing* is the sale of goods or commodities in small quantities directly to consumers. It is a commercial transaction in which a buyer intends to consume the good or service through personal, family, or household use. *E-tailing* is the selling of retail goods electronically over the Internet.

Retailing – derived from the French word ‘Retaillier’ that means ‘a piece of’ or ‘to cut up’. Breaking of bulk means acquiring a large amount of products to be sold and dividing it into smaller amounts. Purchases for business or industrial use are not considered as retail transactions.

A retailer is a dealer or trader who sells goods in small quantities. Retailers interact with the final customer in a supply network. The main purpose of retail is to meet the needs, wants and desires of a specific group of customers.

## Economic Value of Retailing

Retailing provides real added value of utility to customer. Retail offers finished goods and services in a form that customers want. Offerings are available at a place appropriate to where a customer wants to purchase. Retailers make offerings to customers at a time suitable to their customers. There is a utility from possession in that retailers facilitate the transfer of ownership to customer.

Retailers have to get close to their potential customers to provide these real benefits. Retailers have to understand the motivations that drive their customers and different types of utility that a particular retailer can offer.

In retailing, you have to consider:

- Moment of consumption
- Purchase Experience

Both these have to be controlled by the Retailer. Moment of consumption is the point at which the purchased item is first used and this can be immediate or delayed. Controlling the experience means how the retailer can manipulate the environment in which the customer makes a purchase decision.

Retail marketing is the range of activities undertaken by a retailer to promote awareness and sales of the company's products. This is different from other types of marketing because of the components of the retail trade, such as selling finished goods in small quantities to the consumer or end user, usually from a fixed location.

### **Functions of Retailer**

#### **1. Buying:**

A retailer buys a wide variety of goods from different wholesalers after estimating customer demand. He selects the best merchandise from each wholesaler and brings all the goods under one roof. In this way, he performs the twin functions of buying and assembling of goods.

#### **2. Storage:**

A retailer maintains a ready stock of goods and displays them in his shop.

#### **3. Selling:**

The retailer sells goods in small quantities according to the demand and choice of consumers. He employs efficient methods of selling to increase his sales turnover.

#### **4. Grading and Packing:**

The retailer grades the goods which are not graded by manufacturers and wholesalers. He packs goods in small lots for the convenience of consumers.

#### **5. Risk-bearing:**

A retailer always keeps stock of goods in anticipation of demand. He bears the risk of loss due to fire, theft, spoilage, price fluctuations, etc.

**6. Transportation:**

Retailers often carry goods from wholesalers and manufacturers to their shops.

**7. Financing:**

Some retailers grant credit to customers and provide the facility of return or exchange of goods. In some cases, home delivery and after sale service are provided by retailers.

**8. Sales promotion:**

A retailer displays goods. He carries out publicity through shop decoration, window display, etc. He maintains direct and personal contacts with consumers. He persuades consumers to buy goods through personal selling.

**9. Information:**

Retailers provide knowledge to consumers about new products and uses of old products. They advise and guide consumers in better choice of goods. They also provide market information to wholesalers and manufacturers.

Retailing is not simply selling. Even when there is a face-to-face contact there are many marketing activities necessary before, during and after a sale in order to ensure that the customer is fully satisfied. Marketing is simply managing the exchange with customers in the best possible way. The ability of retailers to increase the availability of merchandise is fundamental to success. The objective of marketing in retailing is to ensure that the best possible exchange actually takes place between a supplier and a customer while making a profit for the retailer.

The employees in retail are the front-line customer contact points. If they are low paid, with a feeling of being in a dead-end job, it can be difficult to achieve the real enthusiasm and customer orientation necessary to achieve retail success in an interactive environment. This is a great challenge for the retail marketer, as all the attention to the other aspects of the retail marketing mix can be nullified by a poor experience at the point of sale. The utilization of self-selection retailing and other initiatives aimed at reducing the dependence on staff, illustrates that marketing thinking rather than selling techniques are crucial. The new marketing activities focus on the dynamic link between a specific supplier and their immediate customer. It is here that the needs of retailing coincide with the domain of marketing. There are two specific dimensions to retail marketing.

1. How to attract the customers in the retail environment – shop, restaurant, pub, or virtual internet store.
2. How to persuade those customers to make purchases from the store.

Both are necessary to achieve success in retail marketing.

The role of the retailer as the critical link between manufacturer and consumer has become more apparent. Earlier, in the 70's the manufacturer had a greater hold on retailer, but today with increasing competition and the growth of the retailer's own label products, the leading brands are not so critical. We are living in a world where retailer takes the final call regarding the storing of a particular brand. Retailers can change suppliers to obtain a more suitable item. When a UK supplier refused to supply Levi Jeans, Tesco supermarket group sourced Levi Jeans from the USA. Though power has shifted to retailers, success is still dependent on good "Market-driven" actions. Retailers still require good partnerships with suppliers.

### **Retail Atmosphericics**

The controllable characteristics of a retail space that entice a customer to enter the store, and which are designed to influence a customer's mood so as to increase the odds of a purchase being made is called as atmosphericics. Atmosphericics include the store's layout, noise level, temperature, lighting and decorations. They are designed to set the store apart from its competitors in a positive way. It is part of an overall companies branding and image.

All retails stores have atmosphericics, even if they are subtle. For example, a big box office supply store may be known for its well-lit aisles and bright red signs. Another example would be a clothing retailer targeted at teenagers, which uses contrasted lighting and loud music. The drawback to an aggressive use of atmosphericics is that they can drive away customers who prefer a more nuanced interaction with their environment.

### *Definition of 'Stock Keeping Unit – SKU'*

A store's or catalog's product and service identification code, often portrayed as a machine-readable bar code that helps the item to be tracked for inventory is called as a stock keeping unit. A stock keeping unit (SKU) does not need to be assigned to physical products in inventory. Often, SKUs are applied to intangible, but billable products, such as units of repair time or warranties. For this reason, a SKU can be thought of as a code assigned to a supplier's billable entities

SKUs are used by suppliers within their data management systems, to help track amounts of product in inventory, and/or units of billable entities sold. SKUs help suppliers be able to track efficiently, the numbers of individual variants of products/services sold or remaining in stock. They are not to be confused with the model number of a product, although model numbers and attributes are often included to form all or some of a SKU.

### **Key marketing factors in Retailing**

- Retailer has to gain the attention of the customer and at least ensure that an offer is included in the customer's evoked set of acceptable alternatives.
- Choice of Retailer is more important than choice of product. Customer may wish to buy more than one product and so retailers have to consider groups of purchases rather than a single item.

For a retailer, the total product offering comprises:

1. Location and perceived image
2. Internal environment and core product
3. In store stimuli
4. Relationship issues and building loyalty

The traditional Retail marketing mix was described as place, place, place and place. The product still has to be accessible. The concept of Place has to be redefined. The marketplace must be compatible with the lifestyle and behavior of the target customer.

Greater understanding of a customer and then activity cycle will lead to a wide definition of place based on the test of availability for that specific customer. Correct attention has to be given to this key factor in retail success. This knowledge must be compared with the type of product that is to be offered.

For a shopping good/item (a new CD player), consumers might go to shop, visit many locations, including the Internet. For an emergency item, e.g. a replacement windscreen for a car, the retailer must be contacted often by telephone, but will have to come to supply at the scene of the problem.

For an impulse purchase product (say a chocolate bar) the item must be available in convenient (physical) locations at the specific time – when a desire could be present. Each of these categories requires a different definition of 'place' in order to lead to retail success.

Location choices are the most strategic of all retail marketing decisions. This is mainly to counter competition. Besides locational decision making, the management of existing ones to maximize the effectiveness of a store portfolio is essential. Key decisions have to be made at the strategic level concerning the breadth and depth of the overall store portfolio.

Retailing is the bringing together of customers with the final link in the distributive chain. This involves direct contact with the actual consumer. These contacts – moments of truth. Moments of Truth are crucial to the achievement of or failure to achieve a sale (exchange transaction).

### The Retail Marketing Mix

Element	Description
Location	Physical or virtual placement of outlets
Image, Reputation	Managing and encouraging demand (Traffic/shopper visits)
Store design/Environment	Interior and exterior design (layout, display, atmospherics)
Range/assortment	Mix of items offered for sale
Pricing	“Shelf” prices relative to competitors
Promotion	Store-based and market based communication
Customer service	During and post sales
Relationship management	Building loyalty and positive shopper perceptions

### THEORIES OF RETAIL DEVELOPMENT

Retail development can be looked at from a theoretical perspective. No single theory can be universally applicable or acceptable. Application of each theory varies from market to market depending on the level of maturity and socio-economic conditions in that market.

As the needs the consumers grew and changed, one saw the emergence of commodity specialized mass merchandisers in the 1970s. The seventies were also witness to the use of technology entering retail sector with the introduction of the barcode. Specialty chains developed in the 80s as did the large shopping malls.

Shopping malls, a late 20th century development were created to provide for the consumer’s need in single, self contained shopping area. Although they were first created for the convenience of suburban populations, they are now found in many main city thoroughfares. A large branch of a well known retail chain usually serves as a mall’s retail flagship, which is the primary attraction for customers. In Asian countries, many malls house swimming pools, arcades and amusement parks. Hong Kong’s City Plaza shopping mall includes one of the territory’s two ice rinks.

The world of retail changed yet again, when in 1995, Amazon.com opened its doors to a worldwide market on the web. With the growth of the worldwide web, both retailers and consumers can find suppliers and products from anywhere in the world.

Thus, the evolution of retail formats worldwide has been largely influenced by a constantly changing social and economic landscape. One of the main reasons for new formats emerging is the consumer himself. Today's consumer when compared to the consumer of the earliest generation is definitely more demanding and is focused on what he wants. Consumer demand is the prime reason for the emergence of various formats.

The retailer on the other hand, has been influenced by factors like the availability of real estate and the increase in its prices. He is faced with the challenge of adding on new services and the need for differentiation. This has led to specialization and the emergence of specialists. Supply chain complexities and the increasing pressure on margins have also forced retailers to look at new formats.



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Academicians have attempted to study the evolution of the retail sector. The theories explain how competitive pressures and organizational competence contributed to growth of retail. Strategic planning has become essential in Retail due to the fact that sustainable competitive advantage has become very essential in retail.

Two things are essential for a retailer. He needs to understand and interpret the signals emerging from the market. Secondly, a retailer must know how to leverage the opportunities. Growth in retail is a result of understanding market signals and responding to the opportunities that arise in a dynamic manner.

Theories of retail development are broadly classified as:

1. Environmental – where a change in retail is attributed to the change in the environment in which retailers operate.
2. Cyclical – Here change follows a pattern. Phases have definite identifiable attributes associated with them.
3. Conflictual – the competition between two different types of retailers leads to the development of a new retail format. Example – the competition between mom and pop stores and modern day retail stores led to growth and development of electronic retail.

### **Environmental Theory:**

Darwin's theory of natural selection has been popularized by the phrase survival of the fittest. Retail institutions are economic entities and retailers confront an environment, which is made up of customers, competitors and changing technology. This environment can alter the profitability of a single retail store as well as of clusters and centers. The environment that a retailer competes in is sufficiently robust to squash any retail form that does not adjust.

Thus, the birth, success or decline of different forms of retail enterprise is many a time attributed to the business environment. For example the decline of department stores in the western markets is attributed to the general inability of those retailers to react quickly and positively to environmental change. Those retail institutions which are keenly aware of their operating environment and which react without delay, again from the changes.

Thus, following the Darwinian approach of survival of the fittest, those retailers that successfully adapt technological, economic, demographic and legal changes are the ones that are most likely to grow and prosper. The ability to adapt to change, successfully, is at the core of this theory.

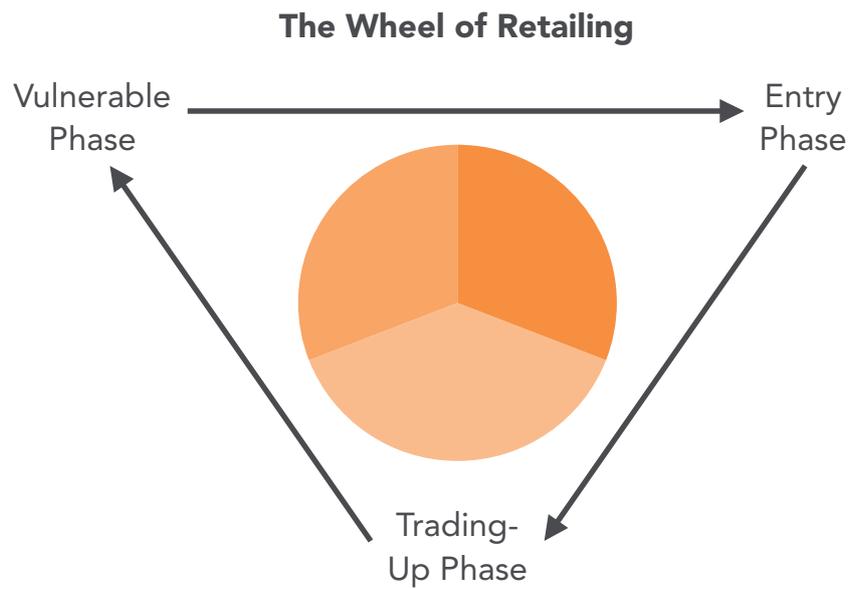
Retailers have to operate in an environment that comprises customers, competitors, suppliers, logistics service providers, software providers etc. Retailers also need to be agile in terms of adapting to technology that is redefining the retail landscape. Change in the environment can affect an individual retail store, clusters or centers. A retailer can adapt to the dynamic environment or perish gradually. Thus, the birth, success or decline of different forms of retail enterprise can be attributed to the business environment. So retail institutions must be keen to learn about the changes in their operating environment.

Retailers who can successfully adapt to technological, economic, demographic and legal changes are the ones who are likely to grow and prosper.

### Cyclical Theory

Professor Malcolm McNair introduced the concept of “Wheel of Retailing”. Retail innovators often first appear as low-price operators with a low-cost structure and low profit margin requirements, offering some real advantages like specific merchandise which enables migration of their customers from competitors. As they prosper, they develop their business and offer a plethora of items/services and lose the focus. They also become expensive in the process. Now they become vulnerable to discounters and retailers who have lower cost structures who have taken their place along the wheel. As a result of this, scrambled merchandising occurs in which retailer adds goods and services that are unrelated to each other and the firm’s original business to increase overall sales and profit margins. This is what is called as “Wheel of Retailing”.





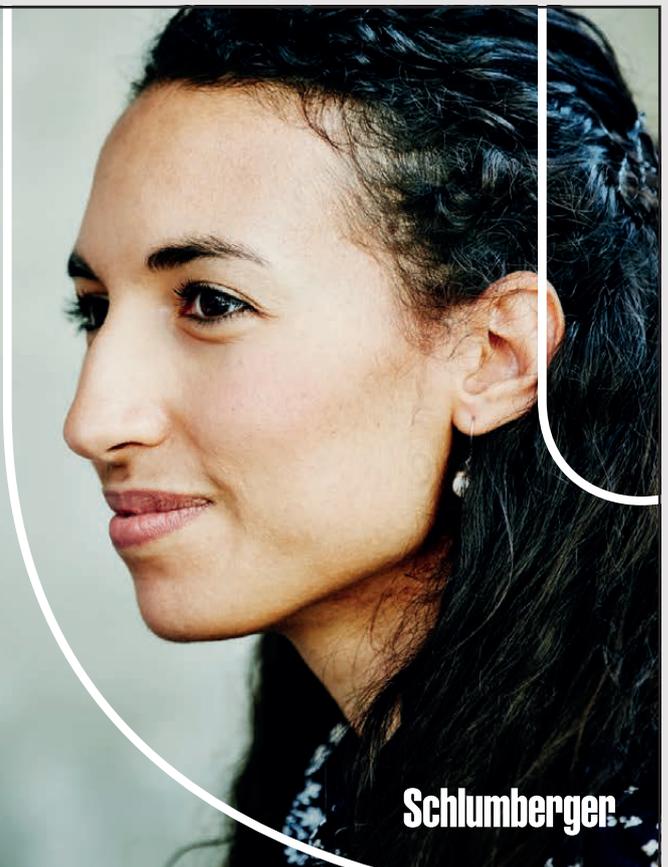
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## Wheel of Retailing



(Adapted from Levy, Michael etc)

The theory of wheel of retailing can be understood by taking the example of department stores which started as low cost competitors to the small retailers; they developed and prospered; then they were severely undercut by supermarkets and discount warehouses. The limitation of this theory is that it does not explain how introduction of a retail format in a less developed market can occur at a higher price.

In 1960 Hollander used the analogy of an orchestra to describe the dynamically shifting retail structure. General stores moved to specialize. Then they widened their range of merchandise again as new classes of products were added. The players either have 'open accordions', representing general retailers with broad product ranges or 'closed accordions' where the range is narrow and the focus is on specific merchandise. At any point of time, one type of retailer would outnumber the other. The situation would continually change through the arrival and departure of different stores. The retail scene is complex as attitudes to successful retailing will come in and go out of fashion at different times. Both the Accordion theory proposed by Hollander and the Wheel of Retailing are called as the cyclical theories.

According to the wheel of retailing theory, retail innovators often first appear as low price operators with low costs and low profit margin requirements. Over time, the innovators upgrade the products they carry and improve their facilities and customer service (by adding better quality items, locating in higher rent sites, providing credit and delivery and so on) and prices rise. As innovators mature, they become vulnerable to new discounters with lower costs hence, the wheel of retailing.

The wheel of retailing is grounded on four principles.

- There are many price sensitive shoppers who will trade customer services, wide selections, and convenient locations for lower prices.
- Price sensitive shoppers are often not loyal and will switch to retailers with lower prices. However prestige sensitive customers enjoy shopping at retailers with high end strategies.
- New institutions are frequently able to have lower operating costs than existing institutions.
- As retailers move up the wheel, they typically do so to increase sales, broaden the target market, and improve their image.

High end strategy	Medium strategy	Low end strategy
High prices	moderate prices	Low prices
Excellent facilities and services	Improved facilities	Limited facilities and services
upscale consumers	Broader base of value and service conscious consumers	Price sensitive consumers

As a low end retailer upgrades its strategy to increase sales and profit margins, a new form of discounter takes its place. The wheel of retailing suggests that established firms should be wary in adding services or converting a strategy from low end to high end. Because price conscious shoppers are not usually loyal they are apt to switch to lower priced firms. Furthermore, retailers may then eliminate the competitive advantages that have led to profitability. Scrambled merchandising involves a retailer increasing its width of assortment (the number of different product lines carried). Scrambled merchandising occurs when a retailer adds goods and services that may be unrelated to each other and to the firm's original business.

Hollander tried to address the complexity of the retail scene and the way different attitudes to successful retailing will come in and out of fashion at different times. The key objective of every retailer is to achieve some form of competitive advantage for their offerings in a very crowded, yet vibrant retail market place.

### **Conflict theory**

There is always conflict between operators of similar formats or within broad retail categories. Retail innovation does not necessarily reduce the number of formats available to the customer, but leads to the development of more formats. It is not necessary that all formats will achieve the same degree of success. Some formats may fizzle out after the initial euphoria. Retailing thus evolves through a dialectic process i.e. the blending of two opposites to create a new format. Individual retailers exist across all corners. They begin competing with department stores and finally there is competition from supermarkets and hypermarkets.

### **Phases of organized Retail**

#### **Phase 1**

Retailers focus on category and quality of products and services differentiation from other retailers.



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## **Phase 2**

Competition intensifies product and service standards. Price is the main focus. Discount stores are an example.

## **Phase 3**

Competition peaks. Evolution of hypermarkets is part of this phase. Hypermarkets compete on price and a wider product range, but they lack product depth and service components.

- Value added products
- Services
- Good ambience and brands
- Growing consumerism in middle class
- Quality commercial real estate
- Multiple sourcing options

Global Retailers identify emerging market countries on basis of

- Country risk
- Market attractiveness
- Market saturation
- Time pressure
- Unorganized retail market – Mom and Pop stores – shop in the front and house at the back.
- More than 99% retailers function in less than 500 sq. ft. of area.

## **Consumer behavior in Retail**

Consumer behavior is difficult to judge due to variation in behavior of individual consumers.

- How can you build understanding of consumer behavior?
- Understanding of different group of customers.
- Identify different segments
- What is the customer's perception towards retail shopping?
- Effectiveness and impact of different promotion tools.
- Basic buying motives of customers from particular stores.
- Demographic, social, cultural factors.
- Possibilities for continuous improvement and better retail service quality.

## **Demographic Factors**

Customers, education level, income level, socio economic class of customers, life style, value orientation of customers. Data mining tools – target specific group of customers. Several studies have revealed that consumer's selection of a retail store involves prestige seeking buying behavior and the choice is driven by their social and organizational status.

A company president and top managers are likely to visit high end stores like lifestyle and stores of designer brands. People from middle and lower income group are more likely to frequent value for money stores like Big Bazaar. Globus and Provogue target people who like to be seen as trendy and fashion conscious.

## **Retailer Evaluation by customer**

- Convenient location
- Parking Space
- Display/Merchandising
- Image of Retail Store
- Quality of Service
- Sales Returns
- Sales Staff behavior
- Fairness of price
- Discounts
- Quality of Products sold (no expired products on shelves)
- Promotional schemes
- Shopping Experience
- Ambience/Atmosphere of Retail outlets
- Relationship with retailer
- Wide variety or more choice/range of products

## **Selection of Merchandise within Retail stores**

- Need Recognition
- Search for information about products
- Display of products, overall layout of stores
- Behavior of sales person
- Product selection – price quality brand
- Product purchase
- Post purchase evaluation

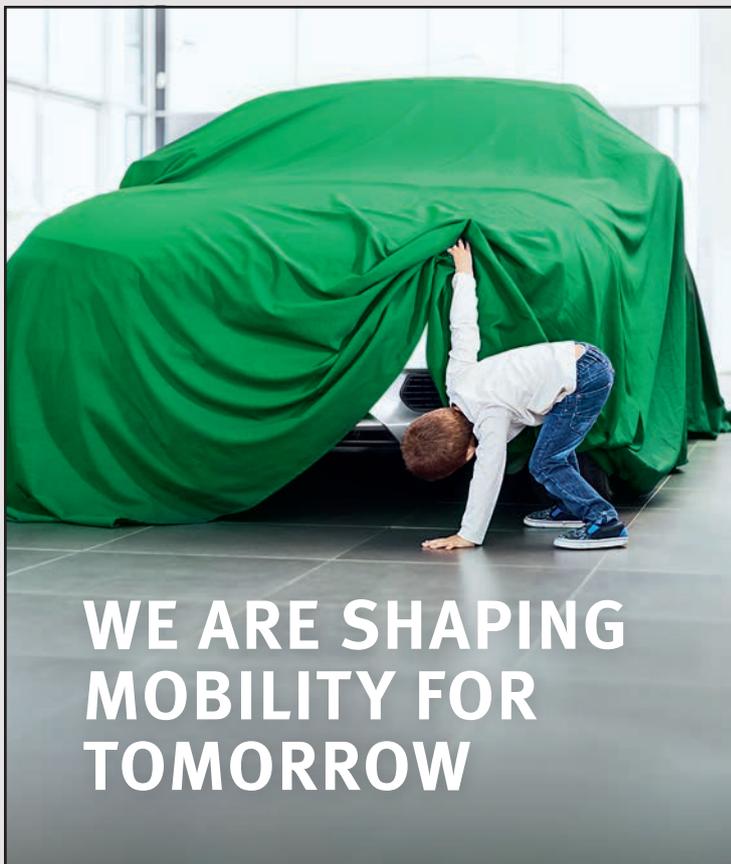
## Store Atmospherics

This constitutes the exteriors and interiors of the stores and the manner in which they are designed to create the ambience for a fashion boutique or a store. Atmospherics is the process that managers use to manipulate the physical retail or service environment to create specific mood responses in shoppers.

Internet retailers have atmospheres that are determined by graphics, colors, layout, content, entertainment features and interactivity tone. A store's atmosphere affects the shopper's mood and willingness to visit and linger. It also influences the consumer's judgments of the quality of the store and the store's image. A positive mood induced in the store increases satisfaction with the store and produces repeat visits and store loyalty. Purchase of high-end electronic products like cellular phone, laptop, digital camera, LCD TV fall under this category.

### Store Atmosphere is influenced by attributes such as:

1. Lighting
2. Layout
3. Presentation of merchandise
4. Fixtures
5. Floor coverings



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8. Dress and behavior of sales and service personnel

### **Theory of Cognitive Dissonance**

State of confusion that occurs when facts are twisted into half-truths, colliding with common sense characterizes cognitive dissonance. Cognitive dissonance is a major challenge for marketers because it leads customers to postpone or delay the buying decision. When new information threatens their previous view or assumptions they feel uneasy and resort to defensive behavior.

How can marketers deal with cognitive dissonance?

- Promotion schemes (free gifts and accessories)
- Good after sales support
- Availability of buy back and exchange offers.

### **The Essence of Successful Retailing**

1. Create enough customers to ensure profitable trading.
2. Satisfy customers so that they give positive word of mouth referrals and also come again for repeat purchase.
3. Perception of value by customer is important. Value perceived benefits.
4. Outperform other retail competitors.

Retailers have to fund their stockholding and retailer profitability is a function of stock turnover and margins realized. If turnover is low then there is little revenue to set against the costs and this is the main reason for retail failure.

Retailers have to take strategic decisions regarding where they wish to operate. They have to take decisions on the target customers that they hope to attract as well as the product/service assortments that they intend to offer. Strategic options also involve positioning whether it should be on high end or on low end. Then there are category killers.

Category killers are retailers who offer an enormous range and promising prices that reflect the enormous buying power, these retailers effectively dominate the segment.

### Different Retail formats

Retailing organizations can be categorized as:

- With reference to the type of customers served – consumer, industrial or re-seller.
- With reference to the type of premises and the market space occupied – fixed store, mobile or non-store.
- There are also multiple retail outlets and single outlet retailers.
- In terms of the type of merchandise – offered, range and assortment, price position and level and type of service available.

### What are consumer markets?

Here the purchase is made to supply the needs of an individual or a small group, may be a family or household. Products are often bought in small quantity and there are typically many millions of customers in these markets. For consumer markets, the location of a retailer and the environment in which the offering is made is more important than say in an industrial market.

Shopping goods	FMCG
The durable are usually selected after shopping around to compare – price, quality, features (e.g. Washing machines, cars, computers)	Fast moving consumer goods. Soaps, shaving creams.

### Industrial markets

The products are bought by a commercial organization. A retailer is involved when service provided offers better value than buying direct. Industrial customers are more interested in the value delivery. Price, Quality and reliability of the on time supply. Regular supplies depend on the performance of the customer in their own markets.

### Re-seller markets

There are some organizations that buy goods and/or services to sell them on profit.

### Wholesalers – Metro cash n carry

This type of retail format will use many more promotional offers than an industrial retailer. Fixed store (brick and mortar) operations – location is critical, customers have to travel to the store in order to make a purchase.

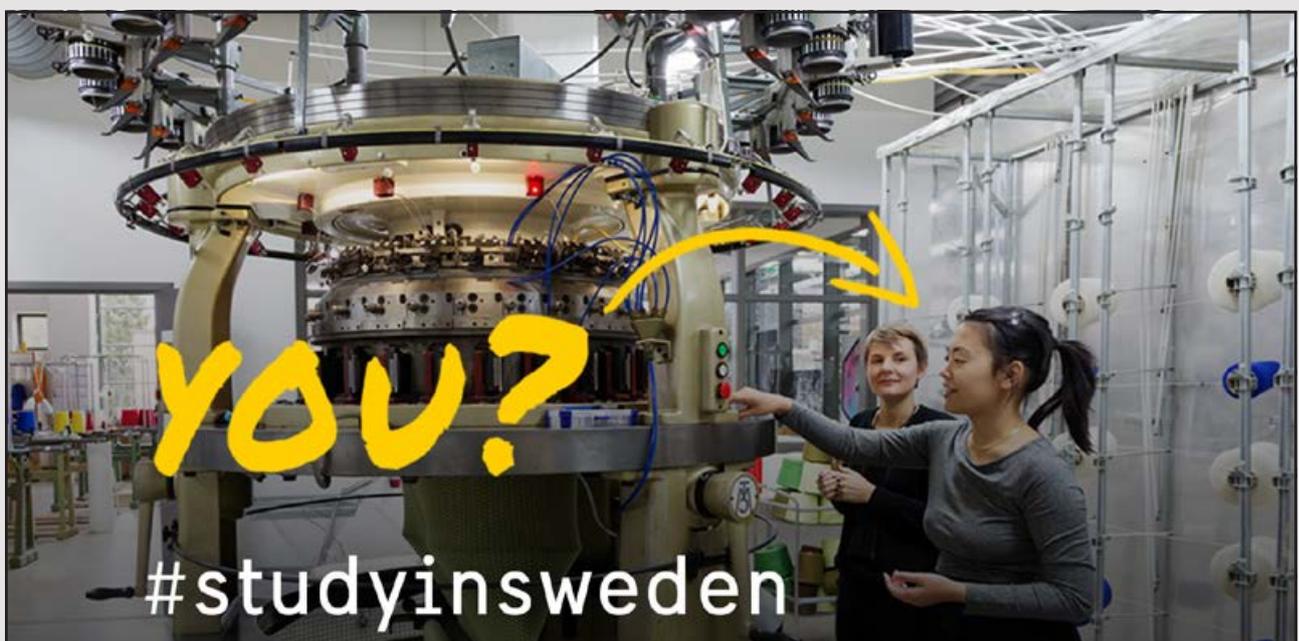
**Factors that have contributed to the growth of non-store retailing are:**

1. The consumer's need to save time.
2. The erosion of fun in some shopping experiences.
3. The lack of qualified sales helps in stores to provide information.
4. The explosive development of the telephone, the computer and telecommunications in general.
5. The consumers desire to eliminate the middleman's profit and reduce prices.

By effective planning, retailer can meet the changes within the macro environment. Success comes from adapting to the environment better than the competitors. Decision making process has to be objective.

What are the main considerations of Retailers?

1. Store location
2. Assortment of products to be offered
3. Prices charged for those products
4. Promotion of products both inside and outside the store
5. Customer service
6. Relationship management



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<b>High touch products</b>	<b>Low touch products</b>
Products which the shopper prefers to have physical contact with before purchase (clothes, shoes, fresh groceries)	Products that can be assessed by shoppers without physical contact (books, PCs, CDs travel bookings)

### **Index of retail saturation**

The index of retail saturation is defined as the ratio of demand for a product (households in the geographic area multiplied by annual retail expenditures. For a particular line of trade per household) divided by available supply (the square footage of retail facilities of a particular line of trade in the geographic area).

$$IRs = (H * RE)/RF$$

H = number of households in the area

RE = annual retail expenditures for a particular line of trade per household in the area

RF = Square footage of retailer facilities of a particular line of trade in the area (including square footage of proposed store)

$$IRS \text{ (city A)} = 17000 * 6.28 / (2000 + 500) = 42.70$$

$$IRS \text{ (city B)} = 17000 * 6.28 / (2500 + 500) = 35.59$$

### **Buying power index**

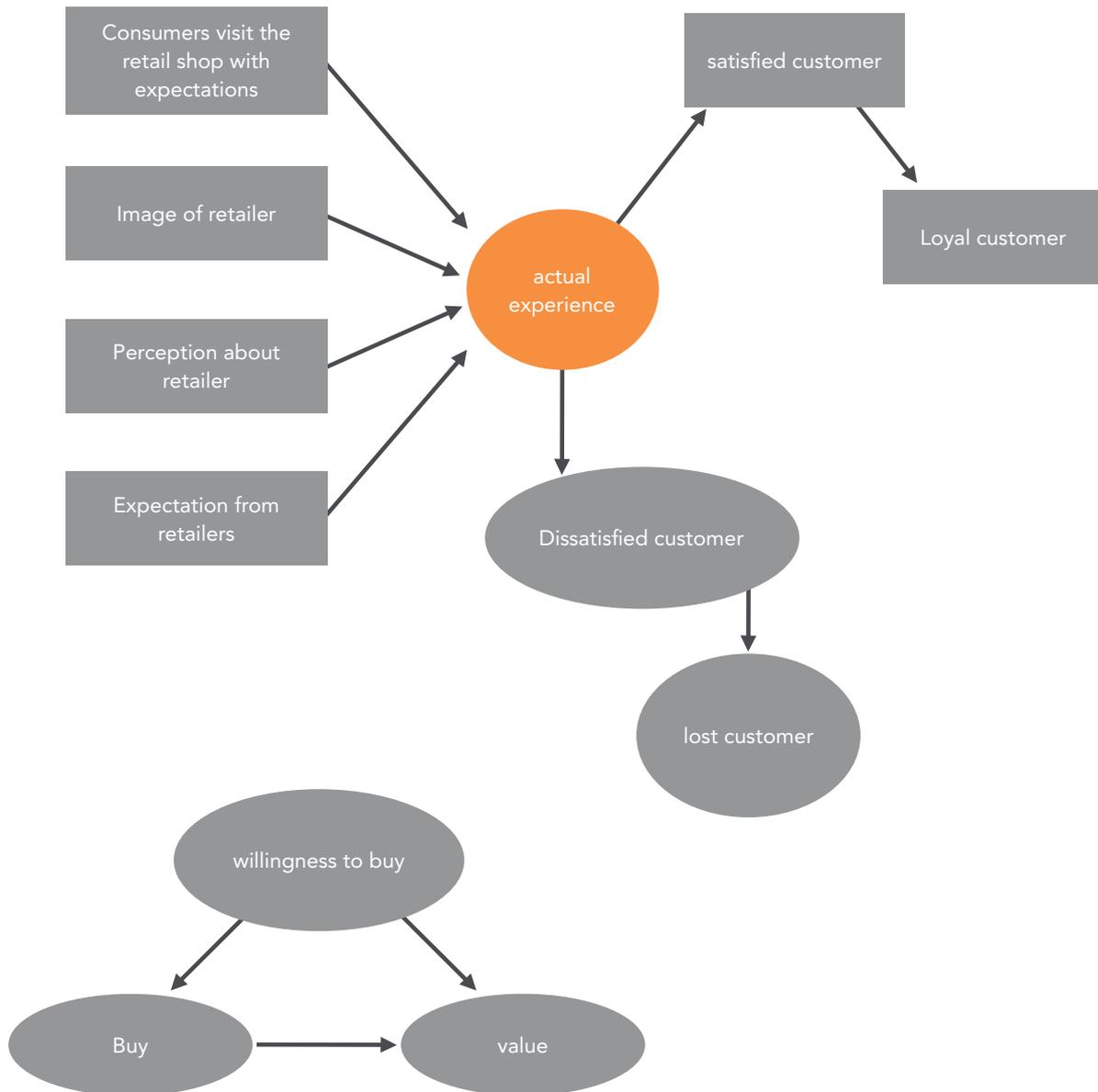
This is an indicator of a market's overall retail potential and is composed of weighted measures of effective buying income, including all non-tax payments (social security) retail sales and population size.

$$BPI = 0.5 \text{ (area's \% of US effective buying income)} + 0.3 \text{ (area's \% of US retail sale)} + 0.2 \text{ (area's \% of US population)}$$

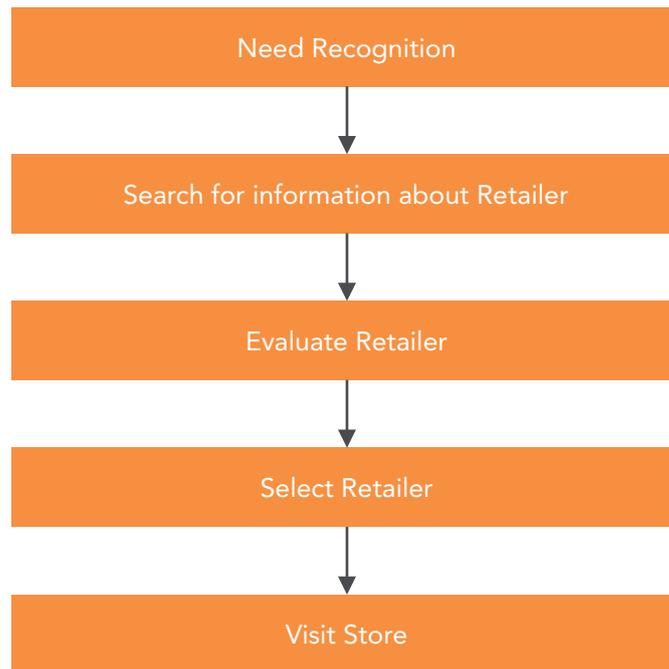
## Worldwide view of Retail industry



### Role of Retail outlets in customer satisfaction



### Customer Retail store selection process



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### **Retail – a tough business!**

Retail is a tough business to be in. To succeed in the long run, a retailer needs to have a proper strategy in place. Retail is a low margin, high failure rate business. Sir Terry Leahy from Tesco says that one cannot make a difference in a low growth, mature industry like retail unless one innovates and changes roles. Tesco was one retailer who overcame the odds to become the third largest retailer in the US. Most retailers were unwilling to take risks. But Tesco was bold enough to take risks. For instance, they were the first retailers to go online in the year 1995. They started operating their stores 24 × 7 and tried to innovate using different formats like express formats. Tesco introduced loyalty cards.

Retailing is a killing industry if one considers the competition all over the world. Retailing is also a local business. Tesco has competed with Walmart, German Retailers and French retailer like Carrefour. Sir Leahy talks about competition from formidable local retailers in developing countries. In such a situation, the retailer must tailor the offers to local customers. One has to compete to be the best local retailer. Tesco designed and created Fresh N Easy chain specifically for US customers.

It is important to learn from the strengths of the competitors and a retailer should learn this faster than the competitor. A retailer should not look at the competitor's weaknesses but rather look at his strengths and see if this can be brought on-board. However, one should not copy your competitor's strategies. It is essential that the retailer uses his own strengths. It is also advisable not to get into a battle with the competitor on his home turf. Who would want to fight a losing battle?

Talking about loyalty, Sir Terry Leahy says, "Loyalty is what benefit you create for someone and in return for the benefit they would repay you with their loyalty. You engage them. It is not about customers. Employees who are loyal will reward a retailer. Other stakeholders like shareholders will reward the retailer if the retailer creates something worthwhile for them."

A retail business also needs to be courageous to understand which the critical business risks are. Often businesses, when they fail, jump onto high profile risks and direct efforts to address them. It is a tough call for CEO how far to stretch the business and also know that it should not be stretched beyond the breaking point. The truth is that a business is exposed to a number of risks but most risks don't hurt you so much. The key thing for a retailer is to narrow down to the risks that can be material in the long run. Only a few risks will break the business. The retailer has got the responsibility to know where the boundaries are.

E-commerce has already taken off in a big way. This has pitched the traditional retailers against the Internet-based retailers. Traditional brick and mortar retailers need to develop an online arm to attract customers. This is called as “clicks and bricks” strategy. Tesco.com was launched way back in 1995. For the next 5–7 years, things were hunky dory but then developing countries like China began jumping onto the e-commerce bandwagon. Traditional retailers felt the need to embrace this challenge to enter the digital market space so that customers know the name of the retailer, what the retailer stands for and that the retailer can be found online.

### CASE STUDY: TESCO IRELAND

Tesco first bought a chain of discount stores in Ireland (Eire) in 1978 and rebranded them as Tesco. However the venture did not prove successful even with the retail expertise of the parent company. One problem was that they were more like the Tesco operation in the 1950s and 1960s and yet the market in both Ireland and the UK had moved on. These stores were sold off in 1986 and for the next 11 years Tesco had no operation in Eire.

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Then in 1997 as part of a strategic decision to expand operations across Europe, Tesco again entered the Irish market. Again it achieved this by acquisition. This time it was able to acquire the Quinnsworth and Stewart group of stores. The advantages were that these stores were closer to the current image/position of Tesco in the UK and by taking over an Irish business the company acquired many contacts with local suppliers. In fact, the Irish government put pressure on Tesco to continue to use such links and this in turn has meant that the company is viewed more frequently in the new marketplace.

Although the new company is now distinctly Tesco, very similar in image and operation to the UK parent, it has also been able to offer some local customization. The company undertook a very wide research programme as to what Irish consumers wanted and how they viewed the only foreign owned multiple in Eire. The commitment to offer products predominantly sourced in Ireland was found to be very important, so now Tesco offer a specific guarantee, promoting the fact that well over half of its product is from local suppliers. It also highlights the level of Irish produced items exported for sale in other Tesco stores in other countries. It now has over 100 stores in Ireland and the expansion is proving very successful.

The reasons for expanding retail operations are often based on a simple push/pull motivation. The push could come from such factors as saturation of existing markets or adverse trading in those markets. This could happen where developing additional stores using the original concept would result in a disproportionately lower increase in sales. A good example of this is to be found in the saturation in the UK grocery retail sector made more acute because the availability of new large sites is now restricted. The pull factors arise from a view that there are real opportunities in new markets where a particular retail formula has yet to be established. Whatever the motivation it is crucial to establish a real competitive position in the new marketplace.

It does not matter whether the expansion is geographic or just into a new segment within an existing area. The retailer must evaluate the strength of its brand and then decide whether to build on the parent brand or develop an entirely separate identity. Within the UK it can be seen that the Burton/Arcadia group have utilized stand-alone brands for each of their group of stores – Top shop, Principals, Dorothy Perkins, Evans etc. in contrast Tesco have used an umbrella branding policy.

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## 2 RETAILING IN INDIA

*Brief: This chapter will help understand the evolution of retail sector in India. Since the last decade or so, retail has revolutionized India's service sector so much so that it has had a cascading effect on other sectors. The growth of retail is to a large extent driven by urbanization, transition from "Bharat" to "India", exponential growth in population, rise in disposable incomes due to the booming services sector and a government policy that has managed to extend an olive branch to business. Even though government support has come to the industry in tranches, the growth of retail has been possible due to the Indian government's liberal policies inviting foreign participation. This chapter will also expose the reader to the various ills plaguing the retail sector today and how changing consumer preferences are making sustainability a real challenge for the beleaguered retail sector. As on June 2017, the IT industry in India is on the throes of a major recession with job cuts and headcount reductions becoming the order of the day... So it remains to be seen how this is going to affect the growth of retail in the next few years.*

Retail sector has become the pillar of India's economy and contributes to 15% of its GDP. The Indian retail market is estimated to be US \$450 billion. India is one of the fastest growing retail market in the world. In the last decade or so, one can say that there has been a retail revolution in India. The beauty is that online stores have managed to exist alongside offline stores and mom and pop stores continue to exist even though many had predicted the doom of the latter. This shows the market potential.

India's retail and logistics industry, organized and unorganized in combination, employs about 40 million Indians (3.3% of Indian population). The typical Indian retail shops are very small. Over 14 million outlets operate in the country and only 4% of them being larger than 500 sq ft (46 m<sup>2</sup>) in size. India has about 11 shop outlets for every 1000 people.

Vast majority of the unorganized retail shops in India employ family members, do not have the scale to procure or transport products at high volume wholesale level, have limited to no quality control or fake-versus-authentic product screening technology and have no training on safe and hygienic storage, packaging or logistics. The unorganized retail shops source their products from a chain of middlemen who mark up the product as it moves from farmer or producer to the consumer. The unorganized retail shops typically offer no after-sales support or service. Finally, most transactions at unorganized retail shops are done with cash, with all sales being final. Some of these shops have started adopting digital mode of payment like PayTm.

Until 1990, there were regulations that did not encourage the growth of retail sector from an entrepreneurial perspective. Farmers had to rely on middlemen monopolies. The logistics and infrastructure was very poor. After 1991, the Indian government opened up the economy through market reforms that had far reaching implications. Organized retail has now taken a strong foothold in India. The massive growth of online retail has also spurred the growth of retail in India.

In November 2011, India's central government announced retail reforms for both multi-brand stores and single-brand stores. These market reforms paved the way for retail innovation and competition with multi-brand retailers such as Walmart, Carrefour and Tesco, as well single brand majors such as IKEA, Nike, and Apple. The announcement sparked intense activism, both in opposition and in support of the reforms. In December 2011, under pressure from the opposition, Indian government placed the retail reforms on hold till it reaches a consensus.

In January 2012, India approved reforms for single-brand stores welcoming anyone in the world to innovate in Indian retail market with 100% ownership, but imposed the requirement that the single brand retailer source 30 percent of its goods from India. Indian government continues the hold on retail reforms for multi-brand stores. In June 2012, IKEA announced it has applied for permission to invest \$1.9 billion in India and set up 25 retail stores.

### **FDI in Retail**

Retailing is one of the world's largest private industries. Liberalizations in FDI have caused a massive restructuring in retail industry. The benefit of FDI in retail industry superimposes its cost factors. Opening the retail industry to FDI will bring forth benefits in terms of advance employment, organized retail stores, availability of quality products at a better and cheaper price. It enables a country's product or service to enter into the global market. FDI will ensure better operations in production cycle and distribution. Due to economies of operation, production facilities will be available at a cheaper rate thereby resulting in availability of variety products to the ultimate consumers at a reasonable and lesser price. FDI enables transfer of skills and technology from overseas and develops the infrastructure of the domestic country. Greater managerial talent inflow from other countries is made possible. Domestic consumers will benefit getting great variety and quality products at all price points. FDI will provide necessary capital for setting up organized retail chain stores. It is a long term investment because unlike equity capital, the physical capital invested in the domestic company is not easily liquidated.

### Factors leading to evolution of Retail in India

1. Liberalized economy: Inflow of foreign branded goods. Greater international exposure has made the Indian consumer crave for wider consumable choice and branded foreign products.
2. Improvements in civic situation safety, security, improvements in the public transport, issue of licenses.
3. Changes in consumer needs, attitudes and behavior. Consumers want everything under one roof and a wider choice of products.
4. Value = Price + quality + after sales service.
5. Consumer's expectations have gone up.
6. After agriculture, retail is the largest employer and has the deepest penetration in rural India.
7. Poor access to capital, unfavorable regulation and denial of access to international practices are some of the problems of retail sector in India.
8. Shopping is all about experience, experience and experience.
9. Increase in brand consciousness among customers. Brand identification and association have become psychological phenomenon.
10. People want to wear Levi's Jeans to make a fashion statement.

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11. Increased investment in retailing. India is an attractive destination for investment by global players. Besides foreign players, industrial houses like Reliance, Rahejas, Piramals, Tatas and Birlas have entered Retailing.
12. Changes in Government policies – FDI in Retail.
13. Bargaining power of organized retail translates directly into higher gross margins for the retailers. Manufacturers take advantage of the consumer pull to limit margins to the retailers.
14. Organized retailers have higher gross margins because of bulk purchases as well as capability to launch private label brands.
15. Emerging rural market.  $\frac{3}{4}$ <sup>th</sup> of the country's consumers in rural areas. Urban markets, saturated ITC's rural arm 'e-chaupal – uses an unconventional e-commerce channel.

ITC wants to link farmers to markets through the Internet. HUL is reaching rural consumers through its women focused rural – marketing initiative 'Project Shakti.'

### **MAJOR CHALLENGES FACED BY RETAILERS IN INDIA.**

Indian organized retail sector faces various challenges and these come in the way of the retail sector achieving its fullest potential. The behavioral patterns of Indian consumers have changed a lot. As disposable incomes increase and as western influences seep into society, spending patterns too have changed. Bank interest rates have dwindled to an all-time low. So, people prefer to spend than save for a rainy day. As of June 2017, the IT industry in India is facing a major recession with many jobs being sliced. It remains to be seen if this has any impact on India's retail industry.

Consumers are desirous of luxury items and better quality products. They want to eat shop and get entertained under the same roof. All these have led to the growth of the organized retail sector in India.

The biggest challenge facing the Indian organized retail sector is the lack of retail space. With real estate prices escalating due to increase in demand from the Indian organized retail sector, it is posing a challenge to its growth. With Indian retailers having to shell out more for retail space it is affecting their overall profitability. Acute shortage of trained manpower is another challenge in retail.

The Indian government has allowed 51% foreign direct investment (FDI) in the India retail sector to one brand shops only. The global retail giants like Tesco, Wal-Mart, and Metro AG are entering the organized retail sector in India indirectly through franchisee agreement and cash and carry wholesale trading. Many Indian companies are also entering the Indian organized retail sector like Reliance Industries Limited, Pantaloons, and Bharti Telecoms. But they are facing stiff competition from these global retail giants. As a result discounting is becoming an accepted practice.

### **Global economic slowdown impacting consumer demand**

The financial crisis and global economic slowdown resulted in job losses around the world, which weakened consumer demand. Recessions are recurring with impunity.

### **Consumption declines in the advanced economies**

Private consumption expenditure is an important indicator of overall economic growth. In the last couple of quarters, the decline in consumption has further affected the global economic downturn. Moreover, widespread financial crisis severely hit credit availability and household disposable income. The financial crisis triggered massive layoffs globally, which pushed up the unemployment rates. Further, uncertain future market conditions raised precautionary household savings that curtailed investments and consumer demand.

### **Competition from the unorganized sector**

Organized retailers face immense competition from the unorganized retailers or kirana stores (mom-and-pop stores) that generally cater to the customers within their neighborhood. The unorganized retail sector constitutes over 94% of India's total retail sector and thus, poses a serious hurdle for organized retailers. If put numerically, the organized retailers are facing stiff competition from over 13 million kirana stores that offer personalized services such as direct credit to customers, free home delivery services, apart from the loyalty benefits.

### **Retail sector yet to be recognized as an industry**

The retail sector is not recognized as an industry by the government even though it is the second-largest employer after agriculture. Lack of recognition as an industry affects the retail sector in the following ways:

- Due to the lack of established lending norms and consequent delay in financing activity, the existing and new players have lesser access to credit, which affects their growth and expansion plans
- The absence of a single nodal agency leads to chaos, as retailers have to oblige to multiple authorities to get clearances and for regular operations

### **High real estate costs**

Even though the real estate prices have subsided recently due to the slowdown in economies and the financial crises, these prices are expected to go up again in the near future. Presently the sector faces high stamp duties, pro-tenancy acts, the rigid Urban Land Ceiling Act and the Rent Control Act and time-consuming legal processes, which causes delays in opening stores.

Earlier on the lease or rents on properties were very high (among the highest in the world) at some prominent locations in major cities. The profitability of retail companies were affected severely because real estate costs constituted a major part of their operating expenses. Now companies are moving out from prominent malls of tier I cities and are re-negotiating the rental agreements with landlords to reduce costs. Some are even focusing on setting up shops in tier II and tier III cities.

### **Lack of basic infrastructure**

Poor roads and lack of cold chain infrastructure hampers the development of food retail in India. The existing players have to invest substantial amounts of money and time in building a cold-chain network.

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### **Supply-chain inefficiencies**

Supply chain needs to be efficiently-managed because it has a direct impact on the company's bottom lines. Presently the Indian organized retail has an efficient supply chain but it appears efficient only when compared with the unorganized sector. On an international level the Indian organized retailers fall short of international retailers like Wal-Mart and Carrefour in terms of efficiencies in supply chain. In the following paragraphs some key challenges that the retailers face during procuring goods from suppliers to delivering the same to end-customers are discussed.

Inventory management is the first challenge that retailers face at the local store level as well as at the warehouse level. Excess inventory often leads to an increase in inventory costs, and then to lower profits, so retailers like Pantaloons and Shoppers Stop have IT systems in place for inventory management. SCM-IT has helped retailers to plan their stock outs, replenish their stock on time, move stock from warehouse to stores, maintain adequate stock at a store to match consumer preferences etc. However, the retailer may still face a big challenge in terms of efficiently implementing the supply-chain software across stores and integrating it with the central warehouse, which can be a time-consuming process, requiring trained personnel.

Logistics is another challenge related to the supply chain. It is imperative for any organized food and grocery retailer to establish a robust cold chain. Amul is the best example of this scenario, as it has developed a cold storage chain across India. Until and unless organized retailers like Reliance and Food Bazaar fully develop integrated-cold chains, they would continue to incur loss of considerable amount of money through wastages of perishable items while moving huge quantities from one place to another.

The third challenge related to the supply chain is procurement. Big organized retailers enjoy economies of scale based on their size and expansion plans. The economical benefits of scale in procurement are achieved when procurement is made in thousands or millions of units; however, the main challenge here is to procure adequate amount of stock according to customer requirements, failing which the resultant rise in inventory can affect bottom lines.

### Challenges with respect to human resources

The Indian organized retail players shell out more than 7% of sales towards personnel costs. The high HR costs are essentially the costs incurred on training employees as there is a severe scarcity for skilled labour in India. The retail industry faces attrition rates as high as 50%, which is high when compared to other sectors also. Changes in career path, employee benefits offered by competitors of similar industries, flexible and better working hours and conditions contribute to the high attrition.

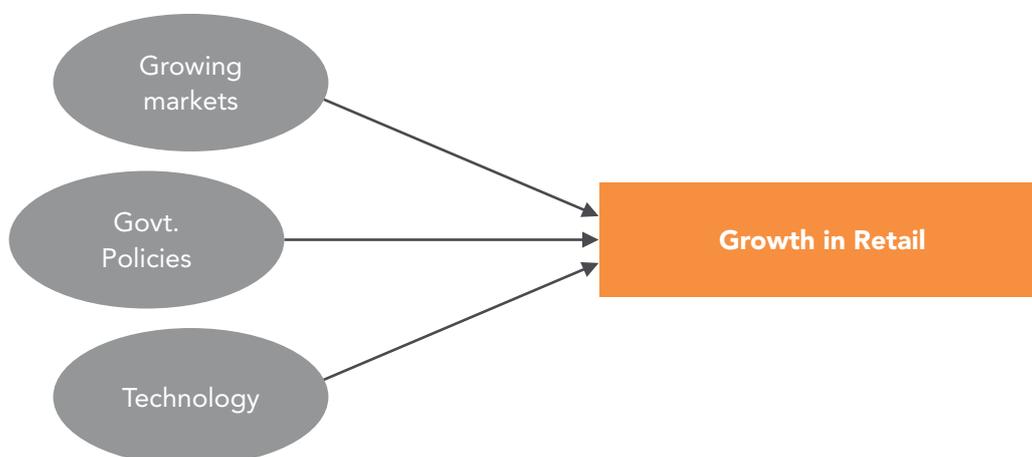
**Shrinkage** – Retail shrinkage is the difference between the book value of stock and the actual stock or the unaccounted loss of retail goods. These losses include theft by employees, administrative errors, shoplifting by customers or vendor fraud. According to industry estimates, nearly 3–4% of the Indian chain’s turnover is lost on account of shrinkage. The organized industry players have invested IT, CCTV and antennas to overcome the problem of shrinkage.

### Examples of Organized Retail in India

Exclusive retail outlets of Bata, Liberty, Raymond, Mafatlal, Reliance Cambridge, Titan. Research on various aspects of retailing has increased across the world as well as in India.

The Indian retailing sector is at an inflexion point where the growth of organized retailing and growth in the consumption by the Indian population is going to take a higher growth trajectory.

- Retail trade in India valued at \$300 billion.
- 7 million stores in India – 4 million stores in rural India.
- Organized retailing is projected to grow at 25–30% per annum.
- With 5.5 outlets per 1000 people, India has the largest number of outlets in the world.
- Food Retail and Mobile Retail are growing in India.



### Challenges:

1. Most of retailers struggle to find the right and successful format.
2. Increased customer expectations.
3. Influence of western world in terms of consumerism.
4. Desire for luxury items, better quality due to growth in the number of working women.
5. Lack of space, initial capex is high.
6. Attrition in retail is high.
7. Absence of trained manpower.
8. Entry of global retail giants like Metro AG and TESCO will increase the competition for Indian retailers.
9. Emergence of discount retailing might further reduce profitability.

### Emerging trends in Mall Retailing in India

Sustainability of malls is a question mark due to competition and changing customer tastes and preferences.

Telecom, health, insurance, banking – new emerging sectors.

Indian consumers – more of a convenience shopper.

Retail formats are being driven to a 'one-stop' shop kind of format including entertainment.

Sustainability depends on innovation.



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### **The Prevailing Retail formats in India**

- Malls
- Branded Stores
- Departmental stores
- Specialty stores – Kids Kemp, Cross word, Planet M

Why they shop?

What they look for?

How they shop?

How they buy?

Attract pleasure seekers, provide entertainment.

Put department stores in the mall.

Assortments of merchandise, multiple selection or variety for mall retailers, survival is today's market.

Effective marketing communication strategy is the key to attract customer's flow.

E.g. of single demand outlets, Bata, Liberty, Reebok, Nike, Allen Solly, Adidas, Titan.

Supermarkets and hypermarkets are multibrand outlets.

Multibrand outlets – choice of product and variety. Today's buyer is an informed buyer and wants to make sure everything by collecting and comparing information.



India – Margins in retail are currently low due to high cost of property and poor infrastructure. This is the only business where one buys on credit and sells for cash. Smaller retailers would need to form a strong supply chain that will improve distribution and increase margins. India – largest market. Government policies more favorable. Emerging technologies are facilitating cost efficient operations.

### **Top 5 organized retail categories in 2015**

- Food
- Grocery and general merchandise apparel
- Durables
- Food service and home improvement

### Retailing Trends in Rural markets

India – 72% rural population

Rural marketing challenge. Increasing reach and availability of products

Rural population prosperity

Manufacturers specific retail products

Philips – smokeless Chula, wooden stove

Nokia – low cost handsets for rural consumers

The backbone of retail trade is channel management

Rural market –too many tiers

Higher distribution costs

Company delivery vans – promotion.

Only big companies can afford this. But ethical issues, risk factors.

Does this guarantee success in the rural market?

### Rural customer profile

Increasing purchasing power

Greater exposure to urban lifestyle and increasing literacy rate.

Mobile phone penetration

### Other Efforts in Rural Retail

Hariyali Kisaan Bazaar – a rural business centre (Uttar Pradesh, Rajasthan)

Godrej Aadhaar (rural initiative of Godrej Agrovet Ltd.) complete agricultural solutions and products for the farmers but a wide range of commodities for rural households.

Reliance Money – selling financial products like life insurance, general insurance and mutual funds.

Literacy in Rural India is growing. Road infrastructure to rural areas is also improving.



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### **Survey Results**

Most of the promotional offers by companies generally do not reach rural consumers. The retailers sell most of the promotional items separately.

### **Strategies**

- Govt's efforts in launching Kissan credit cards.
- Companies like Mahindra Finance to offer credit in rural areas.
- Innovative methods of distribution, unconventional channels of distribution.
- Need to design proper communication engagement strategies with rural consumers.
- Offer customized products targeting consumer's aspirations and needs.
- Correct profiling of rural consumer is a must along with detailed study of rural buying behavior and purchasing patterns in rural markets.

### **Etailing**

- Fabmall – first etailer in India
- Shopper stop
- Helps build loyal customers
- Helps retailers save on the real estate cost, inventory costs and supply chain costs. Costs of delivery and technology are relatively low.
- Also benefits credit card business.
- TVshop18, Flipkart, Arvind Retail Amway, EBay, India times.

Retailers want to increase overall revenues, fast selling, highly profitable goods and services are usually the ones added, consumers make more impulse purchases, people like one stop shopping.

<p>Low end strategy                  Low rental location – side street                  No services or services charged at additional fee (service maybe limited to credit and returns                  Price emphasis in promotions.                  Self service or high sales per store personnel ratio                  Crowded store interior                  Most merchandise visible</p>	<p>High end strategy                  High rental shopping center or central business district location                  Elaborate services available included in prices such as                  Credit, delivery, alterations, decorating, wrapping and layaway                  No price emphasis in promotion                  Product demonstrations, low sales per store personnel ratio.                  Spacious store interior                  Most merchandise in backroom</p>
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The prevalence of scrambled merchandising means greater competition among different types of retailers and that distribution costs are affected as sales are dispersed over more retailers. The possible harm to a retailer’s image of scrambled merchandising is ineffective. The Indian retail markets is evolving at a very fast pace, mainly because Indian consumers are changing their lifestyle at an unbelievable pace, with the growth in their income and their exposure to worldwide media through television and Internet. It is strange but true that Indian consumers between the age of 45 and 55 years have got increased disposable spends as the next generation between 15 and 25 years have started earning.

Mindset change and accessibility of products are making the consumer adapt to new lifestyles. With such pace of change, the only way for Indian retailers to survive and grow is by understanding the consumers and serving them to ensure that they are fully satisfied. Shopper’s Stop, in its retail group, has attempted to build a relationship with the consumers of India through its various loyalty programs such as First Citizen’s club at Shopper’s Stop, Crossword Book Rewards and Discovery club at Hyper city. Some of these initiatives have given contribution of 65 to 70% sales from known customers. Shopper’s Stop believes customer connect is the way forward in building modern retailing in India.

Karen wanted to buy a stereo. But, after a month of trying, she gave up. “The system I wanted was sold in only three stores and through an online firm. Two stereos overpriced the stereo by \$75. The third had a good price, but insisted I drive to the warehouse to get the stereo. The Web retailer had a good deal, but it ran out of the model I wanted. When I heard that, I decided to keep my old stereo.

The biggest problem with loyalty programs is that most retailers adopt one-size-fits all approach. They use monetary rewards to encourage repeat purchases. But product discounts won't change buying behavior in the long run in shoppers who value things like personalized service, convenience, or shopping pleasure more. These types of consumers may change their behavior to access the price promotion, but they likely will revert back to their regular brands or buying habits shortly thereafter resulting in, at best, a temporary change in sales and market share. A more effective way to woo customers and maintain their patronage is to offer them individualized rewards based on what they value. By offering different types of rewards to different groups of shoppers, companies set themselves apart and give people a reason to keep coming back. Providing access to a speedy checkout lane, for e.g. would be a more powerful way to win the loyalty of a person who hates grocery shopping than would a discount on a future purchase. Big Bazaar and Kohl's department stores engage in mass marketing. Family Dollar and FabIndia engage in concentrated marketing.

FabIndia with 51 Indian destinations and delivering to 33 countries worldwide is a specialty chain that markets diverse craft traditions in India. Their endeavor is to provide customers with hand-crafted products which help, support and encourage good craftsmanship. The product range consists of garments for men, women, children and infants, fabrics, curtains and floor coverages, and a range of non-textile products such as furniture, lights, lamps and stationery.

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### **Retailers with Differentiated marketing strategies**

Raymond's India and Gap Inc. engage in differentiated marketing.

Environmental Factors affecting consumers

- State of the economy
- Rate of inflation
- Infrastructure where people shop, such as traffic congestion, the crime rate, and the ease of parking
- Price wars among retailers
- Emergence of new retail formats
- Government and community regulations regarding shopping hours, new construction and consumer protection and so forth.
- Evolving societal values and norms.

### **How can a retailer improve productivity?**

Due to erratic sales, mixed economic growth, high labor costs, intense competition retailers give importance to productivity, the efficiency with which a retail strategy is carried out.

Productivity costs as a percentage of sales, time taken by cashier to complete a transaction, profit margins, sales per square foot, inventory turnover.

Productivity must be based on norms for each type of strategy mix (department stores vis-a-vis full line discount stores).

Productivity can be improved by

1. Improving employee performance (training)
2. Sales per foot of space
3. Advertising
4. Automation
5. Improve space productivity
6. Performance based incentives for store employees

There are three different location types:-

1. Isolated store
2. Unplanned business district
3. Planned shopping center.

An isolated store is a freestanding retail outlet located on either a highway or a street.

### **The advantages**

- There is no competition in close proximity
- Rental costs are relatively low
- Better road and traffic visibility in possible
- Easy parking can be arranged.

### **Disadvantages**

Initial customers may be difficult to attract. Many people will not travel very far to get to one store on a continuous basis. Most people like variety in shopping. Advertising expenses may be high. Costs such as outside lighting, security, ground maintenance and trash collections are not shared.

An unplanned business district is a type of retail location where two or more stores situated together (or in close proximity) in such a way that the total arrangement or mix of stores is not due to prior long-range planning. Stores locate based on what is best for them, not the district. Four shoe stores may exist in an area with no pharmacy.

A Central Business district is the hub of retailing in a city. The CBD exists where there is the greatest density of office buildings and stores. A Secondary business District is an unplanned shopping area in a city or town that is usually bounded by the intersection of two major streets. A neighborhood business district (NBD) is an unplanned shopping area that appeals to the convenience shopping and service needs of a single residential area. An NBD offers a good location, long store hours, good parking and a less hectic atmosphere than a CBD or SBD. There is a limited selection of goods and services. Hiranandani Complex in Powai is an example of a NBD.

A string is an unplanned shopping area comprising a group of retail stores, often with similar or compatible product lines, located along a street or a highway. Car dealers, antique stores, and apparel retailers often situate in strings. Lokhandwala complex in Mumbai is an example of a string which is also an NBD.

A planned shopping center consists of a group of architecturally unified commercial establishments on a site that is centrally owned or managed designed and operated as a unit, based on balanced tenancy, and accompanied by parking facilities.

A regional shopping center is a large, planned shopping facility appealing to a geographically dispersed market. It has at least one or two department stores (each with a minimum of 100,000 sq. and 50 to 150 or more smaller retailers).

### Financial trends in Retailing

- Refinancing of mortgages and leases to reduce interest burden.
- Use retail real estate investment trust (REIT) to fund construction.
- Use Initial public offering (IPO) to raise funds.
- Mergers and consolidations represent a way for retailers to add to their asset base without building new facilities or waiting for new business units to turn a profit. They also present a way for weak retailers to receive financial transfusions.
- LBO (leveraged buyout) is a type of acquisition in which a retail ownership change is mostly financed by loans from banks and investors.
- Because debts incurred with LBOs can be high, well known retailers have had to focus more on paying interest on their debts than on investing in their businesses, run sales to generate enough cash to cover operating costs and buy new goods, sell-store units to pay off debt.
- Aditya Birla retail, Future group, Reliance Retail have closed down their underperforming stores and redeployed staff in other formats/stores.

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One generation's transformation is the next's status quo. In the near future, people may soon think it's strange that devices ever had to be "plugged in." To obtain that status, there needs to be "The Shift".

## 3 RETAIL MARKETING MIX

### Learning objectives:

- To identify the components of the retail marketing mix
- To review the influences of the retail mix on sales growth
- To understand what positioning entails in retail sector

### Retail Marketing Mix

- Merchandise to offer
- Service levels
- Pricing
- Promotion
- Location
- Store Design
- Visual Merchandising



Retail marketing makes use of the common principles of the marketing mix, such as product, price, place and promotion. A study of retail marketing at university level includes effective merchandising strategies, shopping and consumer behavior, branding and advertising. Retail marketing is especially important to small retailers trying to compete against large chain stores.

### *Product*

In the retail environment, merchandise is classified according to the category into which it falls. These categories include hard or durable goods such as appliances, furniture, electronic goods and sports equipment; food; and soft goods or consumables. Soft goods include clothing, furnishings, cosmetics, paper goods and other items with a typical life span of three years or less. The product must deliver a minimum level of performance.

### ***Place***

The place where retail marketing occurs helps in defining the process. A retail operation can be store-based retail or non-store. More than 90% of US retail stores are small, single-store, owner managed operations. These generate less than 50% sales from retail stores countrywide. Retailers pay a premium for the right location. In fact, the mantra of a successful retail business is 'location, location, location'.

### ***Price***

Pricing is a major aspect of any retail marketing strategy. The price of merchandise helps to define the methods of retail marketing employed, as well as the target market, store location and retail format used to sell it. Pricing in the retail environment is based on fulfilling objectives such as covering the cost of sales and overhead, and in accordance with the four basic retail pricing strategies. These are everyday low pricing, high/low pricing, competitive pricing and psychological pricing.

It depends on costs of production, segment targeted, ability of the market to pay, supply – demand and a host of other direct and indirect factors. There can be several types of pricing strategies, each tied in with an overall business plan. Pricing can also be used a demarcation, to differentiate and enhance the image of a product.

### **Promotion**

Retail marketing relies heavily on the promotional aspect of the marketing mix. Number of print advertisements is released for consumer goods like clothing, food, furniture and toiletries. Promotions take place in traditional media like television, print, outdoor billboards and radio as well as through digital media. How to choose the right promotion channel? It depends on competition, the profit margin on sales and the budget available for promotion purposes. The success of retail marketing relies on success in selling the merchandise. How quickly the stock can be turned over is important. Promotion through social media has been found to be effective as well as cheap.

All the elements of the marketing mix influence each other. They constitute the business plan of an organisation. The marketing mix needs to be handled properly. It needs a thorough understanding of market dynamics and relies a great deal on quality of market research. The quality of communications with the supply chain also plays a crucial role in getting a good handle on the marketing mix.

Additionally in retail, there are two more Ps namely People and Presentation. People play an important role in success of retail – in particular the frontline sales employee. Presentation of various products in the retail store plays an important role in boosting sales. The presentation must make it easy for the shopper so that his time is saved.

Contemporary retail marketing strategies have evolved to acknowledge the new breed of consumers. Retail marketing mix involves a number of elements like people, product, price, place, promotion, performance and presentation. All the Ps should be focused in the direction of customers. Many retail enterprises fail to put customers in the front and center when it comes to developing and implementing retail strategies. Success of a retail business is directly related to the customer focus.

Today there is greater access for retailers to understand buyer behavior. In-store footfalls can be tracked. Online conversion rates can be measured. Understanding of buyer behavior using data can lead to useful insights about customer needs and wants. A retailer needs to add value across all of the Ps. This can range from implementation of point of sale solutions for on-the-go customers to targeting promotions to reach a particular demographic.



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Sales is only one part of the success story. A retailer has to focus on providing extraordinary after sales service too besides servicing the customer when he is at the store. The goal has to move from transaction oriented to relationship oriented. Retailers must strive to exceed the expectations of customers. The ultimate goal is to develop lasting customer loyalty.

Change in consumer shopping habits has necessitated change in the marketing approach. A complete range of Omni-channel marketing methods need to be deployed and technology has to be used to grow sales. A retail business needs a compelling offline and online presence to maximize the efforts and to ensure that the message reaches the target audience in the most meaningful way.

Consumers expect that the businesses that they deal with are transparent, accountable, responsive and also environmentally and socially responsible. These are not jargons. They are not buzzwords. They are a real part of the successful retail marketing mix. This means that every communication that is sent – whether in-store or via digital channels – is aimed at reinforcing the brand sensibility across all touch points.

Email is still an important way to engage consumers. It has a low cost, wide reach and can impact both online and in-store sales. Reinforcing the expectations of employees is important so that organization-wide operations are coordinated, streamlined and cohesive. A well-communicated strategic plan must be in place to satisfy customers.

The traditional marketing mix has always emphasized location. However, today shopping is no longer about geography. Customers are not only mobile but also have access to endless e-commerce options. The e-commerce site is as important as the physical storefront when attracting paying customers. According to a report by Forrester, by 2017, 60% of retail sales in US will involve web.

Retail outlets vary in terms of the breadth and depth of their merchandise lines. Breadth refers to the number of different items carried, and depth refers to the assortment of each item offered.

In retail pricing, retailers must decide on the markup. Off-price retailers offer brand-name merchandise at lower than regular prices. Retail store location is an important retail mix decision. The common alternatives are the central business district, regional shopping centre, community shopping centre, or strip location. A variation of the strip location is the power centre, which is a strip location with multiple national anchor stores.

## **Retail positioning**

### **Positioning: A battle for a customer's mind.**

What is the customer's image regarding a particular offering. Positioning of an offering could be expressed in terms of attributes, benefits and claims. The image depends a lot on the perception of the customer and so a retailer should communicate with the customer to influence his perceptions. Achieving the most appropriate position is crucial aspect of retail marketing.

A brand is a specific name, symbol, or design or a combination of these, which is used to distinguish a particular seller's product. Brand equity is positive and negative associations that are linked to a brand name. Brand equity is a set of assets and liabilities that add or subtract from the value provided.

### **Retail Image and Positioning**

1. Positioning has been described as the battle for a customer's mind.
2. Positioning describes the view a customer has regarding the image of a particular offering.
3. Retailer image depends more on the overall perception of the customer and this perception has a significant effect on the purchasing behaviour.
4. Retailer image affected by apparent atmosphere, convenience, types of shoppers using the stores, merchandise available service levels.
5. Prices are important too.
6. The image of any retail outlet is personal to each individual customer. It is developed over time, with the retailer giving inputs in the form of both communications and actions that are interpreted by customer. The customer evaluates these messages in a subjective way, adds his own knowledge and forms an opinion – regarding the Retailer.
7. Retailer's image can evolve into a strong brand identity.
8. Store brand name reflects the values and personality associated with them.

### **Differences between true loyalty and spurious customer loyalty**

Loyalty due to inertia or habit, where alternatives are not properly considered is called as spurious loyalty. True loyalty is more proactive, a behavioral response but one based on the feelings a customer has for a specific store. The shopper will recommend the shop to others and he will become an advocate for the retailer.

Research has shown that there is no firm link between favorable attitudes and repeat patronage. Wheel of retailing continues to turn. Brand loyalty reduces marketing costs, creates barriers to competitors, provides leverage, affects the brand image and provides time to respond to competitive threats.

The perception that the merchandise offered is both right and offers superior value in all ways is still vital in a retail market place. The secret of successful retailing is giving the market what is wanted. Market cannibalization can have negative effect on a company's bottom line. The negative effect of a company's new product on the sales performance of its existing related products is called cannibalization. New product eats up the sales and demand of an existing product. This is called as cannibalization.

Brand equity is specific in that it is a measure of what is present in the minds of each and every customer. The brand helps a company in achieving competitive advantage. When considering customer care, it is crucial to understand that when a customer talks with a member of the retail staff, then during those 'moments of truth' that member of staff is 'the retail store' in the eyes of the customer. Such encounters require training as well as direction from marketing if the resulting perception of the store is to be developed in a consistent way.

A brand is more than a sum of its individual parts and it is built by more than a single form of input. Striving for consistency in all areas is the most important marketing contribution to the building of a strong brand. The factors that contribute to a strong brand include awareness, quality, associations, regular loyal purchasing behavior.

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## 4 CHANGES IN THE LANDSCAPE OF RETAIL MARKETING

### Learning objectives:

- To understand the changes in retail marketing
- To review the differences in retail marketing approaches in developing and developed countries
- To understand the lessons learnt from the Big Bazar experience in India

Retailers across the globe possess the key for opening the doors to a new world that can give better experiences for consumers. Retailers have more power in the value chain.

Consumers on every continent have more choices about where and how they shop than ever before, creating an increasingly competitive retail landscape that blurs the lines between online and physical shopping environments.

In developed markets, sales are from large supermarkets, hypermarkets and convenience stores. In developing markets, traditional trade stores continue to be the dominant channel. By 2020, retailers have to transform themselves and accept that channel fragmentation is a reality and that non store retail growth is something that they have to come to terms with. Being prepared to deal with consumers who follow brands via social media is important too.

The notion of a primary store has all but disappeared as consumers shop multiple formats for everyday needs. Digital growth has also fragmented the supply chain, as shoppers now have more choices for online ordering plus multiple points of fulfillment such as in-home delivery and click and collect models.

The actual role of the primary shopper has also changed as the responsibility is increasingly shared by several members of the household. Proximity retailing is gaining prominence. In the eyes of global shoppers, small and simple is beautiful right now. Mini markets, small supermarkets and convenience stores are doing well. Retailers are adapting to digital to improve their level of customer centricity.

All of these complex scenarios make building brands and securing shopper loyalty difficult goals for retailers to achieve, but it can be done. In fact, this environment offers particular opportunities for retailers to leverage their Private Brands as a means to differentiate from competitors and inspire core consumers with targeted innovation that speaks to their particular needs.

Global retailers must invest the time and marketing muscle into offering unique experiences and private brands that prove to be value for money propositions. Global retail trends need proper analysis so that effective strategies can be planned and implemented.

Retailers are also exploring category-specific opportunities for private brands in addition to tracking relevant consumer trends. Areas with high private brand shares and low brand loyalty are the best places to start. Private brands are being lapped up by consumers not just for their price but also for the perception of quality. Private brands offer an opportunity for differentiation and innovation. Private brands are being used by retailers to offer customers a wider choice at better prices. This also leads them to compete with bigger brands who may find it difficult to compete with private labels.

The world of shopping has changed. Smart phones, tablets and computers have made shopping easy and convenient. The middle ground retailers are finding it difficult to survive as they are caught between two worlds – one marked by luxury and other characterized by value.

Retailers who have been able to seamlessly integrate bricks and mortar stores with their online and mobile presence are able to engage customers successfully. The fiercest competition and dramatic transformation is expected to take place among food retailers. The lines between retail categories are getting blurred.

Retailers are now looking for avenues for expansion in upcoming markets where there is population growth and job growth. For instance, twenty years ago Bangalore, a city in India was famous as the Garden city of India. However, Bangalore has housed the IT sector since the mid-90s and this development completely changed the social fabric of the city. Migrants have invaded Bangalore making the city more cosmopolitan than before. This growth has fuelled the growth of services.

Today Bangalore has earned the sobriquet of the Silicon Valley of India. Retail sector has grown by leaps and bounds in this city that was also known as a pensioner's paradise once. Competition is so intense that reduced footfalls have made some of the retailers shut shop as they are unable to bear the rental costs when revenues have spiraled downwards.

Retail environment is now driven by strong demand for e-commerce and sophisticated consumer preferences. Competition has intensified and along with this channel complexity has increased. The disconnect between the new norms of consumer retail and some of the supply chain and demand planning models for supply of goods to brick and mortar stores is increasing. Matching demand and supply across multiple channels has become more challenging now.

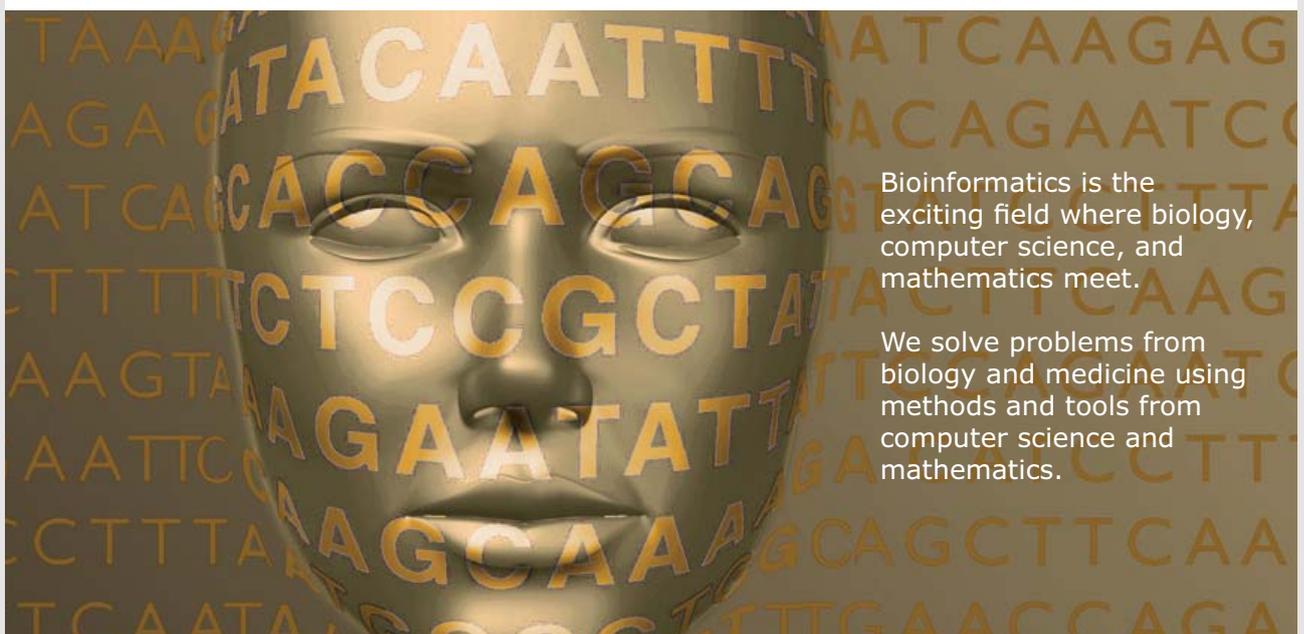
Retailers have to adopt sophisticated demand-planning solutions to align their supply chain operations and their customers' needs. This can enable inventory plans, demand forecasts and purchasing decisions to be attuned to meet consumer demands.

Better demand planning will lead to an improvement in forecast accuracy that is agile to demand signals in real time. Better demand planning enables retailers to provide wider product availability and be responsive to customer needs in a cost-effective way. Retailers with higher demand-planning maturity have demonstrated better operating and financial results, including higher sales, lower operating expenses, lower inventory holdings and faster inventory turnover.



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Sophisticated demand planning would help a supply chain achieve its goal of delivering the right product, at the right time, at the right place and at the right price. A customer-oriented demand-planning process will allow for ample inventory levels to meet immediate demand, and future demand projections driven off predictive analytics.

Today's retail landscape engenders greater complexities which the conventional demand-planning models can no longer adequately cope with. Digital disruption (particularly on the demand side) has given rise to changes in the retail landscape, such as new competitors, more sophisticated consumers and new distribution channels which retailers are pitted against. Competition from multi-channel retailers has made incumbent physical retailers realize the need to adapt themselves to compete in the market. The new breed of retailers they are pitted against is nimble across multiple channels, introducing a larger variety of merchandise and turning over inventory at a faster pace.

Moreover, the broader retail landscape has become more complex – retailers are operating in an increasing number of locations, with more business units, more manufacturing sources and shorter product life cycles, and are selling to more markets in which consumers have diverse tastes.

### **BOPIS model**

Retailers are trying multiple channels to woo customers. A prime example of low-hanging fruit is the buy online, pick up in store (BOPIS) model. Additionally, retailers are offering Wi-Fi in the store so that shoppers can research a product while they are in the store and can take purchase decisions.

### **How Developers and Owners Are Getting It Right**

Retail developers and property owners are struggling to determine the right mix of retailers, store sizes and formats that can attract shoppers and enhance their shopping experience. For instance, traditional mall owners and retail property owners are experimenting with dining options and other forms of entertainment. In India, Bollywood personalities including actors and singers are invited to perform for special events that are organized at a mall. This increases the mall's visibility and expands consumer footprints into the mall. Some shopping malls and urban shopping districts have become places where communities meet and socialize and shop too!

## **Improving the Retail Journey**

Shoppers look for a cheaper, faster and seamless experience. Developers, property owners and retailers must be aligned in their strategic mindset so that they can create experiences that can draw consumers in and ensure that they keep coming back.

Paco Underhill, CEO of Envirosell, a research firm that advises retailers says, “Physical design and culture must work hand-in-hand. The physical design is easy, understanding the culture is the hardest part”.

Grocery anchored shopping centers are mostly suburban, easily accessible community hubs that meet the needs of the local residents – be it food, dry cleaning, health and mail services. They also double up as social meeting places. The popularity of online shopping has not dented their vibrancy.

These shopping centers are able to sustain because they are quick to adapt to changing needs of consumers. Some retailers have begun adopting an Omni channel strategy so that they do not lose customers.

A 2013 white paper by IDC Retail Insights, “[Redefining the Shopper Experience With Omni channel Retailing](#),” revealed that consumers who shop both online and in stores spend up to 3.5 times more than shoppers who use only one channel. This presents great business opportunities to retailers. The more retail touch points a retailer can offer, the more opportunities the retailer has to convert a sale. As these shopping centers cater to the everyday needs of the community, their appeal is enduring.

Specialty event experiences have become a core tool to drive visibility for retail developments and generate incomes. Product and event sponsors can now share an engaging message with visitors to a shopping center. As communities get involved in retail, it enhances the brand image and attracts new customers.

## **The Big Bazaar Experience**

A few years ago the retail marketing mantra was – “Location, Location, Location”. Now of course, retail marketing is all about experience, experience and experience. Retail marketing can be summed up in four lines:

1. How to attract the customers into your store
2. How to maximize the time spent by the customer in the store and how to ensure that this leads to maximization of sales revenue

3. How to create a unique experience for the shopper so that the consumer visits the store again and again
4. How to ensure that customer experience is so good that it translates into word-of-mouth publicity for your store.

Today marketers agree that word of mouth publicity is the number one in terms of promoting your products or services. Needless to add, this is a double-edged sword.

India is now moving from a socialist economy to consumption led economy. Changing demographic profiles, urbanization, increasing income levels, technology, globalization – all these are creating a dramatic change in consumer preferences. None can deny that consumerism is here to stay. Consumers are increasingly become aware of their rights. Consumers are now spending without any remorse and this is what retail marketing tries to target. In store promotions, out store promotions, point of sales promotions, point of purchase promotions, visual merchandising – all these are being used as pull strategies to ensure that consumer empties his wallet more than what he had planned for when he enters the retail store.

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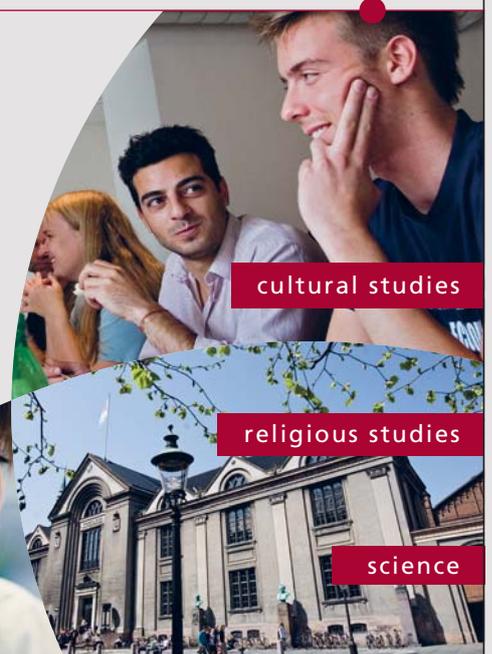


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Growth in retail in India has also ensured a steady market for packaged products and value added agro products. This has influenced the growth of agro industry. Growth of retail has also fuelled the growth of convenience foods, fashion apparel, footwear, jewellery and many more items.

Retail is a local business. Thus what works in Denmark may not work in India. The Rajah of Retail – Mr. Kishore Biyani feels that the Indianness of consumer needs to be recognized to succeed in the Indian retail market. Thus awareness of global retail practices will not lead to great insights about the Indian consumer. However, one can learn a lot from innovations in the Western world.

Retail is also a killing business. Competition and changing consumer preferences can wreak havoc on your business. India is a land of diversity. This presents both a challenge as well as an opportunity. Look at the number of festivals in India – a retailer who knows the pulse of the Indian consumer will try to use the festivals as an opportunity to attract customers with the best bargains. This is what retailers are now trying to do.

Predictive modelling, data analytics – all these techniques are attempts to understand customer behavior that can often be fickle. Future of marketing is going to be how best one can relate to the consumer psychology in ways that have not been explored hitherto. Monitoring of customer behavior on a consistent basis is a must. Kishore Biyani comes across an entrepreneur who has this fetish about observing consumer behaviors.

Retail marketing is thus about customer delight, innovation, scale, appropriate cost structures and superb execution at store level. The challenge is how to get the model right and how to scale up before competition. Kishore Biyani says – “Retail marketing is like riding a bicycle uphill. If you stop pedaling, you will slide down. There is a need to scale up fast. It is important to take calculated risks over mindless gambles”.

This king of retail, often labelled a maverick, has tried to bring in lots of innovations in retail – most of which were introduced based on observation of consumer behavior, their likes and dislikes. Even the name – Big Bazaar was chosen due to the Indianness of the word – Bazaar. This sort of customer centric focus is what propelled the success of a retail format like Big Bazaar. For example – Big Bazaar wanted to recreate a bazaar experience in its stores. Food grains were kept in the open for consumer to feel and touch it like they would do in a mom and pop store.

I was reading Biyani's auto biography – It happened in India – when the penny dropped that John Miller and Bare brands were not foreign brands but private brands sold by Future group in its retail outlets. To be candid, I was shocked! “Inspired by America” was the tagline for John Miller shirts.

The King of Retail may have done this to boost his turnover but frankly as a customer I am both ashamed and disappointed. Ashamed – because I was not aware that John Miller was a local brand. In retail parlance, this is called as a private label. Brands owned by retailers are called as private labels. Disappointed – because now I know that retailing is also about hoodwinking the customers with fancy foreign names for local brands.

It is appalling that someone like Biyani who chants “India, India, India” all throughout his auto biography had to choose a foreign name for a brand of apparel to entice customers. But one can't deny that the man has pioneered many retail innovations – no matter that most of them were not sustainable in the long run.

Giving a discount on a new pair of jeans for an old pair of jeans is a different version of buy back. I also recollect the time (1999–2004) when I stayed in Mulund (Mumbai) close to R-Mall where there was a Big Bazaar outlet. There was this promotion scheme in Big Bazaar wherein you could give away old clothes, bottles, utensils and newspapers and you would be entitled to a discount of 25% on new purchases. But this promotion scheme was good only until it lasted.

As a customer I am not very happy with the apparel quality sold by Big Bazaar. No retailer is naïve to give you discounts just like that. As Biyani himself has admitted in his book, most of the attractive discounts in his Big Bazaar outlet were on non-moving products. I think most customers understand this but at times as a customer you don't have much of a choice. The BOGO (buy one get one) offer is a psychological ploy to attack the customer's thought process. It is much like psychological pricing where goods are priced at Rs.99, Rs.199, Rs.299 to give an impression that they are value for money propositions.

Sir Patrick Mehne, COO of Ritz Carlton made that famous statement – “Customer satisfaction is an attitude, loyalty is a behavior”. To a great extent, Kishore Biyani seems to have emulated this principle in his retail forays in India. For instance, he established connect with customers in Kolkata with the tag line – “What Kolkata thinks today, India thinks tomorrow.” In Kolkata, once you win over a customer, he or she is loyal to you for the rest of their life. The same cannot be said about customers in UP, Punjab or Karnataka.

The multi domestic strategy in International business will translate as a regional strategy for the Indian retail market considering the diversity and complexity of purchase decisions across the breadth and width of the country. This is what makes the Indian retail market even more exciting.

Primarily, an entrepreneur is a risk taker. He is also an innovator. He doesn't believe in structure. While some of these qualities do inspire awe, it is also certain that most entrepreneurs think only about themselves. So, when the going is good, everything is hunky dory. But when there is a problem in the organization, entrepreneurs cannot think beyond themselves. Entrepreneurship is about thinking big, believing in your own ability and going ahead with huge risks.

Decisions made by an entrepreneur can at times be risky for an enterprise and its employees. In the retail sector, the impact of wrong decisions made can be severe. One has to constantly be on the toes, reinvent oneself in this sector to achieve sustainable success. Consumer preferences, tastes and likes keep on changing all the time.

An advertisement for SKF featuring a woman with long dark hair smiling in the foreground, with a white wind turbine against a blue sky in the background. The text 'Brain power' is written in white on the left. On the right, there are three paragraphs of text. At the bottom left, there is a call to action to visit the SKF website. The SKF logo is in the bottom right corner.

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**SKF**

Biyani says, “Retailing is not just about selling products – it is about selling an idea. What is very crucial in retailing is to make customers relate to every product that we are selling as well as the store environment.” Right at the inception, Big Bazaar learnt about the power of visual merchandising. Visual merchandising is an art by which a retailer makes the store talk to its customers. Colors, signage, lights, look & feel – everything is taken into account. Then there is category management that is based on the belief that a customer is walking into a store looking for a party shirt or a formal trouser, rather than a particular brand. The store is then designed according to categories like men’s formal wear, women’s western wear, casual wear. Teams in the retail organization are divided according to the categories that are managed by them rather than the brands. Instead of brands competing with one another, the objective was to create ‘traffic drivers’ within the store.

Pantaloon brand was created from the Hindi word – Patloon (that means pant/trouser). Fashion and effective pricing proved to be the two winning retail propositions in this case. Fashion apparels can be compared to fish in the market. Fashion apparels are perishable – one has to sell it within a particular time frame. If fish is stale, it fetches lesser price. Similarly, if you have clear old stock that is no longer supporting the current fashion trends, you have to offer major discounts to move the stock. Recognizing the fashion trends and putting them on store shelves has to be over a period of six weeks.

The process followed by Future Group was

- Identify a trend
- Conceptualize it
- Prepare samples of it
- Understand its business viability
- Place orders for fabric
- Manufacture

While all these activities are going on as part of the process, simultaneously work on the store design and visual merchandising has to begin and be completed by the time the products are dispatched from the factories to the stores. Retail is like a puzzle where you have to bet on the unknown. As a retailer, one has to reinvent oneself almost every day. To do that, a lot of decisions have to be made on the spur of the moment and closer to the shop floor.

Biyani says that his strategy was to look at growth rather than focusing on profits and efficiency. He says that all other retailers including foreign retailers were obsessed with profit margins while his priority was growth. Sometimes it looks scary. However, to give due credit to the Rajah of Retail, he made an intelligent decision not to venture into foreign territories about which he had little exposure and experience.

The world over, retail is a very local business. Only a handful of international retailers have been successful across multiple countries. This is because retail requires a deep understanding of local tastes and preferences. Biyani says that India needs a value retailing model and not a lifestyle retailing model. The emotional connect that Big Bazaar built with its customers was underpinned by good deals that the store offered them.

One has to agree with Biyani when he says that one has to follow the Indian consumer with passion and retail is all about appealing to the heart. Many of Biyani's strategies were not only innovative but they were also based on keen observation of consumer behavior. He never chose a location that had a flight of steps in front of the store. He believed in the oxymoron – organized chaos. Indians are known for their herd mentality – we tend to go to a place that is crowded because we are assured that crowds through a place because it is good.

The risks of “butt and brush” effect in Retail were dismissed off by the Rajah of Retail. These concepts are good enough for the West but for Indians who travel in crowded local trains and buses this is hardly an issue. It is interesting to note how Biyani & co tweaked the popular big box format that appealed to the Western consumers.

A big box retail store is spread across a single floor with high ceilings and merchandise stacked high on racks. Hypermarkets have long, narrow aisles, suitable for individuals shopping alone with carts. As Indian consumers like to shop with their families, this format was tweaked to suit the Indian consumers. In Retail you are either operation driven where your main thrust is towards reducing expenses and improving efficiency or you are merchandise driven. The ones that are truly merchandise driven can always work on improving operations. But the ones that are operations driven tend to level off and begin to deteriorate.

A retailer must always focus on the front end, while outsourcing the back end activities. The job of a retailer is to create demand. Building a robust supply chain is important but this is not the primary role of a retailer. Focus on the customer, keeping the business model simple and agile and open to adaptation is vital. Strengthening the front end is the key to success in retail. Retailing is about understanding and interpreting customer needs, anticipating what the customer wants. Therefore, one has to understand customer needs first and then build the supply chain.

Though logistics capabilities are the bedrock of a successful retail operation, understanding the customer has to be No.1 priority of a retailer. To build a successful retailing model in India, retailers have to leverage the huge power of micro enterprise and the indigenous supply chain in India. Mind share is all about consumer awareness of a product or brand. Retailing is all about battle for the mindshare and not a battle for the market share.

Frontline employees who regularly interact with customers give vital clues about the business which no marketing consultant can ever hope to give. Motivating the front line employees is a vital task. While selecting the frontline employees, one has to look at their mental labour. Big Bazaar chose an innovative incentive scheme to delight their employees during Diwali. Rather than giving them customary cash bonuses or pack of sweets, Biyani devised a scheme by which HR would arrange for de-cluttering and painting of the homes of their employees during the Diwali festival. Apart from the fact that this incentive did not attract any tax, it also resulted in the happiness of family members of the employees during an important festival like Diwali.

Biyani felt that while selecting a location a retailer has to look at the future potential of the locality and not just the current profile of the locality. Years ago, Koramangala in Bangalore was not a location where retailers would have planned their store location. It was a simple and calm place and resonated with the charm of a pensioner's paradise. Today, Koramangala Sony World is a landmark bus stop. This is almost like the Phoenix Mills Compound in Lower Parel, Mumbai. Croma, Sony World, Taco Bell, Life style, Pizza Hut, Sapphire and Pantaloons – all these stores have occupied their pride of place in Koramangala which is now one of the most happening places in Bangalore.

## Trust and responsibility

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Inés Aréizaga Esteva (Spain), 25 years old  
Education: Chemical Engineer

– You have to be proactive and open-minded as a newcomer and make it clear to your colleagues what you are able to cope. The pharmaceutical field is new to me. But busy as they are, most of my colleagues find the time to teach me, and they also trust me. Even though it was a bit hard at first, I can feel over time that I am beginning to be taken seriously and that my contribution is appreciated.



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College students who are regular visitors of shopping malls come in large groups and hang out together without making any purchases. They are often called – “Mall Rats”. Even for making these mall rats empty their wallets and pocket money, Big Bazaar came up with innovative ideas. All retail strategies must focus on getting a larger share of the customer’s wallet. The key to success in retailing is in getting customers come back to your store again and again.

Retailers in India have to develop their competencies in understanding the psyche of the Indian consumers. Emphasis on building and nurturing relationships is an Indian way of doing business. Lessons learnt from good practices are worth emulating. Biyani found out that a store called “Pakeezah” in Northern India reimbursed auto fares of customers who visited their stores in the afternoon hours. Taking a cue, Big Bazaar introduced a scheme whereby customers who visited their stores in the non-peak afternoon hours were reimbursed call taxi/auto fares.

The key is to find out tailor made solutions for customers and sharpen thought leadership to improve customer satisfaction. Future of retail belongs to concepts like ‘Social Retailing’ which deploys technology to engage the tech-savvy young customers in a unique way, even while expanding retail sales and reach. Viral networking, RFID, data analytics, use of mobile apps – all of these underpinned by solid transaction processing is going to rewrite the rules of retail in the future. Capability will be at the heart of creating newer and better customer experience. Selecting the right location, uniqueness of customer experience backed by technology will continue to drive retail growth in the future.

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# 5 RETAIL MARKETING STRATEGIES – BASIS FOR SUSTAINABLE COMPETITIVE ADVANTAGE

## Learning Objectives

- To learn about the various marketing strategies in retail
- To understand the importance of marketing strategies in gaining competitive advantage
- To review the micro and macroeconomic factors that shape retail strategy
- To understand the open to buy strategy in retail

A retail strategy is a marketing plan that details how a business intends to offer its products or services to consumers and influence their purchases. The strategy refers to how a store and its products sell goods to target customers. Each type of retail business has to make decisions about all the details of its marketing mix. A marketing mix consists of the product, price, place, promotion and packaging. Internet marketing strategies and those for stores that people shop at in person must be developed to meet the needs of potential customers. A retail marketing strategy is first outlined in a business plan.

A business plan contains information about the intention and goals of the company. It is created before a business opens. Business plans include research about who the company's potential customers are as well as what their needs and wants are. A retail marketing strategy should be a part of the business plan. It should include decisions about the marketing mix approach, such as how customers will get the products.

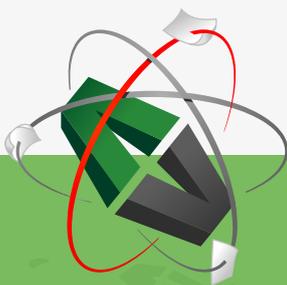
For instance, a furniture company may choose a large warehouse, while a jewellery manufacturer may decide to sell only over the Internet. Other businesses may select a combination of a brick and mortar store for in person customer purchases plus a website for customer online shopping. All retail marketing decisions should consider the target customer as well as the company's profit. For example, having an e-tail website rather than a retail store may save on overhead costs, but it won't be a profitable choice if the target customer isn't likely to shop online.

As more shoppers turn to their smartphones to do product research, retailers need an all-inclusive mobile marketing strategy to reach consumers at just the right time. Today's retailers are still very much siloed between operational, brick-and-mortar, and digital and social mobile teams. Often, store level teams do not receive timely communication from corporate regarding important new pricing strategies and promotions, and social, digital and mobile efforts may not be consistent with what is happening in the field in real time.

While many businesses take advantage of the various avenues of digital social networking promotions (think Facebook, Pinterest, Instagram), the challenge for today's marketing world is connecting the dots of one all-inclusive mobile marketing strategy.

Many marketing teams are stretched thin, and communication can be challenging between those who are monitoring retail sales and those who are promoting the sales. In those instances, it is important to take a step back and re-examine the marketing team's roles and priorities.

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Corporate marketing, merchandising and planning and allocation teams typically do not work on the weekends, even though weekends are the busiest time in the field. Corporate teams meet on Mondays to go over the numbers from the weekend, but analysis after the “big game” can be less effective than following the sales and inventory *during* the game.

Though these meetings are valuable, they miss the real-time flexibility offered by digital technology, which can be harnessed to reach consumers at the exact moment of opportunity.

There must be a delicate balance between the marketing department, which develops marketing promotions based on a calendar including floor sets, printed in-store signs and other marketing collateral – a process that takes time and is carefully and thoughtfully planned at corporate headquarters – and digital departments, which are designed to react quickly to current trends or inventory.

In order to operate effectively in the modern retail world, successful retail campaigns need both kinds of departments, so they have both regular planning and flexibility to act. In examining marketing priorities, what it comes down to is this: integration. Considering all of the elements that contribute to transactions, a successful company will require the integration of the teams who manage merchandising, planning and allocation, digital marketing and store operations.

Companies need to designate a team at corporate headquarters to monitor retail results in real time, so that if something happens over the weekend, the store can capitalize on a novel opportunity instead of missing it.

Traditionally, planning and allocation teams would not be tied to marketing, so if there was excess inventory, nothing could be done at a local level. However, integration of these teams and close communication allow digital technology to notify customers of these events and bring consumers in at a local level. Close communication also means that the brick-and-mortar stores will be ready for consumers when they do come in. It’s one thing to announce a “flash sale” but another thing altogether to be ready for one.

In order to increase brick-and-mortar sales, stores will need to offer more of an incentive to buyers to get them in the door, and utilizing the incredible flexibility that digital offers can certainly facilitate that process.

Retailers can use technology to lure shoppers back to retail stores. Consumers are more inclined to use Internet and social media to gather information before making a purchase. Shoppers tend to use the store as a showroom checking out products in-store before they purchase it from an online retailer for a cheaper price. Online retailers like Amazon offer customer reviews, product information and product comparisons to consumers within a matter of minutes. So how can retailers compete with this high-level of information sharing and attract customers back to their stores?

To combat this strategy, retailer needs to adopt new technology. Employees and customers have to be empowered with information which then needs to be leveraged to transform the shopping experience into a fun-filled one. Retailers can equip stores with mobile POS devices to expedite the check-out process and use a customer's purchase history to suggest products and target customers with a smart coupon system. This strategy can prove to be expensive.

Use of data to drive business decisions is an important retail strategy. Retailers should gather consumer data to predict purchase patterns and deliver relevant content. Some of the strategies that retailers can follow are delineated below:

- Highlight positive experiences that your existing customers are having on social media.
- Encourage customers to share their positive experiences at your store on social media so that a positive buzz can be created about the in-store experience.
- Attractive window displays to catch the interest of pedestrians passing by is essential.
- Create exciting window displays that can compel people to come into your store. An interactive or a physically moving display can focus on full price product and appeal to the target customer.
- Provide great content that is relevant to your niche and is the help that a prospective buyer is looking out for. This will also facilitate greater customer trust.
- Most retail business is offline despite the popularity of electronic retail. Consumers love to use the Internet but physical retailers do not have much of a presence on the net. Integrating with price search services is a good way to secure online visibility.
- Compete using customer experience and quality rather than price.
- Create an in-store experience – from storytelling to service excellence. Online retailers offer fast service, styles, sizes, availability etc. but they can't offer a memorable experience or immediate gratification. Retailers can capitalize on creating an immersion ambiance that appeals to all senses, today's mobile savvy culture and values the customer's time. Offering entertainment, next-gen digital signage/interactivity, in-queue merchandising and sleek, elegant queue management will go a long way in bringing in customers and retaining them.

- Mobilize the social media fans you already have. Fans are ready to engage with you. They've given you permission to market to them. To turn them into customers, motivate them through a social coupon. A coupon offered here can be shared with friends, printed out, and then must be brought into the store to redeem. In doing this, you're taking an online interaction into the real world to make real revenue.
- Frontline retail employees are often the under-leveraged face of your brand and core to providing differentiated customer experiences. Yet, a 2013 Gallup study found that only 30% of the U.S. workforce feels engaged at work. Gallup identified "not understanding what the company stands for" as a major contributor to lackluster employee engagement.
- Retailers can battle back by creating an Employee Brand to reinforce core brand messages through compelling communications. Employee Branding turns employees into brand ambassadors – passionate, living, breathing reasons to visit a store in-person instead of just buying online.



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- Physical retailers must effectively leverage shopper data to understand, predict, and note changes in purchase behavior. They must deliver meaningful content – based on that data – to shoppers during the decision journey, i.e. offers and information on products they purchase and/or are likely to purchase. They must also make product ratings and reviews readily available – both in store and online. Most of all, physical retailers must stay current with their shoppers and act quickly in response to changes in lifestyle driving changes in shopping behavior.

### **Marketing Strategy**

It is the process by which the organisation translates its business objectives and business strategy into market activity. Strategy is about taking decisions for the future and the future is uncertain.

Strategy translates objectives into activities it is better to have a framework for testing any proposed strategy in a real, practical situation. Feasibility of strategy depends on:

- Competitive market environment in which activities have to be performed
- Customers
- Capabilities and competencies of the retailer to undertake the activities.

### **Micro Environment**

- It consists of the forces close to the company that affects its ability to serve its customers – trends in the product/market chosen by a company, its public, suppliers and competitors.

### **Macro Environment**

It consists of the large societal forces that affect the whole market- political, economic, demographic, social, cultural, ethical and technological and Electronic Retail. Opportunities and threats posed by the use of new technology. Markets get saturated and sometimes there is excess capacity due to an oversupply of retail space. Adcock (1991) suggests that traditional way of considering the external environment is to examine the four major component parts.

P – Political and legal factors

E – Economic factors

S – Social and cultural factors

T – Technological factors

These factors become a “PEST” if an organisation fails to identify those that are likely to have a significant effect on future business. There is a difference between the small ‘evolutionary’ changes that can be accommodated within a developing strategy and the major ‘revolutionary’ changes that require significant shifts to remain competitive.

### **The Political and legal environment**

Political environment includes all the actions of Governments that impact on retail business. This can be through formal legislation, competition policy and planning regulations. Organisation has to understand the role of Government as a regulator and a participator. It must also understand how legislation impacts the organisation and its marketing activities.

### **Economic Environment**

- Impact of disposable incomes
- Impact of inflation on consumer spending
- Effect of taxes, rents, employee costs and other expenses that are involved in running a retail business.
- Globalization of Retailing via the Internet, meeting international competition. E.g. Cars are purchased by consumers in a foreign market.
- Takeovers, mergers are happening in Retail as well. Marks and Spencer had to withdraw from Germany because the retailer brand was unknown and the perception of customers about the value wasn't high. For McDonalds, use of franchising is an attempt to think Global but act local. But the term McDonaldization is increasingly being used in a derogatory way to imply unblinkered standardization of an offering.

### **Sociological and cultural Environment**

Ageing of population (Demographic shift) can be a threat to some retailers but an opportunity for some others. Knowledge workers, migrants, increasing levels of disposable incomes, mobility, international travel of Indian employees arrival of expats all these is making a significant contribution to growth of Retail.

### **Technological Environment**

1. Technological developments lead to revolutionary, discontinuities in a market.
2. New technologies start by invading sub markets, but they tend to create new markets instead of simply encroaching on existing ones.
3. New technology is an opportunity to those who can capitalize on it.

Online purchases are increasing. The success of Flipkart, Jabong and TVshop18 continues to threaten traditional retailers. These purchases involve home delivery. Retailers who have invested heavily in fixed tangible assets like buildings will find the going tough during times of severe competition when they are unable to secure that many footfalls as before.

Barcoding has changed stock control and re-ordering. It has speeded up the checkout operation. Small plastic 'loyalty' cards utilize encoding technology and the mass of information they provide can drive many aspects of Retail Marketing strategy. Advances in chilled food technology have created opportunities to expand product ranges and lengthen shelf lives.

### **Five important principles of a Retail Strategy**

#### ***1 The customer is the most important person in your business***

The customer holds the key to every successful retail operation. Whatever a retailer does must revolve around the customer. Knowing the customer well gives the retailer a strategic advantage.



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## ***2 Retail is detail***

The success of retail is in detail. How do you become more detailed? What detail should you focus on? Address those gaps that will help in improving the understanding about the customer. Every retailer must focus on the detail and get the detail right the majority of the time. Learn from mistakes and ensure that mistakes are not repeated. Too many customers will turn customers away.

## ***3 Understand the 6 Ps of retail marketing mix***

- **Product:** You need products that your customers want to buy and a product range that will satisfy your customers' needs and desires. The products must also deliver a profit for you to have a successful business;
- **Price:** Price must be consistent across the marketing mix and meet all requirements for your business. You need to [price your product](#) range at the correct level for the customers to be able to buy your products, and for them to gain value from your products. This could mean pricing high or low – this very much depends upon your customer offering;
- **Place:** You must provide somewhere for your customers to purchase your product, be that a physical store, a catalogue or an [e-commerce website](#);
- **Promotion:** Once you have a product – at the right price, in a place where the customer can access it – you need to tell them about this and [promote your business and your products](#); make sure your customers know that you and your products exist and are available for them to enjoy.
- **Presentation:** The way the products are placed in the store plays an important role in boosting sales.
- **People:** They are the greatest asset for a retailer – be it the employees or customers.

## ***4 Go the extra mile for your customer***

Providing great customer service starts with understanding and knowing your customer; however, knowing them is the start of the journey and you will need to deliver more than just customer service. To be successful you must deliver [world-class customer service](#); you must “go the extra mile for the customer”. You and your team must continually go the extra mile for the customer, each time delivering just a little more than they expect. Doing this each time you and your team interact with your customers will win them over and make them loyal over a long period of time.

### ***5 Location, location, location***

The final retail principle is: Location, location, location. History has dictated that this is one of the most important factors in the success of a physical store, and still to this day it will have a major impact on your success. The best location of your store will be dictated by your brand and product strategies. For example, a supermarket operation needs a car park and a high fashion store needs to be in a high fashion area that attracts the right customers for the store. I would argue, however, that location has less effect now than previously, due to two main factors: the first being the flexibility of the customers; now we often travel more, and the second being the internet.

The internet has changed our shopping habits and will continue to do so. E-commerce websites have opened up the world of “non-geographic” retail – a retail world without the need to visit the physical store. The emergence of “etail” from retail has been the biggest change over the past 20 years.

### **Open-To-Buy**

The clearest and simplest definition is that it is a financial budget for retail merchandise. Let's look at this more closely. In the late 1980s and early 1990s, when retailers began to take notice of the relatively new discipline of Merchandise Planning, the most common application developed was a Stock and Sales Intake plan. These plans were (and still are) frequently developed on spreadsheets and served to ensure that an appropriate relationship was planned between projected sales and required stock levels. They are normally operated at a summary level (for example “Category”) although the increases in computing power mean that it is technically possible to operate them at a line or even SKU level.

The key output from such systems was a figure called the Open to buy for each planned figure. In fact, given the extended lead times between order and receipt in fashion merchandise, this might more properly have been called an Open to Receive, as it really shows the amount of merchandise still required for intake in the given period. However, the term Open to Buy is the common usage so we shall continue to use it here.

An Open to Buy control system uses planned sales forecasts and stock turn requirements to determine the optimum level of stock required.

The stock turn requirement is normally expressed in terms of Weeks Forward Sales Cover. Weeks Forward Sales Cover means the number of weeks' future sales that we need to keep in stock. There is a direct link between Weeks Cover and Annual Stock-turn. For example 26 weeks cover is equal to an Annual Stock-turn of 2 in a 52 week year. As some systems are based on periodic or monthly data you may also see the terms Periods Cover or Months Cover used.

The use of this method of calculating a stock requirement ensures that volatility in the pattern of forward sales is reflected in the periodic stock holding. This in turn ensures that working capital is targeted most effectively by maximizing sales potential at the same time as minimizing losses from price reductions.

In a properly integrated system this Open to Buy value will in turn be used to create a purchase order budget total in the central transactional system. This integration will ensure that the results of the planning exercise are translated effectively into tactical action.

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Open to buy systems normally operate using a flow calculation. This is also known as a “ladder plan”.

- Open-To-Buy relates directly to retail merchandise, is structured specifically to address the needs of retailers, and is a tool designed to assist retailers manage and replenish their most significant asset, their inventory investment.
- Open-To-Buy is a budget, and involves the full range of budgetary functions. It begins with the planning process, is future oriented, provides guidance on how much to buy, and provides benchmarks for evaluating progress, and adjusting future plans.
- Open-To-Buy is a financial tool, in that the units of measure are typically dollars, usually retail dollars but sometimes cost dollars, and that it can be tied back to the financial control process.
- Open-To-Buy can work on any level that a retailer needs it to. It can be used to track merchandise at the company, department, classification or sub-classification level. In rare cases for a small retailer, it can even be used to track an individual item.

Open-To-Buy can be calculated in either units or dollars. OTB is essentially the difference between how much inventory is needed and how much is actually available. This includes inventory on hand, in transit and any outstanding orders.

### **Retail marketing strategies of a retailer in India**

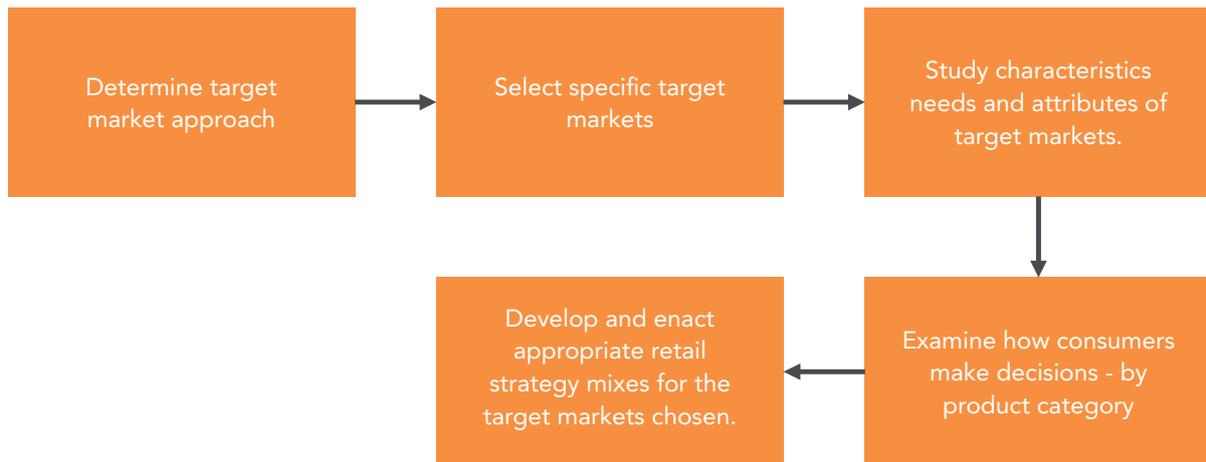
Strategies adopted by Max Lifestyle Store – Phoenix Mall, Lucknow.

1. Tie-ups with brands
2. Mall branding
3. Promotional Strategies
4. Strategies to improve competitive advantage and attract more footfalls.
5. Strategy involves doing an environmental scanning and a SWOT analysis.
6. Build strategic plan
7. Identify business alternatives
8. Establish challenging goals
9. Determine optimal marketing mix
10. Implement strategy
11. Create a plan to monitor progress and contingencies if problems arise in implementation of plan
12. Do a customer profiling by collecting invaluable information and data about customers and observing the transactions
13. Conduct research to study and analyze customer’s buying patterns and attitudes.

14. Max Retail appoints experts who study historical data, customer score cards and buying behavior.
15. Max decides how to manage the merchandise depending on customer profiling.
16. Understand
  - a. The placement of items
  - b. Amount of stock to be displayed
  - c. Space for specific product/category
  - d. Placement of slow moving items in inventory
  - e. Planning for sales & promotions
  - f. Display of new merchandise
17. Max Retail also does strategic analysis to find out how customers perceive Max as a brand. What % of customers are visiting Max store? How do the customers perceive similar other stores? How do the customers perceive the MAX brand? Are customers satisfied with the store ambience at MAX?
18. Max Retail also does competitor profiling – understand the strategies of competitors, their strengths, their promotional schemes, their processes. This pro-active knowledge will give the firm **strategic agility**.
19. For instance – understand competitor’s finances, products, markets, facilities, personnel & strategies, market segments served, customer base, advertising budget and ad agency used apart from understanding online promotional strategies, discounts and allowances.
20. Max Retail also has customer loyalty programs. Membership cards to loyal customers.
21. Max Retail, in Lucknow, tries to get a perspective of the strategies adopted by other stores.
22. Max has started membership cards for ‘The Inner Circle Members’. The Inner Circle is an exclusive customer loyalty program offered by Landmark Group in India. TIC members eligible for exclusive privileges and exclusive rewards. These members receive personalized information on in-store promotions, marketing events, new arrivals, launch of merchandise and products.
23. Max is tying up with local, national and international brands. Example with: Pizza Hut – a customer showing MAX membership card gets discount in Pizza Hut; Max has also tied up for similar programs with VLCC and PVR cinemas.
24. Max has done good branding of its mall to attract customers to the stores.
25. Extensive ads in the newspapers informing customers about Sales.
26. Advertisement in Hindi magazines.
27. Ads in Television and Radio.
28. Hoardings in posh areas of Lucknow
29. Max is organizing fashion weeks throughout the month of April where students from fashion institutes are invited to provide tips to customers.

30. Sales promotions through coupons
31. Tie ups with discos or clubs
32. Use cinemas and theatres for brand promotion
33. Max has started word of mouth promotion by sponsoring annual festivals as sponsors – example tie up of Max with City Montessori School, Lucknow.

### Devising a Target market strategy



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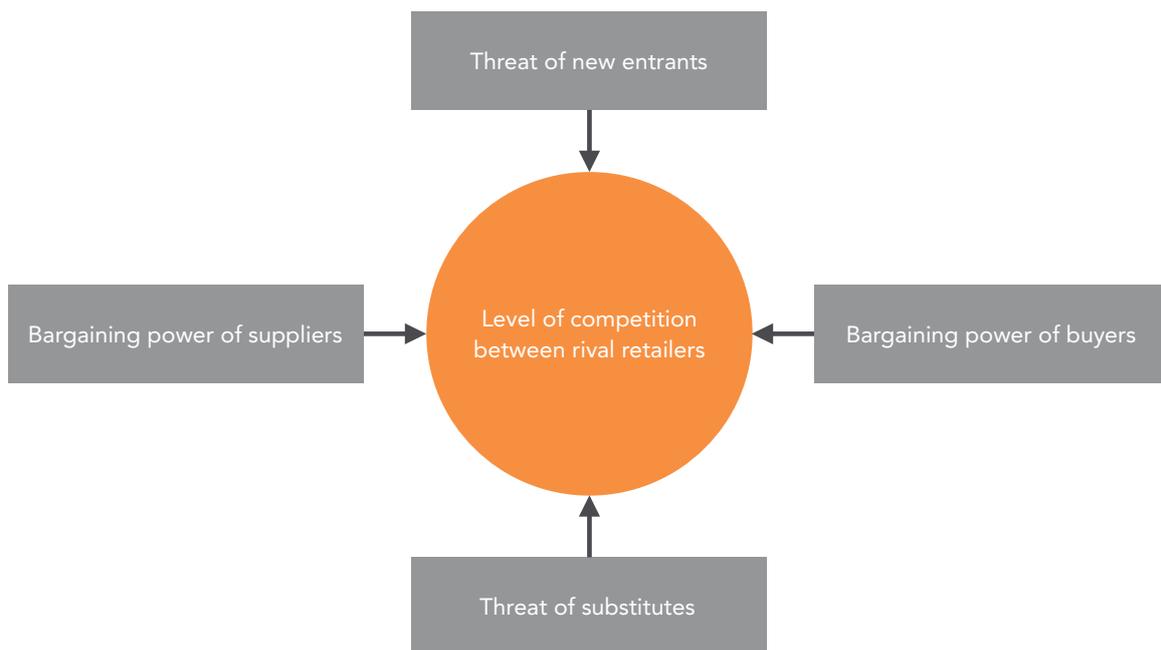
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## Micro Environment

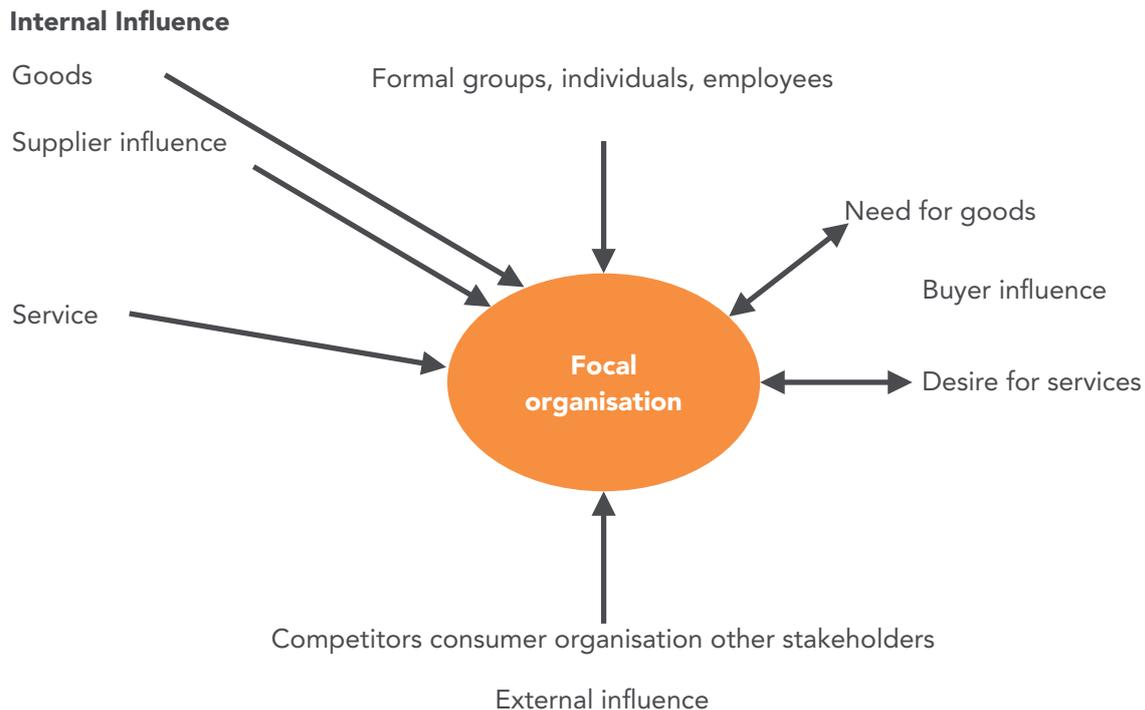
- Buyers have a choice to buy or not to buy.
- Suppliers have a choice to supply or not to supply.
- Threat can come from other retail stores offering similar merchandise and this includes new entrants like e-tailers.
- There can be substitute products that can threaten existing products.

Michael Porter's five forces model



## Application of Morgan and Hunt's model for retail companies

- Morgan and Hunt talk about the influences of an organization. Besides buyer and supplier links, there are other factors to be considered.
- External influences for a retailer come from customers and competitors.



When two product offerings are identical, they become equivalent to commodities and consumer tends to buy the cheapest. Marketing has to ensure that no two offers are the same, by adding extra value.

E.g. increased levels of customer service, extended warranty and increased availability. Retailers have to study other organizations within the competitive market space in which they are operating. This is called as a Retailer's radius of competition. Achievement of a good, critical SWOT can be the foundation of a good strategy. While doing a SWOT analysis, it is important to compare year standing vis-a-vis competitors. A good SWOT analysis will lead to an objective assessment of the competitive position of the business.

### Supplier influences

The retailer is vulnerable to supplier problems and must keep closely in touch with all suppliers but particularly those supplying the key traffic – buildings products that attract the shoppers to the store. Good partnerships can be developed between retailers and suppliers, but this should not be abused. Retailer identifies the trends as he is close to the customer, but it is the suppliers who carry out the development.

### Retail buyer activities

What they buy.

How they source merchandise

How they work with suppliers

This affects good range selection, relevant pricing, promotion and success of the retailer.

The way a retailer and a supplier work with each other can be a crucial factor in success.

### Internal influences of a Retailer's micro environment

- Frontline employees
- Others who contribute to operations
- Formal groups – trade unions/staff associations
- Non-human resources available to the retailer.

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Successful Retail management is a combination of management and marketing skills

Employee: The Company doesn't look after me, why I should bother with customers.

Customer: These people don't seem to care. I am not coming back to the store.

Retailer: Our staff isn't doing their job they need to be sorted out.

This emphasizes the importance of internal staff in retail operations and the importance of people in the achievement of marketing objectives. Internal marketing is application of marketing skills and techniques in order to create appropriate relationships with employees.

Nonhuman Resources – Financial Resources fixed assets it owns. Inadequate capitalization is a feature of many small retail organizations and the failure to invest sufficiently in merchandising, coupled with real limits on promotions, is a cause of failure for many entrants.

Retailers should continually re-invent themselves if they wish to remain relevant to the changing needs of customers in a dynamic market. This can mean renewing internal layouts and fittings, as well as reassessing the location of a store.

To keep down costs, retailers prefer to rent premises than own them. The critical role of retail marketing and management is to ensure that the store and the offerings evolve in response to future consumer needs. Anything that impacts customer service, marketing has to be on top of it to ensure that the performance standards are consistent with the overall strategy.

- Buyer influences
- No customers = no business
- Attract customers into the store
- Motivate customers to buy
- Dissatisfied customers tell between 10 and 20 others about their experience

There is evidence to suggest that when customers enter into a dialogue with the retailer before too much damage is done, it is better for the business. Customers do acknowledge that mistakes sometime occur and if the complaint is handled quickly and well then the customer relationship can be recovered.

All marketers will need to make decisions as to how widely they should explore their environment. This is called as surveillance filter; it is a measure of the breadth of study that is undertaken. The surveillance filter determines which categories should be studied, which of those in great depth and which require only a quick look.

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## 6 CATMAN STRATEGIES

### Learning objectives:

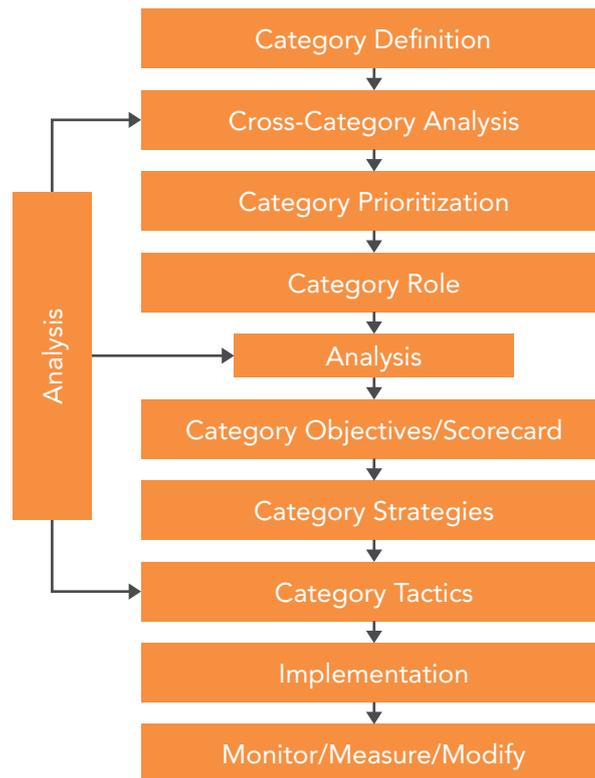
- **What is category management?**
- **Identify the components of category management.**
- **Review the factors that influence category management.**
- **Evaluate the relation between category management and strategic sourcing.**
- **Review the guiding principles of category management.**

Today category management has assumed greater significance in the retail world. It is a systematic approach that enables customization of strategic business units derived from a product category. If you look at what a typical product category entails, it is nothing but the aggregation of similar products.

The Cat Man concept was introduced in the 1980s to promote long term trade relationship between suppliers and retailers. The objective was to grow sales and increase revenues. Category management strategies aim to satisfy the needs of both buyers and sellers in terms of product (what they want), place (where they want), time (when they want) and price (what are they willing to pay?).

One of the essential components of Category management is sharing of business critical information between suppliers and retailers. This strategy lays greater emphasis on leveraging the enduring relation between retailers and suppliers.

In simple terms, category management is grouping similar products in one category. Similarity can be in terms of consumption, physical characteristics, pricing or any other parameter. It is important for the sales people to be aware of cat man strategies as sales strategies are dependent on the former.



Source: <http://www.winstonweber.com/retail-consulting/category-management>

Promotion strategies depend on the type of category and the marketing strategy. Strategies can vary depending on the ultimate goal – be it building traffic, protecting market share, generating profits or enhancement of image.

Retailers often adopt a cross category analysis comparing the targeted category with a group of similar categories. Cross category analysis involves qualitative and quantitative estimates to extract consumer, retailer and market data. For example – how important is the category to the retailer’s target consumer? How important is the category to the retailer’s competitors? How is the market attuned to changes in this category?

Category management enables customers to get an overview of the products that are available. Each category has a certain number of products. Categories are amenable to merging. The groups can be placed in a product hierarchy which will help retailers in a detailed assessment of the profits generated.

Category management depends on the process. It helps an organization to create a unique competitive edge. Organisations will have a better understanding of the challenges that retailers face and will be able to relate to the retailer’s needs for profit and expectations of margins.

The toughest step is to define the category which will become easy once businesses place greater emphasis on customer needs. Customer's shopping patterns can be a great revelation. Secondly it is important to understand the importance given by the retailer to a particular category. A category can attract customers into the store, increase traffic and also support routine shopping needs. Depending on their customer focus, strategies of retailers may differ. The next step involves observing the performance of the category. How is the category being received across the different outlets? The metrics can revolve around pricing, promotion, placement and assessment of product assortment.

Category management strategies will benefit with a greater understanding of shopper behavior and buying patterns. These strategies, as explained earlier, will enable a retailer to grow market share, increase sales, increase foot traffic, improve gross margin and increase shopping basket size.

### **Category Management & Strategic Sourcing**

Category management is different from strategic sourcing in terms of time horizon and in terms of the scope and scale of activities. Category management capability has to transcend organizational boundaries. Category management is aligned with the life cycle of the processes that consume the products and services in those categories. Category management consists of internal customer management and supplier management. It aims at providing solutions that can support both category management and business objectives.

Strategic sourcing became a pioneering concept in the 1980s and 1990s. Sourcing managers used strategic sourcing to rationalize suppliers, aggregate buying power, reduce pricing and improve supplier performance. Information sharing became one of the important prerequisites for strategic sourcing. However globalization of business necessitated the need to think beyond strategic sourcing. Both strategic sourcing and category management organize processes and resources around supply markets but category management sources the market categories and manages them on an ongoing basis.

Category management involves a clear understanding of the organization's objectives so that a set of executable strategies can be developed. If implemented well, category management can prove to be a client-friendly framework. For this, the objectives have to be clearly defined. Category management is a framework and set of practices used to manage supply categories to facilitate achievement of business objectives.

In category management, the range of products and services sourced by the organization are broken down into discrete groups of similar or related products and services. Category is treated as a business unit. Continuous monitoring of category is essential for realizing the value.

### Guiding Principles of Category Management

- Clearly defined strategy is a must. This strategy brings into focus the consumer positioning, the competitive differentiation, allocation of resources and the desired outcomes.
- Roles and responsibilities for all functions within category management must be clearly defined.
- Alignment of key performance measures for all functions across the organization is essential.
- The supplier relationship strategy and plan must be clearly defined. Expectations must be clarified with partners through engagement sessions.
- Development and application of organisation skills is crucial.
- Support tools and information systems must be in place so that information is available for improving the quality of decisions.

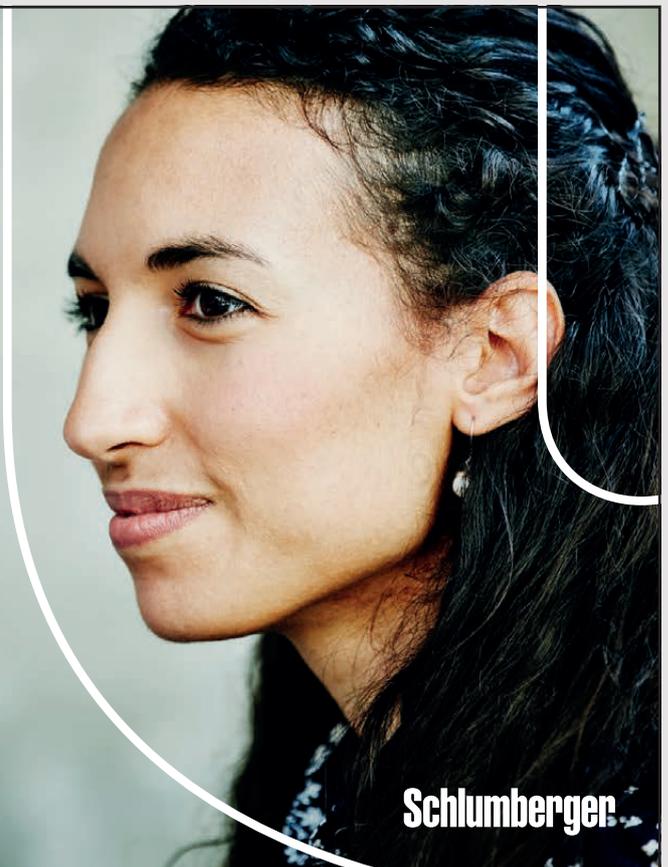
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- Frequency of communication within the organisation and across organizational boundaries will help strengthen clarity of purpose and influence a greater commitment in inter-organizational relationships.
- Governance mechanisms must be in place to facilitate effective control of the category management process.

Category management has positioned retailers to align merchandising strategies and tactics more closely with consumer purchase behavior. It has led to greater efficiencies across the supply chain. Focus on costs gets sharper at the item level. It helps retailers achieve a better return on investments in information technology. Category management also enables collaborative information sharing and planning between trading partners.

Category management has become an essential part of every retailer's eco system. Every retailer is unique and so this uniqueness becomes the basis for success of category management process. Retailers have learnt how to successfully customize the process to suit their individual capabilities and operating practices.

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# 7 RETAIL STRATEGY FOR GEN X AND GEN Y

## Learning objective:

- To understand the retail strategies for Generation X and Generation Y so that sales growth can be achieved.

Generational marketing is a way to segment the population as a unique strategy to target different age groups. Up until recently, retailers have been heavily focused on marketing to baby boomers. In fact, 4 out of 5 retailers attribute 50% of their sales to baby boomers.

But a new demographic is coming of age – the Millennials. They are entering their prime consumption years and are ready to spend. The often forgotten Gen X people are also now in the prime of their careers with high spending power, representing an opportunity retailers can't afford to neglect. Retailers must implement strategies to target each of these age groups through different channels and with messages tailored to resonate best with each generation.

It is impossible to please all of the people all of the time and this is a challenge that retail marketing faces. The generation gap between Gen X and Gen Y consumers can be confounding. Nelson Barber, an associate professor of hospitality management at the University of New Hampshire looked at the shopping habits of Gen-X and Gen-Y consumers.

Those groups together comprise 116 million consumers. Generation X is generally considered those people born between 1964 and 1977. Generation Y is identified as those born between 1978 and 1998.

Barber decided to try to understand what marketing methods work best for each group by examining how each comes to its purchasing decisions. He discovered that the differences in their shopping habits have significant implications for marketers. Generation X is motivated enough to search for purchase related information and is adept at searching for alternatives. This generation X does not want to be complacent and be taken advantage of by marketers. They believe in doing their homework before taking an important purchase decision. They seek the best possible deals from marketers. Generation Y is more susceptible to peer pressure. They select and consume products that help them achieve their goals of blending with the crowd or a certain group. They are under pressure to conform to the demands and desires of the group that they belong to.

In India, retail marketers like Lifestyle and Jealous often use catchwords in their promotional campaigns to attract Gen Y. Jealous asks young people to show their butt while Lifestyle has exhorted people to blend in. As the buying psychology between these two generations differs marketers have a hard time trying to appeal to both the sections – more so during festive seasons. However, knowing that Generation-X consumers want to gain an understanding of products before purchasing them and knowing that Generation-Y shoppers focus more on the opinions of others before completing a purchase can also be a great advantage to savvy retailers.

Retailers target Generation-X shoppers by catering to their desire of having information to accompany each purchase decision. Generation-X shoppers use Internet as well as traditional modes of advertising to take a purchase decision. So, retailers have to target these consumers in a multitude of ways. For Generation-Y shoppers, retailers look forward to using social media networks and mobile devices to attract them. Retailers have to focus on marketing campaigns with an emphasis on “peer interaction” when it comes to targeting the Generation-Y shoppers. Promoting the popularity of the product among peers is the norm now.



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The advertisement features a photograph of three diverse young adults (two women and one man) standing in a modern, brightly lit interior space. The woman on the left is Black, the woman in the middle is Asian, and the man on the right is white with a beard and glasses. They are all dressed in dark, casual clothing. The background is a warm, golden light, possibly from large windows or a sunset view.

Transparency is a must while dealing with Generation Y shoppers while information forms the basis of interaction with the Generation X shoppers, who are more conservative in their approach.

Whether it is US or UK or India or China, the truth is that there is a dramatic change in demographics. Gen X refers to those born between 1965 and 1976, and Gen Y to those born between 1977 and 1994.

### **Generation X: 1965–1976**

This group is established in the business world and is mostly married with homes and children. They have earning and spending power that is likely to grow. As a group, their needs are as diverse and typical of anyone at this stage of life. Compared to previous generations, they are also more pessimistic about their financial futures. They are accustomed to cheap imports and less averse to buying them. They are also suspicious of “slick” conventional marketing approaches. They want straightforward talk and evidence to support claims.

#### ***Generation X***

- Born between 1965 and 1980
- The “latch-key kids” who grew up street-smart, often with divorced or career-driven parents
- Want to save the neighborhood, not the world
- Rose in the transition phase of written knowledge to digital knowledge. Most remember being in school without computers and then the introduction of computers in middle school or high school

### **Generation Y: 1977–1994**

This generation is currently spread out between early high school teens, and married, home-owning adults. Those at the upper tier will have good spending power, while those at the bottom have limited spending and decision-making power. Approaching Gen Y with a one size-fits-all approach will be difficult. Retailers who do not have offers that can cater to the younger group may find it better to concentrate on the upper half of the Gen Y scale, such as those born prior to 1985.

Generation Y is tech savvy having grown up with the Internet and other high-tech gadgets. They are also impulsive, restless and mavericks. They find it difficult to conform to norms. However, they are more optimistic, idealistic and ambitious than Gen X.

### ***The Millennials***

- Born between 1981 and 2000
- Grew up in a digital environment and have never known a world without computers. They get their information and much of their socialization from the Internet
- Prefer to work in teams
- Envision the world as a 24/7 place with fast and immediate access to anything
- They do not live to work and prefer a more relaxed work environment

### **Comparing the Groups**

Both Gen X and Gen Y are generally:

1. More flexible than their predecessors, and expect more flexibility in return. They are more likely to have flexible schedules at work, family leave options, and more. They grew up in a flexible world, being the first generation to have (in most cases) two working parents. To suit them, you must also be flexible, offer them a range of options, and be ready to cater to their particular demands.
2. More knowledgeable about technology than previous generations, and more likely to use it.
3. Less nostalgic than their forebears, but more in tune with what's going on now, and more concerned about things to come. Many of the experiences you remember, or terminology you grew up using, will be lost on them.
4. More racially, ethnically, and culturally diverse than previous generations. A large percentage comes from diverse backgrounds, and many speak foreign languages. Another example of their diversity is that while they are, on average, better educated than previous generations, they also include a higher percentage of single parents than their predecessors.
5. More accustomed to dramatic change. Many in these generations are children of divorce, and they are likely to have moved once or more during their youth. They also expect to change jobs several times during their careers. Their lives are structured around expectations of change, and they plan accordingly.

### **Reaching out to generational shoppers**

Most Generation X and Y shoppers are apartment dwellers and so direct mail or flyers may be a good way to reach them. Attracting Gen Y shoppers may need retailers to visit university campuses and educational institutions.

Popular night spots where these folks meet often can be a good source to reach out to them. Local newspapers could also prove to be useful. Malls, department stores, trendy chain stores engage a disproportionate number of younger people. These are the places where ads can be displayed or brochures distributed.

Most Gen Xs and Gen Ys listen to music on you tube or radio and so this can be a good bet. There can be several ads on the radio. It will be better to intersperse these between musical programmes to attract a greater share of the audience listening to the radio. Timing of the ads is also important. The better the retailer knows the audience, more is the likelihood of success of advertising efforts.

Direct mail can be an effective medium but the problem is that there is far too much direct mail and direct clutter. So, to stand out amidst the clutter is not easy. Direct mail may be a cheaper form of advertising but its effectiveness remains doubtful.

### Generation Overview

So who are the generations? Here's a brief look at the underlying characteristics and values that define the Boomers, Gen Xers, and Millennials.



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### ***Baby Boomers***

- Born between 1946 and 1964
- The “me” and “rock and roll” music generation
- Responsible for social changes
- First generation to use the word “retirement” to mean being able to enjoy life after the children have left home.

### **Shopping Habits**

As a whole, each generation has a unique set of characteristics and attributes and shopping behaviors also vary greatly among the generations.

### ***Baby Boomers***

The Baby Boomers still have the most disposable income and account for almost 50% of retail sales. But it is not true that they only rely on traditional media. They are very comfortable browsing and shopping online with 85% reporting that they research products online. And according to a report by [Immersion Active](#), 66% of people over 50 in the United States routinely make purchases from online retailers.

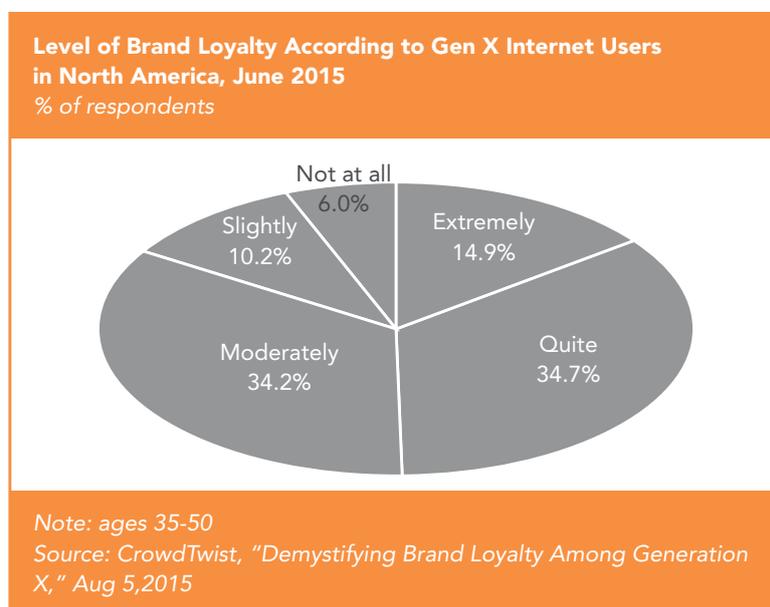
Over 27 million social networking users in the U.S. are over the age of 55, with almost 19 million of them active on Facebook specifically. However when it comes to social media, Baby Boomers use these sites in a different way than other generations. They tend to stick to traditional sites like Facebook. They also prefer having one-to-one interaction with retailers and will use social sites simply to find contact information to get in touch with retailers through alternate channels such as phone or email. Baby Boomers also love coupons and sales and 75% are more likely to purchase if they have a coupon or loyalty discount.

### ***Gen X***

Many retailers are heavily focused on the Baby Boomers and Millennials but the power of Gen X shouldn't be discounted. This generation makes up only [25% of the US population but claims 31% of its total income dollars](#). A recent [eMarketer report](#), “Giving Gen X Its Due: Analyzing a Market of 65 Million Consumers,” explores this age group and their shopping habits. According to the report, 7 in 10 Gen Xers will make a digital purchase this year.

Generation X can be targeted through digital channels. Electronic mail is one of the important channels for Gen X. These people check their email regularly and respond well to personalized offers tailored to their interests and prior purchases. Majority from Gen X use social media. Reports reveal that Gen X internet users use Facebook at least monthly. Their usage of Twitter continues to rise and eMarketer estimates their tweets to reach 19.5% by 2017. Digital video is even more popular among Gen Xers than social networking, with 78.7% downloading or streaming video online at least once per month.

Another thing that can attract Generation X consumers is provision of loyalty programs. Once they join a loyalty program, frequency of their shopping increases. 65% of Gen X, according to a survey, bought items at least once a month from the stores for which they had loyalty cards. Also, people from this generation are quite loyal to their favorite brands.



The Indian scenario is somewhat different than the scene in US. This is mainly due to cultural differences. Not many from this generation are technology savvy and even can be considered as luddites. We need to consider the overall population in India majority of which lives in rural areas. Even though mobile phones have reached every nook and corner in India, not everyone is equally adept in the use of smart phones. Smart phones now come with so many features that people from Generation X may find it difficult to handle. This is the reasons retailers in India cannot focus on digital marketing media alone for promoting their products and publicizing their discounts/offers. Though electronic commerce has tasted phenomenal success in India, there is still enough market bandwidth left for offline retail stores. This prompted some of the etailers in India to plan the launch of offline retail stores.

Many of the retailers had introduced cash on delivery as the payment mode when they realized that many Indians (particularly those belonging to Gen X) were scared to use credit cards for fear of transactions failing or fear of someone hacking their cards. The Indian government is trying to alter this situation by encouraging every Indian to adopt digital/cashless mode of payment.

### *Millennials*

Millennials are online, social and mobile. According to the Synchrony Financial report, 90% of Millennials research products online. [Millennials are spending an average of 25 hours per week online](#) and turn to content-driven media for shopping guidance. A strong online presence is needed for this generation because if reports are to be believed then they are 247% more likely to be influenced by blogs or social networking sites.

About 79 percent of Millennials use social media like blogs, Facebook, Twitter, and Instagram, with many spending as much as 2–3 hours on these sites per day. According to eMarketer, 68% are influenced by their friends' social media posts when making a buying decision. They also use social media to interact and converse with retailers. Retailers who constantly send sales messages can put off millennials. However they can become brand advocates if retailers reach out to them and socially engage them.



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Millennials rely on word of mouth advocacy to a great deal. They value referrals and research surveys have revealed that 73% of millennials read others opinions about a particular product or service before they purchase it. Millennials are inspired by people whom they know in person or online or someone with whom they are better able to connect on social networks due to their interests being similar. 84% millennials say user generated content has at least some influence on what they buy. Mobile is also huge with this generation. Millennials are much more likely to use their mobile devices when shopping with 69% visiting mobile retail sites and 41% using mobile coupons.

Retailers must tailor their strategies to engage each unique generation. It must not be forgotten that consumers (regardless of their age) have their own unique preferences. Generational marketing should be blended with rich data insights to empower marketers to reach their ideal customer base.

### **Greater reliance on customer feedback**

Many retailers are encouraging customers to provide their feedback online. So, if anyone has to purchase something he/she invariably refers to the online reviews on that particular vendor/service provider. Customers are heterogeneous in their behavior and so perceptions play an important role in the online feedback that customers provide. Often it can prove difficult to separate wheat from the chaff. Service providers in India have realized that if they do not apologize for a poor service or do not set the record straight it can become a nightmare to sustain the business. For example – customers can co create value when it comes to delivering a service but they can also delay the service delivery due to their recklessness. Tour operators often find that some customers are always late and end up delaying the service delivery. This is the reason customer feedback has to be always treated in a cautious manner. For example a customer who has demanded a discount and hasn't received it will pour his vitriolic comments on line. The service provider has to take care to gently point out the customer's mistake so that other customers are not unduly influenced by the negative opinions of a few disgruntled customers. This is one of the problems that retailers face due to the prevalence of social media networks where information can be easily shared.

### **The purchasing habits of different generations**

Retail merchants tend to group customers into one big audience, when in reality shoppers can have unique behavioral patterns. One consumer may respond very differently a sale or marketing campaign than another.

Recent research conducted by the University of New Hampshire illustrates that exact point. Nelson Barber, associate professor of hospitality management at the university and the primary researcher, analyzed how Generation X and Generation Y consumers arrived at purchase decisions.

Generation X, Americans born between 1964 and 1977 (44 million consumers), tended to be more independently minded. Meanwhile, Generation Y Americans, those born between 1978 and 1998 (72 million), rely more on the opinions of others – specifically their parents – before making purchase decisions. Generation X shoppers can be categorized by their keen understanding of marketing and media. Research is crucial for these individuals – they use the web to reinforce their existing opinions on brands and products, rather than to form them to begin with.

Generation X is motivated to search for purchase related information. It is adept at searching. These people tend to use information not as a point of pride but as an assurance that they are not being taken advantage of by marketers and are getting the best deal possible. In India, exaggerated advertising claims have put off many of the Generation X population. Though it is often claimed that the real intention of advertising is to sell a comb to a bald person, some manufacturers make unsubstantiated claims thinking that customers can be fooled. In the world of today where Internet is driving change and transformation, it is wrong to take customers for granted.

Generation Y shoppers are likely to turn to their friends and family for opinions. They are more of rebels who detest the fact that their parents are constantly keeping a watch on them.

On the other hand, Generation Y shoppers are likely to turn to their friends and family for opinions. Barber explains the close watch of these consumers' parents makes them strive to conform to parental oversight. Additionally, their integration with new technology and social media makes them more reliant upon it.

In short, this demographic may simply ask their social networks “What is the best retail chain?” rather than “What makes Retail Chain X better than Retail Chain Y?”

“Generation Y selects and consumes products that help them achieve their goals of blending in with the crowd or a certain group; thus, they are influenced by the need to conform in order to be liked and accepted by them,” Barber adds.

Understanding the buying habits of consumers is key to better engaging them. By leveraging research data, such as the UNH report, as well as information collected internally, retailers can help convert window shoppers into buyers.

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# 8 RETAIL STORE FORMATS

## Learning objectives

- To understand the different store formats in retail.
- To identify the criteria by which the store format can be selected.
- To learn about the differences between store retailing and non store retailing.
- To understand the different types of segmentation in retail.
- To learn about the differences between assortment and variety.
- To study the off-price retail chains and their competitive weapon.
- To review the strategies of general merchandise stores.
- To learn about the differences between supermarket and hypermarket.
- To study about the evolution of e-retailing and challenges associated therein.
- To learn about the features of a full line discount store.
- To understand the factors involved in selecting a location for a retail store.

A [marketplace](#) is a location where goods and services are exchanged. The traditional [market square](#) is a [city square](#) where traders set up stalls and buyers browse the stores. This kind of market is very old, and countless such markets are still in operation around the whole world.

In some parts of the world, the retail business is still dominated by small family-run stores, but this market is increasingly being taken over by large [retail chains](#). Most of these stores are called high street stores. Gradually high street stores are being re-grouped at one location called Malls. These are more defined and planned spaces for retail stores and Brands.

## Types by products

Retail is usually classified by types of products as follows:

- Food products – typically require cold storage facilities.
- Hard goods or durable goods (“hardline retailers”) – appliances, electronics, furniture, sporting goods, etc. These are goods that do not quickly wear out and provide utility over time.
- Soft goods or consumables – clothing, apparel, and other fabrics. Goods that are consumed after one use or have a limited period (typically under three years) in which you may use them.



### Types by marketing strategy

- **Department stores** – these are very large stores offering a huge assortment of “soft” and “hard goods; they often bear a resemblance to a collection of specialty stores. These stores offer customer service and carry a variety of categories of goods. These stores also have a broad assortment at average price.
- **Discount stores** – these stores tend to offer a wide array of products and services, but they compete mainly on price offers; they have an extensive assortment of merchandise at affordable and cut-rate prices. Normally, these retailers sell less fashion-oriented brands.
- **Warehouse stores** – warehouses that offer low-cost, often high-quantity goods piled on pallets or steel shelves; warehouse clubs charge a membership fee.
- **Variety stores** – these offer extremely low-cost goods, with limited selection
- **Mom-And-Pop store** – this is a small retail outlet owned and operated by an individual or family. Focuses on a relatively limited and selective set of products. But these stores stock most of the essential items.
- **Specialty stores** – these stores give attention to a particular category and provide 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.
- **General store** – this is a rural store that supplies the main needs for the local community;
- **Convenience stores** – these are 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 as it often works with extended hours, stocking fresh stock every day.
- **Hypermarkets** – these provide variety and huge volumes of exclusive merchandise at low margins. The operating cost is comparatively less than other retail formats.

- **Supermarkets** – A supermarket 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 and 40,000 square feet (3,700 m<sup>2</sup>). Example: SPAR supermarket.
- **Malls** – these have a range of retail shops at a single outlet. They are endowed with products, food and entertainment under a roof.
- **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 centre 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.
- **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. Flipkart, Amazon, eBay are examples of e-tailers.

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Possibly the most publicized retail model to evolve in the last 50 years is the retailer that principally sells via the Internet. There are thousands of online-only retail sellers of which Amazon.com is the most famous. These retailers offer shopping convenience including being open for business all day, every day. Electronic retailers or e-tailers also have the ability to offer a wide selection of product since all they really need in order to attract orders is a picture and description of the product. That is, they may not need to have the product on-hand the way physical stores do. Instead an e-tailer can wait until an order is received from their customers before placing their own order with their suppliers. This cuts down significantly on the cost of maintaining products in-stock.

**Vending Machines** – a vending machine is an automated piece of equipment wherein customers can drop the money in the machine and acquire the products. Within this category are automated methods for allowing consumers to make purchases and quickly acquire products. While most consumers are well aware of vending machines allowing customers to purchase smaller items, such as beverages and snack food, newer devices are entering the market containing more expensive and bulkier products. These systems require the vending machine have either Internet or telecommunications access to permit purchase using credit cards.



Big box stores encompass larger department stores, discount, general merchandise and warehouse stores. Retailers can opt for a format as each provides different retail mix to its customers based on their customer demographics, lifestyle and purchase behavior.

Across the globe top retailers are Walmart, Carrefour, Tesco, Metro AG and Kroger.

## **Deciding the format**

1. Retailer should select value
2. Choose the format that delivers value to the fullest
3. A format is a system for delivering value to shoppers and creating a sustainable competitive advantage

Toys R Us is a category killer. It focuses on one category and offers price and depth. But in Japan, the biggest challenge was in finding space for its stores. Variety is the number of merchandise categories offered by Retailers. Assortment is the number of different items in a merchandise category. Each different kind of merchandise called as SKU or stock keeping unit.

So, while selecting the format

1. Look at variety and assortment and SKUs required,
2. Customer Service & Facility
3. Store Design, Display and Ambience
4. Pricing
5. Accessibility – location, travelling time, parking facility, service hours
6. Ambience – non visual, background conditions in store environment including temperature, lighting, music, noise levels & air quality.

## **Convenience Stores**

Convenience stores provide a limited variety and assortment of merchandise at a convenient location with the majority of their sales coming from gasoline and cigarettes. Their size (2,000–3,000 square foot) is smaller than the size of the traditional supermarket. To increase convenience, convenience stores are opening smaller stores close to where consumers shop and work. In addition, they are taking steps to decrease their dependency on gasoline sales, tailoring assortments to local markets, and making their stores even more convenient to shop.

Convenience is offered in many ways including through easily accessible store locations, small store size that allows for quick shopping, and fast checkout. The product selection offered by these retailers is very limited and pricing can be high.

## **Category Killers**

Category specialists or category killers offer a narrow but deep assortment of merchandise. They do not compete directly with off-price retailers who offer an inconsistent assortment of brand name merchandise at low prices. Most category specialists use a self-service approach. Assistance is offered to customers if they need it.

Category killers can attain this status by being cheaper, easier, bigger, or more popular than the competition. One of the best examples of a category killer is Wal Mart; their chain has put smaller stores in a wide range of specialized categories out of business. A large retail chain store that is dominant in its product category. This type of store generally offers an extensive selection of merchandise at prices so low that smaller stores cannot compete.

Many major retail chains have taken what were previously narrowly focused, small specialty store concepts and have expanded them to create large specialty stores. These so-called “category killers” have been found in such specialty areas as electronic (e.g., Best Buy), office supplies (e.g., Staples) and sporting goods (e.g., Sport Authority).

### ***Boutique***

This retail format is best represented by a small store carrying very specialized and often high-end merchandise. In many cases a boutique is a full-service retailer following a full-pricing strategy.



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### ***Catalog Retailers***

Retailers such as Lands' End and LL Bean have built their business by having customers place orders after seeing products that appear in a mailed catalog. Orders are then delivered by a third-party shipper.

### ***Franchise***

A franchise is a form of contractual channel in which one party, the franchisor, controls the business activities of another party, the franchisee. Under these arrangements, an eligible franchisee agrees to pay for the right to use the franchisor's business methods and other important business aspects, such as the franchise name. For instance, McDonald's is a well-known franchisor that allows individuals to use the McDonald's name and methods to deliver food to consumers. Payment is usually in the form of a one-time, upfront franchise fee and also on-going percentage of revenue.

### ***Mass Discounters***

These retailers can be either general or specialty merchandisers but either way their main focus is on offering discount pricing. Compared to department stores, mass discounters offer fewer services and lower quality products.

### ***Department Stores***

These retailers are general merchandisers offering mid-to-high quality products and strong level of services, though in most cases these retailers would not fall into the full-service category. While department stores are classified as general merchandisers some carry a more selective product line. For instance, while Sears carries a wide range of products from hardware to cosmetics, Nordstrom focuses their products on clothing and personal care products.

### ***Warehouse Stores***

This is a form of mass discounter that often provides even lower prices than traditional mass discounters. In addition, they often require buyers to make purchases in quantities that are greater than what can be purchased at mass discount stores. These retail outlets provide few services and product selection can be limited. Furthermore, the retail design and layout is as the name suggests, warehouse style, with consumers often selecting products off the ground from the shipping package. Some forms of warehouse stores, called warehouse clubs, require customers purchase memberships in order to gain access to the outlet.

## Non store Retailing

Non-store retailing is the selling of goods and services outside the confines of a retail facility. It is a generic term describing retailing taking place outside of shops and stores (that is, off the premises of fixed retail locations and of markets stands). The non-store distribution channel can be divided into direct selling (off-premises sales) and distance selling, the latter including all forms of electronic commerce

Distance selling includes mail order, catalogue sales, telephone solicitations and automated vending. Electronic commerce includes online shopping, internet trading platforms, [travel portals](#), global distribution systems and teleshopping. Direct selling includes party sales and all forms of selling in consumers' homes and offices, including even garage sales.

Non-store retailing, sometimes also labelled 'home shopping', is consistently achieving double-digit growth, and slowly taking a bigger share of overall retailing

The selling of goods and services without establishing a physical store is known as Non-Store Retailing. It includes such services as vending machines, direct-to-home selling, telemarketing, catalog sales, mail order, and television marketing programs. The fast growing method used by retailers to sell products is through methods that do not have customers physically visiting a retail outlet. In fact, in many cases customers make their purchase from within their own homes. A large majority about 80% of retail transactions are made in stores. However, a growing volume of sales is taking place away from stores. It is estimated that non-store sales account for almost 20% of total retail trade.

There are 6 types of non-store retailing namely direct selling, Tele marketing, online retailing, automatic vending, direct marketing and electronics retailing.

**Direct selling** involves a personal contact between a sales person and a consumer away from a retail store. This type of retailing is also called as home selling. This is a popular form of retailing in Japan. Tupperware, Avon, Electrolux can be considered as examples of companies that are involved in direct selling. Network marketing is another direct selling approach that is becoming popular. Companies like Amway reward their distributors for not only selling products but also for recruiting others to become distributors. As there is a personal contact with the customer, a greater degree of persuasion can be achieved to motivate the customer to buy the product or service. Recruiting salespersons with that kind of competence can be a challenge. Generally, 30–40% sales commissions are paid for direct selling. The instances of frauds in direct selling cannot be ruled out.

## Telemarketing

Sometimes called telephone selling, telemarketing refers to a sales person initiating contact with a shopper and closing a sale over the telephone.

- Telemarketing many entail cold canvassing from the phone directory. Many products that can be bought without being seen are sold over the telephone. Examples are pest control devices, magazine subscriptions, credit cards and club memberships.
- Telemarketing is not a problem free retailing. Often encountering hostile people on the other end of the line and experiencing many more rejections than closed sales, few telephone sales representatives last very long in the job.
- Further some telemarketers rely on questionable or unethical practices. For instance firms may place calls at almost any hour of the day or night. This tactic is criticized as violating consumers' right to privacy.
- To prevent this, some states have enacted rules to constrain telemarketers' activities. Despite these problems, telemarketing sales have increased in recent years. Fundamentally, some people appreciate the convenience of making a purchase by phone.
- Costs have been reduced by computers that automatically dial telephone number, even deliver a taped message and record information the buyer gives to complete the sale.
- The future of telemarketing is sure to be affected by the degree to which the problems above can be addressed and by the surge of online retailing.

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Telemarketing is a somewhat stressful career choice. It really depends on what type of telemarketing that you do. Collection call telemarketing can be one of the worst telemarketing jobs that you can have. No matter which path of telemarketing you take you will run into a lot of rude people. Everybody knows that people do not like to get interrupted by telemarketers at home.

### **E-Retailing**

Internet Retailing or e-retailing as is usually referred to as covers retailing using a variety of different technologies or media. It may be broadly be a combination of two elements. Combining new technologies with elements of traditional stores and direct mail models using new technologies to replace elements of stores or direct mail retails. Internet retail also has some elements in common with direct mail retailing.

For example, e-mail messages can replace mail messages and the telephone, that are used in the direct mail model as means of providing information, communication and transactions while on-line catalogues can replace printed catalogues.

As with direct mail businesses, critical success factors include:

- (i) Use of customer databases
- (ii) Easy ordering
- (iii) Quick Delivery

Operational elements that the Internet retail model shares with both the retail store and direct mail models include:

- (i) Billing of customers
- (ii) Relationships with supplier

There are, therefore, many elements that Internet retail and more traditional retail models have in common. Indeed many of the most successful Internet retailers have been those that have been able to successfully transfer critical elements from traditional retailing to the Internet, such as customer service and product displays.

**Online Retailing:** When a firm uses its website to offer products for sale and then individuals or organizations use their computers to make purchases from this company, the parties have engaged in electronic transactions (also called on line selling or internet marketing). Many electronic transactions involve two businesses which focus on sales by firms to ultimate consumers. Thus online retailing is one which consists of electronic transactions in which the purchaser is an ultimate consumer.

Of course, there are substantial costs in establishing an online operation. Aggressive efforts to attract shoppers and retain customers through extensive advertising and low prices are also expensive. The substantial losses racked by online enterprises used to be accepted, perhaps even encouraged by investors and analysts. Despite these challenges, online retailing is expected to grow, rapidly and significantly for the foreseeable future.

### **E-Retailing in India**

- **Problems with the Payment System** – People in India are not used to the online shopping system and moreover the online payment system through the credit card is also totally alien to them. Most of them do not avail of the transaction facilities offered by the credit cards. They are also dubious regarding the online payment system through the credit cards. Hence different payment options should be made available to them like the credit card, cash on delivery and net banking to give them further assurance.
- **Problems with Shipping:** The customers using the online shopping channel should be assured that the products that they have ordered would reach them in due time. For this the retail companies have resorted to private guaranteed courier services as compared to postal services.
- **Offline presence:** The customers should be assured that the online retailers are not only available online but offline as well. This gives them the psychological comfort that these companies can be relied upon.
- **Products offered at discounted rates:** The online retailers save on the cost of building and employee salaries. Some part of this benefit should also be enjoyed by the online customers by a reduction in the price of the product. The customers should be conveyed this message that they are getting the products at a discounted price.
- **Language Problem:** Most internet retail shops use English as their mode of communication. English may not be comprehensible to the majority of the Indian population. To increase the customer base, content in the online retail shops should be provided in local language. Another reason why the concept of e- retailing or online retailing has not gained prominence in India is that the Indians prefer to touch the products physically before buying them. This facility is provided through the multi-brand outlets, not available online. Studies have revealed the preferences of the customers towards the traditional shopping methods. Hence the retailer online should first make it a point to spot the potential customers and accordingly plan out the product. If the customers are more open to online shopping, then nothing can be more beneficial. They save the time and effort to visit, departmental stores, shopping malls, etc. products can be delivered by a click of the mouse.

Direct marketing comprises all types of non-store retailing other than direct selling, telemarketing, automatic vending and online retailing. Use of print or broadcast advertising to contact consumers, who in turn buy products without visiting a retail store, characterizes direct marketing. Direct marketers contact consumers through radio, TV, newspapers, magazines, catalogs and mailing. Direct marketers can be classified as either general merchandise firms that offer a variety of product lines or specialty firms that carry only one or two lines such as books or fresh fruits. Direct mail involves technique in which firms mail letters, brochures and even product samples to consumers, and ask them to purchase by mail or telephone. Catalog retailing – in which companies mail catalogs to consumers or make them available at retail stores.

Direct marketing provides shopping convenience; for the marketer this means reduction in operating expenses. Consumers have to place orders without seeing or touching the actual merchandise. This makes it necessary for direct marketers to offer liberal return policies. The challenge in direct marketing is to understand if this mode can lead to sustainable and differential competitive advantage for the organisation in relation to online retailing.

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### **Future of Non store retailing**

Growth of non store retailing has been astonishing. Increased penetration of internet has been one of the driving factors. With time people also became well acquainted with online purchasing. As consumers start facing constraints of time, non store retailing is expected to become popular. Having said this, it can also be said that the time when non store retailing will get saturated is not far. In India, Flipkart and Amazon have not yet made a profit despite their grandiose marketing campaigns. They are also grappling with last mile delivery issues. At the end of the day, delivery of service depends on people. The delivery boys can find out ingenious ways of shirking timely delivery on the pretext that consumer wasn't at home even when the consumer was very much at home during that time.

**Supercentre = Supermarket + Discount Department Store**

### **Features of a full line discount store**

1. High volume, low cost outlet selling a broad assortment
2. Shopping carts and centralized checkout service provided
3. Customer service only in a centralized area
4. Products sold via self service
5. Non durable (soft) goods feature private brands (e.g. Reliance Retail – salt, sugar, pickle).
6. Durable (hard) goods feature well-known manufacturer brands. [E.g. Soap, toothpaste, shaving cream, after shave lotion, mosquito mats, vaporizers].
7. Clear Customer focus
8. Popular brands
9. Improved Image
10. Private Brands

### **Variety Store**

It handles assortment of inexpensive and popularly priced goods & services like apparel, accessories & costume jewellery. It has few salespeople. There are open displays. E.g. Dollar discounts stores.

### **Factory outlet**

It is a manufacturer-owned store selling close-outs

Aditya Birla Nuvo

Madura Garments

Brand Factory, Crystal Hosiery & Inner ware

Liberty showrooms, Bata showrooms

### **What is a warehouse club?**

A membership (warehouse club) appeals to price conscious consumers, who must be members to shop there. E.g. Metro Cash & Carry; Big Bazaar Wholesale Club – they have an Anmol card, ICICI Big Bazaar Card and then you become a member of the club.

### **Behavior based Segmentation**

1. Choice Optimizers
  - a. Quality Conscious
  - b. Own Decisions
  - c. Brand driven
  - d. Maximize their value
  - e. Look for variety
  - f. Search for information
2. Pre-meditated shoppers
  - a. Limited Product Choice
  - b. Shoppers come with a list and buy only from that list
3. Economizing shoppers
  - a. Price Conscious
  - b. Prefer discount stores
  - c. Ask for bargains
4. Support seekers
  - a. Low confidence while making purchase decisions
  - b. Need help from store personnel
5. Recreational shoppers
  - a. Enjoy their stay at shop.
  - b. Enjoy shop atmosphere, ambience, spend time looking at various displays and windows

### Attitude based segmentation

1. Post purchase experience sharing
2. Shopping as a hobby
3. Loyal shoppers
4. Bargain hunters
5. Go & Grab shopping – finish the shopping as quickly as possible
6. Shoppers looking for offers
7. Shoppers who tend to avoid crowds

### What is assortment?

Assortment is the number of different items in a category.

### Difference between assortment and variety

Assortment refers to the number of different items in a merchandise category. Assortment is also referred to as the depth of merchandise. Variety is the number of merchandise categories a retailer offers. Variety is often referred to as the breadth of merchandise. Variety is just a collection of different products whereas assortment is a collection of variations of a single product.



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The same brand and model personal computer is sold in specialty computer stores and discount stores. Why would a customer choose one store over another? Each type of retail store provides a unique combination of price and services tailored to the needs of different types of customers. The specialty store typically will have higher prices, but will offer more services. It will have salespeople with technical expertise available to provide information to customers and answer questions. This service is particularly valuable to customers who do not know much about computers. On the other hand, discount stores, category specialists, and warehouse stores have lower prices and do not offer much personalized service. These stores are more attractive to customers who have more expertise and do not need personalized service.

Due to the greater assortment in category specialists, customers are able to compare the prices and features of different brands in one store visit. Warehouse and discount stores have limited assortments and thus customers can only see a limited set of brands and models. But they can also buy merchandise in different product categories at the same time they are buying a computer.

The main difference between variety and assortment is that variety refers to the number of different merchandise categories a retailer sells, whereas assortment is the number of different items or SKUs in a merchandise category. In addition, variety is often referred to as the breadth of merchandise carried by the retailer, and assortment is referred to as the depth of merchandise. These elements form an integral part of the retail market structure, since it is the retail offering that ultimately distinguishes one retailer from another.

### **What are Off Price Chains?**

- Brand name
- Designer apparel, accessories, footwear, fabrics, customers.
- Everyday Low Price
- Limited service
- Centralized checkouts
- No gift wrapping
- Extra charges for alteration
- Strategic element for off price chains involves buying merchandise and establishing long term relations with suppliers.

### **Off-price retailers and their competitive weapon**

The main competitive weapon for the off-price retailers is their low price. While they may not directly compete with higher service formats, such as department and specialty stores, they do face increasing competition from discount stores. Here, the off-price stores may be at a relative disadvantage since their merchandise is based upon opportunistic buying, while discount stores offer a relatively stable mix of merchandise at stable prices (everyday low pricing).

Since the option of improving service may increase costs and weaken their only source of competitive advantage (low price), off-price retailers should focus on strategies to keep their costs and prices low and explore low cost methods of attracting and retaining customers. In terms of keeping operational costs low, they can locate in lower cost urban and rural areas (note that outlet stores are more clustered within outlet malls located farther from the city but near major highways).

They can also implement more efficient inventory and merchandise management systems (note that for a discount store, such as Wal-Mart, operational efficiency and costs reductions are crucial to offering lower prices to customers). Also, they can expand their sourcing to include imports from low cost international markets. Another threat for off-price retailers may be from Internet stores. Often several stores publicize their low prices and also attempt to match consumer price preferences through reverse bidding and auctions (sites such as Priceline and eBay). Off-price retailers can explore the possibility of using the Internet for relatively low cost advertising about current merchandises (since their merchandise stocks fluctuate more rapidly due to opportunistic buying). Factory outlet stores, on the other hand, can compete more directly over the Internet.

### **General Merchandise Stores & their strategies**

General merchandise refers to a wide array of products commonly sold in retail stores. The simplest explanation of general merchandise is that it includes any non-food or non-grocery products. A general merchandise retailer is any store that sells mainly non-grocery items.

Common categories that make up much of the floor space in a general merchandise retail store are auto parts, toys, apparel, home furnishings, clothing, electronics, cameras and film and telecommunications hardware. Discount and department stores offer many categories of products, while specialty stores focus on one or a few. According to retail outlet Meijer, groceries are excluded from general merchandise, as are alcohol, baby products, prescriptions, stamps, services and health and beauty items.

The retailing process is the final step in the distribution of merchandise; retailers are therefore organized to sell merchandise in small quantities to the general public. This sector comprises two main types of retailers, store and non-store retailers. Store retailers operate fixed point-of-sale locations, located and designed to attract a high volume of walk-in customers. In general, retail stores have extensive displays of merchandise and use mass-media advertising to attract customers.

Non-store retailers, like store retailers, are organized to serve the general public, but their retailing methods differ. They reach customers and market merchandise with methods such as, the broadcasting of infomercials, the broadcasting and publishing of direct-response advertising, the publishing of traditional and electronic catalogues, door-to-door solicitation, in-home demonstration, temporary displaying of merchandise (stalls) and distribution by vending machines.

General merchandise stores are defined as retail stores that sell a number of lines, such as dry goods, apparel and accessories, furniture and home furnishings, small wares, hardware, and food. General merchandise stores are subdivided into three major groupings: department stores, variety stores, and miscellaneous general merchandise stores. Each of these three groupings has different characteristics.

**Department stores**, by far the largest of the three, accounts for over 89 percent of total employment and almost 80 percent of total sales within the general merchandise industry. A department store carries men's, women's and children's apparel, household appliances or other home furnishings, and various other lines. These stores are generally arranged in departments with individualized accounting. Department stores usually provide their own charge accounts, deliver merchandise, and maintain open stocks.

The rise of discount department stores (or "superstores") such as Wal-Mart, Target and K-Mart, have contributed to the overall growth of the industry by posting better than industry sales increases every year. Consumer spending at department stores is likely to remain healthy in the near future. Technology advances and continuing change will keep costs, and therefore prices, down, which should lead to strong sales in the future.

One of the major reasons for stronger department store performance has been the consolidation in the industry. Many of the big names in department stores not only downsized their operations in an effort to become more efficient and profitable, but also merged with other giants in the industry. Even so, department stores face stiff competition from various other forms of retail businesses.

Non store retailers have greatly increased their sales revenues in recent years due in large to the explosion in "e-retailing." Department stores continue to face competition from specialty stores – those that offer goods in a certain category line; and from the latest trend in retailing – the "category killer" or "superstores." These superstores, like Home Depot, and Borders seriously threaten department store sales because they offer practically every product within a particular retail category usually at much lower prices.

Variety stores, the smallest component of general merchandise, are defined as retailers who do not carry a complete line of merchandise, are not departmentalized, do not carry their own charge service, and do not deliver merchandise. As such, variety stores have been performing quite poorly in recent years. Since the mid-1980s, annual variety store sales have grown at a meager rate of 1.0 percent. The growth of specialty stores and superstores is the major reason behind the demise of variety stores. Although the major attraction of variety stores is lower prices, not carrying complete product lines have made these stores especially vulnerable to superstores, which carry every product in a category at relatively low prices.

**Miscellaneous general merchandise stores**, the final category, are similar in structure to department stores, except they generally have fewer employees. Miscellaneous general merchandise stores normally have fewer than 50 employees.

Sales at these stores have struggled in the mid-1990s. The market share within general merchandise stores held by miscellaneous stores has remained somewhat strong, due largely to the strength of past sales and the demise of variety stores.

The labor force in general merchandise stores are dominated by sales workers, clerical workers, and laborers. Sales clerks and cashiers are the most common occupations within general merchandise stores.

The massive restructuring of general merchandising stores undertaken largely by department stores during the 1990s is expected to continue. Since acquiring new stores is a way to gain market share within a mature industry, mergers and acquisitions will dominate department stores. Variety stores, by and large, are in trouble, but their small market share will generally limit their overall impact on general merchandise stores. Miscellaneous merchandise stores are expected to rebound from their recent decline in sales over the past few years.

## FAD

A fad is any form of behavior that develops amongst a large population and is collectively followed enthusiastically for a period of time, generally as a result of the behavior being perceived as popular by one's peers or being deemed "cool" by social media. A fad is said to "catch on" when the number of people adopting it begins to increase rapidly. The behavior will normally fade quickly once the perception of novelty is gone. A fashion that is taken up with great enthusiasm for a brief period of time is a craze. A desirable trend characterized with lots of enthusiasm and energy over a short period of time.



### *What is a Supermarket?*

Supermarket is a large store that lets you wander and choose the products for yourself. It was supermarket that was coined to give consumers a feeling of shopping in a big space and being able to fulfill all their requirements. There were products, which were hard to find in a market, in a supermarket such as fish, vegetables, or flowers. But, supermarket provided all this and much more under a single roof which led to rapid development of supermarkets in all parts of the world. During festive seasons, these supermarkets get decorated and even introduce games and such to make the shopping experience more interesting.

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### *What is a Hypermarket?*

A hypermarket was a later invention and the intent behind coining this word was to give a feeling of a store even bigger than a supermarket. It was in 1931 that the word hypermarket was first coined to refer to a gigantic retail facility that was earlier called as **departmental store** or a **super store**. Fred Myer chain in US was labeled as hypermarket, but the word was later reserved for all such retail stores that combined the features of super market and departmental stores. Before the term hypermarket became popular, most of the gigantic retail facilities where customers could move around, choosing from a wide range of products and keeping them in a trolley that they hauled around and later got the products billed at a counter were referred to as supermarkets. Hyper markets usually have everything of daily use (including groceries) and even electronics, toys, and furniture to let customers fulfill all their requirements under one roof.

Today, hypermarkets are so common that they can be seen in all parts of the world in both urban as well as rural areas. There are hypermarkets that are so large that one not only just shop around for all household items but can even find restaurants, magazines stands, internet cafes, and even beauty parlors under the same hypermarket roof. However, you should understand that hypermarket is not a term generally used in America. Also, the concept of hypermarket was not successful in Australia.

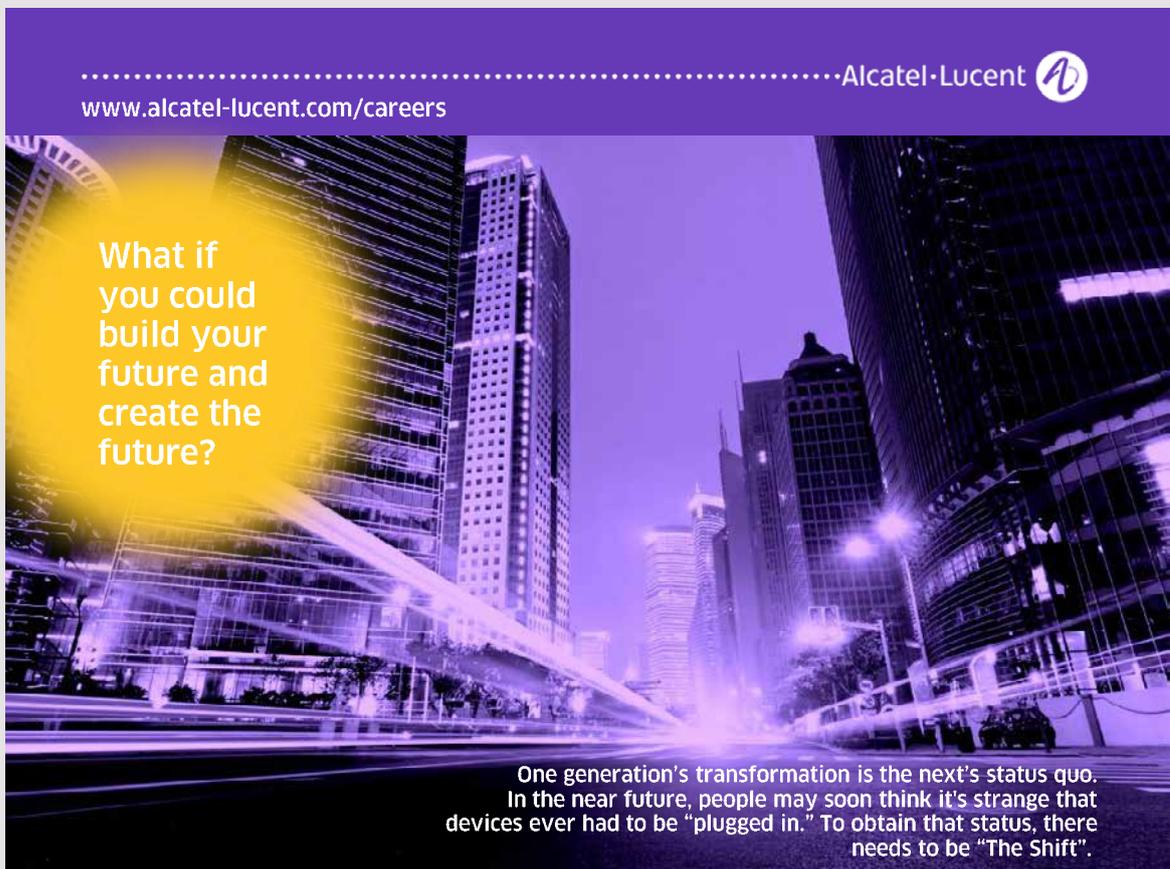
### **How are Supermarkets different from Hypermarkets?**

Both supermarkets, as well as the hypermarkets, have turned shopping from drudgery and a boring experience into something that is pleasurable and relaxing. However, there are some differences between a supermarket and a hypermarket that most people are not aware of. The basic difference between a super market and a hyper market pertains to their size and a hypermarket is certainly larger in space than a supermarket. Among other differences, higher variety of products and more sections can be enumerated.

1. Supermarkets are large self-service grocery stores that offer customers a variety of foods and household supplies. The merchandise is organized into an organized aisle format, where each aisle is numbered or labeled and has only similar goods placed together. Hypermarkets are large retail establishments that are a combination of supermarket and department stores. They are considered as a one-stop shop for all of the customer's needs. Hypermarkets basically have all the merchandise that could be required by a person on a daily basis.

2. Supermarkets are grocery stores that also provide household items, while hypermarkets are a combination of grocery stores, department stores and discount stores. Supermarkets are large self-service grocery stores that offer customers a variety of foods and household supplies. The merchandise is organized into an organized aisle format, where each aisle is numbered or labeled and has only similar goods placed together. The supermarket houses fresh foods, poultry as well as canned and boxed goods. Supermarkets are quite larger compared to traditional grocery stores, where people are available behind the counter to provide the consumer with goods and the consumer stands in front of the counter asking for the goods. However, supermarkets are smaller than hypermarkets or big-box markets, which are basically supermarkets combined with departmental stores.
3. Hypermarkets are large retail establishments that are a combination of supermarket and department stores. They are considered as a one-stop shop for all of the customer's needs. Hypermarkets basically have all the merchandise that could be required by a person on a daily basis such as clothes, grocery, medicine, etc. under one roof. The purpose of the hypermarket is to allow the consumers to purchase all the goods they would need under the same roof, eliminating having to visit various different stores to purchase them. Hypermarkets also offer products such as appliances, hardware, beauty supplies, photos, crockery, electronics, etc. They are also known as superstores. Hypermarkets may also have a specialty store layout, in which they also include specialty stores such as salons, banks, eye glass stores, etc. It is not necessary for all the hypermarkets to have them, but some do.
4. Hypermarkets have a high-volume, low sales margin model, where customers are given discounted prices in hopes that they will draw in the more crowds. Hypermarkets follow a similar layout to supermarkets, where people are allowed to walk through aisles of merchandise with carts or baskets and select any merchandise they wish. The layout is slightly different, the specialty stores are commonly placed either in the front of the back, while the grocery section is placed towards the front side of the building. The grocery section could also take up the whole lower floor, with other departments taking up additional floors above. Clothing and other departments are usually separated from the grocery department. Check-out counters are placed towards the side, where both the department could easily access the counters. If it is a multi-floor building, the checkout counters could be divided among the different floors and departments. The parking lot is usually in a space surrounding the building or below the building. Hypermarkets require large spaces and often pick areas in suburban or out-of-town locations that require cars for access.

5. Supermarkets have a special format where it allows consumers to pass through aisles using shopping carts or baskets and pick up whatever they require. Although, the early supermarkets did not house fresh grocery or meat, modern supermarkets have meats, poultry, bread, dairy products and fresh fruits and vegetables. In addition to fresh and canned food, supermarkets also keep household products such as cleaning supplies, baby goods, pet needs, medicine, kitchen appliances, crockery, etc. Supermarkets offer low prices and many deals or discounts on their products to attract consumers. Some even operate on negative profit margins sometimes to bring in customers. Supermarkets usually receive goods and merchandise in bulk from either manufacturers or large distributors in order to avail economies of scale. The profit margin is usually very small and the discounts are forwarded to the customers. Supermarkets may also be part of a huge chain system and may be closer to other supermarkets. Supermarkets closer together can save even more on costs by sharing distributors and slashing their transportation costs. Supermarkets are usually one-level brick and mortar store but may also include two floors depending on the amount of supplies that are kept.



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***Differences between Supermarket and Hypermarket***

<b>Characteristic</b>	<b>Supermarket</b>	<b>Hypermarket</b>
<b>Size</b>	Large store	Size is bigger than a supermarket
<b>Number and Variety of goods</b>	It has a number of FMCG in different varieties.	It stores larger number of products than a supermarket.
<b>Appearance</b>	It has a warm pleasant look to attract customers.	It looks more like a warehouse than a store.
<b>Service</b>	It provides more warm services with a personal touch.	The personal touch and warmth is often missing in a hypermarket.
<b>Price</b>	Higher prices than a normal store	Prices are cheaper than those at the supermarket

**Factors in choosing a location for retail store**

Choice of location depends on population size, competition, transportation access, parking, nearby stores, property costs, legal restrictions, lease agreements. Choice of location influences overall strategy.

1. Evaluate alternate geographic (trading) areas (residents, existing retailers).
2. Decide whether to locate store in unplanned business district or planned shopping center
3. Select location
4. Analyze alternate sites contained in the specified retail location type.

The factors important while choosing a store location are:

1. Pedestrian traffic – the number and type of people passing by
2. Vehicular traffic in the area
3. Parking facilities
4. Transportation – mass transit, access from highways and ease of deliveries
5. The number and size of stores should be consistent to the type of location
6. Customers like one stop shopping
7. Retail balance – The mix of stores within a district or shopping center should be considered.
8. Visibility within the location.

### **What are the types of leases?**

1. Straight Lease – Retailer pays fixed amount every month.
2. Percentage Lease – Rent is related to sales or profits.
3. Retailer must look at the cost of operations and maintenance of the facility.
4. Overall ratings are sometimes computed to select the best location

A poor location is a liability that superior retailers cannot overcome. Location decisions are complex. Costs high. A mom and pop store may do poorly if located close to a category killer (Kirana Store & wholesalers like Alekhya, Pavitra Rice Traders). Once an investment is made, it is difficult to reverse it.

### **How to develop a mall**

Location has potential to sustain a shopping centre. Catchment and customer base are important. How can shoppers come back to your store? More than 90% retail sales are made in malls. It needs to be remembered that selection of store location is a strategic decision.

### **What is Market Index?**

1. Select a locational format.
2. Isolated/Unplanned district/planned center.
3. Choose site.
4. Select general store placement.
5. MI = Market Index.
6.  $MI = MAI \times MFI$

MAI = Market attractiveness index

MFI = Market feasibility index

Market feasibility includes lease rentals and availability of quality space. Market attractiveness includes location, market factors, parking entertainment options, customer traffic in stores and sales per square foot.

## 9 STORE LAYOUT

Learning objectives:

- To study the different types of store layout
- To understand the importance of store layout in increasing sales
- To learn the main objectives of a store layout
- To learn about MR model and the ELM model



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In the previous chapter, we saw the importance of selecting the right location for a retail store. Cost and availability of land, capital available, basic infrastructure facilities available near the store, safety and security and availability of parking space are important criteria for selecting the location for a retail store. Traffic flow near the store determines its accessibility. Presence of competition in and around the store is another major factor that drives sales in retail. Again, the type of retailing also plays a role in arriving at a decision – for example – is it going to be a generic store, specialized store, department store or supermarket? A retailer also looks for the potential for future expansion while selecting a location. Demand density too plays an important role. Demand density is the extent to which potential demand for retailer's goods and services is concentrated in a particular area. In this chapter, we shall learn more about a store layout.

### **What is a store layout?**

The design and lay-out of floor space and the placement of fixtures within a department or retail store is important. A **store layout** is the design in which a store's interior is set up. A well-planned retail **store layout** allows a retailer to maximize the sales for each foot of the allocated selling space within the store. A store layout is the design in which a store's interior is set up. Store layouts are well thought out to provide the best experience possible.

### **Store Layout: Need for one**

1. Today competition among retailers is all about unique shopping experience.
2. Store planning = Store location + Store Design + Store Layout
3. Store atmosphere refers to interiors as well as exteriors
4. Exteriors refers to storefront, signages, marquee, entrances, parking, display windows
5. Store interiors refers to colors, lighting, temperature, fixtures, flooring, merchandise, locations of cash counters, fragrances, aisles, display of merchandise.
6. Atmosphere = Store's physical characteristics + ambience.
7. Atmospheric is the psychological feeling a customer gets when he enters the store. This influences customer's shopping experience. Customers may spend more due to store atmospheric that includes interiors and exteriors.

Every store has a layout that decides the arrangement of the merchandise offered by the store and floor space allocated. Store layout creates a unique image of the store so that customers can be attracted. Store layout depends on total space available, types of goods, volume, variety, movement required in the store, storage space needed, average number of customers visiting the store.

### **Objectives of store layout**

1. Optimum utilization of space
2. Minimum movement and product handling
3. Maximum visibility of products to customers
4. Entice customers to visit as many departments/product areas as possible
5. Ease in maintenance of the store – cleaning the floor
6. Maximum safety for the employees working in store and the customers visiting the store

### **Different types of store layout**

1. Free flow layout (Boutique Layout)
2. Grid Layout
3. Loop Layout
4. Spine Layout

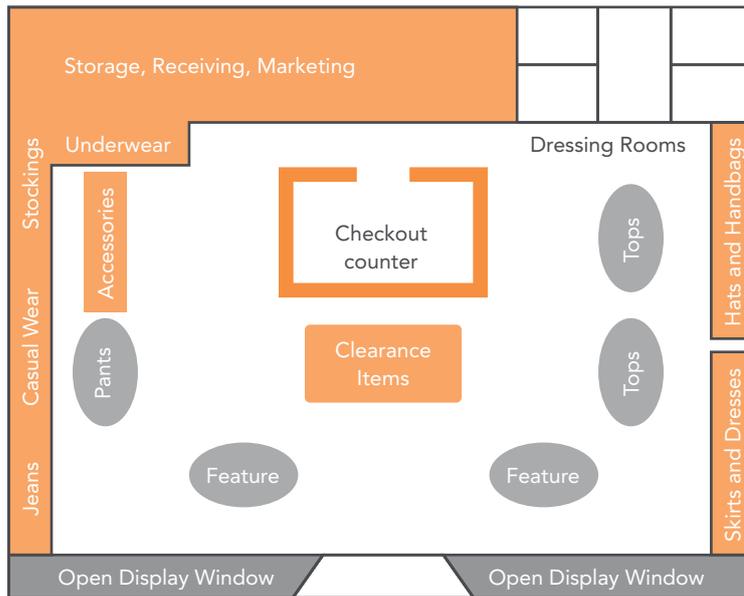
Free flow layout is when customers can move freely throughout the outlet. Fixtures, racks, counters arranged asymmetrically. Customers may buy impulsively. This layout is good with general merchandise of limited variety but it is not suitable when the store offers larger variety in the specialized products.

Grid Layout – Traffic flow is in a straight line. This pattern suitable when rectangular space is available. Counters, shelves and fixtures are arranged in the long rows. This layout is used by supermarkets and food retailers. This layout makes effective use of vertical space. Self service possible, hence less sales staff is required. Shelf management is crucial. This layout encourages the customer to visit the entire shop.

Loop Layout – This is called as racetrack layout and is suitable when rectangular space is available. It enhances store productivity. This loop begins at the entrance and returns the customer to the front of the store. This layout encourages customers to visit multiple departments. Customers can view the merchandises kept at both sides. This layout encourages impulse purchasing.

Spine Layout – Traffic flow is in a straight line running from the front to the back of the store. Merchandises can be displayed on the both the side of the spine. Departments can be formed on both the sides with a common back or side walls. Within the departments, free flow or grid layout can be used. This is the arrangement that is used when there is lot of space.

### Free-Flow Layout



- Fixtures and merchandise grouped into free-flowing patterns on the sales floor-no defined traffic pattern

- Works best in small stores (under 5,000 square feet) in which customer wish to browse

- Works best when merchandise is of the same type, such as fashion apparel

- If there is a great variety of merchandise, fails to provide cues as to where one department stops and another starts

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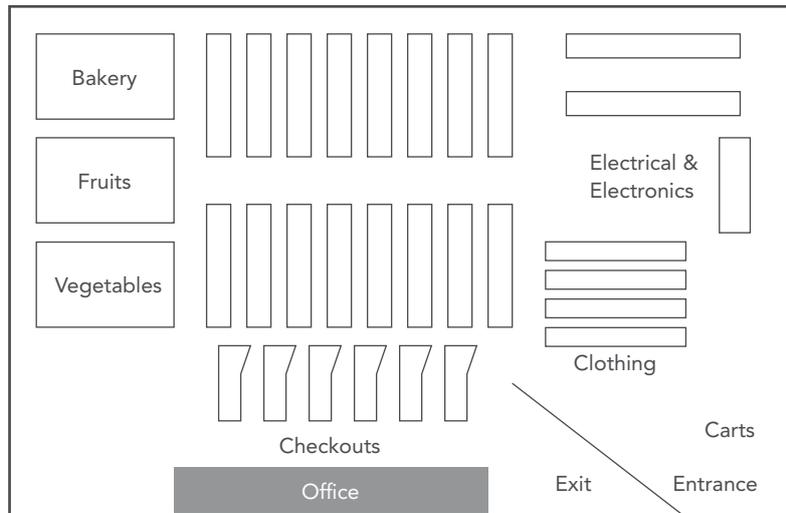


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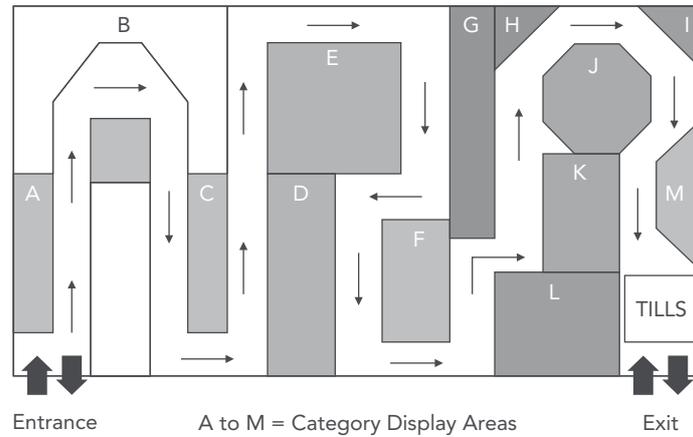
### Grid layout



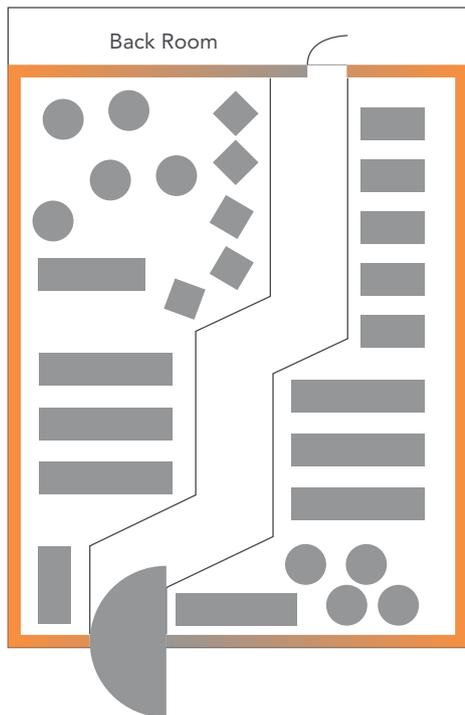
### Grid layout



### The Racetrack Layout



### Spine Layout



- Variation of grid, loop and free-form layouts
- Based on single main aisle running from the front to the back of the store (transporting customers in both directions)
- On either side of spine, merchandise departments branch off toward the back or side walls
- Heavily used by medium-sized specialty stores ranging from 2,000-10,000 square feet
- In fashion stores the spine is often subtly offset by a change in floor coloring or surface and is not perceived as an aisle

### Importance of Store Layout

Surveys have shown that one of the most important criteria for customer satisfaction is the ease with which the customer finds his way in the store. Besides, the customer expects to be led along the main departments of the store. Therefore a good layout is a matter of customer satisfaction.

A good layout provides you with the opportunity of influencing store turnover. The appropriate shelf layout, the arrangement of the product range or a well-thought out spot for special offers all have a direct effect on turnover.

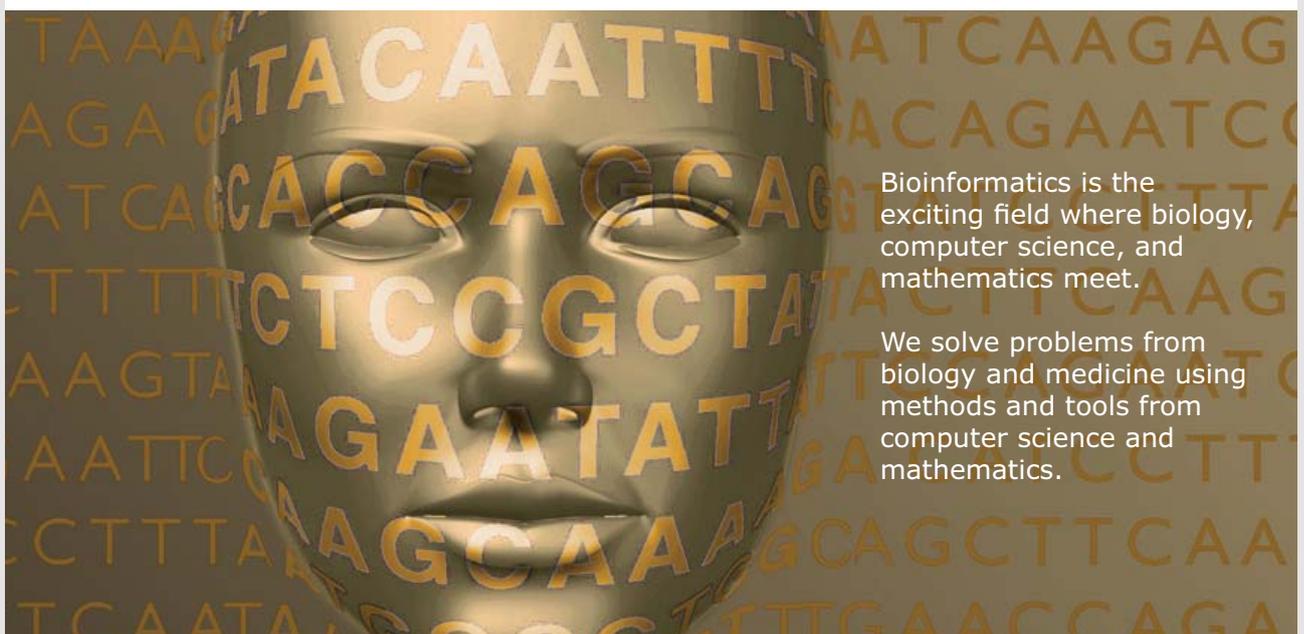
Each store has its own best solution for logistics problems. This applies especially to stores with a fast turnover of goods, stores that sell products that are difficult to market or products that take up a large amount of space etc. Defining specific conditions is an absolute necessity for the sale of goods that require a certain (sales) ambiance. And, finally, it is important to keep both customers and sales employees satisfied.

A good store layout serves many purposes, such as for instance customer flow and the prevention of shoplifting. One of the main purposes of store layout is to create smooth customer flow through the store. It is vital to create the right balance between fast and smooth (customer) flow on the one hand and provision of space on the other. Creating smooth (customer) flow is necessary in stores that have a high frequency of customer visits.



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The danger of too smooth a customer flow is the speed. If the customer is accustomed to walking through a store at a certain pace, it is important to slow down this speed deliberately, effectively and gradually. This can be achieved by means of certain 'tools'. It does not need to involve a different layout of the available space. It can also be accomplished by a special product range or eye catchers in the store.

A customer needs some time to decide to buy a product. The purchase of goods from particular product ranges is determined by ambiance. For instance, a customer does not want to be disturbed by other customers when a choice has to be made between two types of lingerie. When a store is poorly organized, the opportunities for shoplifters increase. While developing the layout, precautions must be taken to ensure that this aspect is taken care of.

A good layout can attract customers or put them off. A logical product layout will help customers make a decision to purchase – otherwise this can create chaos and additional work load for store staff. As product ranges change more frequently, a retailer has to respond to seasonal changes with alacrity and agility. A good layout will allow for this flexibility.

### **Store design**

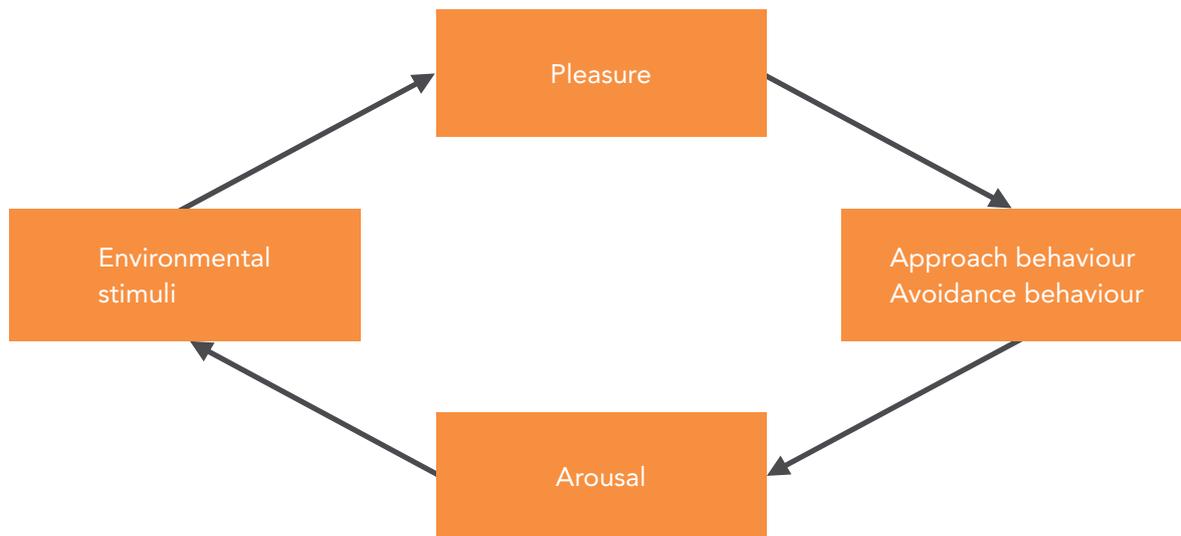
It lays an important role in the perception of the customer's shopping experience. If retailer can develop the right controlled environment, shopper moods may be influenced. If moods can be influenced, so can behavior.

Store Design: Ambient dimension – background effects in an environment (atmospherics).

Social dimension – All the people in the environment and their interactions

Design dimension – physical appearance, nature of the environment

## The Mehrabian – Russell Model



1. The MR model was developed in 1974.
2. Shopper behavior is a result of emotional states created by the store environment.
3. The model has 3 elements:
  - Environmental stimuli
  - Emotional states
  - Behavior
4. Stimuli from the store (images, sounds, smells) are processed by the shopper in a unique manner.
5. Emotional state of a shopper is described by two variables – pleasure and arousal.
6. Pleasure – extent to which a shopper feels good in the store.
7. Arousal – extent to which a shopper feels excited or stimulated.
8. The shopper's behavior can be approach or avoidance oriented.
9. Approach behavior – willingness to move towards the environment, increased propensity to buy.
10. Avoidance behavior – intent of the customer to move away from the environment; reduce participation and a decreased propensity to buy.
11. The main use of MR model is in the design of the store environments. If the retailer understands the way shoppers react to store design elements (layout, display, atmospherics) the correct environmental stimuli can be created to build the correct emotional state that will trigger the most appropriate behavior.

The MR model is a useful tool in predicting and influencing shopper's in-store emotional states and behavior. Mood effects of a customer are more pronounced for high involvement purchases.

## The ELM model

### The Elaboration Likelihood Model

It considers the concept of persuasion. Persuasion is the process by which shoppers move towards a final purchase decision and can take two routes under the ELM treatment. There are two types – Central Route persuasion & Peripheral Route persuasion. Shopper has the ability and motivation to digest the arguments offered in a careful and critical manner. This occurs without any systematic consideration of the facts, ability to persuade subconsciously.

The ELM model adds an extra dimension to the Mehrabian-Russell model by considering the mechanism by which an environmental stimulus may invoke a certain response. Design fit of store is the balance between retailer and shopper considerations. A product's packaging is the silent salesman. A retail store's exterior can help shoppers to evaluate the nature of the store in terms of the assortment on offer, the price levels concerned and the likely shopping experience.

Atmospherics can be defined as the effort to design buying environments to produce specific emotional effects in the buyer that enhance purchase probability. Atmospherics influence the shopper on a more subconscious level hence can be seen to affect the shopper's mood rather than the purchase decision directly.

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### The Retail Assortment

1. The full product range on sale within a store is called as assortment.
2. Retailers have to decide on a limited assortment that will most effectively meet target shopper's needs.
3. For retailers, the scarce resource is the selling space. For a manufacturer, the scarce resource is the production capacity.
4. Retailer must maximize sales by selecting the most appropriate range of products (assortment) to offer in the store.
5. Assortment width is the number of different product types offered by the retailer.
6. Assortment depth is the number of product varieties offered.
7. Assortment consistency is the degree of similarity between the products offered.

### Assortment Planning Process

The goal of assortment planning is to produce the most appropriate range of products to offer to target shoppers. How can you satisfy the customers more than the competition? How can you make maximum profit in the process? Retailers must achieve this objective with limited selling space. There are 2 stages: Analysis & Decision.

<b>Analysis</b>	<b>Decision</b>
Target shopper	Total range of products to be offered
Competition	Category numbers, type and composition
Categories of purchase products and store capacity	Demand forecast

### Target shopper analysis

1. Who are the customers?
2. What are their needs?
3. Why do they want it?
4. What do they want?

### Retailer has to try to answer these questions

1. Product composition
2. Branding
3. Pack sizes

## Categories of shoppers

Planned purchasers and Impulsive purchasers

In store judgement of the shopper are influenced by degree of choice and quality perceptions. Shoppers look at the additional choices too.

Addition of extra product to assortment runs the risk of cannibalization.

Cannibalization happens when a new product is added that fails to generate any new business and draws sales away from a retailer's existing products.

E.g. A retailer offers products A, B, C and D in a given category and achieves combined sales of Rs 10000 per week. Product E is now added to increase choice and sales increases marginally to Rs 10050. Offering product E has caused cannibalization, as it has drawn sales away from other products rather than causing new purchases to be made. Unless the addition of product E satisfied the shopper's present and future needs much better or responded to competitive pressures successfully, it was an inappropriate tactic.

A retailer must balance customer choice with financial performance. A limited number of purchase options leads to operational efficiencies for the retailer owing to buying power and space utilization, but may result in lower sales owing to a lack of choice for the shopper. A larger number of purchase options may increase sales by giving the shopper the right amount of choice for current and future needs, but may trigger operational inefficiencies at the point where cannibalization occurs.

Perceived assortment quality, indicates how fit a range of products is for the purpose of satisfying the shopper's needs. The perception about quality depends on shoppers' past experience with the retailer, objective judgement and subjective judgement about brand image and retailer image. Competitor benchmarking also affects a shopper's judgement of quality.

Shopper profiles vary from region to region. The assortment must fit to the local shopper's taste. Shoppers are becoming more homogeneous, so regional adaptation is becoming less of an issue. Degree of assortment overlaps between competing stores in the same trade area. Shoppers who saw two assortments as similar would be more likely to spread their purchases over both stores.

Product and capacity analysis is aimed at ensuring that the available selling area is used as efficiently and effectively as possible. Issues covered are store area requirements and management and logistical issues for each product or category that may lie within the scope of the desired store image. Store area requirements relate to the amount of selling space (in sqft/metres) required to effectively display a given product category.

Physical handling of product is concerned with logistics. Some products (like glass) need more complex handling procedures.

### THE DECISION PROCESS

- Range of products to be offered
- Relevant order quantities of each
- Type of brand to store

Consider pack size for frequently purchased relatively low-price items.



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Concern about running out – large pack sizes will encourage greater usage volume as customers are less concerned about finishing the pack. Replacement cost idea is that smaller packages are used more sparingly to save the inconvenience of buying another pack so usage volume is reduced as pack size decreases. Over pouring is the simple concept that larger packs are harder to handle and so more difficult to control. As pack size increases, control decreases and usage volume increases owing to larger servings being poured.

Financial considerations – product profitability.

Store and physical distribution – considerations allow the profit per unit of selling space to be calculated and the handling requirements to be analyzed.

Profit/Selling space – Profit per sq ft.

Handling requirements relate to the ability to handle the product within both storage areas and the store itself.

Buying terms – contractual conditions that governs the supplier – retailer transaction.

Accurate demand estimation is needed to determine order quantity.

Decide on the brands – should we buy supplier brands or retailer brands. Customer choice, need satisfaction, financial performance, shopper satisfaction, quality issues are these affect the retailer's decisions to opt for a particular brand.

Store image, competition are other factors. Retailers must match the balance of brands with their overall retail concept. The increasing sophistication and diversity of retailer brands has increased their appeal and narrowed the perceived quality gap with supplier brands. Retailer's image or corporate brand depends on the assortment. The perfect assortment probably does not exist and if it did, it would change on a regular basis in line with changes in the market. Optimizing the assortment is the key and requires detailed data collection and analysis.

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# 10 STORE MANAGER – CEO OF THE STORE

## Learning objectives:

- Review the store manager's job responsibilities and duties
- Identify critical parameters for performance of store manager
- Evaluate the strategic benefits of becoming a store manager
- Understand the challenges involved in a store manager's job

## The demands and challenges of a store manager's job

Though the modern day store manager's role is dynamic and exciting, it is also extremely demanding and stressful. Store managers need to possess a range of abilities – they need to have excellent communication skills and administrative capabilities. They must understand supply chain management, accounts, HR, marketing and sales. The store manager has to drive the stores operations so that they are profitable. But he must also elevate the store image and ensure that store personnel are delivering exemplary service to customers.

In UK more people are looking at a career in retail. The influx of new staff makes the role of a store manager more important to ensure the smooth and successful running of the store.

The typical duties of a store manager are:

1. Recruit and train new employees
2. Ensure productivity of store employees
3. Meet company targets and maximize profitability
4. Manage budgets
5. Oversee pricing
6. Support the retail firm in loss prevention
7. Ensure compliance with local legislation
8. Manage the assets of the store
9. Ensure that safety and security measures are in place
10. Take stock of inventory
11. Maintain regular coordination with head office, godowns/warehouses and merchandiser
12. Prepare promotional materials and displays
13. The store manager must be available to the customers when they need him

### Other duties of a store manager may be

- analyzing sales figures and forecasting future sales;
- analyzing and interpreting trends to facilitate planning;
- using information technology to record sales figures, for data analysis and forward planning;
- updating colleagues on business performance, new initiatives and other pertinent issues;
- touring the sales floor regularly, talking to colleagues and customers and identifying or resolving urgent issues;
- maintaining awareness of market trends in the retail industry, understanding forthcoming customer initiatives and monitoring what local competitors are doing;
- initiating changes to improve the business, e.g. revising opening hours to ensure the store can compete effectively in the local market;

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– You have to be proactive and open-minded as a newcomer and make it clear to your colleagues what you are able to cope. The pharmaceutical field is new to me. But busy as they are, most of my colleagues find the time to teach me, and they also trust me. Even though it was a bit hard at first, I can feel over time that I am beginning to be taken seriously and that my contribution is appreciated.



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### **Role of a store manager – strategically rewarding**

The experience that a store manager's role offers can be enriching for the individual in the long term and this can be a stepping stone for moving into wider industry roles. Most retailers believe in promoting people from within the ranks. While an academic qualification helps, it is the on-the-job experience of a store manager that is valued more.

Store managers must demonstrate a higher level of emotional intelligence to ensure a better work life balance. They must be mentally strong to deal with the pressures as a store manager. To move into a better role in the future, store managers must be willing to travel.

After years of grounding in a retail store, store managers can move to a national or a global role and can expect roles in senior management. They can bring considerable practical experience in areas like buying, merchandising, customer service, training, PR, operations and performance management.

Retail store managers need to be adept in soft skills. They must have IT skills and also demonstrate aptitude in analytical abilities. They must be good planners and demonstrate organizational skills. They must be resourceful and energetic. They must also keep a tight handle on costs. Store managers must ensure that promotions are run appropriately as per company standards. Customer care standards must be continuously improved.

The retail store manager oversees the daily operations of a retail establishment. He has to ensure that customers have a pleasant shopping experience. The store manager is responsible for ensuring that store operations are successful. He has to do all that is needed to achieve this goal.

The store manager has to deal with cash management too. He has to maintain records meticulously so that the money is accounted properly. He has to be on his toes to ensure proper management of inventory. He has to analyse fast moving stock and slow moving stock and plan sales strategies to increase the sales of non moving stock.

Retail store manager acts as an effective conduit between the retail store and the top management team at the corporate level. They need to keep tabs on store's performance on an on-going basis and keep the top management updated about the same. He is also responsible for employee relations.

The store manager must be an easy going person who can lend a patient ear to his employees and customers. He must be someone who is easy to converse with. The store employees play an important role in converting prospects into a sale. So, the store manager needs to motivate and empower them so that they can do their best in terms of customer service. Store manager must be professional in his approach.

The main challenge for a store manager is not just people management but also dealing with innumerable performance metrics. Retailers are often less knowledgeable about narrowing down to a few crucial metrics. So the poor store manager has to spend lot of time deciphering the numerous metrics most of which may not have immediate relevance. Above all these aspects, demand forecasting is also challenging for a store manager though technology is now being used to forecast demand in a better manner.

But technology is not a panacea for everything. Human involvement is essential when it comes to sudden customer fluctuations driven by promotions, weather and social media. Technology can at best be an enabler. Trucks may arrive too early or too late. A high value customer may turn up unexpectedly. Stock out situations can be a nightmare. Last minute employee no shows and sick callouts can be stressful for a store manager. He has to adjust the labour throughout the day to match actual customer traffic.

The ability to consistently identify and rapidly respond to all of these last minute/second demands is the “Holy Grail” of retail. Combining real-time data and alerts with best-practice guidance for actions is essential part of a store manager’s job. This can maximize sales, lower expenses, improve customer service and compete better.

Restricted store budgets, lean staffing and a long-working hours culture has resulted in increasing work place demands and time pressures leading adverse effects on health of store employees. Store managers have to accommodate work-life balance for their staff and themselves personally.

Owners and managers of [grocery stores](#) are keen to build sales and profits. They constantly strive to offer quality products that customers demand at reasonable prices. Additionally, retailers must constantly be improving customer service satisfaction in their units. While specific sales and customer service goals are common with all retailers, certain retail management challenges can hinder a grocery store’s chance of achieving these objectives.

Whether in charge of a small, individually-owned grocery store or one that is part of a larger chain, managing a grocery store successfully involves considerable responsibility. Grocery store managers must ensure that the store runs smoothly, that items are priced competitively and that customers are satisfied. Having a thorough understanding of key concepts involved in effective grocery store management is imperative for any manager dedicated to the success of his store.

Nearly every survey consistently indicates what customers are looking for in their shopping experience:

- Sell what they need and have it in stock when they want it.
- Make it easy for them to shop and find what they are looking for.
- Provide all the information they need in order to quickly decide what to buy.
- Have friendly helpful people available to make the shopping experience a pleasant one.

Controlling operational costs is certainly one of the biggest challenges that any retailer faces. Since grocery stores typically run on extremely low profit margins, the need for a lean and efficient operation is critical. Labor costs are the single greatest controllable expense.

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Some grocery store managers have a tendency to cut labor during tough times. If labor cost reduction is not managed properly, customer service and store conditions may suffer. This, of course, results in lost customers and sales. Retailers that do not properly budget for necessary training programs will most likely see both increased employee turnover, which becomes very costly over time, as well as reduced customer service, due to a lack of training.

Inefficient processes cause a lot of time wastages, equipment wear, and strain on the people who do the work. Inefficiencies are everywhere and are most often found when products are touched multiple times or delivery routes are undefined. The grocery store manager must understand the inventory inside and out. In addition to knowing what the product is, the manager also has to know how often it ships from the producer, how big the packages are, the most cost-effective quantity to order, etc. Above all, the manager must know at all times exactly what is on hand, where it is located, and when it will be replenished.

Most grocery store managers prefer to manage products for customers according to their needs and expectations. It is the responsibility of the grocery store manager to understand what the customer expects and to deliver the results they require. Otherwise, the manager can expect to lose business quickly as customers are quick to switch to other grocery stores.

With emergence of the grocery store chains or supermarkets in developed countries, it is becoming more difficult for new grocery store owners to establish and survive in competitive environment. With low labor costs, material costs, and low currency values, these emerging grocery stores can easily undercut established supermarkets. With the availability of fast international shipping, established grocery stores are constantly challenged to compete.

Technologies designed to improve the customer's experience in the grocery store, such as faster checkout, or ways to provide additional information to the customer are sometimes difficult to justify when chains are focused on their bottom line. The impact of new system deployment, training, maintenance, and support can add to a retailer's reluctance to simply accept the next new technology. As technology has evolved over the years, most retailers have switched their operations to the latest tools and techniques except using older systems.

Few of the already implemented systems in grocery stores are given below:

- **POS Checkout:** System that records sales and financial information, and that collects detailed customer and product related data.
- **Self Checkout:** Self-service POS station where customers ring up and pay for their purchases.
- **Cash Management:** System that controls the cash handling processes from POS to the back office, and to the bank.
- **DSD:** Direct Store Delivery System that supports the receiving of product distributed directly from manufacturers or suppliers on their own trucks, by-passing retail warehouse facilities.
- **Labor Scheduling:** Application that creates work schedules for employees and departments, based on defined parameters.
- **Time & Attendance:** System that is used to plan, monitor, and report employee's work hours.
- **Scale Management:** System that links different weigh scales and labelers throughout the perishable departments in the store.
- **Order Entry/Inventory Management:** System that supports the process of inventory replenishment; an approach that combines perpetual inventory and reorder point calculations.
- **Item Price Verification:** Wireless handheld devices that are connected to POS and used to audit prices on the shelf.
- **Shelf Space Management:** System that helps manage the amount of shelf space allocated to each category, and to each product within the category.
- **Loss Prevention:** Auditing tool that analyzes data to identify irregular and fraudulent activities, in an effort to reduce lost profits.
- **ESL:** In Electronic Shelf Labels, LCD shelf tags that are linked to a backroom computer and POS, and that automatically display price changes.
- **Learning Management (LMS):** Computer-based training course software that delivers local or online content for new and existing employees.
- **Forecasting Systems:** Systems that projects expected sales of products for given time periods.
- **Shelf Tags/Signs:** Software that is used for printing in-store tags and signs.
- **Kiosks:** Freestanding, interactive terminals that display products and information on a video screen; they typically use a touchscreen for customers to make selections.

The past was a tough for small and few of the big grocery stores, and the near future won't be much easier. Differentiation was, and will be, key for retailers in upcoming years. Grocery stores need to increase focus on creating a unique shopping experience, store design and product selections, and provide excellent customer service for their customers.

Successful retailing in today's world is more complex than ever where common challenge is Inventory management and Warehouse Management in all fields. In 2013, the economic situation in Europe and the US, a combination of rising production costs and flat prices, the pressure to improve working conditions, a lack of new production centres and low volume growth in retailing all add up to a worrying year. Grocery store managers must now learn to automate store beyond the corporate boundaries.



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The Store manager is a critical link in operational efficiency. Retail store is the primary source of revenue to the retailer. Customer actually interacts with the retail store and its offerings. The primary area of responsibility within the environment of a retail store lies with the store manager. The store manager plays a dual role in a retail environment. He is responsible for various members of the staff and team who report to him and enable the smooth functioning of the day to day operations of the store. Store manager has to also ensure that the policies and the guidelines as laid down by the management are adhered to by the store and all the employees within the store.

The people-intensive and customer interactive nature of work means that store managers play an important role in ensuring that store operations support the overall mission of the company. Store manager is responsible for all the activities that are conducted within the environs of the store and would include opening of store on time, scheduling of staff, cleanliness, ensuring adequate stock on the floor, closing of the store and also dealing with customer grievances and complaints. A store manager is responsible for the tasks being performed.

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# 11 THE ESSENTIALS OF STORE MANAGEMENT

## Learning objectives:

- To understand the challenges involved in managing a retail store.
- To review the process of customer complaint handling in retail.
- To learn about point of sale systems
- To understand what operations blueprint is all about.

Brick-and-mortar stores have to work extra hard these days to keep up with competitors online. To create a shopping experience that can entice customers, retailers are using technology to create a truly exceptional in-store experience. The new technologies for retail store management can help from mobile inventory tracking to receipts and customer loyalty programs. New point of sale technologies is improving the efficiency of retail stores.

Softwares are available that are a far cry from the traditional cash registers. Data is recorded in digital format and can include fully integrated accounting, inventory tracking and management, customer relationship management and operational reporting. Mobile apps are making inventory management easier. Orders can be discussed with customers on the shop floor/selling floor or during trade shows and meetings. Suppliers can become involved in improving the effectiveness of inventory management. Technology can thus help a business to improve customer loyalty. Loyalty is a measure of a customer's ability to relate to a brand and a business emotionally as well as their perception of how the retailer has recognized them.

Loyalty translates into an enriching experience for the customer. Sophisticated loyalty programs attempt to capture emotionally driven loyalty. Such programs leverage technology to gather customer data and use it to find better offers for customers. Promotional offers can be based on customer's buying habits, favorite brands and preferences. An advanced POS system can add substantial value and provide a competitive edge. If a retailer decides to expand online they can also use POS technology to balance in-store and online inventory mix and further grow the business.

## Customer Care and Handling Complaints in Retail

A retailer cannot survive in the business without customers. Whenever there is a problem, the customers have three choices:

- a. Customer forgets the problem and forgives the retail store
- b. Customer decides never to visit the store again and does not complain
- c. Customer complains and hopes for some compensation for the affliction suffered by him due to a bad product or an atrocious service

If customer management is based on leaky bucket theory, then marketing has to continually top up the bucket of customers by creating new shoppers to replace those being lost due to holes in the bucket. This is an onerous task if customer defections are due to poor merchandise and pathetic service.

A customer who is dissatisfied will tell at least 12 more people about his experience. Today thanks to social media networks like Facebook, Twitter, Linked in etc, bad news spreads much faster even as good news takes time to digest. Time and again, it has been pointed out that word-of-mouth communication is very powerful.



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Studies suggest that 9 out of 10 customers never complain to the supplier about the problems. Stores do not have any direct data that could even indicate that there is some type of problem. Stores sometimes place great emphasis on shopper panels and mystery shopping techniques but while there are many benefits of such an approach, there are a few blind spots. Such data rarely have the sensitivity to detect a small problem. But if no corrective action is taken, the problems can be compounded.

The real need is to encourage a dialogue with all shoppers and try to make it easy for everyone to communicate both positive and negative aspects about their shopping experience. A feedback box kept in the store and a questionnaire that is readily available for providing the feedback is not a bad idea. But the feedback provided by customer has to be reciprocated by sending thank you notes and taking actions where necessary.

If there is a pattern regarding complaints, then taking action is easier. If there are issues with respect to a particular customer who has complained, then it is important to learn from those complaints as well. In this case, there will be no patterns as well as many customers simply walk away from the store and may not complain.

Mistakes are inevitable where variable and personal interactions are involved. Whatever the specific cause, the effect on the customer will be acute. Complaints must be handled both to recover the customer's goodwill and correct any underlying problem that can occur.

Many CEOs seldom pay attention to details and they simply do not measure customer defections. **The task of good retail marketing is to identify the “defecting” lost customers and find out why they no longer shop at a particular store.**

Willingness to listen and ability to react is important for modifying operations. Only then can the marketing mix be changed to make it more acceptable for the future.

Why do many organizations fail to monitor customer defections?

1. Many companies are alarmed too late by customer defections
2. Firms do not want to study failure too closely; in some companies, trying to analyse failure would mean job losses. Marketing and sales do not wish to project a negative image in front of the top team, so data on customer complaints and defections is fabricated. Of course, this is deleterious for the organization in the long run.
3. It is so difficult to define customer defection and so hard to find out the root cause of a customer defection.

4. Getting the right people in an organization to learn lessons and then act on them is a challenge.
5. It takes lot of hard work to set up mechanisms that turn the analysis of customer defections into an on-going strategic process.

More than 90% of unhappy customers actually do not complain. Recovery is important. A customer in Bangalore had an unhappy shopping experience in a company owned showroom of a South-based home appliances manufacturer. Though the customer was bombarded with calls from the sales and service teams including an apology from the COO, there was nothing to suggest that the company had really taken any action.

Many companies do not realize that just saying sorry doesn't suffice. This home appliances company is an Indian company and we all know how sincere or devoted they are in institutionalizing robust processes in the organization. A greenhorn from the sales department called up this customer and botched up whatever little regard the customer had for the organization. This greenhorn started informing the customer about the root cause analysis that the company had undertaken but there was not a word about actions taken to make the customer feel better. The tone and tenor of the marketing executive was in the nature of attacking the customer for making the complaint.

Ground rules for good practice in communicating with customers who are dissatisfied are

1. Acknowledge the issues
2. Concentrate on the facts
3. Promise action
4. Don't take things personally

The complainer has to feel that you are listening to them. Instead of saying "We are sorry that this mistake occurred", it would be prudent to say, "We appreciate the problems this failure has caused. Let us see how we can put it right".

***The acknowledgement of complaint must be in a way that shows the way forward.***

Customer service staff should ask appropriate questions and clarify the matter. But it makes no sense for five different service staff talking to the customer about the same issue and wasting his precious time. Acknowledging a problem, but failing to take prompt action is a sure shot recipe for disaster.

### *What does action mean?*

- *Clearly communicate what is going to happen and when*
- *Ensure that customer perceives the action as appropriate*
- *Follow things up to meet the promises made regarding the matter*

Actions are different from apologies and are all about recovering from a poor customer experience. If the recovery is effective, it is not impossible to win back the customer. One has to remember that customers are more intelligent and intuitive. Many retail stores handle the recovery in such a way that customer loyalty actually increases (Service Recovery Paradox). Studies in several countries have shown that those customers who do complain and have their complaint dealt with quickly and fairly become more loyal to the organizations than those who never had a problem in the first place.

Retailers need to remember that

1. Think value not costs
2. Aim to Recover not Replace
3. Ensure that staff are properly trained and empowered

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The value of a customer to a retailer is the lifetime value over a series of potential future purchases. Many retailers retain the shopper's goodwill by giving discount vouchers. Even a small token gift appreciating the customer for his time and effort will go a long way in assuaging the feelings of the customer. "Life style", the apparel store is known for its recovery strategies. When a customer has a serious complaint and if it was their fault, they send him a bouquet of flowers and a gift voucher.

The most difficult area is when complaint is not in respect of faulty merchandise but refers to poor service levels. These problems need serious consideration as it is a cultural issue and training efforts need to be stepped up to deal with such issues so that they do not recur in the future. This needs a continuous learning culture with the focus on the customer.

In Colgate Palmolive, during the period 1960–1970, consumer complaints were accorded a higher priority. Even a complaint written on a post card was acknowledged and replied to. The consumer was requested to handover the toothpaste tube to a nearby dealer/shop. The shop would collect the tube and hand it over to the sales representative. Consumer would be sent a free toothpaste tube by parcel. Consumers appreciated this gesture. The salesman would then send the defective tube to the factory with a request to give feedback on the defect and errors to rectify the defect.

Retailing is about customer satisfaction. Activities aimed at stimulating shoppers to buy dominate retail marketing. The marketer has to create a valuable offering and create the right fulfilling that promise is on everyone.

If the culture of an organization is right and attitude is customer focused, then customers will become stronger advocates of the store. But the sad part is that many organizations have no clue whether their strategy is focused on the customer or not!

Retailers are now focused on creating a truly exceptional experience for the customers. An exceptional experience is one in which a customer feels for those few minutes like their concerns are the most important thing in the salesperson's world.

Salespeople must inform, inspire, educate and instill confidence in customers. Salespeople must help shoppers move beyond their comfort zone to buy premium products. Retailers have to make space for relationships to grow. Store employees must be willing to spend enough time with customers to influence them in an unobtrusive manner. The exceptional experience must also be for new shoppers.

A lot of retailers give lip service to *customer service*. They might print up cards with a mission statement that states how *important* customers are and then demand their employees carry them. They might put a list of customer principles on their shopping bags. They might teach every employee to call shoppers *guests*. Retailers must *substantively* change the way their retail store operates in order to be effective at creating an exceptional customer experience.

### **Point of Sale systems**

Retailing is the cornerstone of a free market economy. Advances in technology have created the potential for highly sophisticated front end solutions. Smart solutions that simplify basic management routines are invaluable. This can deliver a higher ROI. Not all cutting edge technologies are expensive. Web-based POS (Point of Sale) systems present a unique opportunity for retailers to leverage the benefits of today's technology. A reliable POS system is more than a cost-efficient alternative to the traditional cash register, it's a fully automated selling portal that gives managers anytime, anywhere access to the information you need for effective retail operations.

Web-based POS systems are turnkey inventory management tools that give store management real-time information about stock and merchandise. At any given moment, you can spot items that are flying off the shelves, identify sales trends for re-ordering and highlight potential shrinkage.

Today's POS systems have all the features of advanced cash register technology, as well as the ability to integrate payment processing into CRM and financial management applications. Customers and store clerks benefit from smooth and seamless transactions using credit cards, debit cards, gift cards and merchandise returns. Today's web-based POS solutions generate up-to-the-minute reports that can be customized to your operation's specific needs. Automated financial reports reduce your time requirements for tasks like manual sales entries, sales tax reporting and other activities. Some POS systems are even capable of automatically generating purchase orders based on user-defined inputs and current inventory levels.

One of the most valuable advantages a POS approach has over traditional retail solutions is the potential for full CRM integration. CRM (Customer Relationship Management) applications manage your business' interactions with your customers. By integrating your web-based POS system with a reliable CRM application, you gain valuable insights not only about the kinds of items that are being purchased, but also about the individuals who are purchasing them. The customer tracking intelligence you gain from POS/CRM integration can be used to create targeted marketing strategies and to improve the quality of your customers' retail experience.

POS solutions automatically reconcile cash registers at the end of each business day. Even better, web-based POS systems have remote access features that allow owners and managers to monitor the system from any Internet connection. No matter where you are located, you can ensure that front-end personnel have followed proper opening and closing procedures.

POS systems have a proven reputation for delivering higher ROI than traditional retail solutions, yet many business owners express concerns about the upfront investment that is needed to meet POS hardware and software requirements. Web-based POS systems are a cost-efficient way to benefit from POS technology.

### Operations Blueprint

An operations blueprint systematically lists all operating functions to be performed, their characteristics and their timing. When developing a blue print, the retailer specifies, in detail, every operating function from the store's opening to closing and those responsible for them. For e.g. who opens the store? When? What are the steps (turning off the alarm, turning on the power, setting up the computer, and so forth? The performance of these tasks must not be left to chance.

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Store format and size considerations include the use of prototype stores and store dimensions. Firms often use prototype stores in conjunction with rationalized retailing. Some retailers emphasize category killer stores, others open smaller stores. Personnel utilization activities that improve productivity range from better screening applicants to workload forecasts to job standardization and cross-training. With cross-training, people learn tasks associated with more than one job. Store maintenance influences people's perceptions of the retailer, the life span of facilities and operating costs. To better control energy resources, retailers are doing everything from using better-quality insulation materials when building and renovating stores to substituting high-efficiency bulbs.

Good inventory management requires that retailers acquire and maintain the proper merchandise while ensuring efficient and effective operations.

Store security measures protect both personnel and merchandise safely. Because of safety concerns, fewer people now shop at night and some avoid shopping in areas they view as unsafe. In response, retailers are employing security guards, using better lighting in parking lots, tightening access to facilities, and deploying other tactics.

A growing number of retailers have computerized elements of operations. Video conferencing and wireless communications are becoming popular.

Computerized checkouts and electronic point of sale systems perform all the tasks, verify, check transactions, provide instant sales reports, monitor and change prices send intra-store and inter-store messages, evaluate personnel and profitability, and store data. Self-scanning is gaining in popularity. Crisis management must handle unexpected situations as smoothly as possible. There should be contingency plans, information should be communicated to those affected, all parties should cooperate, responses should be swift, and the chain of command for decisions should be clear.

Retailing seeks a very high level of discipline and good planning skills. All ingredients of operational detailing are important and any one lapse can cause serious financial impact to retail business.

### **Internal Environment and core product**

Retail store environment can impact shopper's affective, cognitive and behavioral states.

Activities of sales people, colour, lighting, noise, smell and temperature within the store, shelf space, display and merchandising even the behavior of other shoppers.

Each of the above elements is also part of the total offering and is important and any one could affect the likelihood of a sale. Once a customer is attracted to a specific retail location, he must also feel comfortable inside. The ambience has to be good inside the store. If potential customers are unhappy, they will not buy and will not visit the store again.

Some retail stores had products catering to the younger generation, they played loud music, had vibrant colors in the store to attract the younger generation and dissuade the older generation from visiting the store.

Store layout and atmosphere is also important with regards how long a shopper will stay in a store and how many products they will see during their visit.

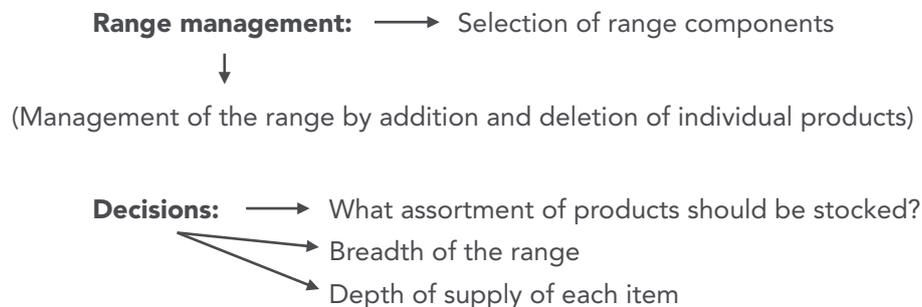
In grocery hypermarkets, the layout is designed to maximize the number of items that are easily visible and to ensure that customers are encouraged to stop at counters serving high margin produce.

In department stores with several sales floors offering different merchandise the traditional layout has the up-escalator going from the front of the store but coming down involves walking to the back and passing many more products on the way. High-demand items are placed near the entrance to encourage shoppers to come into the store or near the checkout to promote extra sales.

Furniture giant IKEA uses layout to encourage additional spending and having walked around the sales floor there is a restaurant and then the bargain offers to tempt even more purchases.

### **Range and Assortment of Goods offered**

Retail success is dependent on satisfying customers. The aim is to maximize the customer's spending during his each visit. This depends on the range of merchandise offered by the retailer.



The quantity stocked (depth of supply) is important to avoid out-of stock situations, since these have a double impact, first leading to loss of sales, upsetting the customers who may not return on subsequent occasions.

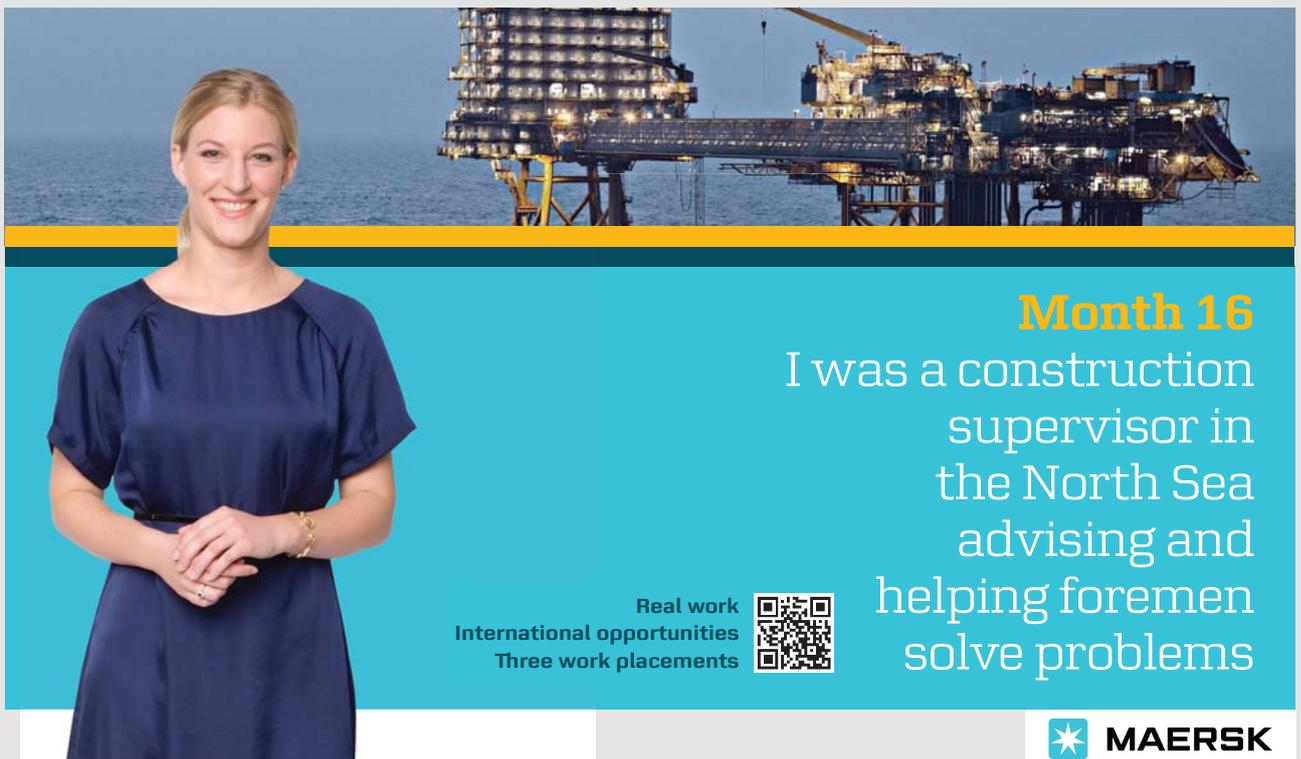
Loss leader products like cheap bread are kept in grocery supermarkets so that customer visits the store. Other goods may be stocked to enhance the store image.

### In-Store Stimuli

- Tesco initially had a strategy of piling products high and selling them cheap. Now Tesco's marketing position reflects that it supplies affordably priced products that are of good quality.
- Price and value are not the same. Customers are satisfied if they believe the value of benefits received exceeds the sacrifice or cost of obtaining the item.
- Customers act as though there is a 'Zone of tolerance' with regard to pricing, allowing it to be evaluated against other elements in the retailer marketing mix. But prices are powerful stimuli and are always compared to those for alternative offerings.

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Retailers have to compare the gross profits with the running costs of the store. Pricing levels require marketing judgement and balancing the short-term and long term needs of an organisation. Managing the communication mix such that all messages are consistent and that they are all considered with regard to the communication objectives of the store.

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# 12 THE ENCHANTING WORLD OF MERCHANDISING

## Learning objectives:

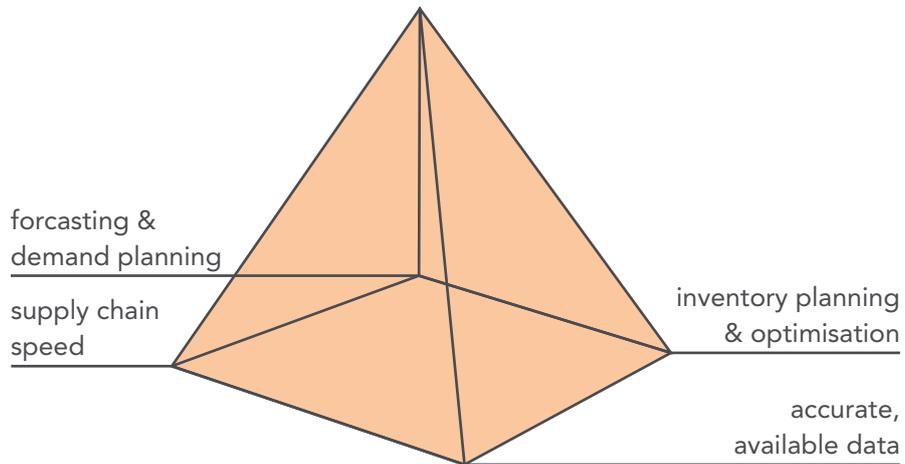
- To learn about merchandising in a retail store
- To understand sourcing strategies
- To know about merchandise planning and its importance
- To identify the methods available for vendor evaluation
- To identify the drivers of merchandise planning

## MERCHANDISING

- Analysis, planning, acquisition, handling and control of the merchandise investments
- Day-to-day operation
- Process of planning the product/merchandise for a retail store
- Right products available to the customers
- Display and presentation of products in retail environment
- Merchandising assortment refers to the unique mix of products offered by one retailer, which is not available from any other retailers
- Retailers are using advertising and merchandising to trigger purchase at the point of sale, increase traffic and bring new customers
- Right merchandise mix helps the retailer to achieve the variety-volume balance
- While positioning the retail outlet choice of products, depth and breadth of product line and selection items are important decisions

Customer service is sum total of what an organization does to meet customer expectations and produce customer satisfaction.

the RIGHT product  
in the RIGHT place  
in the RIGHT quantity  
at the RIGHT time  
for the RIGHT price



Organisations should have answers to questions like – Do customers have a clear idea of the service, do you gather information about customers, can organization be contacted easily, are staff competent and well trained etc.



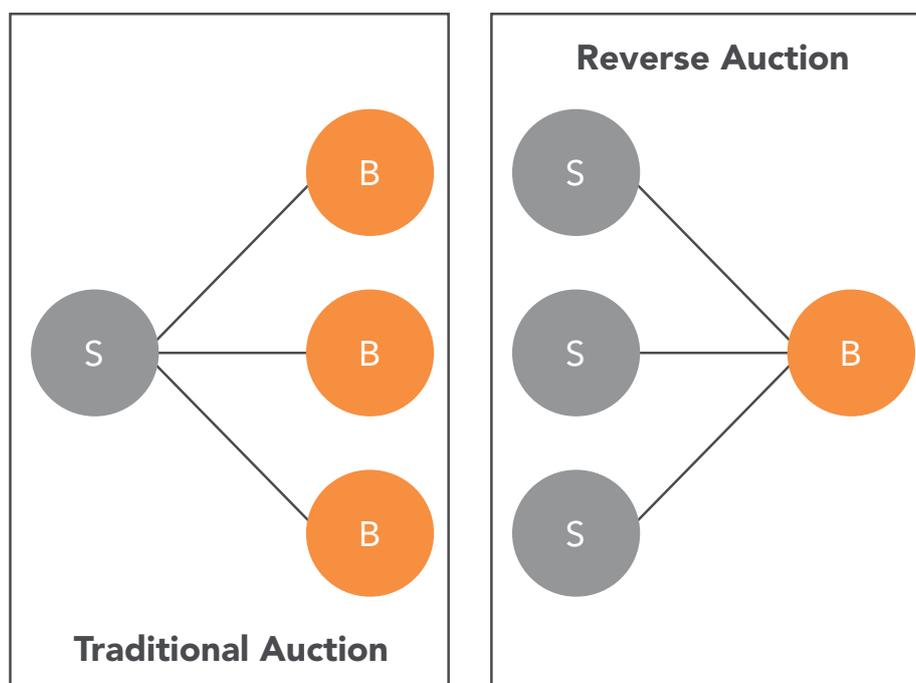
Customer service framework is used for looking at image and presentation, promotion of services, contact and communication with customers, service delivery, monitoring and improving services, resolving customer problems and in customer relationship management (CRM). Training and development of employees is essential to create a culture of customer satisfaction through effective leadership and management. Create your own customer charter or code of practice. Benchmark your activities against other companies. Create and monitor specific measures of customer satisfaction.

Good customer service in a retail store goes beyond a single transaction. Good customer service will make or increase the sale, ensure return visit by customers, word of mouth advertising and help in controlling shrinkage.

There are 5 types of customers – Loyal, discount, impulse, need based customers and wandering customers. Different ways of turning off customers are – dirty bathrooms, messy dressing rooms, loud music, handwritten signs, stained floors or ceiling, poor lighting, offensive odors, crowded aisles, disorganized checkout counters, lack of shopping carts/baskets.

### Sourcing Merchandise

- After decisions are made on what and how much private label merchandise will be acquired, Designers develop specifications, Sourcing departments find a manufacturer, negotiate a contract, and monitor the production process, or Use Reverse Auctions to get quality private label merchandise at low prices



- **Staple Merchandise:** Inventory that has continuous demand by customers over an extended period of time. Also known as *basic merchandise*.
- **Fashion Merchandise:** Category of merchandise that typically lasts several seasons, and sales can vary dramatically from one season to the next.
- **Drop-shipping**, or *consumer direct fulfillment*, is a system in which retailers receive orders from customers and relay these orders to vendors and then the vendors ship the merchandise ordered directly to the customer.

### **Global Sourcing**

- Costs Associated with Global Sourcing Decisions, Remote production facilities in developing economies with low labor costs, Foreign currency fluctuations, tariffs, longer lead times, increased transportation costs, Obsolete costs and inventory carrying costs from larger inventories, Managerial Issues, Quality control, time-to-market, social political factors, Difficult for collaborative supply chain management (CPFR) based on short and consistent lead times, Human rights and child labor

### **Negotiating with Vendors**

- Two-way communication designed to reach an agreement when two parties have both shared and conflicting interests. Negotiation Issues – Price and gross margin, Margin Guarantees, Slotting Allowances, Additional markup opportunities, Purchase terms, Terms of purchase, Exclusivity, Advertising allowances, Transportation, Price and Gross Margin Issues, Markdown money

### **Strategic Vendor Relationships**

- Retailer and vendor committed to maintaining relationships over the long-term and investing in mutually beneficial opportunities
- Win-Win Relationships – Concerned about expanding the pie, not how to divide the pie

### **Building blocks for Strategic Partnerships**

- Mutual Trust, Open Communication, Common Goals, Credible Commitments, Building Partnering Relationship,
- Discrete
  - One Purchase at a Time, Short-Term, Focuses on Price, Win-Lose Negotiations, Governed by Contracts
- Partnering
- Anticipate Future, Long-Term, Considers all Elements, Win-Win Collaboration, Governed by Trust

## Merchandise planning

- This process allows the retail buyer to forecast with some degree of accuracy what to purchase and when to have it delivered.
- 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.
- The primary goal of most retailers is to sell merchandise and services.
- Nothing is more central to the strategic thrust of the retailing firm.
- Deciding what to buy and how much is a vital task for any retailer. It takes time to buy merchandise, have it delivered, record the delivery in the company records, and properly display the merchandise; therefore, it is essential to plan.
- Buyers need to decide today what their stock requirements will be weeks, months, a merchandising season, or even a year in advance.

## Importance of Merchandise Planning

The merchandise planning 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.

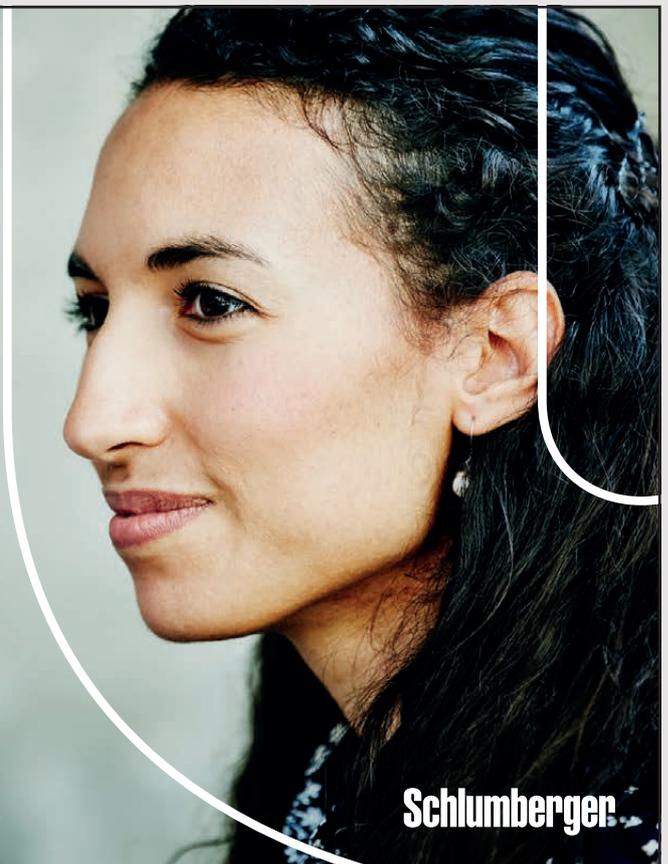
## WHY WAIT FOR PROGRESS?

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The primary goal of most retailers is to sell merchandise and services. Nothing is more central to the strategic thrust of the retailing firm. Thus, deciding what to buy and how much is a vital task for any retailer. It takes time to buy merchandise, have it delivered, record the delivery in the company records, and properly display the merchandise; therefore, it is essential to plan. Buyers need to decide today what their stock requirements will be weeks, months, a merchandising season, or even a year in advance.

Through a merchandise plan a retailer attempts to offer the right quantity of the right merchandise in the right place at the right time while meeting the company's financial goals. As planning occurs, it is only logical that the retailer exercise control over the merchandise (rupees and units) that it plans to purchase. A good control system is vital. As in any business, a retailer's ultimate objective is to achieve an adequate return on the investment to the owners. Financial objectives trickle down the merchandising organization, and, are used to make buying decisions.

Retailers cannot hope to be financially successful unless they preplan the financial implications of their merchandising activities. Financial plans start at the top of the retail organization and are broken down into categories, while buyers and merchandise planners develop their own plans and negotiate up the organization.

Top management looks at the overall merchandising strategy. They set the merchandising direction for the company by (1) defining the target market, (2) establishing performance goals, and (3) deciding, on the basis of general trends in the marketplace, which merchandise classifications deserve more or less emphasis.

Buyers and merchandise planners, on the other hand, take a more micro approach. They study their categories' past performance, look at trends in the market, and try to project the assortments for their merchandise categories for the coming seasons. The resulting merchandise plan is a financial buying blueprint for each category. It considers the firm's financial objectives along with sales projections and merchandise flows. The merchandise plan tells the buyer and planner how much money to spend on a particular category of merchandise in each month so that the sales forecast and other financial objectives are met. After concluding the rupee amount of inventory needed for stock requirements, the other merchandising decisions facing the retailer are: calculating the rupee amount available to be spent, managing the inventory, choosing and evaluating merchandise sources, handling vendor negotiations, handling the merchandise in the store, and evaluating merchandise performance.

### **What are the methods that can be used to evaluate the performance of vendors/suppliers by a buyer?**

1. Have a formalized system in place to track and evaluate supplier and vendor performance.
2. View vendors and suppliers as partners in growing the business
3. Make sure that this is a mutually beneficial partnership that will impact the price that you are negotiating today and the quality of service that you will get in the future.
4. Involve suppliers in strategic issues where you feel that they have a role to play.
5. Trying to throttle your vendors to extract your pound of flesh in terms of getting better prices is not good from a long term point of view.
6. Have a system in place to evaluate, select and then re-evaluate the suppliers and vendors that you work with.

Here are the methods that can be used to evaluate the performance of vendors/suppliers by a buyer

1. **Establish Performance Indicators:** Create specific performance criteria for tracking and evaluating suppliers and vendors on a regular basis – monthly, quarterly and/or annually. For example – size of the company, number of certifications, quality management systems, complaint history and financial stability. Supplier must have a quality management system in place. There must be a system for handling complaints. If the vendor is ISO certified such issues will be automatically addressed.
2. **Classify multiple suppliers and vendors:** It is better to separate suppliers into levels 1, 2 and 3 based on how critical they are. The retailer has to decide on the classification that suits him. The suppliers have to be evaluated based on the effect that they have on product or service in order of importance.
3. **Devise an evaluation method:** Supplier's performance can be evaluated using evaluation forms, surveys, system metrics and software applications. Employees can be asked to rate suppliers and vendors. Retailer can look at the number of corrective action requests that had to be given to the supplier or vendor or how many products supplied had to be scrapped or returned due to vendor's failure in meeting the specifications/quality standards. Periodic audits can help. Such evaluation mechanisms must be spread throughout the purchase life cycle.
4. **Determine team responsible for data review:** Level 1 suppliers may need evaluation by someone like Chief Financial officer who can do the evaluation along with representatives from purchasing, operations and engineering. Lower level suppliers may be evaluated by procurement officer.

It is important to maintain good, lasting or enduring relations with suppliers. Treat suppliers like partners in progress. While technology may be used to improve processes, face to face meetings with suppliers add the personal touch. Late payment issues must be addressed promptly and retailer has to engage with suppliers and vendors to clarify expectations. Transparency will always be appreciated. Suppliers will appreciate the help of retailer in improving the performance.

### Key Drivers



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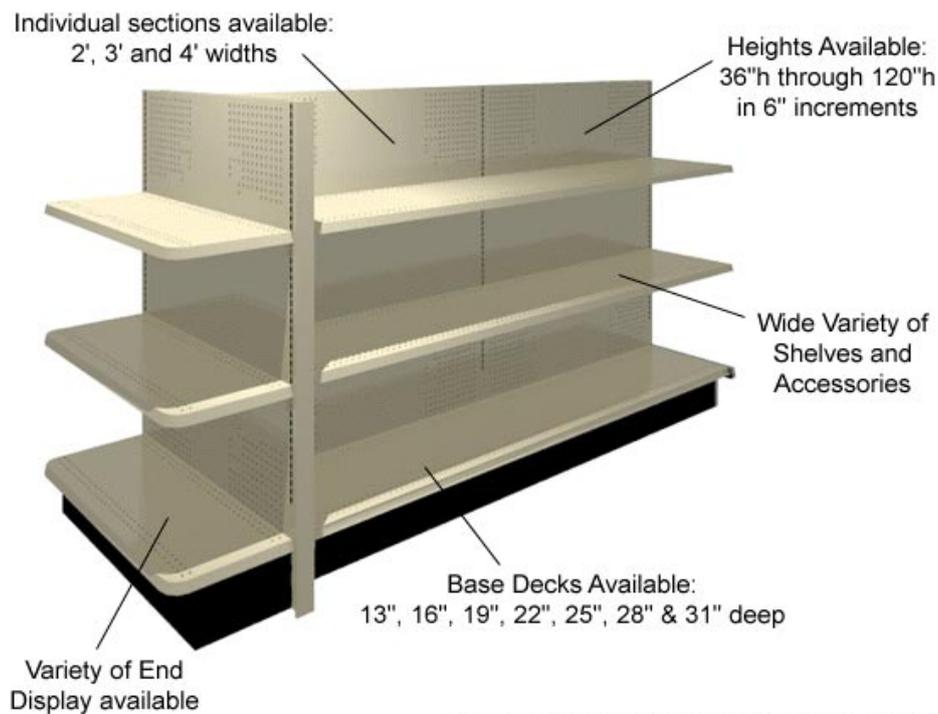
## DRIVERS OF MERCHANDISE PLANNING

### Merchandise Management

- Through a merchandise plan a retailer attempts to offer the right quantity of the right merchandise in the right place at the right time while meeting the company's financial goals
- Retailer's ultimate objective is to achieve an adequate return on the investment to the owners. Financial objectives trickle down the merchandising organization, and, are used to make buying decisions.



- GONDOLA FIXTURE



**DISPLAY SHELVING ISLAND**

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- SOFTLINE FIXTURE

SOFTLINE FIXTURE	HARDLINE FIXTURE
Used for light and fashionable merchandises	Long structure consisting of a large base, vertical spine fitted with sockets or notches into which a variety of shelves, peg hooks, bins, baskets
Round and 4-way feature racks are commonly used in stores for apparels	Gondola.

**To sum up**

Retail Merchandising

- Process of planning the product/merchandise for a retail store
- Right products available to customers
- Display and presentation of products in retail environment
- Merchandising assortment refers to the unique mix of products offered by one retailer, which is not available from any other retailers.
- Retailers are using advertising and merchandising to trigger purchase at the point of sale, increase traffic and bring new customers.
- While positioning the retail outlet, choice of products, depth and breadth of product line and selection of items are important decisions.
- Right merchandise mix helps the retailer to achieve the variety-volume balance.
- The cost of floor space puts a ceiling on the merchandise displays, variety and quantity carried out by the retailer.
- Visual merchandising is displaying, arranging products in an attractive manner so as to catch the attention of the customers inside and outside the store. It is a way of communicating with the present and potential customers.

# 13 MERCHANDISING MANAGEMENT

## Learning objectives:

- To understand the different dimensions of merchandising management.
- To identify the strategies used by retailers for sourcing.
- To understand what assortment planning is.
- To learn about reverse auction.
- To identify the building blocks for strategic partnerships.
- To understand the process of analyzing merchandise performance.

## *Key excerpts from the report:*

**Global Sourcing: Shifting Strategies: A Survey of Retail & Consumer Companies: By Carrie Yu, Global Retail & Consumer Leader, Pricewaterhouse Coopers**



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Globalization has started profoundly impacting the way companies source materials and manufacture products. This change is greater in the retail sector because the market place is getting more crowded. A survey by PWC has revealed that global sourcing is experiencing robust growth. Cost is still the major driver of global sourcing activities. More mature companies are shifting their focus to global sourcing strategies that create better products, minimize the impact on environment and enhance collaborative supplier relationships. As global sourcing becomes more complex, integrated supply chain strategy is crucial. The key question is how global sourcing can lead to sustainable advantage.

Successful global sourcing means how can you effectively manage the risk and also achieve cost reduction. Global sourcing has become so important that it is now on top of a CEO's agenda. As all competitors start sourcing globally, there is hardly any differentiation in terms of price. Companies struggle to estimate the true cost of global sourcing activities.

A few challenges in global sourcing are:

- Lack of a proper mechanism to track savings from global sourcing
- Difficult to measure cost of quality and cost of stock-out situations
- Difficulty in setting up a system that links performance of human resources with global sourcing objectives.
- Difficulty in managing the risks of climate change and carbon footprint.

Surveys have now revealed that for companies wanting to be competitive in the market place, global sourcing has become a struggle for survival.

Often global sourcing was construed to mean sourcing from low cost countries where labour costs are lower. In reality, global sourcing is the integration and co-ordination of procurement requirements across world-wide business units, looking at common processes, technologies and suppliers.

Technology has broken the global barriers. Choosing the right supplier and applying rigorous quality control techniques is very crucial. Transportation, logistics and warehousing costs are easily captured while the ones on managing out of stock are not so easily captured.

Companies seldom look at the tax issues in global sourcing though it is an important part of the cost. China is the No.1 destination for global sourcing while India has become the No.2 destination as per the results of the survey. US, Brazil, Mexico, Italy, Bangladesh are other countries that are being looked up to for global sourcing opportunities. Information management and dissemination are crucial for survival and this leads to a greater centralized control.

Global sourcing is no longer about finding cheap products quickly. There is a need to focus more on strengthening supplier relationships based on core values and not just cost. This is Tesco's strategy.

Cost and quality are thus proving to be the twin drivers for global sourcing. A good relationship with the supplier is important in the retail sector to be able to react swiftly to market trends.

Ongoing and constructive engagement with the supplier is important for long term sustainability. It is also a challenge to align the CSR goals of a firm with purchasing and global sourcing activities. Retailers like Mark and Spencer incorporate environmental impact as part of the global sourcing criteria.

Typical categories of measuring supplier performance are:

1. Financial performance (especially the ability to anticipate potential disruptions before they occur).
2. Quality measures that track performance against specifications.
3. Timely and accurate deliveries
4. Qualitative measures that track the openness, information sharing and extended relationship dimension of suppliers.
5. Adherence to environment & local regulations.
6. Physical audits and inspection of supplier premises (P&G strategy)

To conclude, organizations must treat global sourcing as a strategic effort. Companies must understand the effect of costs, risks and savings associated with their global sourcing decisions.

Companies have to develop global sourcing models that enable 'what-if' scenarios in which currencies, prices of fuel etc are weighed against cost savings from global sourcing. When there is a huge opportunity, companies should know how to manage the risk and how to manage the trade-offs.

### **Sourcing Merchandise**

After decisions are made on what and how much private label merchandise will be acquired,

- Designers develop specifications
- Sourcing departments find a manufacturer, negotiate a contract, and monitor the production process, or
- Use Reverse Auctions to get quality private label merchandise at low prices

## REVERSE AUCTIONS

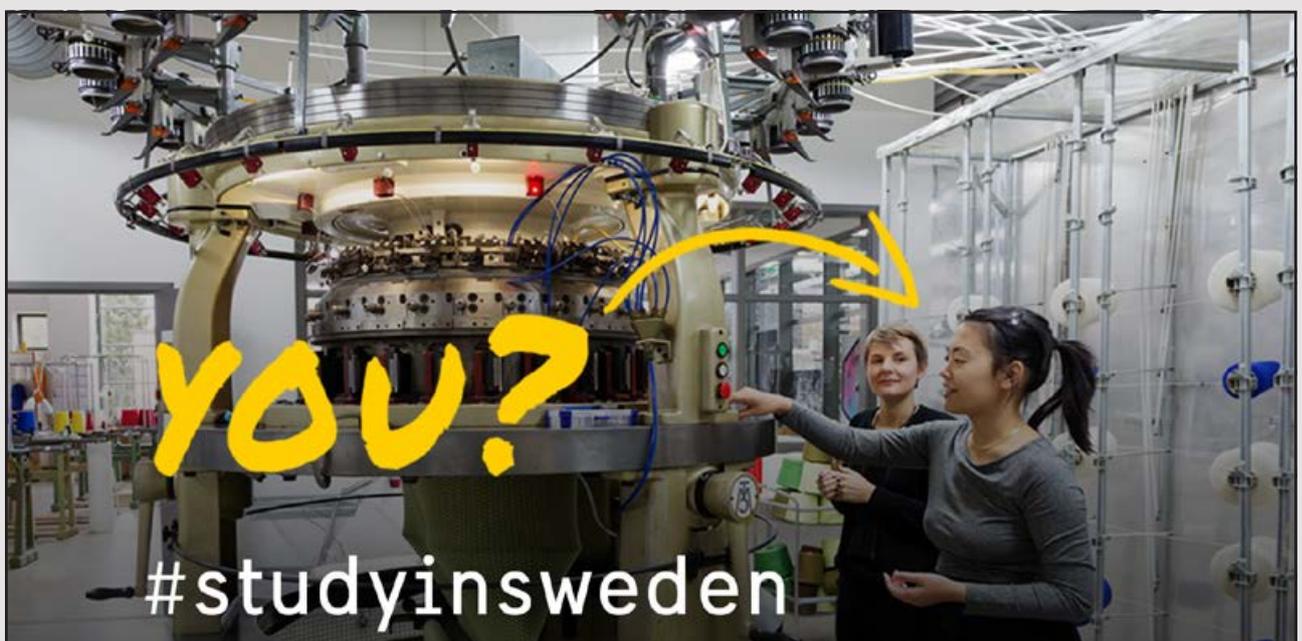
**Why reverse?**

**One buyer (the retailer), multiple sellers**

**Sellers bid for buyer's business**

**Price falls**

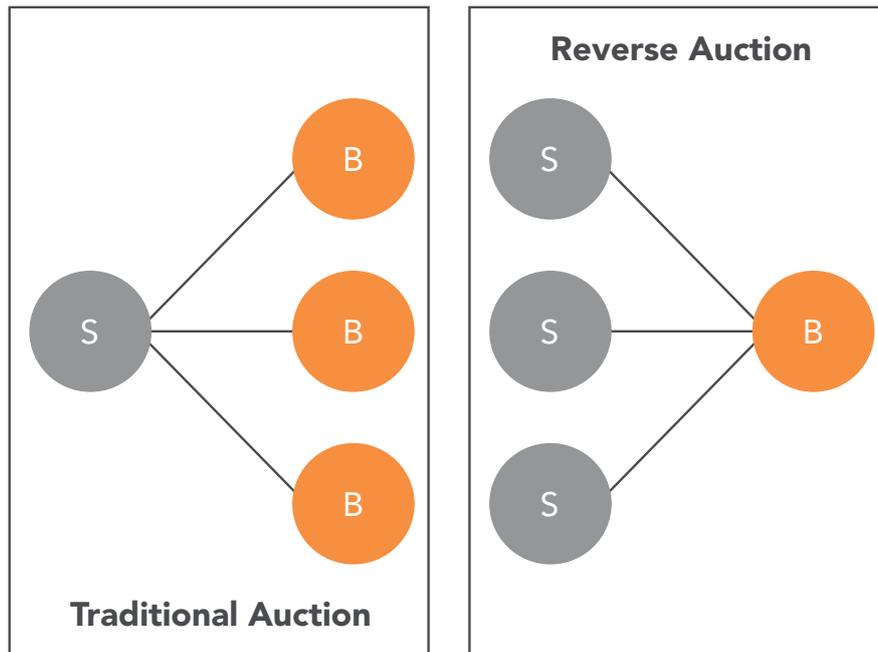
**No strategic relationships with vendors**



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### Global Sourcing

- Costs Associated with Global Sourcing Decisions
- Remote production facilities in developing economies with low labor costs
- Foreign currency fluctuations, tariffs, longer lead times, increased transportation costs
- Obsolete costs and inventory carrying costs from larger inventories
- Managerial Issues
  - Quality control, time-to-market, social political factors
  - Difficult for collaborative supply chain management (CPFR) based on short and consistent lead times
  - Human rights and child labor

### Negotiating with Vendors

- Two-way communication designed to reach an agreement when two parties have both shared and conflicting interests.

### Negotiation Issues

- Price and gross margin
  - Margin Guarantees
  - Slotting Allowances
- Additional markup opportunities
- Purchase terms

- Terms of purchase
- Exclusivity
- Advertising allowances
- Transportation

### Price and Gross Margin Issues

- Markdown money
  - Funds from a vendor to a retailer to cover decreased gross margin from markdowns
- Slotting Allowances
  - A charge imposed by a retailer to stock a new item (in supermarkets)
  - For Retailers
    - To ensure efficient uses of their valuable space
    - To determine which new products merit inclusion in their assortment
  - Manufacturers view them as extortion

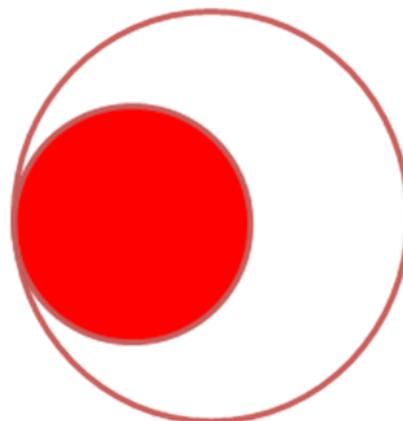
### Strategic Relationships

- Retailer and vendor committed to maintaining relationships over the long-term and investing in mutually beneficial opportunities

Win-Win Relationships -- Concerned about expanding the pie, not how to divide the pie



VENDOR



RETAILER

## Building blocks for Strategic Partnerships

- Mutual Trust
- Open Communication
- Common Goals
- Credible Commitments

## Building Partnering Relationship

- Discrete
  - One Purchase at a Time
  - Short-Term
  - Focuses on Price
  - Win-Lose Negotiations
  - Governed by Contracts
- Partnering
  - Anticipate Future
  - Long-Term
  - Considers all Elements
  - Win-Win Collaboration
  - Governed by Trust

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- **Staple Merchandise:** Inventory that has continuous demand by customers over an extended period of time. Also known as *basic merchandise*.
- **Fashion Merchandise:** Category of merchandise that typically lasts several seasons, and sales can vary dramatically from one season to the next.
- **Drop-shipping**, or *consumer direct fulfillment*, is a system in which retailers receive orders from customers and relay these orders to vendors and then the vendors ship the merchandise ordered directly to the customer.

### What is Assortment Planning?

**Assortment planning** is the process to determine what and how much should be carried in a merchandise category.

Assortment refers to the number of SKUs within a merchandise category, group or department (depending on the retailer's reference). Assortment planning is the process to determine what and how much should be carried in a merchandise category. Assortment plan is a trade-off between the breadth and depth of products that a retailer wishes to carry. Fashion categories contain lesser details in the plan.

### Questions to be considered:

1. **Which SKUs drive sales profits?**
2. **What criteria should be used for adding and deleting items?**
3. **Is the retailer missing opportunities by not carrying certain items?**
4. **Which items represent true variety, not duplication?**
5. **Which items are critical to consumer loyalty or category image?**
6. **Which items are not contributing to the category?**

**Assortment planning** breaks the Merchandise Plan down into the components that enable the planner to address customer preference and need. **Assortment planning** is a process whereby products are selected and planned to maximize sales and profit for a specified period of time.

### The economic benefits of retailer own-brands

A retailer own-brand is a product or service that either carries the brand of the retailer or a separate brand name that is controlled by the retailer. Over time, own-brands have become increasingly sophisticated. Rather than simply adding labels to generic products, many grocery retailers design, develop and market-test their own-brand products before contracting out the final production, in much the same way as many branded-goods manufacturers do.

E.g. Reliance Retail having its own brand of pickles, wheat flour, detergent bar, sugar, pulses etc.

### **Merchandise Budget**

It is the first stage in the planning of merchandise. It is a financial plan. It indicates how much to invest in product inventories, stated in monetary terms. The budget involves

- a. Sales plan – how much of each product to be sold – department wise, division wise, store wise.
- b. How much stock is needed to achieve those sales
- c. Planned reductions to be made in case product does not sell
- d. Planned purchase levels – the quantity of each product that needs to be purchased from the market

### **Merchandise Management & Pricing**

Merchandise management is at the heart of retail. It is both an art and science. Art lies in understanding customers and creating innovative designs for them. Science lies in creating detailed merchandise plans, tracking sales through data and planning continuously.

Objective of merchandise plan is to offer great merchandise to the target customers at the right value and making them loyal customers for life. Merchandising consists of activities involved in acquiring particular goods/services and making them available at the places, times and prices and in a quantity that enable a retailer to reach its goals.

Retail merchandising

1. Customers
2. Products

Take good care of customers so that they come back. Take good care in the buying of product, it doesn't come back. But the problem is that retailers have a narrow focus only on profits.

A merchandising philosophy sets the guiding principles for all the merchandise decisions that a retailer takes. This drives every product decision from what product lines to carry to the shelf space allotted to different products to inventory turnover to pricing. Retailers have to decide on breadth and depth of assortment. Retailers have to decide the brands and pricing policies.

With a merchandising oriented philosophy, the buyer's expertise is used in selling, responsibility and authority are clear, buyer ensures that items are properly displayed, costs are reduced and the buyer is close to consumers due to selling involvement.

When buying and selling are separate, specialized skills applied to each task, morale of store personnel goes up, selling is no longer a secondary task, salesperson- customer interaction is better, buying and selling personnel are distinctly supervised. Each firm must decide which format is best for it.

With micro merchandising, a retailer adjusts shelf space allocations to respond to customer and other differences among local markets.

In cross merchandising, a retailer carries complementary goods and services to encourage shoppers to buy more. Apparel stores stock accessories, auto dealers offer extended warranties. Cross merchandising, like scrambled merchandising, can be ineffective if taken too far. Yet, it has tremendous potential.

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With a formal buying organization, merchandising (buying) is a distinct retail task and a separate department is set up. Acquiring merchandise and making it available for sale are under the control of this department.

In an informal buying organization, merchandising (buying) is not a distinct task. The same personnel handle both merchandising (buying) and other retail tasks. Responsibility and authority are not always clear cut.

In a centralized buying organization, all purchasing decisions emanate from one office. In a decentralized buying organization, purchase decisions are made locally or regionally.

Resident buying office used when a retailer wants to keep in close touch with key market trends and cannot do so through just headquarters buying staff. Such offices are situated in important merchandise centers and provide valuable data and contacts.

Merchandising view	Buying view
Merchandise personnel oversee all buying and selling functions, including assortments, advertising, pricing and point of sale displays, employee utilization and personal selling approaches.	Merchandise personnel oversee the buying of products, advertising and pricing, in store personnel oversee assortments, displays, employee utilization and sales presentations.

A buyer is responsible for selecting merchandise to be carried by retailer and setting a strategy to market that merchandise. He or she devises and controls sales and profit projections for a product category (generally for all stores in a chain), plans proper merchandise assortments, styling, sizes. Buyer negotiates with and evaluates vendors. Buyer draws detailed plans and also visits the market if needed.

A sales manager supervises the on floor selling and operational activities for a specific retail department. He must be a good organizer, administrator and motivator. A merchandising buyer must possess the attributes of each. A good merchandiser must relate to customers and anticipate future needs.

### Devising Merchandise plans

Forecasts – projections of expected retail sales for given periods. Overall company projections, product category projections, item-by-item projections and store by store projections are examples. Staple merchandise is regular products carried by a retailer.

Assortment merchandise consists of apparel, furniture, autos for which retailer must carry variety of products to give customer a proper selection. A model stock plan is used to project specific items like number of green, red and blue pullover sweaters of a certain design by size.

Fashion merchandise has cyclical sales.

Fad merchandise – high sales are generated for a short time.

Air conditioners are seasonal merchandise that sell well during a particular season.

In forecasting for best sellers, many retailers use a never-out list to determine the amount of merchandise to purchase for resale. The goal is to purchase enough of these products so they are always in stock. Products are added to and deleted from the list as their popularity changes.

Innovativeness of merchandise depends on target markets, fashion trends, retailer image, competition, customer segments, responsiveness to consumers, profitability, risk.

An assortment is the selection of merchandise a retailer carries. It includes both the breadth of product categories and the variety within each category. Width of assortment is the number of distinct goods/service categories (product lines) a retailer carries. Depth of assortment is the variety in any one goods/service category (product line) a retailer carries.

Brands – A retailer may carry national (manufacturer) brands or private (dealer) brands or store brands.

For new products the retailer must decide when they are first purchased, displayed and sold. For established products, the firm must plan the merchandise flow during the year. Retailer should take into account forecasts, peak seasons, stock turnover and discounts.

The last part of merchandise planning is the allocation of products. A single-unit retailer chooses how much merchandise to place on the sales floor, how much to place in a stock room and whether to use a warehouse. A chain also apportions products among stores. Some retailers rely on warehouses as distribution centers.

Category management is a merchandising technique that some firms use to improve productivity. Focus is on performance of product category than individual brands. It arranges product groupings into strategic business units to meet consumer needs and to achieve sales and profit goals.

### Process of category management

1. Similar products in a retailer's total portfolio are lumped together into product groups called categories.
2. Examples of categories are: toothpaste, washing up liquids, dog foods, cosmetics, walking shoes.
3. Each category is run like a mini-business in its own right, managed by both retailer and suppliers, with its own category turnover and profitability targets.
4. Relation between retailer and supplier becomes more collaborative with more openness and sharing of information.

A good category management involves these steps:

1. Define the category based on the needs of the target market
2. Assign a role to the category based on several questions – How important is the category to the consumer? How important is the category to the retailer? How important is the category to the retailer's competitors?
3. Assess the category to find opportunities for improvement
4. Set performance targets and measure progress



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5. Create a marketing strategy to help understand how to achieve the category role and performance targets.
6. Choose tactics for category assortment, pricing, promotion, merchandising, supply chain strategies
7. Roll out the plan
8. Review performance regularly

Retailer must empower specific personnel to be responsible for the financial performance of each product category. Nowadays, merchandising software is available that helps retailers in preparing forecasts, manage assortments and data.

### **How can a Retailer analyze merchandise performance?**

To give an overview of the merchandise management planning process, merchandise is broken down into categories for planning purposes. Buyers and planners manage these categories, often with the help of their major vendors.

The key performance measures used to assess merchandise management are GMROI (Gross margin return on investment) and its components, sales-to-stock ratio, inventory turnover, and gross margin. High inventory turnover is important for a retailer's financial success. But if the retailer attempts to push inventory turnover to its limit, stock outs and increased costs may result.

The steps in the merchandise management process are (1) forecasting category sales, (2) developing an assortment plan, (3) determining appropriate inventory levels and product availability, (4) developing a plan for managing inventory, (5) allocating merchandise to stores, and (6) monitoring and evaluating performance and making adjustments.

Buying systems for staple merchandise are very different from those for fashion merchandise. Because staple merchandise is sold month after month and the sales levels are predictable, an automated continuous replenishment system is often used to manage staple merchandise categories.

The performance of buyers, vendors, and individual SKUs must be determined. Three different approaches can evaluate merchandise performance. The sell-through analysis is more useful for examining the performance of individual SKUs in the merchandise plan. The buyer compares actual with planned sales to determine whether more merchandise needs to be ordered or whether the merchandise should be put on sale. In an ABC analysis, merchandise is rank-ordered from highest to lowest. The merchandising team uses this information to set inventory management policies. For example, the most productive SKUs should carry sufficient backup stock to never be out of stock. Finally, the multi attribute method is most useful for evaluating vendors' performance.

### **Predictive analytics**

Retail sales depend on assortment, category management, micro-merchandising and supply-chain decisions, pricing, promotion and many other factors. While assortment optimization, price optimization and demand/supply optimization each provide significant benefits, when applied in combination can yield a greater positive impact on costs, sales, profits and company image.

Predictive Analytics provide retailers the ability to know in advance the optimal combination of assortment selection, price strategy and demand distribution that results in maximum overall return on investment. Multilevel Business Analyzer is a data mining and decision support system that provides retailers with a 360-degree view of their business (past, present or future), presenting vital information in a succinct and comprehensive manner. The information is presented as graphs or tables and can be exported into other desktop tool with a single click.

In seconds, you can:

- Rank retail business segments (products, product groups, stores, vendors, etc.)
- Compare performance of various business segments at different time intervals
- Get details on any retail business segments (sales quantities, cost, price, gross margin, etc.)
- Examine seasonal patterns for any product or group of products
- Identify products using prior or budgeted performance parameters
- Identify vendors using performance parameters
- Identify best or worst performing store, department, etc.

### **Importance of Merchandise Planning:**

The merchandise planning 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.

The primary goal of most retailers is to sell merchandise and services. Nothing is more central to the strategic thrust of the retailing firm. Thus, deciding what to buy and how much is a vital task for any retailer. It takes time to buy merchandise, have it delivered, record the delivery in the company records, and properly display the merchandise; therefore, it is essential to plan. Buyers need to decide today what their stock requirements will be weeks, months, a merchandising season, or even a year in advance.

Through a merchandise plan a retailer attempts to offer the right quantity of the right merchandise in the right place at the right time while meeting the company's financial goals. As planning occurs, it is only logical that the retailer exercise control over the merchandise (rupees and units) that it plans to purchase. A good control system is vital. As in any business, a retailer's ultimate objective is to achieve an adequate return on the investment to the owners. Financial objectives trickle down the merchandising organization, and, are used to make buying decisions.

Retailers cannot hope to be financially successful unless they preplan the financial implications of their merchandising activities. Financial plans start at the top of the retail organization and are broken down into categories, while buyers and merchandise planners develop their own plans and negotiate up the organization. Top management looks at the overall merchandising strategy. They set the merchandising direction for the company by (1) defining the target market, (2) establishing performance goals, and (3) deciding, on the basis of general trends in the marketplace, which merchandise classifications deserve more or less emphasis. Buyers and merchandise planners, on the other hand, take a more micro approach. They study their categories' past performance, look at trends in the market, and try to project the assortments for their merchandise categories for the coming seasons.

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The resulting merchandise plan is a financial buying blueprint for each category.

It considers the firm's financial objectives along with sales projections and merchandise flows. The merchandise plan tells the buyer and planner how much money to spend on a particular category of merchandise in each month so that the sales forecast and other financial objectives are met. After concluding the rupee amount of inventory needed for stock requirements, the other merchandising decisions facing the retailer are: calculating the rupee amount available to be spent, managing the inventory, choosing and evaluating merchandise sources, handling vendor negotiations, handling the merchandise in the store, and evaluating merchandise performance.

### **How to implement merchandise plans?**

- Gather information
- Select and interact with merchandise sources
- Evaluate
- Negotiation
- Concluding purchases
- Receiving and stocking merchandise
- Reordering
- Re-evaluation

Sources: Research target market demographics like lifestyles, product preferences and potential shopping plans – this will give idea to the retailer about the consumer demand directly.

Loyalty programs are useful in tracking consumer purchases and interests. Merchandisers can learn from observing purchase patterns. Information can also be obtained from suppliers. Retail sales staff can interact with customers and record the requests for unstacked or out of stock merchandise in a want book (want slip). Retailers can also get information from competitors. This is prevalent in online selling.

Merchandise is evaluated by inspecting it and sampling it. Retailer then negotiates the purchase and its terms. Retailer receives items, stores it, checks and pays invoices, price and inventory marking, setting up displays, arrange delivery or pick up, complete transactions. Good distribution management is the key. The merchandise is re-ordered based on order and delivery time, inventory turnover and financial outlays. A merchandising plan should be re-evaluated regularly, with management reviewing the buying organization and that organization assessing implementation.

## **Centralized warehousing**

### **Advantages:**

- Efficiency in transportation and storage.
- Mechanized processing of goods
- Improved security
- Efficient merchandise marking
- Ease of returns
- Co-ordinated merchandise flow.

### **Disadvantages:**

- Excessive centralized control
- Extra handling of perishables
- High costs for small retailers
- Potential ordering delays
- Reduced capability of QR systems

## **Financial aspects of Merchandise Management**

1. Ability to forecast demand accurately and having the right category mix is an important focus area for Retailers.
2. Give more options to customers at affordable prices.
3. Value of inventory
4. Stock levels
5. Amount of merchandise a buyer can purchase during a given period is stipulated
6. ROI
7. Estimate space required by looking at beginning of month and end of month inventory levels.
8. Proper inventory control means proper financial management.

## **Retail Method of Accounting**

Closing inventory value is determined by calculating the average relationship between the cost and retail values of merchandise available for sale during a period.

1. Calculate the cost complement.

Cost complement = Total cost valuation/Total Retail valuation

E.g. July 1, 2013–December 31, 2013

ABC Ltd.

Big Bazaar

	<b>At cost</b>	<b>At Retail</b>
<b>Beginning Inventory</b>	90500	139200
<b>Net purchases</b>	205900	340526
<b>Additional mark-ups</b>	-	16400
<b>Transportation charges</b>	3492	-
<b>Total merchandise available for sale</b>	299892	496126

Cost complement =  $299892/496126 = 0.6045 = 60.45\%$

60.45% of every retail sales rupee went to cover Big Bazaar's merchandise cost.

## 2. Calculating deductions from Retail value

Dec 31, 2013: Big Bazaar



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### Computing Ending Retail book value

Merchandise available for sale (at Retail) = 496126

Less Deductions

Sales = 422540

Markdowns = 11634

Employee Discounts = 2400

Ending Retail Book value of inventory = Rs 59552.

To compute stock shortages, the retail book value of ending inventory is compared with actual physical ending inventory at retail.

If book inventory is greater than physical inventory, a shortage exists.

E.g. December 31, 2013

Big Bazaar

### Computing stock shortages

Ending Retail book value of inventory	Rs 59552
Physical inventory (at Retail)	Rs 56470
Stock Shortages (at Retail)	Rs 3082
Adjusted ending retail book value of inventory	Rs 56470

### Converting Retail Inventory value to cost

Ending Inventory at cost = (Adjusted ending retail book value  $\times$  Cost complement)

= 56470  $\times$  0.6045

= Rs 34136

This computation shows the average relation between cost and retail selling price for all merchandise available for sale.

### Steps in forecasting and budgeting process

1. Design control units
2. Sales Forecast
3. Inventory level planning
4. Reduction planning
5. Planning purchases
6. Planning profit margins

Retailers like Tesco are using weather forecasts for predicting the sales of food items.  
 $\text{Planned Reductions} = (\text{Beginning inventory} - \text{Ending inventory})$  and  $\text{planned purchases} - \text{planned sales}$ .

### Planning Purchases

$\text{Planned purchase at retail} = \text{Planned sales for month} + \text{Planned reductions for the month} + \text{Planned end-of-month stock} - \text{Beginning of month stock}$ .

$\text{Planned purchases (at cost)} = \text{Planned purchases at retail} \times \text{Merchandise costs as a \% of selling price}$ .

### Open to buy

It is the difference between planned purchases and the purchase commitments already made by buyer for a given period, often a month. It represents the amount the buyer has left to spend for that month and is reduced each time a purchase is made.

Open to buy is recorded at cost.

$$\text{Open to buy (at retail)} = \text{Planned purchases for the month} - \text{purchase commitments for that month}$$

$$\text{Open to buy (at cost)} = \text{Open to buy at Retail} * \text{Merchandise costs as a \% of selling price}$$

### Strengths of open to buy concept

1. It maintains a specified relationship between inventory and planned sales. This avoids overbuying and under buying.
2. It lets a firm adjust purchases to reflect changes in sales, markdowns.

3. Required initial mark-up % =  $\frac{\text{Planned retail expense} + \text{planned profit} + \text{planned reductions}}{\text{planned net sales} + \text{planned reductions}}$
4. (planned net sales + planned reductions)

Sales forecast = Rs 881080

Annual expenses = 290000

Reductions = 44000

Total net profit margin goal = 60000

What is initial mark up % to be applied?

Required initial markup % =  $\frac{290000 + 60000 + 44000}{881080 + 44000} \times 100$

Required initial markup % 42.6 %



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# 14 ROLLING OUT A NEW STORE

## Learning objective:

*In this chapter, the reader will understand the factors that influence the roll-out of a new retail store and the challenges involved in the same.*

Before rolling out a new store, the foundation for the same has to be built. This involves proper planning and being equipped to deal with change management. The strategy for rolling out a new store has to be shopper centric. There has to be a dedicated change management team. Strategies and tactics have to be prioritized to maximize success. A comprehensive plan has to be developed. More than planning, execution of planning and measuring the outcome is very important. The team has to be responsible for credibly leading the rollout plan.

Building and communicating the plan for a store rollout is essential. This is going to increase sales or profit, improve operational efficiency and service quality. The company must have strong and unwavering commitment from the executive level down. If people are explained about change, resistance to change will diminish. Top executives and the implementation team should consistently champion the change, share accountability and communicate.

Tools to rollout processes and plans to overcome potential hurdles are important. Frequent communication is at the heart of successful change management at every step. The next crucial step is executing the rollout. This is when the value of the plan is proven. Implementation needs diligence.

Communication channels must continue to be open. While the implementation plan is built at a very detailed level, it shouldn't require strict adherence. There should be room for adjustments because changes can happen. The plan can act as a guide and the rollout will present an opportunity to learn more. It also needs to be borne in mind that change is an ongoing process and needs monitoring to know what is working and what is not. The team should be held together, performance must be monitored continuously, periodic reporting must be done and staff must be engaged at all levels.

A few years ago retailers realized that the retail formats were becoming dull and repetitive. There was very little scope for differentiation. Integration of cultural context was missing. Today international roll-out designs are being looked at with a different perspective. Retail scenarios are designed that follow a strong brand concept but without losing touch with the local culture. Consumers in foreign countries have different shopping habits. A successful retail environment can be created by learning behavioral variations and adapting them into the design concept.

### **Retail Location**

The three most important factors in retailing are location, location and location. According to Colitis (1992), at least 85% of store performance is determined not by internal management control, but by local and external factors.

Retailing relies on customer traffic. The more convenient the location, the more likely it is that shoppers will visit the store. 80% of shopping trips begin and end at home, more than half are made on foot and the rest involve car travel.

### **Classification of locations**

1. Incremental developments are retail areas that have gradually developed over a period of time.
2. Planned developments are those that have been planned prior to construction and include newer retail concepts such as the shopping centre or mall and retail park. Brownfield sites are those that have seen prior usage (usually commercial) but have been cleared prior to retail development. Greenfield sites are those that have not previously been built upon.
3. Land availability
4. Road access to the location
5. Parking capacity and convenience
6. Good pedestrian access
7. Public transport links

### **The Location Decision process**

Computer based modelling is used alongside paper based approaches. The process involves search, evaluate each site against set criteria. Select the best site.

### **3 simple stages:**

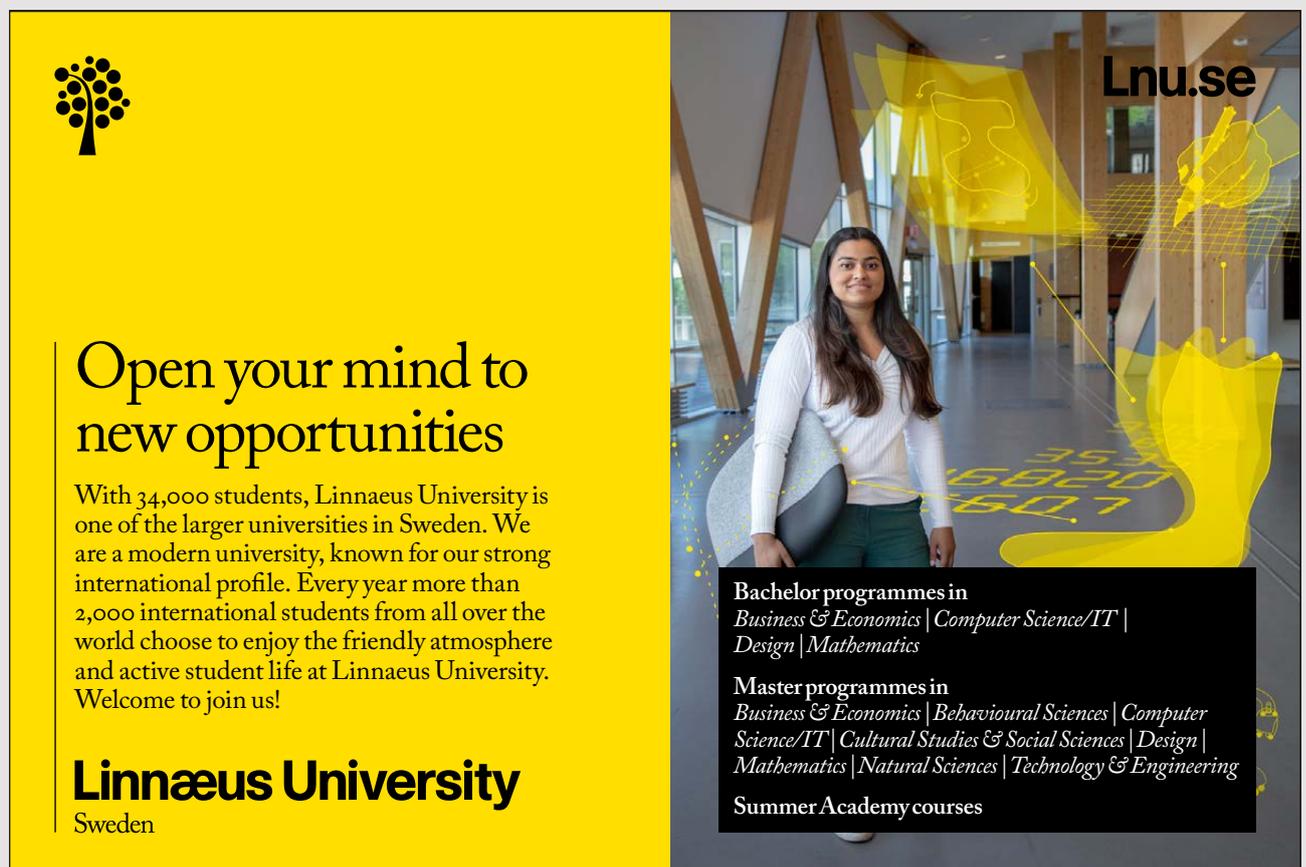
- Macro location Evaluation
- Micro location evaluation
- Site selection

### Macro Location Evaluation

1. Conduct a detailed external marketing audit
2. Analyse macro environment (political, economic, social, technical, factors), customers, competition, retail market itself.
3. Isolate the most important factors level of customer spending, personal disposable income, degree of competition, availability of sites, planning regulations.
4. Each country is ranked on this basis.
5. Countries that meet the minimum acceptable levels are selected for a more detailed assessment.
6. There can be a sequential method as above or a multi-factor approach where each factor is assigned a weight and each country is scored on all factors and overall rating is calculated for each country. Then a region is selected in a similar manner.

### Micro Location Evaluation

For each selected region, the assessment process is now required to identify and screen potential sites. Population, infrastructure, retail outlets and cost are the 4 main factors that are considered. By retail outlets, the level of competing and complementary stores is identified. High startup costs (development costs) or ongoing operational costs will affect store performance.



The advertisement is split into two main sections. The left section has a solid yellow background. At the top left is the Linnaeus University logo, a stylized tree with black dots for leaves. Below the logo, the text reads: "Open your mind to new opportunities". Underneath this is a paragraph: "With 34,000 students, Linnaeus University is one of the larger universities in Sweden. We are a modern university, known for our strong international profile. Every year more than 2,000 international students from all over the world choose to enjoy the friendly atmosphere and active student life at Linnaeus University. Welcome to join us!". At the bottom left, the text "Linnaeus University" is written in a large, bold, black font, with "Sweden" in a smaller font below it. The right section shows a woman with long dark hair, wearing a white long-sleeved shirt and green pants, standing in a modern, brightly lit interior space with large windows and wooden beams. She is holding a grey bag. Overlaid on the image are several yellow, semi-transparent digital graphics, including a map of Sweden and various data points and lines. In the top right corner of this section, the text "Lnu.se" is visible. At the bottom right, there is a black box containing white text: "Bachelor programmes in Business & Economics | Computer Science/IT | Design | Mathematics", "Master programmes in Business & Economics | Behavioural Sciences | Computer Science/IT | Cultural Studies & Social Sciences | Design | Mathematics | Natural Sciences | Technology & Engineering", and "Summer Academy courses".

### **Other steps**

Analyse population to decide about the segmentation.

Estimate the demand based on the number of target shoppers.

### **Reilly's Law**

- Spatial interaction models
- Identifies the boundary between two retail areas or towns based on the population of the towns and the distance from the town to the area concerned.
- The law states that the frequency with which the residents of an intermediate settlement trade with two towns is directly proportional to the populations of the two towns and inversely proportional to the square of the distances from the two towns to the settlement.

$$BP_{01} = d_{12}/1 + \sqrt{(A_2/A_1)}$$

$BP_{01}$  = distance from point o to town 1

$d_{12}$  = distance or journey time between towns 1 and 2.

$A_1, A_2$  = measure of attractiveness of towns 1 and 2.

If a shopper has a choice of a large number of retail areas, Reilly's law will be difficult to apply.

### **Demand estimation**

The Index of Retail saturation is based on the notion that retail saturation occurs at a point where a given trade area can just support the number of competing stores located within its boundaries.

All stores are economically viable before and at the saturation point, whereas past this point, customer demand is insufficient to make all competing stores viable.

Retailers can use the IRS to predict the potential demand of a given trade area based on a specified level of competition and a measure of shopper expenditure.

IRS is a useful starting point for demand estimation as it assumes that stores will take a share of total sales proportional to the selling space of that store. Factors like retail brand popularity, accessibility, costs are not included in the calculation.

$$IRS_i = C_i \times RE_i / RF_i$$

$IRS_i$  = IRS for trade area i

$C_i$  = number of customers in area i for the given retail offering

$RE_i$  = retail expenditures per customer in area i for the given retail offering

$RF_i$  = Total retail selling space (sqft) in area i allocated to the given retail offering.

E.g. A new store is proposed with a 10,000 sqft size. Calculate IRS for each trade area 1, 2, 3 and 4. In addition, the break-even point for the new store is calculated as a sales figure of 75 per sqft.

Break even sales 75 per sqft.

Trade areas 2, 3, 4 would meet the break even criteria. Trade area 2 would give the best viability as the IRS exceeds the break even by the largest figure. Regression is based on an assumption that analysis of a similar store can provide predictions for the new store in question.

Mathematical relation between demand and these key factors can be used as a model for predicting demand for similar stores in a similar situation.

E.g. Population size, Level of disposable income, Store selling space & Competitive intensity.

Infrastructure refers to the ease with which potential shoppers can get into the retail area. Retailers have to check how many shoppers will be physically able to get to the store. Aspects like pedestrian flow and entry routes, availability of public transport, the road network, parking, visibility and site access.

## Site Selection

The retailer has detailed trade area information (definition, analysis and demand estimation) for a number of individual sites. The final stage in the location decision making process is the selection of the actual site or sites for the new stores.

There are 3 approaches to site selection.

- Checklist method
- Analogue method
- Regression modelling

Check list method: Listing process that addresses all the categories and types of data required for accurate site assessment. The 4 key categories are population, retail outlets, costs and infrastructure.

E.g. Population: Size, growth rate, demographic profile, lifestyle profile, shopping patterns.

Retail outlets: No. of stores, planning applications

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Costs: Startup costs, (purchase or lease price) site preparation, store construction, maintenance costs, security, cannibalization costs.

Infrastructure: Pedestrian flow, entry routes, public transport, site access, traffic road congestion, parking, visibility of the store

### **Analogue approach**

Decisions of site suitability are based on comparison with an equivalent store. Estimate the performance level of the new store based on extrapolation from analogue. Regression – develop a model to explain the performance of a store on the basis of number of determinants. This is a multiple Regression model.

Store Turnover  $T/O = F_n(C, T, S, A, D)$

C = Competition

T = Trade area composition and characteristics

S = Site accessibility

A = Store Physical attributes

D = Demographics or customer profile

Data are fed into an appropriate regression software package. Regression coefficients are calculated for each determinant. Coefficient shows how each determinant affects turnover, while an additional measure gives the relative importance of each determinant. Location is a process of data collection and detailed analysis. The retailer must be able to attract sufficient number of shoppers, competition must be managed, access must be unhindered and the site must fit the retailer's offering. Retailers must set up their shop in the right place or risk never doing much business.

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# 15 VISUAL MERCHANDISING – THE WINDOW TO RETAIL BUSINESS

## Learning objectives:

- Learn how effective retail displays can attract customers
- Review the principles of visual merchandising
- Identify how customer traffic flow can be improved by visual merchandising
- Evaluate the reasons why visual merchandising is called as the silent salesman
- Examine the challenges associated with visual merchandising
- Review the techniques by which effectiveness of visual merchandising can be improved.

## What is Visual merchandising?

Visual merchandising is the activity and profession of developing the floor plans and three-dimensional displays in order to maximize sales. Both goods and services can be displayed to highlight their features and benefits. The purpose of such visual merchandising is to attract, engage, and motivate the customer towards making a purchase.

Visual merchandising commonly occurs in retail spaces such as retail stores and trade shows.

As establishments shifted their business from wholesale to retail, the visual display of goods became necessary to attract general consumers. The store windows displayed the store's merchandise to lure the customers. Over a period of time, the design used in window displays moved inside the store and became a part of the interior store design. Visual merchandising began emerging as a science after the twenty first century began. It has now become a tool for promoting retail businesses. The aim is to attract customers and increase sales.

Visual merchandising augments the design of the retail store. It makes a store appealing and attractive to customers. Many elements can be used by visual merchandisers in creating displays including colour, lighting, space, product information, sensory inputs (like smell, touch and sound) as well as digital displays and interactive installations.

## Principles of visual merchandising

Visual merchandising presents retail space in a way that maximizes sales. Strategic display of products in retail store shelves enables creation of a unique identity for the retailer. The retail space has to be warm, friendly and approachable. It must give a cozy feeling to the customer visiting the retail store and entice him to visit the store again. Visual merchandising plays an important role in this endeavor.

Visual elements make a good first impression on potential customers. They constitute an important part of branding. If customers like the way store looks and products are made to look appealing through window, shelf and stock displays, they will spend more time in the store increasing the sales.

1. Themes for window displays can be created that display the store's style and personality. Window displays make a statement about your business – whether you are elegant, sophisticated or contemporary.
2. Props, images, signage and products convey an idea and message that will help customers connect with products.
3. Window displays must be changed regularly and the retailer must ensure that products in the display are easy to find inside the store.
4. Shelf displays have to be properly planned so that products can be featured and planning of shelf space is done appropriately.
5. Clutter of products is certainly not advisable as it can portray a negative image in the minds of consumers.
6. It is essential to place an appealing product near entrance.
7. Spaces at the end of shelves need to be capitalized. Popular products must be placed between eye level and knee level.

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8. Profitable items need to be kept at eye level.
9. Products for children must be placed at children's eye levels.
10. Group related stock items together. Use premium spaces like ends of your aisles to feature profitable products.
11. To encourage add-on sales, place similar products together to encourage add-on sales. Example – place crockery with cutlery.
12. Group different but related products together to help make companion sales – for example, include all components of a bathroom in a bathroom display.
13. Change product displays regularly and keep them clean and well ordered.
14. Hire a visual merchandiser who can help create effective designs for the retail store.



### **Challenges in visual merchandising**

Deciding what to put in the store window can be onerous. Window is the brand and what to put there can be a difficult decision to arrive at. Often retailers fail to give sufficient attention to their window displays. Using a small amount of merchandise lot of fun is not impossible to achieve. Brightly colored props can attract people towards your window. The best retailers still spend time on their retail store windows because it is the one place they can focus a busy, time-constrained consumer to consider their premium goods.



### **Visual merchandising – the silent salesman**

Visual merchandising refers to display and presentation of products in order to sell them. Example – window displays, shelf displays, mannequins, signages, fixtures, point-of-purchase material.

Visual merchandising has grown beyond mere arrangement of products for easy access to customers to a strategic issue in the retail management. It is more than the enhancement of retail space for increasing sales. With creative use of lighting, props and customized displays, retail selling space can be transformed into space, which informs, stimulates the senses, entertains and ultimately reinforces the shopper's relationship with the product. Visual merchandising today is as much about communicating the brand experience as it is about selling the product.

Attractive displays silently invite customers to see and touch the goods. A theme display based on a season or an event is common in the Indian market. It requires aesthetic skills to influence buying decisions of customers so that they visit the store again. Good visual merchandising aims at educating customers, creating desire and finally persuading them to purchase.

### **How can great visual merchandising be created**

- Use color wisely. Color is king because it is a constant factor that attracts eyes of customers and can make or break the displays. Poor color choice can mar displays. Displays that perfectly coordinate colors manage to achieve success.
- Consider a monochromatic palette, like a red background, red props, and red products.
- Incorporate legends (signage) to create a buzz.

- Legends are signs that give the display a name or create a theme. Humor and puns work well.
- Always perform an eye check. Check your displays to see where the customer eye focuses.
- View displays from the customer or passersby perspective and do so often. Get objective opinion on product placement to ensure that important items are placed at eye level. Big brands – like Kellogg’s – pays supermarkets thousands of dollars to ensure their products sit at eye level on the shelf, the most popular location where customers choose products.
- Use inexpensive props that complement your display’s merchandise. Props enhance your products.
- Understand customers walk towards the right when they enter your store (especially in the US). So the display on the left has to be strong to draw the attention of customers towards it.
- Use the space above your fixture line--that big, blank band located where the wall and ceiling meet. Wherever the eyes go, the feet will follow. So use eye-catching items, pictures, and posters above the fixture line to feature products.
- Don’t keep the same displays forever; change them as often as possible to keep customers intrigued in your store and engaged with your products.



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One of the important sales metrics in retail is “sales per square footage” which is the average revenue a retail business generates for every square foot of sales space. The retail space has to be most productive and most efficient salesperson. Visual merchandising is needed to optimize the sales space for maximum revenue. Visual merchandising involves aesthetics but it is also a science – it is a time tested method that can be replicated for every other retail store.

### **Making Visual Merchandising more effective**

Visual merchandising involves creating window displays and signages and includes the layout to direct the customer traffic.

#### **1. Begin with the target customer in mind**

Knowing the target customer inside out will help in creating effective merchandising displays. Besides looking at the demographic data like age, income and education level, it will also be worthwhile looking at psychographics and behaviors of customers. The focus must be targeting the lifestyles of customers.

#### **2. Create a multi-sensory experience**

This is also called as sensory branding. There is an endless array of visual clues to communicate the message. Colors can be used for their psychological triggers and lighting, symmetry, balancing and focus can be leveraged to direct and control where a customer looks and for how long. The music that is played out in the store has a profound and subtle effect on how customers behave in a store. Soothing and mellow music can be very relaxing and enhance the shopping experience. Retailers should also work hard to ensure that customers get the opportunity to touch, feel and try out what they wish to buy. Samsung, Verizon and Sony have adopted what is called as “scent marketing”. Smell is a fast track to the system in your brain that controls both emotion and memory – two prominent factors behind why we choose one brand over another. Taste can work magic if retailer is selling consumables so that people can taste and sample before they buy it.

#### **3. Show, Don't Tell**

Prior to purchase, people want to have an idea of what a product will look like or feel like. Setting up the merchandise display in a way that people can identify with is important. The sales floor in furniture stores are set-up with displays that make it easy for people to imagine how those products can be set-up in their own homes.

Some apparel retailers have policies whereby sales staff wear the clothing that they are selling. However, whether this is a wise strategy is debatable. Cultural differences aside, socio-economic barriers also make this a tough challenge especially in a class conscious society. Tried and true example of this would be the mannequin.

#### 4. **Group Like with Like**

Grouping like products together gives customers additional reasons to buy more items from you. It also saves customers time from looking around and trying to mix and match things. Retail stores stock bread, butter, jam and cheese close by. With categories groups can be created. For example – merchandise having the same color, price, size, or type can be grouped together.

#### 5. **The Rule of Three**

When creating a display try to work in sets of three. Based on how products are arranged, three of them must be laid side by side, instead of just one. If you are arranging things by height, it is better to classify items as short, medium and tall. Our eyes are most likely to keep moving and looking around when we look at something asymmetrical because when we see some symmetrical object, we stop there.

### **Why visual merchandising has become more significant?**

Visual merchandising can engage and inspire shoppers and encourage them to buy more of the products you want them to increasing sales, margin and return on space. First impressions count. The exterior of the store must be made appealing with clear, consistent branding applied to the signage. The entrance reflects the personality of the store and must attract the passer by. The window display must be creative and inventive, devoid of clutter so that customers can be attracted by the displays.

Ensure that any special offers are clearly readable and not too big/small, bearing in mind the demographic of your target audience. If your window space is limited try using bright colors and lighting to draw the eye, maybe even motion. Change the displays frequently based on how often your customers visit the store.

Visual merchandising can be used to turn every browser into a customer. Every opportunity – especially festive occasions must be appropriately leveraged. But retailer must desist from overwhelming or confusing the customer. If there are too many SKUs then sales is being split between them adding to the complexity of the business and increasing the risk of excess stock. Range proliferation can strangle a business from a cash flow perspective. Too little choice will not excite the customer and too much will confuse him.

Analyse the retail space to understand the maximum number of products that you can present at any given time. Now become ruthless. Get rid of those products that are not adding any value. Focus on return on space.

Customers must feel at ease at the store so that they can linger longer which means that they will purchase more. In India, many retail showrooms lack a clean and hygienic washroom. Retailers do not realize how important this to ensure that customer stays in the store for a longer period. Retaining the customer in the store for a longer period will be beneficial as they will spend more spiraling up the store profits.

Point of sale (POS) or checkout is the location where a transaction occurs. Use this area to display new products, special offers or “no brainer” purchases, for example lip balms, pens and small handbag sized items. Products must be clearly and correctly labelled, with more product information available as required. Pricing and offers must be understandable.

Shelves should be well stocked but not over full and cramped as this will not only look bad but detract from the product itself. Allow the customer more information about a product but not too much that the offer and pricing is misunderstood. Avoid information overload at all costs.

Packaging should be not only informative but ideally part of the overall merchandising appeal. Know the cash margins every product contributes, the volumes you sell and determine what value each product has in your range.

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Visual merchandising can make a good retail outlet great. Investing time and effort in giving a facelift to the store will add immense value. Branding experts can be employed to get the most out of your window displays and effective signages can make a retail store stand out from the crowd. Constant review of profitability is a must so that the display space can be used accordingly. In a crowded market it is important to pull out all the stops so that customers get an enhanced shopping experience.

### **Tips for improving the effectiveness of visual merchandise**

- Planning in advance is beneficial.
- Creation of a theme helps unify.
- Choose props to frame the display. A window is for the items that might not sell as easily on a shelf as others.
- Have multiple layers of height. Customer has to discover the various items in the killer window.
- Keep the display at eye level for passersby. View the window display at all angles including from a passing car.
- Customer testimonials can be rewarding in the long run.
- Cater to customer needs at all times.
- Thoroughly clean the inside, outside and floor of the display windows prior to installation.
- Resist the temptation to overfill the windows.
- Keep changing merchandising displays so that customers continue to be engaged.

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# 16 PRIVATE LABELS

## Learning objectives:

- To understand what private labels are and their impact on profit margin of retailers.
- To learn about the different Ps of private labels.
- To identify the types of private labels.
- To review the advantages and disadvantages of private labels.
- To highlight the role that private labels play.
- To provide an insight into the factors that influences the growth of private labels.

The term private label can be defined as products marketed by retailers and other members of the distribution chain. Private label is any brand that is owned by the retailer or the distributor and is sold only in its own outlets. They are also called in-store brands. From apparel, healthcare products and furnishings to consumer items, private labels are making their presence felt in a variety of retail items in the country. Most retail chains are increasingly relying on private labels to bridge the gap in their product mix and are targeting specific needs of consumers.

Private labels are products or a variety of products manufactured or packaged by a retailer under own names or labels which compete with nationally established brands. Private labels are less expensive as compared to renowned brands and are more profitable for the retailers.

Retailers like Pantaloons, Shopper's Stop, More; Reliance, Tesco, Lulu and Carrefour are expanding their range of private label products from cosmetics and food to clothing to improve the profit margins of their stores.

The early instances of private labels can be traced to almost 100 years ago when a few product categories like tea were packed and labelled by retailers themselves. When reputed brands became weak in the market it created an opportunity for private labels to flourish.

## Role of Private labels

Private labels enable a retailer

- To differentiate himself from other competing stores
- To create sustainable customer loyalty through product offerings
- To provide customers with a good shopping experience
- To enjoy freedom for innovative pricing of products
- To continue to maintain profits when margins continue to be squeezed.

### Ps of Private Labels

- **Product:** Quality is equal to brand
- **Partnership:** Work in extra mile in terms of support, marketing, merchandising
- **Pricing:** Provides the high perceived value to customer without leaving profit.
- **Position:** Position mark the one that you want to compete directly against
- **Personnel:** As per requirement
- **Pride:** Take pride in your brand, treat it and market it with the respect it deserves

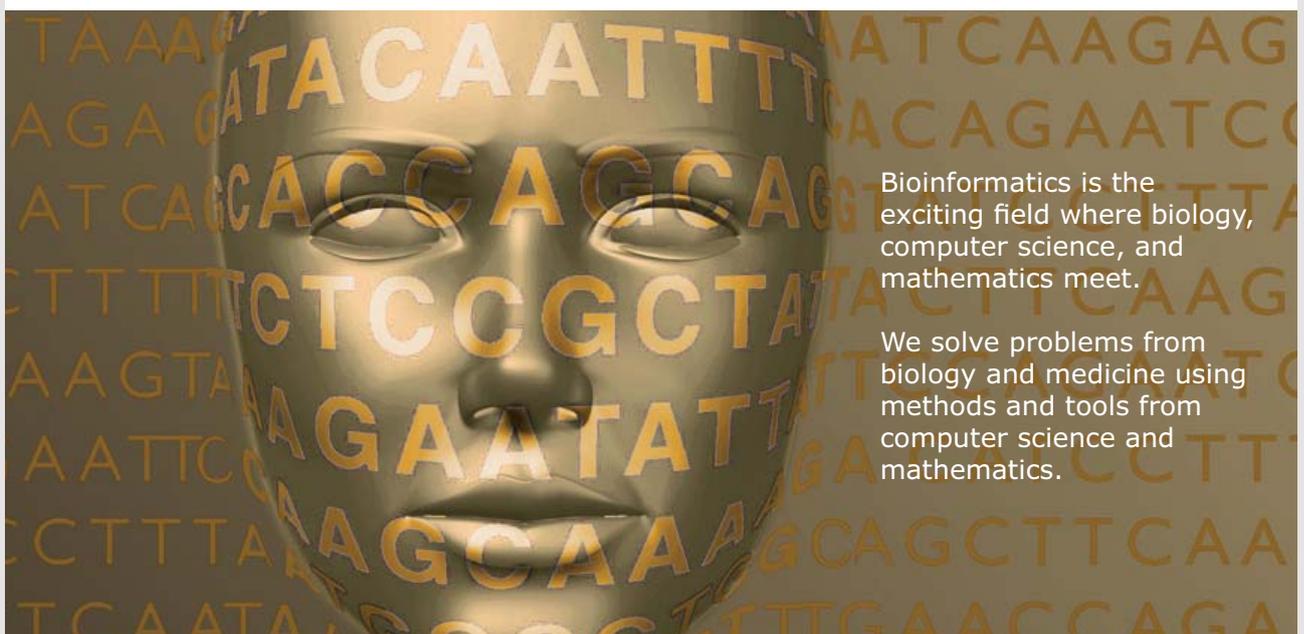
### TYPES OF PRIVATE LABELS

- **Store Brands:** The retailer's name is very evident on the packaging
- **Store Sub-brands:** Products where the retailer's name is low key on the packaging
- **Umbrella branding:** A generic brand, independent from the name of the retailer



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## THREATS POSED BY PRIVATE LABELS TO RENOWNED BRANDS

- **Improved quality of private label products:** The gap between private label and brand name products has narrowed in the last ten years.
- **The development of premium private label brands:** Innovative retailers have also come up with premium based private label brands that deliver quality superior to that of national brands.
- **Emergence of new channels:** Mass merchandisers, warehouse clubs, and other channels account for growing percentages of sales of dry groceries, household cleaning products and health and beauty aids.
- **Creation of new categories:** They are continually expanding into new and diverse categories and also following some general trends and have developed private label market for products beyond traditional staples.

The purchase process favors brand name products. Customers still requires an assurance quality during their point of purchase and sale rather than not having the opportunity to inspect the alternatives. Customer preferences are fickle. Their perceptions influence their purchase choices. Brands have a solid foundation as the equity has been built over years and there are brands that offer consistent quality over the years.

Many brands establish an emotional connect with the customers and thus enhance the brand image through advertising. In India the private labels are seldom advertised through mass media channels. This means that the buyer decides to buy a private label only when he enters the store. Generally it is the price sensitive consumer who opts for a private label. Research has revealed that many buyers knew what they wanted before entering the store. Therefore it takes time for private labels to garner the mind share of customers.

## PRIVATE LABELS IN INDIA

Retailing in India is characterized by weak gross margins. Apparel retailers target a margin of 30–33% after struggling with vendors and brand marketers. Food retailers have to be content with margins of 15–19%. So, many retailers are developing private labels as a principal strategy to increase their bottom-line.

The contribution of private labels in India's [online shopping](#) segment is expected to triple to around \$5 billion in 2017 as e-tailers try to boost earnings and fill gaps in the market in high-margin categories such as fashion, furniture and home decor.

Private labels make up less than 10% of online sales today, or around \$1.5 billion in value, largely driven by fashion retailers such as Myntra, Jabong and Koovs. Going forward, it is expected that this contribution could grow closer to 20% and will also be driven by high-value items such as furniture.

Horizontal players are consolidating buyers of unbranded products in electronic accessories and few other categories and introducing products in those gaps. This helps them earn additional margins in those product categories where people are more concerned about the price and less about the brand.

The largest of the horizontal players – [Flipkart](#) and Amazon are launching new private labels to improve margins in commodity products such as electronic accessories. [Flipkart](#) recently launched Smartbuy, an umbrella brand for selling electronic accessories and home decor products, and plans a second brand next year. Amazon is also having its private label Amazon Basics to sell electronic accessories and symbol and Myx in the fashion space.

Rival [Flipkart](#) relies on subsidiaries Myntra and Jabong to drive private label fashion sales, with estimates suggesting around a third of the sales of the two brands being driven by fashion labels. With India's [e-commerce](#) expected to grow by 60–70% in 2017 making it a \$30–34-billion industry, a sizeable part of that will be driven by sales of private label products. The push for private labels largely comes from investor pressure on e-commerce companies to improve earnings and make profits. Investors are expecting profits and therefore strategies of retailers revolve around private labels that can earn additional margins.

Amazon has adopted the private label route globally and sells everything from groceries under its own brand to electronics like Kindle tablets. While private labels will grow to contribute less than 10% of sales on large platforms such as Flipkart and Amazon, smaller niche players will look at them more deeply.

Online furniture retailers see over 50% of their sales being driven by private labels. Pepper fry and Urban Ladder, the two leading players in this space, almost exclusively sell furniture under their own brand names. In online fashion, the contribution of private labels is 25–30% while for online groceries it is close to 20%.

One of the reasons private labels are gaining popularity is the advantage that they give in terms of cost benefits. There is no competition in that category and so discounts are not needed. As retailers source goods directly and save on product development and marketing expenses, they can sell products at competitive prices compared to major brands.

## ONLINE SHOPPING SECTOR

Company	Private labels	Category
Amazon	Symbol, Myx	Fashion
	Solimo	Kitchen essentials
	Amazon Basics	Digital accessories
Flipkart	Smart Buy	About 25-30 categories
Myntra	15 labels, of which three that are celebrity-backed, namely, All About You by Padukone, Hrithik Roshan's HRX and cricketer Virat Kohli's WROGN	Fashion
Urban Ladder	Almost all products	Furniture
BigBasket	Fresho	vegetables, fruits, meat, and bakery product
	Royal	staples, tea and cereals
	Tasties	snacks
	Fresho Signature	cookies, dehydrated fruits and exotic bakery
	HappyChef	gourmet products

Private labels in fashion clothing and accessories are more popular because they are profitable. Private labels in food retail also lead to greater margins for retailers. According to an article in Forbes, apparel margins are as high as 80% depending on the product, price, materials and labor used. Amazon's foray in private labels dissuaded major brands from selling their products through this e-commerce platform because they realised that Amazon was learning from their experience. This led these brands to add competitive products in their portfolio at a short notice so that they could give the e-commerce platforms a run for their money.

## ADVANTAGES OF PRIVATE LABELS

- Retailers directly deal with suppliers driving cost savings.
- Private labels help a retailer to create own unique image promoting stronger customer recognition and loyalty.
- The packaging and labels are tailored to meet the private label owner's specifications, including product name, description, company's logo and contact information.
- Private labels give more control over pricing, marketing, sales and distribution.
- Sales of private labels are more profitable than those of national brands because private label items are cheaper to make.
- In apparels, private label allows the retailer to get the styles a customer is looking for in stock or it can be quickly acquired so that it is ready to be shipped.
- Specific private label products are available only from the retailer. Customers cannot go to another website or into a store and find the specific private label that a retailer has.
- The retailer's brand starts getting associated with the private label adding to sales of other private labels.
- Private labels make it harder for competitors to match price for similar products.
- Accurately identifying comparables when comparing private label and brand label products is a challenge.

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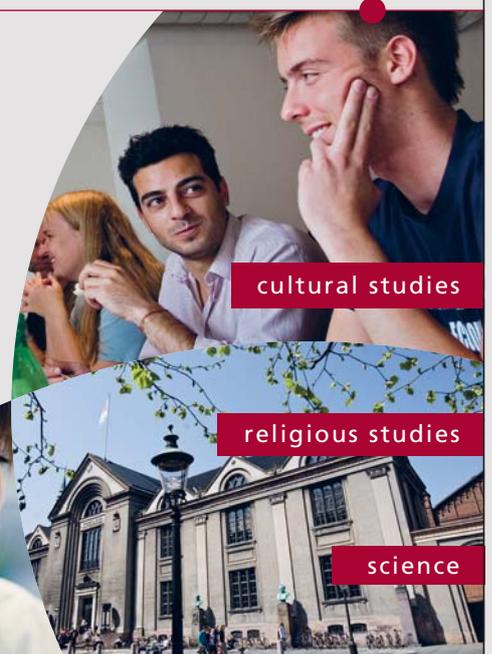


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Highly sophisticated intelligence solutions can take on the attributes of private brands/private labels, establish comparables and make price comparisons. In-house engines can discern the differences and similarities between private labels and other brands. Experts can then apply human judgement and fill the gaps to ensure that the comparison is accurate and correct.

### **DISADVANTAGES OF PRIVATE LABELS**

- Private labels may take time for building a brand reputation.
- Private label products are sometimes perceived to be of lesser quality than those of established brand-name retailers.
- Customers may not feel the same about private brand fashion items as they do about other brand name items. For some categories of products like cereals, customer perceptions about major brands and private label brands are the same. However when it comes to fashion, perceptions may differ.
- Some retailers use private labels with fancy names to project an image that the product is of higher quality; however if customers feel that they are being short changed, they may stay away from the product forever.
- Since there are no major advertising efforts, visibility of private labels outside the store is low.
- If prices between brands and private labels are comparable, customers may opt for brands. So it is important for retailers to keep their ears on the ground with respect to pricing.

### **FACTORS INFLUENCING DEVELOPMENT OF PRIVATE LABELS**

Over the last few years the power has shifted from leading national brands to retailers. In Michael Porter's five forces model, bargaining power of buyers is a critical element. National brands had created a consumer pull through their incessant advertising efforts. As brand loyalty was high, retailers had to stock such items at lesser margins. However as retail revolution started taking shape and retailers began to scale up operations, their bargaining power increased. Walmart and Carrefour began to alter the landscape of retailing. In India, Big Bazaar quickly expanded its presence across all cities in India. As these retailers started scaling up, they became closer to the customer and started investing to understand consumer behavior and preferences.

In addition to the growth of modern retailing in food and apparel, retail categories like home appliances, electronic gadgets and pharmaceutical retailing have opened the doors for retailers. As new categories and new markets emerge, the private labels will begin to become more popular.

When a national brand is being supplied at MRP [Maximum Retail Price] this limits the retailer's selling price. Retailers cannot optimize the prices to increase their gross margins. Further the gross margins are decided by national brand suppliers. So, developing private labels is a strategy to increase gross margins to compete with other retailers as well as national brands.

In a country like India, manufacturing has received an impetus after the economy opened up in 1991. Recently the Prime Minister's call for "Make in India" (2014) has focused the spotlight on manufacturing. Imports have become easier and outsourcing trends have gained ground. Retailers and suppliers are working hand-in glove to offer private labels and this is proving to be a strategically winning combination. E-zone and Croma outsource their private label manufacturing from home-grown suppliers. Apparel manufacturers had a steady demand for exports earlier. However now demand from domestic market for apparels is also growing.

The domestic consumption in the mid-segment drives consumer loyalty for private labels. As consumers start becoming aware that it is the same suppliers who supply to both retailers as well as manufacturers they realise that there is greater value in purchasing private labels that offer quality goods at competitive prices.



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## **HOW CAN PRIVATE LABELS ACHIEVE SUCCESS?**

Retailers have to forge strategic collaborative marketing partnerships so that private labels sell more. They must never allow dilution of quality standards to reduce costs and improve profit margins. They must conduct in depth analyses of consumer purchase attitudes and behaviors. Retailers must collaborate to optimize in-store inventory management programs at the store level based on unique needs and wants of key and target consumer segments. Retailers must have manpower at store level to look into this particular segment and create in-store awareness about the private labels. What should stop a store employee to effectively communicate with customers about private labels? For this effort to achieve success, the recruitment and selection of store employees must be done with utmost care.

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# 17 RETAIL SECURITY – PREVENTING LOSSES AND DEALING WITH THEFTS

## Learning objective:

- To understand the objectives of retail security measures and need for the same.

Security measures are important in retail and contribute to the bottom line. Loss prevention requires immense focus. Besides accidental loss and product diversion, direct theft – resulting from random shoplifters through organized retail crime and dishonest clerks – is also a concern. Card skimming and data theft through wireless networks are other concerns for retailers.

Video analytics are useful but need further improvement. The role of wireless networks continues to grow in retail operations. Don't let these networks be a weak spot where criminals can intercept important data. Retailers who offer their customers wireless connectivity face some risk from programs like the Firefox plug in Fire sheep, which identifies users on an open wireless network who are visiting an insecure website. Security and investigative tactics for making sure retail employees aren't skimming from the till or making sweetheart deals for their friends. Demonstrating consistent attention to security and to investigation of theft helps discourage insider crimes. Conduct occasional field tests involving complicated purchases, and closely document sales prices and cashier behavior. Security tests should also note and improve customer service procedures.

Often consumers feel offended when their bags are checked. But this is as per the local store policy to check goods against their receipt. These tactics are used in high ticket specialty stores that have experienced large inventory losses. Store management knows that the door bag procedure is not consumer friendly but believe it is a necessary step. However it may be noted that the bag inspection should occur past the last point of payment solely for the purpose of verifying the sales transaction that just occurred.

A merchant is free to put procedures in place to help curb their losses due to theft. It is estimated that 11 billion of dollars are lost every year due to shoplifting alone. These unchecked losses will soon put many retailers out of business unless they take some proactive step. This bothersome procedure is very effective in preventing employee theft, shoplifting, and refund fraud.

Merchants already have lots of anti-theft procedures in place that consumers endure. There are video surveillance cameras and undercover officers that watch you shop. There are little plastic devices attached to soft goods called electronic article surveillance tags (EAS) that must be removed by a salesperson to prevent an alarm from going off at the exit. There are items displayed under lock and key that you can't access without assistance. There are items where you must take a paper ticket to the cashier to have the item brought to the checkout stand. None of these procedures are consumer friendly, but are deemed necessary by some retailers for survival.

According to the National Association of Shoplifting Prevention (NASP), 1 in every 11 people in the US are shoplifters. And there is no profile for you to follow as men and women, old and young, all commit this crime equally. It is important to create [policies and procedures](#) for shoplifting in a retail store. Retailers and staff should be well prepared to handle shoplifting situations tactfully. Store design, customer service techniques and technology go a long way at preventing shoplifting.

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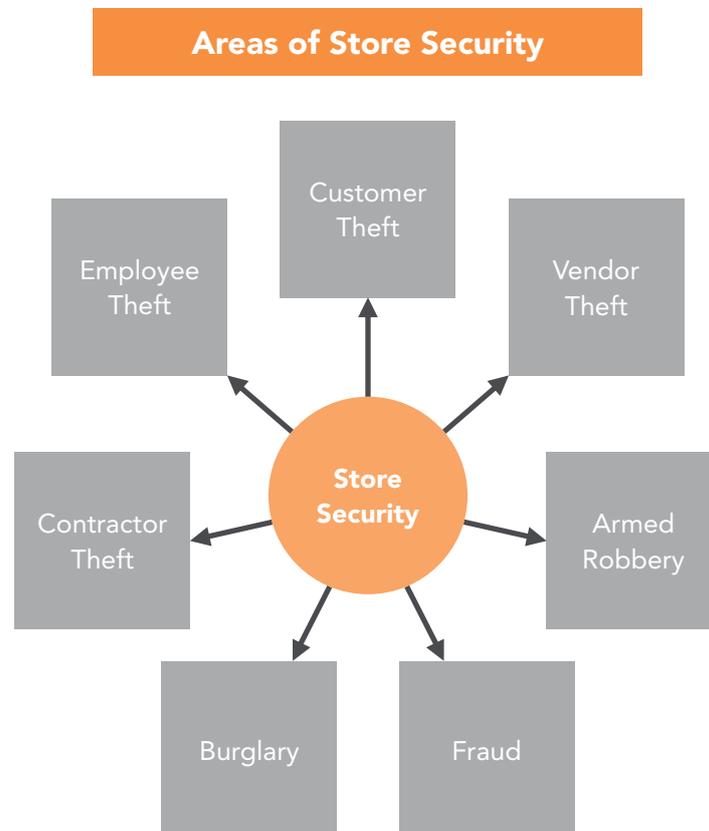
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Store design has a lot to do with shoplifting. Too many stores create blind spots that employees cannot manage or watch. Cameras in a store will help deter the casual shoplifter, but not the professional one. Stand at your cash wrap and survey the store. Are there areas you cannot see?

If the shelving is high, the store will not be fully visible. It is important to have a clear view of the store both for employees and customers so that potential shoplifters can become wary of being caught in such an act. Such techniques can help reduce inventory losses. If you are approaching a suspicious person be on the guard and remain calm and professional. Often thieves will quickly get on the defensive. It is also possible that there has been a misunderstanding and that the person may not be a shop lifter. Treating the potential shoplifter in a polite and courteous manner will avoid bad publicity for the store.

### Control Store Security and Loss

The basic principle of retail business is to provide goods and services that customers want at a price that maximizes the retailer's investment of time and money. By maximizing their investment, the retailer is able to grow and prosper. This enables them to provide a higher level of product choices and service. Unfortunately, the actions of dishonest customers, vendors and employees are a threat to the industry.



### ***Getting started***

A good place to begin reducing losses is collecting and analyzing reports on the internal and external theft that has occurred in the store. Once you have identified the size of the problem, you can do something about it. Taking proactive measures will always help. Creation of security awareness among staff and implementing effective security measures are positive steps.

Steps in the loss prevention process include:

- Identification of high risk areas
- Implementation of preventive measures
- Training and informing the team
- Monitoring and fine tuning the process

Security procedures have to be communicated to staff on a regular basis.

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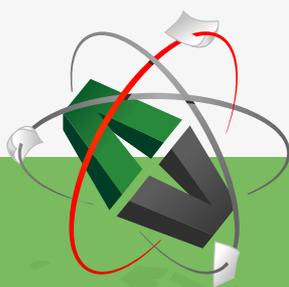
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# 18 CRM – WINNING AND RETAINING LOYAL CUSTOMERS

## Learning objectives:

- Understand how CRM can breed customer loyalty
- Identify the critical dimensions of CRM
- Use of CRM in retail
- Learn about the Gaps model of service quality
- Understand and review the benefits of CRM
- Identify and evaluate metrics for CRM
- Learn about the role of analytics in CRM
- Get an overall perspective about the challenges involved in implementation of CRM
- Understand what customer loyalty programs are
- Study the impact of consumer involvement theory

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## **CRM: An Introduction**

Christian Gronroos (1983) describes services as “Objects of transaction offered by firms and institutions that generally offer services or that considers themselves as service organs”. According to Kotler, a service is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Services are characterized by features of intangibility; perishability, heterogeneity and inseparability. These features distinguish services from goods.

The service profit chain theory propounded by James L Heskett & others (1994) clearly establishes the linkages between customer loyalty, employee satisfaction, employee loyalty, employee productivity and profits. Customer loyalty is a direct result of customer satisfaction while value is created by satisfied, loyal and productive employees. Through a well defined service concept, a firm creates value for customers. Customer loyalty expresses itself in the three Rs – Retention, Referrals and Repeat Business. Research has shown that a 5% increase in customer loyalty can lead to an increase of 25–85% in profits.

CRM in service industry has become an important source of differentiation for organisations to retain customers in the face of stiff competition. It is a business model that leads to structured interactions with a firm’s current and future customers. Technology plays a definitive role in the success of CRM efforts as sales, marketing, customer service and technical support work in close tandem.

Zeithaml & others<sup>21</sup> report that today there is a shift from a transaction to a relationship focus in marketing. Customers become partners and the firm must make long term commitments to maintaining those relationships with quality, service and innovation. Relationship marketing focuses on doing business with a strategic orientation by keeping and improving relationships with current customers rather than on acquiring new customers.

The research by Parasuraman, Zeithaml and Leonard Berry led to the five dimensions of service quality namely Reliability, Responsiveness, Assurance, Empathy and Tangibles<sup>17</sup>. The scale developed to measure them is called SERVQUAL.

Reliability: ability to perform the promised service dependably and accurately

Responsiveness: willingness to help customers and provide prompt service

Assurance: employees’ knowledge and courtesy and their ability to inspire trust and confidence

Empathy: caring, individualized attention given to customers

Tangibles: appearance of physical facilities, equipment, personnel and written materials.

Having talked about the service quality dimensions in the SERVQUAL model, let us now look at the Total quality Management philosophy and its applicability in services.

Customer relationship management (CRM) is a model for managing a company's interactions with current and future customers. It involves using technology to organize, automate, and synchronize [sales](#), [marketing](#), [customer service](#), and [technical support](#). It entails all aspects of interaction that a company has with a customer.

CRM is a business strategy that helps in understanding customers so that they can be provided better service experience and retained. CRM also helps in attracting new customers and increase profitability.

### **Loyalty Programs**

Loyalty programs are structured marketing efforts that reward, and therefore encourage, loyal buying behavior – behavior which is potentially beneficial to the firm. In [marketing](#) generally and in [retailing](#) more specifically, a loyalty card, [rewards card](#), [points card](#), advantage card, or club card is a plastic or paper card, visually similar to a credit card or debit card, that identifies the card holder as a member in a loyalty program.

A rewards program is offered by a company to customers who frequently make purchases. A loyalty program may give a customer advanced access to new products, special sales coupons or free merchandise. Customers typically register their personal information with the company and are given a unique identifier, such as a numerical ID or membership card, and use that identifier when making a purchase.

Loyalty programs provide two key functions: they give a customer rewards for brand loyalty and they provide the issuing company with a wealth of consumer information. While companies can evaluate anonymous purchases, the use of a loyalty program gives additional information about the type of products that may be purchased together, and whether certain coupons are more effective than others.

## Frequent shopper Loyalty Programs

Frequent shopper programs are the retail sector's equivalent to frequent flyer programs. They allow consumers to earn points as part of a reward program, and such points can be redeemed for percentage discounts on future purchases, free gifts, and other rewards. These points are accrued in direct proportion to the amount spent, and as such are equivalent to a percentage price reduction. The most common form of a frequent shopper program is the use of a reward card – such as found in large pharmacy chains or supermarkets, where the consumer is encouraged to feel part of a club, and earn points as a proportion of money spent on each transaction.

Other retail outlets, most typically department stores, will run their own frequent shopper program in the form of their own store card, a type of credit card upon which you will accrue points for later discounts, deals, special offers and other promotions.

Another way to accrue points through frequent shopper programs is with the use of credit cards. Some card issuers will generate points for you for various programs. A credit card scheme may also allow you to earn points when you spend in a particular outlet through their own frequent shopper programs.



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## **CRM &TQM**

Adrienne and Elena (2004) report use of self-assessment tool that organisations can use to evaluate their use of CRM. They also conclude that firms that adopt a sophisticated approach to CRM have experienced a consequential beneficial effect on the organization's TQM culture.

Quality has evolved into a multi faceted concept, becoming part of the steps necessary to deliver products that comply with customers' needs. Summer (1997) says that Total Quality Management is a management approach that places emphasis on continuous process and system improvement as a means of achieving customer satisfaction to ensure long term company success.

Benu and Sandru (2009) conclude that to meet customer expectations and motivate customer retention, high levels of customer awareness and service need to be present throughout the product service delivery process. TQM offers a solution to operationalize such a system and ensure the success of CRM implementation.

Morris et al (1999) stress the use of TQM tools to achieve CRM goal. They also add that marketer must remain an active agent in the pursuit of quality throughout the organization in order to successfully fulfill its goals.

## **TQM in Services**

The first rule of service quality is to do it right the first time. In this way, recovery is unnecessary, customers get what they expected and the cost of redoing the service and compensating for errors can be avoided. Reliability (doing it right the first time) is most important dimension of service quality in services<sup>(16)</sup>.

Quality practices aimed at "zero defects" are used by firms to achieve reliability. Due to differences between services and manufactured products, these tools require considerable adaptation to work well in service contexts. Firms that blindly adopt TQM practices without considering service implications fail in their efforts.

A defective product can be replaced but a defective service can only be recovered. Services are perishable. Statistical quality control techniques are much more amenable to manufacturing than services. The softer elements of TQM like training of employees, documentation etc is easier to achieve in services than the harder elements involving statistical measurements. Standardization of products is an easier process. In services, standardization is possible but it is also complex due to the heterogeneity element. Services are variable due to different behaviors of different service employees at different times and also due to the fact that no two consumers are alike in their expectations and perceptions.

In a factory when there is a manufacturing defect as observed by QC department, things can be resolved much more quickly. In most services, production and consumption happen at the same time, so resolution of failed services is much more onerous. This is the reason a “fail proof” service is always the best bet. It also needs to be remembered that TQM was a concept that was discovered for the manufacturing industry. So, prior to adapting TQM to services, the difference between goods and services need to be borne in mind. Services are 24 × 7 businesses, so the release of time for TQM related efforts has to be carefully calibrated.

Many of the tools and techniques of TQM are quantitative and have limited application in service environments. Silvestro (1997) says that as the application of TQM in service organizations becomes better understood, and as a better understanding of the contingencies of TQM in different service contexts is developed, it may be that there will be increasing

scope in future for manufacturing companies to learn from the TQM implementation experiences of service organizations. As the performance characteristics of services increasingly contribute to the success of manufacturing organizations, the issue will then be the transferability of TQM from service to manufacturing!

So, while in the manufacturing literature, the concept of customer orientation is operationalized largely through ensuring conformance to product specifications which match customer requirements, in the service management literature, customer orientation focuses much more on the effective management of customer/supplier interactions, the “moments of truth” (Normann, 1984).

Dick Chase, service operations expert, suggests that <sup>(4)</sup> services adopt the quality notion of **poka yokes** to improve service reliability. Poka yokes are automatic warnings or controls in place to ensure that mistakes are not made; essentially they are quality control mechanisms, used on assembly lines. Chase suggests that poka yokes can be devised in service settings to “mistake proof” the service, ensure that essential procedures are followed and ensure that service steps are carried out in the proper order and in a timely manner. Poka yokes can be devised to take care of tangibles associated with the service. Poka yokes can also be implemented for employee behaviors. Thus, service reliability can be related to fail-safe notion of poka yokes.

The objective of TQM in services is to delight customers and make them more loyal. Mohanty and Lakhe <sup>(14)</sup> quote Lawton regarding a new approach for implementing TQM in services. Lawton says that manufacturing based models for TQM cannot be straightaway applied to services unless an appropriate set of sequences is clearly laid out. Changes in customer satisfaction and cultural orientation within an organization cannot occur unless there is top management involvement and unless mass training efforts are undertaken.



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Lawton (1991) identified a six-step procedure for creating a customer centered culture

- a. Define service as a tangible product
- b. Identify and differentiate customers in terms of their role, power, special characteristics, needs
- c. Determine customer's prioritized expectations and relate this to service product attributes like performance, perception and outcome
- d. Continuously measure the degree to which expectations are met ; solicit customer feedback and act on it promptly
- e. Maintain a current description of the service creation and delivery process with charts, texts and measures
- f. Establish and maintain service quality measures

Other scholars have highlighted the need for empowering frontline employees so that they can positively influence the quality of service. Mohanty and Lakhe propose the following model for implementation of TQM in services

1. Develop service quality strategy
2. Analyze service process and define all quality measures
3. Establish process control system
4. Investigate the process to identify improvement opportunities
5. Improve process quality and monitoring

### **TQM in Ritz Carlton Hotel<sup>10</sup>**

In fall 1992, Ritz-Carlton Hotel became the first hotel company to win the Malcolm Baldrige National Quality Award. Ritz-Carlton implemented total quality management (TMQ) as a means of winning the award and improving its service. One of the planks of TQM – empowerment – was an easy step for Ritz-Carlton. Measurement was a difficult hurdle because the industry does not have service-quality benchmarks. Team building was also a time-consuming effort. Ritz-Carlton is now requiring its vendors also to apply TQM or a similar process.

The reason these aspects are being mentioned in this paper is to highlight the fact that CRM and TQM can be used to complement each other to better implement TQM in services. CRM provides a sort of performance metric for the service which can be verified using TQM tools.

## CRM

Customer Relationship Management refers to the process of identifying, attracting, differentiating and retaining customers. It helps the firm to focus on its most lucrative clients. Jeremy and Douglas (2000) reported that 20% of the customers contribute to 80% of its profits and hence these customers should receive superlative service.

The typical outcome of CRM<sup>7</sup>

Outcome	Explanation
Coding	Categorizing customers based on profit levels of business
Routing	Directing incoming customer calls to customer service representatives in which more profitable customers are likely to receive faster and better customer service
Targeting	Offering the firm's most profitable customers special deals and incentives
Sharing	Make key customer information accessible to all parts of the organization and sell that information to other firms

### CRM – not an option

Customer relationship management is not an option (Anderson, Kerr, 2002). CRM is a comprehensive approach for creating, maintaining and expanding customer relationships. CRM is a way of doing business. Just like TQM, for CRM, the involvement of everyone in the organization is optimal. CRM is more of a strategic tool than an operational one.

The past several few years have witnessed an explosion in CRM tools that many people have the mistaken notion that CRM = Technology. This has resulted in people confusing technology with strategy. The CRM strategy should drive the organizational structure which in turn should drive choices around technology implementation. Only the CRM strategy can tell us which application is the right one for our business.

The power of CRM comes from the clarity of approach. The team members need to be engaged with regard to the CRM strategy. Then a correlation has to be made regarding the applicability of the CRM tools to support the strategy.

### Success factors for CRM<sup>(1)</sup>

Anderson and Kerr highlight the following five factors :

1. Strong internal partnerships around the CRM strategy
2. Employees at all levels and all areas accurately collect information for the CRM system
3. CRM tools are customer-friendly and employee-friendly
4. Report out only the data you use and use the data you report
5. Look for the simplest solution while implementing CRM strategy

Mendoza et al (2006) have identified 13 critical success factors for CRM implementation that are listed below.

1. Senior management commitment
2. Creation of a multidisciplinary team
3. Objectives definition
4. Inter-departmental integration
5. Communication of the CRM strategy to the staff
6. Staff commitment



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7. Customer information management
8. Customer service
9. Sales automation
10. Marketing automation
11. Support for operational management
12. Customers contacts management
13. Information systems integration

Arab et al (2010) have reported that twenty success factors for CRM are mostly agreed by literature. The process component dominated seven success factors: marketing, sales, services, define and communicate CRM strategy, customer involvement, personalization process, time and budget management. The human component has two parts: the client aspects and the organizational aspects.

Value, satisfaction, and retention and loyalty are categorized into the client aspects. The organizational aspect has three sub-categories. Change in culture, no culture conflict is categorized into the culture category. Skilful staff and consideration of employee's importance are categorized into the role played. Top management commitment and support, define and communicate CRM strategy, assurance of top management commitment for CRM are categorized into the managerial level. The technological component dominated six factors: sales force automation (SFA), software for CRM, data warehouse and data mining, help desk, call centers, internet influence.

In many organizations, Sales and Services appear to be at logger heads. Services complain that sales teams over commit while sales get irritated with the pesky complaints from services. But for a CRM strategy to succeed, sales and service personnel have to be on the same page. Rather than engage in a fact-finding cum fault-finding mission, the teams have to rally together to resolve a complaint. This will buttress the CRM strategy.

CRM strategies are selected by a brainstorming session that involves the employees. If there are too many criteria, it will help to group the criteria as – must have, nice to have and not so important. Ideally, a firm should aspire to have a maximum of four to five strategies. As part of data mining efforts, review of data at periodic intervals is crucial. Service Level agreements when used with internal customer relationships, helps build strong internal partnerships around the CRM strategy. This also results in employees at all levels collecting accurate information for the CRM system.

### **Customers as advocates**

Many service firms have realized the power of technology now. After the initial transactions, when the relationship endures and leads to customer loyalty, the firm has to gradually move the most loyal customers into advocates or apostles. Advocates give lots of positive referrals to their families, friends, colleagues and business associates and this can contribute to business growth. But for this strategy to succeed, firms need to make efficient use of CRM and also ensure that their services are on an upward spiral.

Continuous review and evaluation of services, soliciting feedback from the loyal customers/ apostles, using feedback to improve the services further are crucial factors for ensuring business sustainability. The advocates need to be nurtured. Firms can ill afford to be complacent just because they have a few customers as advocates. It needs to be remembered that the entire process of retaining customers and getting referrals from them is a dynamic one. The CRM tool can be used to enhance the satisfaction of customers who eventually become advocates. The success of the CRM tool can be gauged by the number of positive referrals made by customer advocates.

CRM is an early warning system. The employees need to be trained to believe that problems are opportunities to improve the process gaps. Business needs to strategize ways to utilize CRM tools and process to make certain that conflicts are constructive experiences that can help a business grow. The moment a problem is reported, the CRM tools should enable the employees to focus on the current customer and situation. Then, using CRM tools and processes, root-cause analysis needs to be done.

Nimit and Monika (2010) report that CRM is a paradigm shift in business philosophy. Often CRM is misunderstood as a marketing strategy. In reality, it is an organization wide approach to doing business. CRM outcomes can optimize profitability, revenue and customer satisfaction. The technology aspect of CRM has become so much that many believe that CRM is an information technology industry term for methodologies, strategies, software and other web-based capabilities that help an organization organize and manage customer relationships. The use of technology in CRM should enable greater consumer insight, increased customer access, more effective interactions and integration throughout all customer channels and back office enterprise functions.

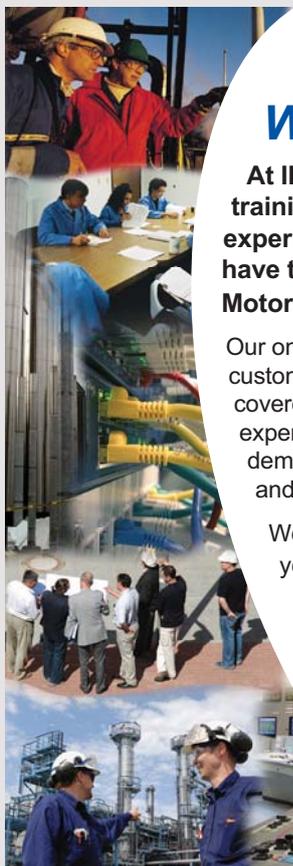
The buying behavior of customers, especially in services, can be situational. The buying decision of an individual who wants to buy an air ticket will depend on whether he is going for a family vacation or he is undertaking a business trip. CRM involves managing this relationship so that it becomes profitable and mutually beneficial. Many firms are now calculating CLV (Customer Lifetime Value) as a tool for measuring the relationship.

## The Benefits of CRM

Most companies have a CRM system in place to manage accounts (Stinnett, 2005) and opportunities. The rewards are tremendous. One can maximize sales velocity (i.e. how fast opportunities flow through our sales pipeline and how many we can manage at one time) and also effective utilization of sales resources. CRM can increase customer loyalty and retention. Employees, according to Stinnett, should be encouraged to record good ideas or 'aha' moments in a separate sheet. This can be applied as a learning tool across the organization.

We have to look beyond how we interact with, deliver value to and serve our customers. Partnership with customers is not complicated because the essence of partnership is working together toward a common goal or objective. Nobody wants to buy what you sell. What they want are the business results that they can achieve by utilizing what you sell to pursue their own goals and objectives. In Sales and Marketing, one learns a lot from losses than wins.

It is not the actual value of what we sell, but the customer's perceived value that really matters. This is echoed in the Expectancy Disconfirmation Model wherein the customer compares his perception with his expectation. Even if the quality of service is average, the customer is satisfied if his perception matches the expectation.



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Stinnett says the more relational ties we build with our customer, the tighter the bond between the firm and the customer. There is a catch here however. We cannot afford to base everything on one person because if the person is promoted, transferred or quits, then it can be difficult to salvage the relation between the firm and the customer. It is important for the sales person to understand the finer nuances of relationships with an organization. Sometimes it helps to keep in touch with the boss of one's advocate in the organization to fetch a better buy-in.

There are three major sources of value when a customer is faced with a significant buying decision.

Company – How is your company and your services different from competitors? Factors like Reputation, Financial Stability, Longevity, Size, Location, Brand value and breadth of offerings matter a lot.

People – Values like honesty, trust, likeability, responsiveness, dependability, client focus, integrity, flexibility, business acumen and domain knowledge. A sales person or a service employee who cares is always acknowledged by the customer.

Solutions – Quality, functional fit, added services that add value to a product, technical superiority of a product or service.

The solution has to spring from a thorough understanding of customers' most important goals and objectives, as well as the unique challenges. Trust can transform a vendor into a strategic partner. Communication with the customer has to be 80% listening and 20% asking questions so that you can listen more.

## **HANDLING CUSTOMER COMPLAINTS**

What makes circumstances difficult when a customer has reached the threshold of dissatisfaction is that the situation is stressful for both the employee and the customer. The frontline employees have the scope to reduce dissatisfaction with their very first words and actions (Belding, 2004). Customers are far more interested in how they are treated. The essence of resolving conflicts is to first separate the expectations that lead to the conflict from the behavior that fuels it and then work to understand those expectations.

Many firms have a hassle free money back return policy because they believe that this will help in customer retention. Service persons are ambassadors for the company. Employees need to remember that every time they say something negative about their place of business, they are damaging their own credibility as well.



The package that complaints come in is unpleasant, yet what is inside is of critical importance to the firm – it is information about the business and about how customers perceive the firm that 98 other people did not bother telling about. These 98 people simply leave and switch over to the next service provider. When nobody complains, people working in a business, have no way of knowing that they are doing less than a perfect job.

The most frequent mistake we make in managing difficult situations is that we tend to respond too quickly. We do not make a strong effort to thoroughly understand an issue and then explore all the options.

More than 75% of complaining customers will remain customers if their problem is solved. But more than 90% will remain as customers if you solve the problem immediately. For the problem to be resolved instantly, employees need empowerment.

Thus, better the implementation of CRM, more robust will be the process of managing customer complaints and this will in turn influence the buying decisions of the consumer.

## The CRM Model



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The CRM model is based on a structured approach. Core values of organization are redefined so is the approach to doing business. Customers are defined, grouped and categorized. Some firms use the profitability tier. Business processes are designed and a framework for implementing them is put in place. A review mechanism is also set up so that customer advantage can be sustained. All these steps begin with the vision of the top management to align the needs of customer with that of the CRM model.

The tactical components of a CRM strategy (Nimit, Monika, 2010) are

- a. Maintaining one to one contact with customers
- b. Maintaining a database
- c. Introducing customer oriented systems and propagating internal marketing
- d. Effectively managing customer attrition by listening to them so that they can be brought back into the fold

Fox and Stead (2001) suggest that a good CRM strategy should be crafted by answering the following questions.

- a. Which products and services are we offering now and in the future
- b. In which markets
- c. Which customer groups will these products and services appeal to
- d. Which of these groups are most valuable to the organization
- e. What additional needs do the most valuable customer groups have
- f. What are the additional products and services that need to be offered
- g. What are the different ways in which we can do business to deliver better to our customers

Answers to the above questions will feed into the CRM strategy. The users must appreciate the power of CRM and not think of it as a sales tool. The following processes are an integral component of CRM strategy.<sup>(5)</sup>

Billing and invoicing, Credit management and fraud detection, Customer fulfillment, Customer Service, Marketing Planning, Product development, Channel management, Customer acquisition, Customer retention, Inventory management, Sales, Payment management

**Some important metrics used by CRM users are:**

Market share, sales analysis, Defection rate, Revenue Optimization, Customer satisfaction, Channel effectiveness, Demand forecasting, Customer Complaints, Cost Reduction, Customer Segmentation.

An increasing number of organizations are now implementing customer relationship management (CRM) systems to support front-line employees' service tasks. With the belief that CRM can enhance employees' service quality, management often mandates employees to use the implemented CRM. However, challenges emerge if/when employees are dissatisfied with using the system.

Hsei, Rai, Petter (2012) conducted a field study in one of the largest tele communications service organizations in China to understand the role of front-line employee users' satisfaction with their mandated use of CRM in determining their service quality. They discovered that the frontline employee's overall satisfaction with the mandated CRM system has a positive effect on employee's service quality much more than dedication on the job and knowledge of the job had.

### **Challenges in CRM implementation**

Every business is different and therefore needs a different approach to CRM. Every company also has different legacy systems and has various levels of data integration within the company. This is why CRM is so hard to define, as it is all things to all companies.

The Western orientation of CRM may not be completely adaptable to Asian countries due to differences in culture, languages and dialects. Customers in Asia do not believe in flaunting their wealth, so it is a challenge to find out their value based on the income. Rather than tracking names only through a database, some companies have achieved greater success through using loyalty cards. Loyalty cards inform customers about offers, discounts and savings. A reward statement sent out every quarter results in sales from these customers even during non peak seasons.

Srinivasan (2010) reports that CRM has its limitations in that it enhances differentiation between high value and low value customers. Customers may not be happy with the fact that some others are getting a preferential treatment. But, in service operations, such discriminations are not uncommon – airlines, banking services to name a few. CRM has now become highly technology intensive, so there is a risk of intruding into the private space of the customer. CRM tends to eliminate customers by their current purchasing behavior. This is called as red lining, where unprofitable customers are identified and avoided. There are behavioral issues that a technology driven CRM program can never completely explore.

Challenges commonly faced by companies relate to managing the huge chunks of data, managing the costs and knowing what is ahead of them in terms of risks to be managed. Team communications, language skills, legal requirements can prove to be complex. Many firms struggle to clearly define objectives and structure processes around them. The business operations have to be mapped with the CRM application.

### **Analytics – adding value to CRM**

India is proving to be a hub for data analytics and there are many young geeks who are willing to help organizations enhance the utility of CRM applications using analytics and data modeling.

Zeithaml and Bitner (2012) have reported that IBM's Voice of Customer Analytics (VOCA) launched in India in 2009, mines data from routine customer service interactions – including audio recordings, call transcripts, emails, survey results and demographic data to deliver a single integrated view of customer sentiment to improve marketing effectiveness, enhance customer service and grow customer loyalty. This tool links CRM information, customer surveys, call transcripts, agent logs. IBM claims that VOCA offers a great opportunity for Indian service firms to gain deep insights into customer behavior and develop programs to increase customer satisfaction, reduce customer churn, drive operational savings and improve service quality.



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Hilton Hotels has used a technology driven CRM program to capture customer information related to personal details, stay history, complaints made during previous visits. This information is used by the hotel's employees to recognize and reward guests with appropriate welcome messages, room upgrades or information related to previous visits <sup>(5)</sup>.

The European Centre for TQM has reported in its paper about Computer Sciences Corporation's (CSC) CRM expert in South Africa, Tonia Bruyns,(2001) who has spelt out some do's and don'ts, based on a CSC study tour.

**Do:**

- Treat CRM as a business strategy to become more customer-centric.
- It is necessary to understand the customer's value when developing the strategy.
- Your customer strategy and business needs to be flexible to what customers want;
- CRM is most effective when implemented at an enterprise level, where the relationship can be built at every point of contact.
- The whole organization needs to understand the benefits of CRM and why it is important, and commit to implement it.
- Build a strong business case for CRM. It is most important to define the benefits you expect to achieve upfront, and ensure that measurement systems are developed to track your performance.
- Focus more on revenue growth when developing business cases, and less on cost savings.
- Treat CRM as a long-term journey during which you can learn about how to serve your profitable (and potentially profitable) customers better.

**Don't:**

- See CRM as an IT project. Most technology-led CRM projects focus on back-office reengineering and improving efficiencies, whereas CRM requires an improvement in organizational effectiveness.
- See CRM as a marketing initiative.
- See CRM as a financial initiative.

**Conclusion & Findings**

CRM begins with the internal employees first who act as brand ambassadors for the services. In a rapidly changing business environment, businesses need to arrive at intelligent solutions to existing problems. Traditional marketing theories do have relevance in services but they need tweaking to make them more relevant.

CRM strategies have more longevity than CRM tools and techniques, as per Anderson and Kerr. They say that a clear and appropriate strategy is non-negotiable for business today. The CRM strategy must support the overall business strategy and goals. This writer is in complete agreement with this thought process.

CRM tools cannot substitute for good customer service skills. CRM is not technology; it is much more than that. CRM is a business philosophy. Most businesses do not realize that technology is a double edged sword if used inappropriately. This is more so in services where the people element is so vital in the marketing mix.

The ultimate test for the CRM strategy is customer satisfaction. What we need to bear in mind is how this strategy can impact existing and potential customers, how well this strategy can be internalized within the organization and how can learnings be effectively incorporated into the CRM model to make it more robust.

Services need to have the expanded marketing mix of people, process and physical evidence. A good CRM strategy ensures that the expanded marketing mix is deployed productively to reap rich rewards. The human element will continue to play a dominant role in services for a long time to come and therefore, businesses need to exploit the potential of their human employees such that it can create a win-win situation for the customers, employees and business.

There is no denying that technology will play greater role in the future in services marketing. Data analytics is being used for targeting the most profitable customers which is actually the essence of CRM. CRM is a business philosophy just like TQM that can deliver strategic value to a business firm. For CRM to succeed, companies need to be clear about the correct strategy and correct selection of CRM tools (strictly in that order).

There are similarities between CRM and TQM in that both of them need enterprise-wide implementation. Both of them need greater involvement of employees and a strong commitment from the top management team. TQM in services is much more complex. However, as Ritz Carlton hotel has proved, implementation of TQM in services is not an impossible task either. Empowerment of people is as crucial in CRM as it is in TQM. Customer is at the focus of both CRM and TQM.

Technology alone cannot ensure the success of CRM. The human element plays an important role too. The CRM model cannot be treated as a static model – it needs to be reviewed and monitored from time to time based on feedback received from customers. The satisfaction of frontline employees with CRM tools can positively impact their service performance.

CRM and TQM can act as enhancers of business value. All the values that dot the business landscape must blend seamlessly to achieve integration of the highest order so that a much greater value can be delivered to the customer. The synergies from CRM and TQM can be effectively utilized by service organizations to provide unmatched service quality that eventually leads to greater customer satisfaction and breeds customer loyalty.

### CRM in Retail

**Adds value to** the offering made by retailer, by effective use of CRM, a retailer can create products and services to suit the needs of the customer. CRM benefits customer by enabling – tailored range, consistent experience, enhanced service, 1:1 relationship and customer defined value. Identify customer segments and then strategize accordingly.

Lower value segments	In store Point of Sales, Advertising, Merchandising
Growable segments	Targeted direct mail, added value services
Most valuable segments	Tailored, cross- Learning based relationship

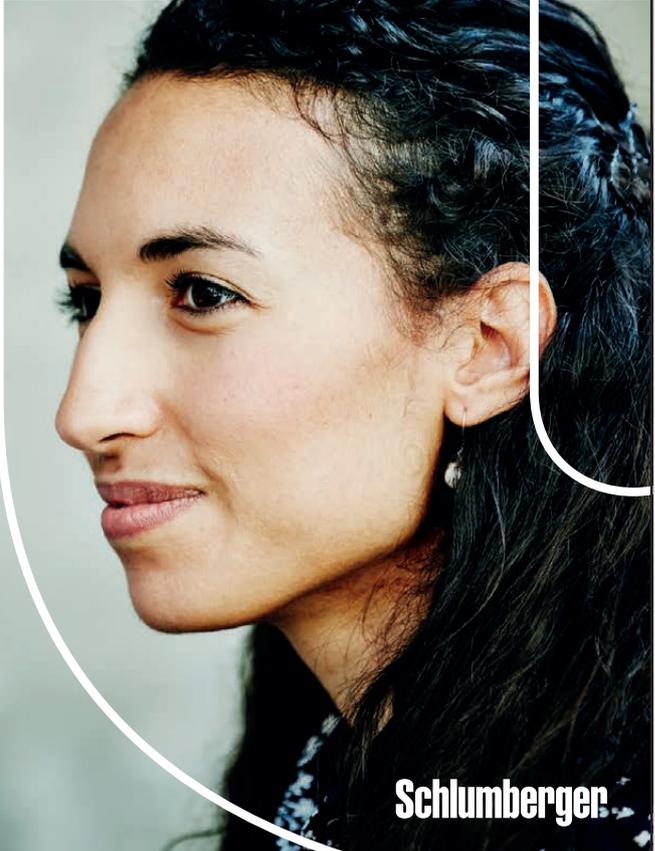
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### **Steps in Retail Selling Process**

1. Acquiring Product/Merchandise Knowledge
2. Study Consumer
3. Approach customer
4. Present merchandise
5. Overcome Resistance (Recognize the right of customer to raise objections)
6. Suggestive selling – demonstrate a product, display related items together
7. Close the Sale – Get the customer to make a commitment to purchase the merchandise

Marketing Myopia – When a service organisation defines its business too narrowly, it develops marketing myopia. For example – if a pizza parlor views itself as being in the business of pizza alone, business is restricted. But if it considers itself in the business of providing quick and reasonably priced meals to the consumer, the element of service comes in and the view is enhanced.

### **GAPS model for improving retail service quality**

It is important to evaluate the service quality. Customer service is largely a function of perception, customer expectations and actual service provided. Dissatisfaction with services is due to difference between expectations and service actually provided. Service quality has to be looked from the firm's perspective and the customer's.

Service Gap is difference between expectations and perceptions. Understand the management's perception of customer expectations which affects the translation of perceptions into service specifications. Service specification affects external communication to customers and on actual customer service delivered. Actual service delivery affects the received services on the side of the customers.

**Knowledge gap** – It is the difference between what the consumers expect of a service and what the management believes about the consumer's expectations. For customers in a supermarket, price may be important factor, others may prefer quality, yet another segment may prefer speedy checkouts. Failure to understand what the customer really wants leads to wrong facilities being provided. Regular customer research can help the retailer identify and understand consumer expectations. Regular interaction with retail managers and scanning the customer complaints are ways by which gaps in service can be determined.

To close the knowledge gap, retailers need to do market research to know what customers want and then act on this research.

## **Research Customer Expectation and Perception**

The most critical step in providing good service is to know what the customer wants. Retailers often lack of information can result in poor decisions. Retailers can reduce the knowledge gap and develop a better understanding of customer expectations by undertaking customer research, increasing interaction between retail managers and customers, and improving communication between managers and employees who provide customer service.

Market research also can be used to better understand customers' expectations and the quality of service provided by a retailer.

### ***Gauging Satisfaction with Individual Transaction:***

Another method for customer research is surveying customers immediately after a retail transaction has occurred. Airlines periodically ask passengers during a flight to evaluate the ticket-buying process, flight attendants, in flight service, and gate agents.

Customer research on individual transaction provides up-to-date information about customers' expectation and perceptions. The research also indicates the retailer's interest in providing good service. This research provides a method for rewarding employees who provide good service and correcting those who exhibit poor performance.

### ***Customer Panels and Interviews:***

Rather than surveying many customers, retailers can use panels of 10-15 customers to gain insights into expectations and perceptions. For example, some store managers might meet once a month for an hour with a select group of customers who are asked to provide information about their experience in the store and offer suggestions for improving service.

Some retailers have consumer advisory boards composed of a cross-section of their preferred customers. Members of the board complete questionnaires three to four times a year on subject like holiday shopping problem, in-store signage, and service quality. In exchange for their inputs, members receive gift certificates.

### ***Interacting with Customers:***

Owner managers of small retail firms contact their customers daily. They have accurate first-hand information about them. In large retail firms, managers often learn about customers through reports, so they may miss the rich information provided by direct contact with customers.

### ***Customer Complaints:***

Complaints allow retailers to interact with their customers and acquire detailed information about their service and merchandise. Handling complaints is an inexpensive means to isolate and correct service problems. For example inform other customers who place an order for the sweater that it tends to be large and has a slightly different colour that show in the catalogue. The information can also be used by buyers to improve vendor merchandise.

Although customer complaints can provide useful information, retailers can't rely solely on this source of market information. Typically, dissatisfaction customers don't complain. To obtain better information about customer service, retailers need to encourage complaints and make it easy for customers to provide feedback about their problems. For example, some retailers set up a complaint desk in a convenient location where customers can get their problems heard and solved quickly.

### ***Using Technology:***

New, affordable information technology packages are enabling even small retailers to improve their customer service by maintaining and providing customer information to sales associates.



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The advertisement features a photograph of three diverse students (two women and one man) standing in front of a large window with a view of trees. The text is overlaid on the right side of the image.

### ***Feedback from Store Employees:***

Salespeople and other employee in regular contact with customers often have a good understanding of customer service expectation and problems. This information can improve service quality only if the employees are encouraged to communicate their experiences to high-level managers who can act on it.

Some retailers regularly survey their employees, asking questions like.

1. What is the biggest problem you face in delivering high-quality service to your customer?
2. If you could make one change in the company to improve customer service, what would it be?

### ***Using Customer Research:***

Collecting information about customer expectation and perceptions isn't enough. The knowledge gap is reduced only when retailers use this information to improve service. For example, store managers should review the suggestion and comments made by customers daily, summarize the information, and distribute it to store employees and managers.

Feedback on service performance needs to be provided to employees in a timely manner.

### **Standards Gap**

This is the difference between what the management perceives customers to expect and the quality specifications set for service delivery. Service standards need to be based on customer's expectations. The management of the organisation needs to be committed towards providing high standards of service. Example – Domino's pizza has set a standard of delivering pizzas in 30 minutes.

After retailers gather information about customer service expectation and perceptions, the next step is to use this information to set standard and develop system for delivering high-quality service. Service standard should be based on customers' perception rather than internal operations. To close the **standard gap**, retailers need to (1) commit their firms to providing high quality service, (2) define the role of service providers, (3) set service goals, and (4) measure service performance.

### ***Commitment to Service Quality***

Service excellence occurs only when top management provides leadership and demonstrates commitment. Top management must be willing to accept the temporary difficulties and even the increased costs associated with improving service quality. This commitment need to be demonstrates to the employee charge with providing the service.

Top management's commitment sets service quality standards, but store managers re the key to achieving those standards. Store managers must see that their efforts to provide service quality are noticed and rewarded. Providing incentives based in service quality makes service an important personal goal, so rather than basing bonuses only on store sales and profit, part of store managers' bonuses should be determined by the level of service provided. For example, some retailers' use the results of customer satisfaction studies o help determines bonuses.

### ***Defining the Role of Service Providers***

Managers can tell service providers that they need to provide excellent service but not clearly indicate what excellent service means. Without a clear definition of the retailer's expectations, service providers are directionless.

The Ritz-Carlton Hotel Company, winner of the Malcolm Baldrige National Quality Award, has its "Gold Standards" printed on a wallet-size card carried by all employees. The card contains the hotel's motto ("We Are Ladies and Gentlemen Serving Ladies and Gentlemen"), the three steps for high quality service (warm and sincere greeting, anticipation and compliance with guests' needs, and fond farewell), and 20 basic results for Ritz-Carlton employees, including

- Any employee who receives a complaint "owns" the complaint.
- Instant guest gratification will be ensured by all. React quickly to correct problems immediately.
- "Smile. We are on stage." Always maintain positive eye contact.
- Escort guest rather than giving directions to another area of the hotels.

### ***Setting Service Goals***

To deliver consistent, high-quality service, retailers need to establish goals or standards to guide employees. Retailers often develop service goals based on their beliefs about the proper operation of the business rather than the customers' need and expectations. Research undertaken by American Express showed that customer evaluations of its service were based on perceptions of timeliness, accuracy, and responsiveness. Management then established goals such as responding to all questions about bills within 24 hours.

Employees are motivated to achieve service goals when the goals are specific, measurable, and participatory in the sense that they participated in setting them.

Employee participation in setting service standards leads to better understanding and greater acceptance of the goals. Store employees resent and resist goals arbitrarily imposed on them by management.

### *Measuring Service Performance*

Retailers need to assess service quality continuously to ensure that goals will be achieved. Many retailers conduct periodic customer surveys to assess service quality. Retailers also use mystery shoppers to assess their service quality. Mystery shoppers are professional shoppers who “shop” a store to determine the service provided by store employee as mystery shoppers, but most contract with an outside firm to provide the assessment. Information typically reported by the mystery shopper includes (1) How long before a sales associate greeted you? (2) Did the sales associate act as if he or she wanted your business? (3) Was the sales associate knowledgeable about the merchandise?



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Toys 'R' Us assesses customer satisfaction with checkout service by counting the number of abandoned shopping carts with merchandise left in the store because customers became impatient with the time required to make a purchase. The firm noticed an alarming increase in abandoned carts. A unique program was developed to reduce customers' time in line waiting to pay. Cashiers' motions while ringing up and bagging merchandise were studied.

On the basis of this research, the company developed a training program to show cashiers how to use their right hand to record purchases on the POS terminal and their left hand to push merchandise along the counter. Counters were redesigned with a slot lined with shopping bags in the middle of the counter. As the cashier pushes the merchandise along the counter, it drops into a bag. After the customer, and a new bag pops into place.

To motivate cashiers to use the new system effectively, Toys 'R' Us held competitions in each store, district, and region to select the fastest cashiers. Regional winner received a free vacation in New York City and participated in a competition at corporate headquarters to select a national champion.

### ***Giving Information and Training***

Finally, store employees need to know about the retailer's service standards and the merchandise they offer, as well as their customers' needs. With this information, employee can answer customers' questions and suggest products. This knowledge also installs confidence and a sense of competence, which are needed to overcome service problems.

Store employees need training in interpersonal skills. Dealing with customers is hard – particularly when they're upset or angry. All store employees even those who work for retailers that provide excellent service, will encounter dissatisfied customers. Through training, employees can learn to provide better service and cope with the stress caused by disgruntled customers. Specific retail employees can learn to provide better service and cope with the stress caused by disgruntled customer. Specific retail employees (sales people and customer service representatives) are typically designated to interact with and provide service to customers. However, all retail employees should be prepared to deal with customers.

### **Delivery Gap**

Difference between quality specifications set for service delivery and actual quality of service delivery. Level of service varies from employee to employee and in the same employee over a period of time (Heterogeneity aspect of services marketing). Clarity of employee's role and adequate training to employee to serve the customers better are some of the solutions to mitigate the delivery gap.

To reduce the delivery gap and provide service that exceeds standards, retailers must give service providers the necessary knowledge and skills, provide instrumental and emotional support, improve internal communications, reduce conflicts, and empower employees to act in the customers' and firm's best interests.

### *Providing Instrumental and Emotional Support*

Service providers need to have the instrumental support (the appropriate system and equipment) to deliver the service desired by customers.

In addition to instrumental support, service providers need emotional support from their co-workers and supervisors. Emotional support involves demonstrating a concern for the well-being of others. Dealing with customer problems and maintaining a smile in difficult situations are psychologically demanding. Service provider need to be in a supportive, understanding atmosphere to deal with these demands effectively.

### *Improving Internal Communications*

In the provision of customer service, store employees often must manage the conflict between customer's and the retail firm's needs. For example, many retailers have a no questions asked return policy. Under such a policy, the retailer will provide refunds at the customer's request even if the merchandise wasn't purchased at the store or was clearly used improperly.

Conflicts can also arise when retailers set goals to provide customer service with a focus on sales. Service is important in retail and this is what enables a retailer to sell more and grow the customer base.

Finally, conflicts can arise between different areas of the firm. An auto dealer with an excellent customer service reputation devotes considerable effort to reducing conflicts by improving communication among its employees. The dealership holds a town hall meeting in which employees feel free to bring up service problems. For example, the receptionist discussed her frustration when she couldn't locate sales rep for whom a customer had called. The customer finally said, "Well, I'll just take my business else-where." She used this example to emphasize that sale reps should tell her when they slip out to run an errand. Now no one forgets that the front desk is the nerve center of the dealership.

### *Empowering Store Employees*

**Empowerment** means allowing employees at the firm's lowest level to make important decisions regarding how service is provided to customers. When the employees responsible for providing service are authorized to make important decision, service quality improves.

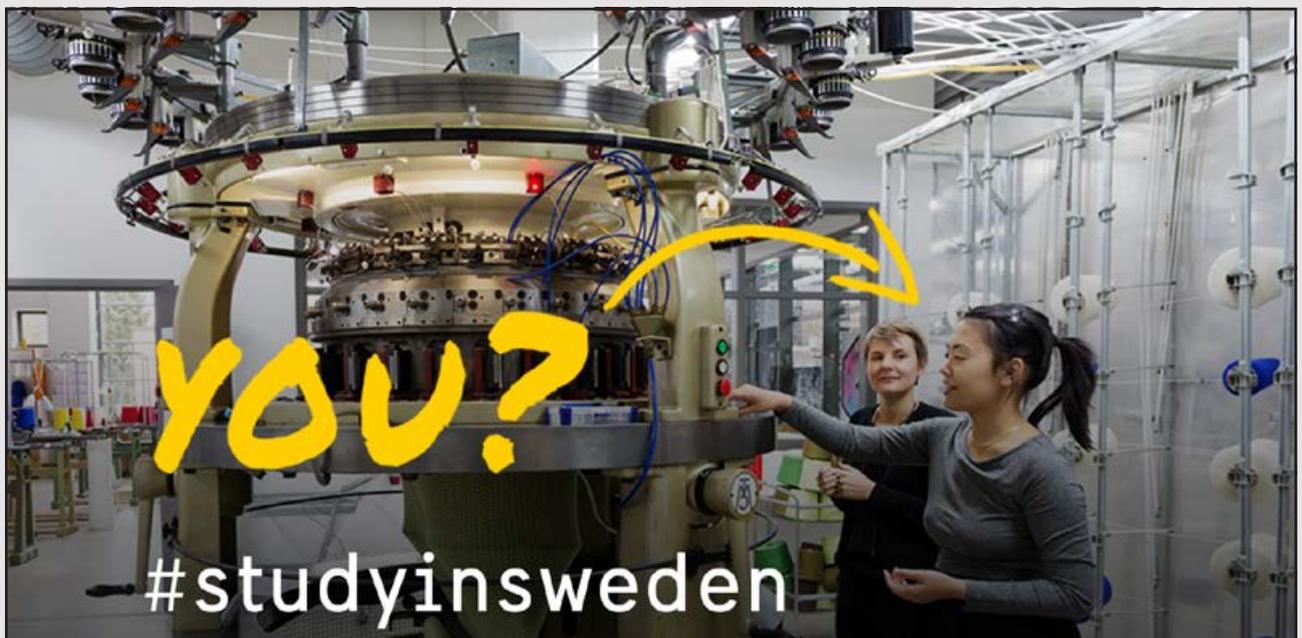
However, empowering service providers can be difficult. Some employees prefer to have the appropriate behaviors clearly defined for them. They don't want to spend the time learning how to make decisions or assume the risks of making mistakes. For example, a bank found that when it empowered its tellers, the tellers were frightened to make decision about rules until tellers felt more comfortable.

### *Providing Incentives*

Many retailers use incentives, like paying commissions on sales, to motivate employees. But retailers have found that commissions on sales can decrease customer service and job satisfaction and motivation high-pressure selling, which leads to customer dissatisfaction. However, incentives can also be used effectively to improve customer service. For example, in one retail chain, managers distribute notes to store employees when they solve a customer's problem. The notes can then be converted into a cash bonus. This program was particularly effective because the reward was provided at about the same time the appropriate behavior occurred.

### *Developing Solutions to Service Problems*

**Developing New Systems** Finding ways to overcome service problems can improve customer satisfaction and, in some cases, reduce cost. Express Checkouts has been so successful that it has been adopted by many hotel chains.



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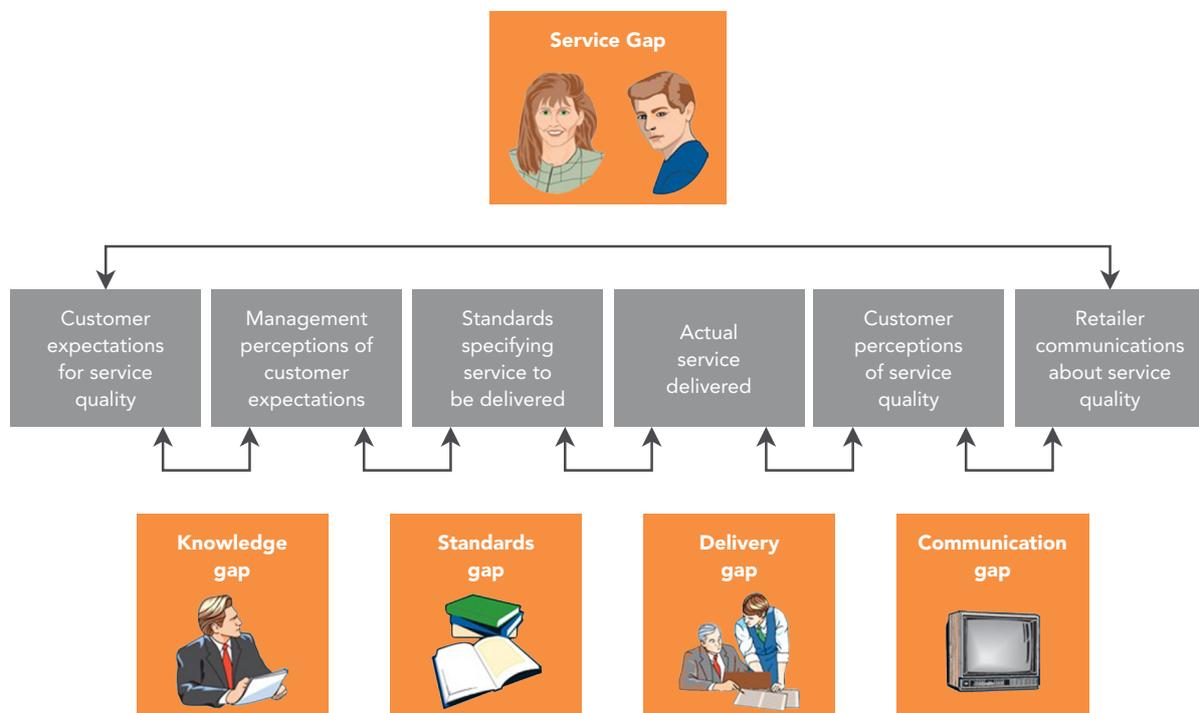
  

**Using Technologies** Many retailers are installing kiosks with broadband Internet Access In their stores. In addition to offering customers the opportunity to order merchandise not available in the store, kiosks can provide routine customer service, freeing employees to deal with more demanding customer requests and problems. Retailers are also using hand-held scanners to provide customer service.

Supermarkets also are equipping shopping carts with “intelligent shopping assistants,” a device connected to the supermarket’s customer database that hangs in the front compartment of a shopping cart and provide personalized information for shoppers. Customers can identify themselves by swiping their frequent-shopper card or putting a finger on a touchpad. Once they have logged in, a likely shopping list is displayed, based on their shopping history. As the customer selects and scans groceries, discounts and promotions are offered.

### Communications Gap

Difference between the service the firm promises to deliver through its external communications and the service that it actually delivers. If advertising or sales promotions promise one kind of service and the customer receives a different kind of service, the communications gap increases. Hence, there has to be greater functional co-ordination within the organisation to address this gap.



The fourth factor leading to a customer service gap is the difference between the service promised by the retailer and the service actually delivered. Overstating the service offered raise customer expectations. Then, if the retailer doesn't follow through, expectation exceeds perceived service, and customers are dissatisfied. For example, if a store advertises that a customer will always be greeted by friendly, smiling sales associate, customer may be disappointed if this doesn't occur. Raising expectations too high might bring in more customers initially, but it can also dissatisfaction and reduce repeat business. The **communications gap** can be reduced by making realistic commitments and managing customer expectations.

### *Realistic Commitments*

Advertising programs are typically developed by the marketing department, whereas the operations division delivers the service, Poor communication between these areas can result in a mismatch between an ad campaign's promises and the service the store can actually offer.

### *Managing Customer Expectations*

Information presented at the point of sale can be used to manage expectations. Sometimes service problems are caused by customer. Customer may use an invalid credit card to pay for merchandise, not time take to try on a suit and have it altered properly, or use a product incorrectly because they fail to read the instructions. Communication programs also can inform customers about their role and responsibility in getting good service and give tips on how to get better service, such as the best time of the day to shop and the retailer's policies and procedures for handling problems.

### **SERVICE RECOVERY**

The delivery of customer service is inherently inconsistent, so service failures are bound to arise. Rather than dwelling on negative aspects of customer problems, retailers should focus on the positive opportunities they generate. Service problems and complaints are an excellent source of information about the retailer's offering (its merchandise and service). Armed with this information, retailers can make changes to increase their customers' satisfaction.

In many cases, the cause of the problem may be hard to identify (did the salesperson really insult the customer?), uncorrectable (the store had to close due to bad weather), or a result of the customer's unusual expectations (the customer didn't like his haircut). In these cases, service recovery might be more difficult. The steps in effective service recovery are (1) listen to the customer, (2) provide a fair solution, and (3) resolve the problem quickly.

### *Listening to Customers*

Customer can become very emotional about their real or imaginary problem with a retailer. Often this emotional reaction can be reduce by simply giving customers a chance to get complaints off their chests.

Store employee should allow customers to air their complaints without interruption. Interruptions can further irritate customers who may already be emotionally upset. It's very hard to reason with or satisfy an angry customer.

Customers want a sympathetic response to their complaints. Thus, store employees need to make it clear that they're happy the problem has been brought to their attention. Satisfactory solutions rarely arise when store employee have an antagonistic attitude or assume that the customer is trying to cheat the store.

Employees also need to listen carefully to determine what the customer perceives to be fair solution.



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### ***Providing a Fair Solution***

When confronted with a complaint, store employees need to focus on how they can get the customer back, not simply on how they can solve the problem. Favorable impressions arise when customers feel they've been dealt with fairly. When evaluating the resolution of their problem, customers compare how they were treated in relation to other with similar problems or in similar situations with other retail service providers. This comparison is based on observation of the other customer with problems or information about complaint handling learned from reading books and talking with other. Customers' evaluations of complaint resolutions thus are based on distributive fairness and procedural fairness.

**Distributive fairness** is a customer's perception of the benefits received compared with their costs (inconvenience or loss).

**Procedural fairness** is the perceived fairness of the process used to resolve complaints. Customer considers three questions when evaluating procedural fairness:

1. Did the employee collect information about the situation?
2. Was this information used to resolve the complaint's?
3. Did the customer have some influence over the outcome?

### ***Resolving Problems Quickly***

Customer satisfaction is affected by the time is taken to get an issue resolved.

As a general rule, store employee who deal with customer should be made as self-sufficient as possible to handle problems. Customers are more satisfied when the first person they contact can resolve a problem. When customers are referred to several different employees, they waste a lot of time repeating their story. Also, the change of conflicting responses by store employees increases.

***Giving Clear Instructions*** Customers should be told clearly and precisely what they need to do to resolve a problem.

***Speaking the Customer's Language*** Customers can become annoyed when store employees used company jargon to describe the situation. To communicate clearly, store employee should use term familiar to customer. For example, a customer might be frustrated if a salesperson told her that the slacks in her size were located on a rounder to the right of the four-way.

Resolving customer complains increases satisfaction. But when complaints are resolved too abruptly, customers might feel dissatisfied because they haven't received enough personal attention. Retailers must recognize the trade-off between resolving the problem quickly and taking time to listen to and show concerned for the customer.

**To sum up**

The retailer's objective is to reduce the service gap by reducing each of the four gaps. Thus, the key to improving service quality is to (1) understand the level of service customers expect, (2) set standard for providing customer service, (3) implement program for delivering service that meets the standards, and (4) undertake communication programs to inform customers accurately about the service offered by the retailer.

Customer Service	Customer Satisfaction
How well a firm meets established performance standards that are important to meet customer's needs	How customers measure externally the service performance of a firm; obtain customer feedback; identify the gap between customer perception of service and actual service

**Importance of Service in Retail**

1. Put customer at the heart of your business
2. Manage business from customer's point of view
3. Manage quality
4. Keep the Relationship vibrant
5. Manage service recovery
6. Convert customer satisfaction into profit
7. Measure what matters

Retail image is influenced by service provided by store and experiences of customers. Retailer has to understand the target audience, their needs and lifestyles. Often salesperson lends valuable advice to the customer. Service opportunities in retail have to be pursued with a strategic mindset. Even when elements of retail marketing mix can be imitated by competitors, the total experience that a customer gets in a store can stay unique. Way back in 1973, Philip Kotler said that retail environments create atmospheres that affect shopping behavior.

**PAD in Retail**

Mehrabian and Russel developed a framework for analyzing the effects of environments on individuals. Individuals react to environment along pleasure, arousal and dominance. This model was introduced in 1974.

## Consumer Involvement Theory (CIT)

This is one of the ways to understand the psychology and behavior of your target audience. There are others, including consumer research, but none quite so quick, simple and insightful.

Involvement refers to how much time, thought, energy and other resources people devote to the purchase process. The Emotional/Rational scale is a measure of reason vs. impulse, desire vs. logic, passion vs. prudence.

There are four general categories.

- High involvement/emotional
- High involvement/rational
- Low involvement/emotional
- Low involvement/rational

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### **High involvement/rational**

Expensive business purchases fall under this category. For example – anything related to the technological infrastructure, the office location and lease as well as the company health insurance plan. On the consumer side, high involvement/rational purchases tend to be linked to high cost. This category can include financial services and products, the purchase of a home or car, as well as major appliances and electronics. However, such purchases can vary significantly from one consumer to another as each customer's emotional responses may be different.

### **High involvement/emotional**

Business purchases that fall into this category might include such things as office design, advertising, and perhaps the hiring of certain employees. For individuals, high involvement/emotional purchases can include jewelry, weddings, and holiday travel plans. Advertising in this category tends to focus on visual and emotional appeals.

### **Low involvement/rational**

There are things that we buy out of habit without much thought. This category includes most of the things you put into your basket at the drug store or market. It also includes the places that you go for eating lunch. Here the typical role for advertising is to get people to sample or switch. Coupons or other incentives are used to wean customers away from competitors. Businesses often think of differentiating their services or products so that they can reposition themselves.

Over the counter medicines tend to fall into this category. But pain relievers, cough medicines and the like, especially those for children, can be more emotionally driven. In that case, see the LI/E below.

### **Low involvement/emotional**

The gratification we get from these products is emotional or sensual. But this is fleeting and it doesn't last for a long time. So we seldom think much before buying the product. Going to a movie, purchase of a candy, a magazine or a birthday card generally fall under this category.

The advertising challenge here tends to be the flash promise of pleasure, of gratification, the promise of a benefit. Strong positioning can help, especially in a crowded product category.

### **Customer service & strategic advantage**

Customer Service: The set of activities and programs undertaken by retailers to make the shopping experience more rewarding for their customers. These activities increase the value customers receive from the merchandise and service they purchase.

Retailers can build sustainable competitive advantage by providing better customer service. But it is a challenge to continue to offer consistently good service. This is because customers are serviced by retail employees and humans demonstrate heterogeneous behavior and are less consistent than machines. If the service was less than optimal, there could be several reasons:

- Employee wasn't trained properly.
- Employee is not motivated.
- Employee doesn't like the job.
- Employee was inept, rude or lacked etiquette to deliver the service.

Customers who interact with sales employees who are at the end of their shift realize that the response of the latter is tepid and one cannot fault the customer. Coaching and training of employees to deliver good service to customers is important. Customer service has to be institutionalized in the organisation as part of its culture.

It is true that it takes considerable amount of time and effort to build a reputation for customer service, but good service can prove to be a valuable strategic asset. Once a retailer has earned a good service reputation, this advantage can be sustained for a long time because it can be difficult for a competitor to earn a comparable reputation.

Some of the important questions are:

- What services do retailers offer customers?
- How can customer service build a competitive advantage?
- How do customers evaluate a retailer's service?
- What activities does a retailer have to undertake to provide high-quality customer service?
- How can retailers recover from a service failure?

## Services Offered by Retailers

Acceptance of credit cards  
Alterations of merchandise  
Assembly of merchandise  
ATM terminals  
Blogs  
Bridal registry  
Check cashing  
Child-care facilities  
Coat checks  
Credit  
Customer reviews  
Deep selection  
Delivery to home or work  
Demonstrations of merchandise  
Display of merchandise  
Dressing rooms  
Extended store hours  
Easy returns to bricks-and-mortar location or online  
Facilities for shoppers with special needs  
(physically handicapped)

Free shipping  
Gift wrapping and notes  
Layaway plans  
Online chat  
Online customization  
Online inventory search  
Parking  
Personal assistance in selecting merchandise  
Personal shoppers  
Repair services  
Restrooms  
Return privileges  
Shipping to store or home address  
Shopping carts  
Signage to locate and identify merchandise  
Special orders  
Valet parking  
Warranties

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85 percent of consumers in a survey say they spend more at retailers that provide good service, and 82 percent say they are likely to recommend those retailers to their friends and families

- Good service keeps customers returning to a retailer and generates positive word-of-mouth communication, which attracts new customers
- The challenge of providing consistent high-quality service offers an opportunity for a retailers to develop a sustainable competitive advantage

### Customer Service Approaches

- Personalized Approach
  - Greater benefits to customers
  - Greater inconsistency
  - Higher cost
- Standardized Approach
  - Lower cost
  - High consistency
  - Meets but does not exceed expectations

### Personalized Service

- Personalized Service encourages service provider to tailor the service to meet each customer's personal needs
- Store – sales associates offer individual customer service
- Electronic Channel – instant messaging
- Drawback – Service might be inconsistent
- Customized service is costly

### Standardized Service

- Standardization Approach is based on establishing a set of rules and procedures and being sure that they are implemented consistently. Mc Donalds, Walmart, IKEA are retailers who use this approach.
- Cost of Customer Service
- High levels of customer service can be costly, but good customer service is worth an investment. It costs more to acquire customers than to generate repeat business.

### Moments of Truth

1. Coined by Jan Carlzon of SAS Airways.
2. This describes the contact encounters between a customer and a representative of the supplier.
3. During those encounters, if viewed from a customer perspective, the shop assistant or retail employee is acting on behalf of the whole organization.
4. The encounter might be very short but such direct interaction can have a dramatically large effect on the customer's satisfaction.
5. Unless the moments of truth are positive, there will be little chance of good sales today.
6. There are two distinct aspects in Retail marketing.  
Attract customers, Persuade those customers to spend as much as possible. When in the retail location.

The four types of customers are:

	<b>Loyal</b>	<b>Disloyal</b>
<b>Satisfied</b>	Advocates	Mercenaries
<b>Dissatisfied</b>	Hostages	Terrorists

Understanding how and when to attempt to develop loyalty by investing in customer relationships is important for retail success.

The best retail marketing strategies are built on the psychology of a customer's shopping behaviour. Cost of attracting a customer to make an initial purchase is far greater than the cost of encouraging them to make a further purchase in the future.

More and more retail marketing activities are aimed at retaining customers. Retailer has to also carefully weigh the costs of loyalty schemes.

	<b>Few stores</b>	<b>Many stores</b>
<b>High commitment</b>	Loyals	Variety seekers
<b>Low commitment</b>	Habituals	switchers

If a customer is loyal, he finds that his freedom is restricted and he is committed to one retailer. Either the customers will perceive that they will receive additional value by remaining with a single supplier or the costs of termination and switching to an alternative source, are too high to accept.

Dennison and Knox considered loyalty in a balance between few stores shopped at and many stores, utilizing the dimension of commitment to a particular store rather than the satisfaction received from shopping there. While the two matrices are not identical they both indicate the fact that loyalty is not an automatic reaction even if satisfaction and commitment are present.

	Few stores	Many stores
High commitment	Loyals	Variety seekers
Low commitment	Habituals	Switchers

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Dennison and Knox say that exclusive loyalty is rare, but it can exist under certain conditions. Loyalty is a variable as it depends on individual motivation and market place characteristics like:

1. Product type
2. Purchase frequency
3. Expense involved
4. Competitive issues

It is important for retailers to understand the motives of a shipper.

### Retailing and the customer

1. Retailing typically involves the transfer of ownership of a tangible object, though there is a large service component in every retail operation.
2. The relevance of small quantities differentiates retailers from bulk wholesaling.
3. Retailers usually offer a repeatable mix to customers, they are not one-off traders who are trying to dispose of surplus items for whatever they can get.
4. However it should not be forgotten that retailers are in business to make profits.
5. ***Loyalty is the Holy Grail of Retailing.***
6. Holy Grail is something that is most sought after. Loyalty can't be bought. Committed loyalty has a high degree of mutual respect and it has to be earned.
- 7.

	<b>Loyal</b>	<b>Disloyal</b>
<b>Satisfied</b>	Advocates	Mercenaries
<b>Dissatisfied</b>	Hostages	Terrorists

8. In order to be truly loyal, the consumer must hold a favorable attitude towards the brand (store), in addition to repeatedly purchasing from it.
9. Gaining and maintaining loyalty is a real source of sustainable competitive advantage.
10. Positive referrals by loyal customers can boost business prospects. The two-way flow of information made possible within a close relationship will help to ensure that future offers are relevant to customers. Those customers are likely to be retained. Loyalty schemes do very little to change behavior will the customer re-enter the store if there was no loyalty scheme is a moot point. Building relationships and customer loyalty are strategic decisions for a retailer.
11. Loyalty is an elusive target. Building and sustaining loyalty is an imprecise art.

12. Before adopting any specific schemes the objectives of the marketing activities should be considered first.
13. Mass customization is the personalization of a standard product by adding individual extras. Use of flexible processes and organisational structures to produce customized products and services at low cost of a standardized mass production system. Customer service is the service provided in support of a company's core product.

### **To sum up**

A shopper always wants to feel that he/she is treated important, when he enters a retail outlet. A satisfied customer with a pleasant customer experience will always revisit. CRM enhances customer satisfaction & offers a pleasant shopping experience where the customer is treated well.

Indian retailers have to implement these strategies to have a better growth & to improve customer satisfaction. The traditional thought of "customer is god" has been improvised with modern methodologies to provide the best services to customers.

Today it takes a lot of thought process and effective thinking to launch an effective and efficient CRM program. The various examples and the tangibles as well as intangibles point to the importance of the customer's aspirations/expectations from the retailer. CRM thus plays a major role in meeting customer expectations.

### **Managing customers strategically**

1. Retailers should consider the profile of its preferred ideal shoppers.
2. Shopping behavior is emotional and so it is better to define customers by their motivations.
3. Good retailers develop strategies to appeal to specific behavioral groups.
4. Strategically evaluate the profitability and long term potential of every shopper.
5. There are many customers who are unlikely to balance the buying of the loss-leader products with full price, profitable purchases.
6. Decide which customers must be the focus of your attention. Treat high profit customers specially.

### **Competencies and Capabilities**

1. Provide service promised to customers.
2. Competencies are available skills that a retailer can build upon.

3. Capabilities – actual behavior of an organization including the ability of a firm to stretch its resources to create a more competitive offering. Core competencies are competencies of an organisation that are critical to its success. These should be identified and developed. Skills and competencies of human resources must be developed through training. Kotler (1997) Marketing makes promises to customers, but it takes the whole organisation to deliver satisfaction. March between capabilities and promises to perform is crucial.

Many Retailers have to appeal to a wide number of customers, it is always easier to be a highly focused niche- operator than a more general supplier. The ‘wheel of retailing’ continues to turn, affecting all markets and requiring decisions about the future rather than analysis of the past.

#### **Success of Retail**

Location is right

Promotion effective

Shoppers motivated to visit.

Excellent customer service (shoppers will revisit)

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Shoppers should be able to enter the store at their chosen time, pass through the selling space at their own pace and exit the store in an efficient manner.

The management of these 3 phases is called as Retail Demand Management.

### **Accessibility issues**

1. Easy car park
2. Home delivery
3. Pickup area for bulk and heavy items

### **Shopping patterns**

- How to provide a service at the right level and the right time
- Balancing demand and capacity is a huge challenge
- Promotions like discounts for early bird shoppers, shopping on a week day to gain access to special offers – these are actually attempts to modify the shopper behavior. The positioning of stairs and escalators will be constrained by building and fire regulations, but it can also be utilized to ensure that shoppers pass through particular departments where additional stimuli to spend are provided. Good store design can reduce shopping time by making the merchandise easier to find and enabling customers to avoid any overcrowded areas.
- Staff can be trained to assist the customer in finding items.
- The overall purpose of a retailer is to provide a service to a shopper that enhances the availability of the merchandise. If the retailer cannot provide that service, then that store will lose customers.
- Staffing levels in the retail store have to be adequate to ensure the shopper's satisfactory experience in the store.
- Staff can be trained to be very flexible working on the check out tills when demand increases and carrying out other duties when customer numbers are lower.

The ideal outcome is one where, after a run-in period the input and output levels are approximately equal. The store capacity utilization in this case will be optimal. As the input level starts to exceed the output level the number of shoppers in the store increases. Initially this will result in crowding, a particularly serious problem for the retailer given the changes in shopper behavior that its presence can produce.

As crowd increases in severity the point will be reached where the store cannot physically accommodate any more shoppers (system overload). If the management of the store has ensured that the output level exceeds the input level, the store will get progressively empty.

Initially this will result in favorable conditions for the shopper and sub-optimal space utilization for the retailer could do better.

If the situation continues, the store will suffer from increasing levels of under-utilization of space, to the point where the store will begin to lose money (problems mounting). Eventually, such low levels of space utilization will place the retailer in a perilous position. (crisis)

The retailer has the ability to vary the output rate within its zone of flexibility. Transaction processing staff levels can be reduced, reducing the number of shoppers who can be handled. Retailer's costs will reduce and serious financial problems may be averted. If input falls below the minimum output level, then the retailer's performance will have reached crisis level.

Crowding results when demand for space exceeds the supply. Perceived control is the degree to which a shopper is in command of a situation. This is an important factor in a shopper's perception of crowding. As perceived control increases, physical and psychological well being increase, leading to reduced perceptions of crowding.

***Two factors affect a consumer's perceived control***

**Consumer density: No. of shoppers in a given store area**

**Consumer choice: Degree to which shoppers believe that it is their decision to stay in the store environment**

Increase in consumer density, increase in consumer choice, decrease in perceived control, increase in the perception of crowding.

Crowding can adversely affect the shopper's in-store experience. He may only buy essential things and not other things, so revenue for the retail store will fall.

Customer Retention	Customer loyalty
Short term	Long term
temporary phenomenon	Requires greater commitment on part of the customer and the retailer
Loyalty cards, Loyalty bonuses	Relationship oriented

Hostage customers are customers who are loyal to a firm only because there is no alternative.

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# 19 SHOPPER – THE NEW KING IN RETAILING

## Learning objectives:

- To understand the influences of shopper behavior in success of retailing
- To learn about shopper perceptions

Shopper experience management is becoming critical in retail. Being customer focused is the only sustainable way of growing a business. A customer has a lot of other options. Internet is not just a communication platform. It has also opened up a myriad of options for customers to choose from. Companies cannot ignore the power of customers. Companies spend millions of dollars in advertising and marketing their brand. But customers need to love the brand and get emotionally connected to it. Service can act as a differentiator. Kodak is an iconic company that did not react in time to the changes in the market. It failed to note the changes in customer demands and was gradually wiped out of business.

A shopper's perception is their reality. Shoppers play a crucial role in the success of retail business. So managing their perceptions is very crucial. It is easier to retain customers than attract new ones. When original customers are loyal, business manages to stop the churn and can use existing customers to attract new customers through positive word of mouth publicity. This is possible if existing customers have a great experience. If shoppers are not properly taken care of then they can use internet for venting out their ire and this kind of negative publicity can be an anathema to the retailers. Brands win or lose by how well they wow the customer. The retailer has to empathise with the customer and this will solve most of the problems.

Customers are looking for the best value for their money. Customer needs have to be borne in mind while developing new products or offerings. Offending the customers will mean loss for the business. Due to power of social media, customers wield greater influence.

Constantly badgering customers with “buy this” type messages won't do any good in the long run. Aggressive marketing will put customers off and many marketers do not seem to understand this at all. Kings listen to their trusted advisors. So it is important to identify the consumer influences when they make a purchasing decision. This answer must become part of the market strategy. Being accessible to customers when they need you is important.

Retailers have to treat the customers well as it will have a large impact on their business. Relationship with customers must go beyond transactional.

Consumers lead busy lives and their time is becoming more limited and fragmented every day. So when it comes to shopping, they may not always be 100 percent focused or fully engaged in the task at hand. So in order to keep up with them, retailers are increasingly finding that they need to innovate in ways that make it easier and more convenient for their customers to get what they need and not miss a beat in the process. Multi-platform store formats and online shopping have had a major impact on retail landscape.

U.K.-based Tesco PLC is one major retailer that has adapted its physical store offerings to meet customer demand for convenience. Notably, Tesco operates four different formats to ensure that its customers have quick and easy access to its offerings regardless of whether they live in dense metro areas or the outskirts of town. Even Walmart, whose superstore concept made it the largest retailer in the world, is testing two smaller formats – even though it continues to expand its traditional supermarket format in the U.S.





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Brick and mortar continues to maintain a strong foothold with customers as retailers diversify their available store configurations for specific customer needs. European retailers such as Carrefour and Auchan are particularly advanced in the click & collect arena.

For Koreans, shopping is a much-dreaded task, so Tesco decided to offer them the convenience of browsing through displays of the same merchandise offered in its stores. To make purchases, consumers simply scan QR (quick response) codes of the items they wish to purchase and then click the send button on a smart phone app. Tesco then delivers the merchandise to the consumers shortly after they get home. The results speak for themselves: online sales increased by 130 percent and site registrations grew by 76 percent in just a few months. In today's digital world, the one thing traditional retailers have that online operators don't – physical stores – needs to be an asset rather than a liability. And those assets need to include entertaining, exciting, and emotionally engaging experiences.

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## 20 SHOPPING MARKET DYNAMICS

### Learning objectives:

- To learn about market dynamics when it comes to shopping
- To understand the importance of understanding shopper behavior and its impact on sales
- To review the impact of information overload on shopper behavior
- To learn about the different types of buyer behavior
- To learn about the SOR model of buyer behavior

Market dynamics indicate pricing signals that are a result of changing supply and demand levels in a given market. It describes the changing price signals resulting from changes in supply and demand of any product or group of products. In a free market in which no entity has the ability to influence or set prices, the price of a good is determined by the market.

The market dynamics between brands and shoppers is always changing. Consumers are an informed lot today. They are in control. They are more tech savvy than before. Their preferences vary and are subject to wide influences. Their expectations are also high. Brands have to provide customers with the experience that they seek and desire.

The truth is that there is a huge gap between what people want and what they experience online. Receiving offers that are irrelevant can be major irritants. People may continue to receive ads on their Email asking them to buy products that they have already bought. As a consumer it can be frustrating to receive unsolicited offers on smart phone that do not excite you.

Amazon India for instance makes grandiose announcements – be it offers or be it their discount festival. Their close rival Flipkart also does not want to leave any stone unturned when it comes to advertising their offers. However both these companies are weak in terms of understanding the challenges in last mile delivery. The final delivery of the right product in the right shape is important to influence shopper's satisfaction and it is where these E-tailers often err.

The delivery boys are either overworked or plain rude and insolent and often fail to deliver goods and give the excuse that the customer's homes were locked. As there is no telephonic contact that is possible between company and customers, customers prefer to stop buying from such e-tailers. It takes an effort to lodge a complaint and not all customers have that kind of time or inclination to do so. Jeff Bezos presumably is unaware of these challenges. I am sure that if he hears about these delivery failures, he wouldn't be too happy with his India team. Unfortunately, most e-tailers seem to be oblivious of these challenges. Rather than improving their back end and ensuring that front end complements the back end, these e-tailers are more focused on ensuring that customer has an overdose of all the promotional offers (information overload)!

Services will fail or succeed depending on who is delivering the service. This is why we have the "P" (people) element in services marketing – yet it is astonishing how little attention this dimension receives from retailers. In India, there are few instances of front line sales employees in a retail store attending a structured training program where they are taught customer etiquette and behavioral skills.

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People are paying their hard earned money and they expect value out of it. This value results from a seamless process that benefits the customer by giving him an integrated view of both online and in-store experience. Times are changing. It becomes essential to understand how and where people shop and why they chose some brands over others. This is an ongoing process that every retailer should seem interested in. Being rigid about price points is not going to help matters. Even the discount offers have got jaded that they have become monotonous and are completely devoid of any creative thought behind them.

When customers are shopping they are looking at a stress free experience that can lead to productive use of their time. The opportunity to conduct all shopping in one place can be rewarding to the shopper. Customers have to feel that they have got a good deal. Managing customer perceptions is no easy task.

The truth has to be told. Marketers can do little to compete on price without hurting their margins. Retailers can look at ways of improving their bottom line by reducing costs but this needs a dedicated effort by a committed team. The price is also connected to the brand. Marketers in India have seldom realized the adverse effect of price cuts on consumer perception. Imagine you have been buying soap for Rs. 30 and the producer says that the same soap is now available for Rs.20. This shows that customers were overcharged earlier – no matter what excuses the manufacturer wants to give. For example – Dove soap was once a premium brand and now the manufacturers have whittled down its price so much so that any intelligent consumer is bound to have suspicions whether this price reduction is a result of dilution in quality.

Consumers will continue patronize online due to price advantages. But consumer disenchantment with the online retailers will also grow if the latter do not focus on last mile delivery. If price reduction is not an option, then focusing on quality and differentiation can help. For example, a dishwasher brand sold by Patanjali sold like hot cakes because it was cheap and it had excellent word-of-mouth publicity. This dishwasher soap gave all the big brands a run for their money.

Thus differentiation and quality improvement will act like bulwarks to drive sales growth and customer loyalty. Uber and Ola have disrupted the taxi industry. Amazon, E bay and Flipkart disrupted the traditional retail. Big basket disrupted the grocery and green grocery market in India. These brands have set new standards for how companies need to engage their prospects and customers. The trick is in reducing complexity and making things simple for the customer.

Stores like Walmart and Target are creating new business models focused on personalized experiences, simplicity and convenience. Bricks and clicks option is becoming another point of attraction for customers. For example, you can order groceries online and drive down to the Walmart store where the stock will be ready to enter your car. Service and convenience have become the new normal. So it is essential to have a comprehensive understanding of customers, know their interests and cater to the experience they expect and want.

Data has to be update and integrating data across marketing platforms is important for understanding buyer behavior and providing customized offers. Aggressive marketing offers are passé!

A successful brand strategy depends on accurate knowledge of consumer habits. Consumers can provide invaluable information about shopping decisions. Purchase and usage behavior can be tracked and monitored to take decisions. A robust information management system can broaden the shopper base, increase consumer loyalty, maximize point-of-sale effectiveness, anticipate trends before competition and transform threats into opportunities.

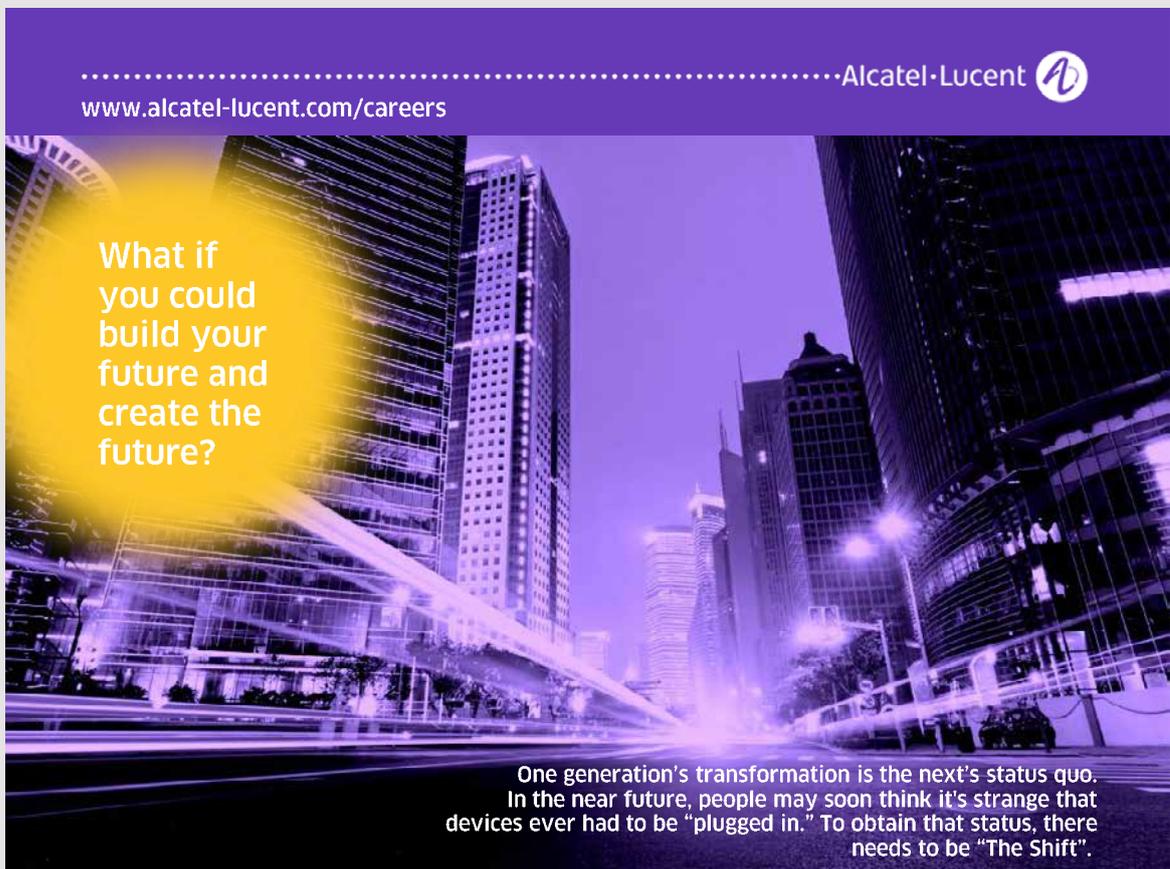
Brick and mortar retailers often struggle to match steps with the purchase journey of customers that is continuously evolving. Online options are rising rapidly and offer a better bandwidth of choice and price. Consumers are dropping their inhibitions and overcoming their fears to do online shopping. They are leaving the comfort of offline stores for impulsive online buying.

Earlier buying a television was a laborious offer. Customer would visit the store along with his family and it was left to the salesman to influence the customer using his technical prowess and selling competence. The salesman would inform the customer about the technical features of each brand and would invariably convince the customer to buy a particular brand. As technical jargons were difficult to comprehend, invariably the customer would tend to believe the sales person which depended on his influencing ability and intelligent sales talk.

When a customer decides to change his television, it is a want. Rapid advances in technology have resulted in new models like LED, OLED, 3D etc. Screen sizes have grown bigger, slimmer and the focus is on providing an enjoyable viewing experience for the customers. There are so many features that will be so difficult to comprehend that customers will never use them. No prizes for guessing if the salesperson in the retail store also knows all the features.

The problem here is that of information overload. If so many brands are available and all at equally attractive prices and features what will clinch the sale in favour of a particular brand? Digital proliferation only complicates matters further. E-commerce portals are luring customers with attractive discounts and exclusive selling rights. In India, the quality of sales staff for such electronic appliances is sub optimal. But consumer can go through the Internet to explore more details and know the feedback about the product from other consumers. Technology can be deceptively simple and equally complicated.

Thus the purchase journey of consumers is no longer linear as they scout for information on more than one platform. Digital media is used for curating the search and short listing the choices before validation of the same at the store. Once consumers have zeroed in on the product that they wish to buy, the quest for the right deal begins. This has made it necessary for retailers to adopt new forms of engagement with the consumer at every step of their journey.



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One generation's transformation is the next's status quo. In the near future, people may soon think it's strange that devices ever had to be "plugged in." To obtain that status, there needs to be "The Shift".

As the choices have increased right from product models, colors and technological innovations and as product upgrades continue to be expedited, consumers are taking to the social and digital media. Time constraint is one more reason for such an action. Customer's purchase decision is influenced by all the information gathered both from digital and social media as well as from close circles and friends. Some retailers believe that online and offline can actually work in synergy. Customers buy a product after reading of reviews, product features and brand attributes.

Buying journey has changed for the younger generation and though online mode has become popular, consumers have not abandoned the traditional buying journey. Online modes provide information but eventually purchase happens in an offline store. In an offline store, consumer gets an opportunity for touch and feel and this continues to be an advantage.

Women are also becoming purchase influencers most of which is due to their financial independence. Customer engagement is the key binder between retailers and customers. Customer engagement helps understanding the need of the customer and how he is evolving in every step of the journey. It is the only aspect which helps retailers innovate and evolve based on the needs of the customers.

Retailers must get in touch with their potential customer much ahead of their decision, either through service or engagement through phone, social media or mobile messaging.

Today's customer is an evolved buyer who constantly seeks variety, technological excitement and hence, keeps refreshing his knowledge on product innovation, availability and pricing. The shop floor of a modern retailer is a small speck in comparison with the online universe and has to battle for physical space to display all brands/models, technology, knowledgeable staff and pricing.

Attracting all the right talent at the shop floor level, to understand the needs of the customers and fulfilling his needs is the weakest link in the consumer durables and IT products brick-and-mortar retail. This can be achieved through constant training, soft skills and best customer service.

'Moment of Truth' (MOT), a concept popularized by Procter and Gamble, is defined as a time when a person is tested and a decision has to be made. In business terms, this is the situation wherein the customer and organisation come into contact for a product or service in a manner that gives the customer an opportunity to either form or change an impression about the firm.

For brick-and-mortar retailers to stay ahead of the curve, they need to first understand what exactly it is that consumers are looking for. If their SOPs and budget busting advertising and marketing spends are still not getting the sales, it is imperative to find out what is missing that could be costing them customers. The way to do this is by creating a robust content strategy which can drive real, serious buyers through the door and of course, real revenues.

In today's digitally driven world, content is an engaging and effective marketing tool for any brand and should form a critical component of your communications plan.

### Shopping Behavior

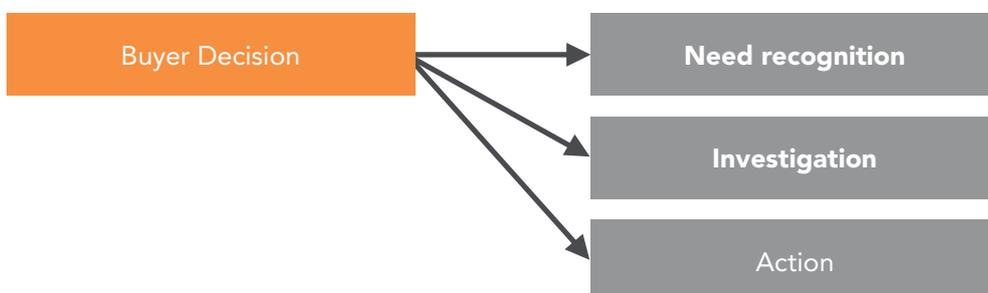
**Retailer** – Maximize profits by maximizing sales

Retailer Strategies ↔ shopping behaviour

### SOR model of Buyer Behaviour



1. A shopper is exposed to a variety of environmental stimuli.
2. Shopper will process those stimuli in a uniquely individual way and will then respond (behave) accordingly.
3. Retailer can design the environment such that the right stimuli are received by the shopper to elicit the right type of response.
4. As human behaviour is complex, the probability of accurately predicting behaviour is less than 100%.
5. Understand the buyer decision making process – the mental and physical processes that the buyer undertakes when considering a prospective purchase.



*Four types of Buyer Behavior*

<b>Product Differences</b>	<b>High involvement</b>	<b>Low involvement</b>
<b>Large Perceived</b>	<b>Complex behavior</b>	<b>Variety seeking behavior</b>
<b>small perceived</b>	<b>Dissonance reducing behavior</b>	<b>Habitual behavior</b>

- Houses, fashion items, cars, wedding rings.
- Car tyres, PC's home insurance
- Biscuits, Standard beers, pasta
- Deodorant, petrol, washing powder

**Complex Behaviour:** I got information on all the makes and compared all the figures. It wasn't until I was convinced that I made the purchase.

**Dissonance** – reducing behaviour – It is an important purchase, but they are all the same these days, aren't they?

**Variety seeking behaviour:** I am not really concerned which product I buy, but they are all different so I normally try a different variety each time.

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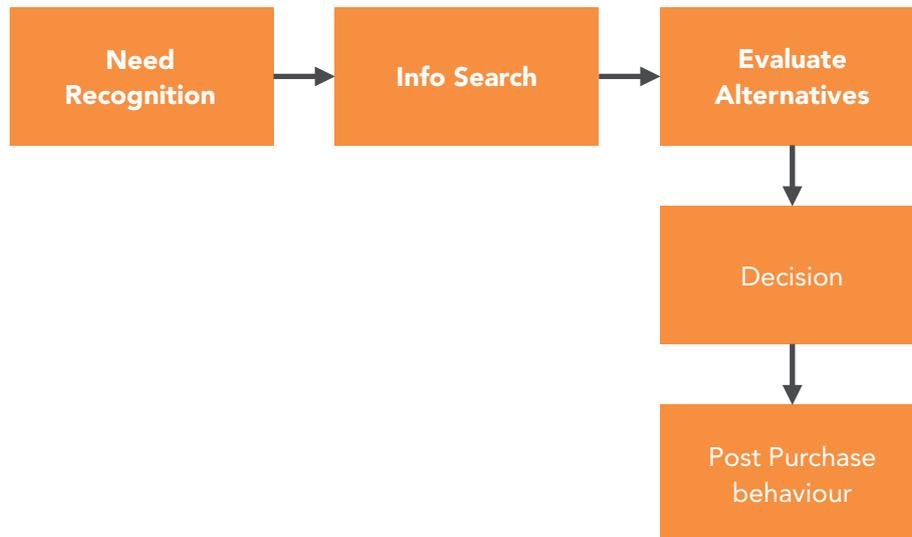
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**Habitual behaviour:** I know that brand and I know it works so I always buy it.



### **Retail Environment factors affecting the SOR model**

- Location
- Physical characteristics of selling space
- Other shoppers
- Store personnel
- Shopping purpose
- Psychological frame of the shopper
- Time factors

There are 2 shoppers: Cutilitarian – shopping is a chore; Hedonist – shopping has to be enjoyed.

The SOR model shows that shopper behavior is influenced by both internal (shopper characteristics) and external (environmental stimuli) factors. The shopper is confronted with a barrage of stimuli from the environment (the store) and reacts in a uniquely – individual way. The retailer can control environmental stimuli to a certain extent and can discover a number of shopper characteristics. Retailers may be able to influence behavior.

## Case Study

### Retail marketing in South Africa

Retail is the most dynamic urban market with changes happening on a daily basis. Changes in South African society have had a major impact on the retail market. Shopper expectations and demands have changed with regards to convenience and shopping experience. Customers are far less predictable and are well informed. This means that retailers have to constantly reinvent their strategies.

Consumers have a wide variety of choice and so they support those grocery stores that are convenient, encourage bulk buying and offer specialty food products. In South Africa, men have started shopping with a vengeance and are leaving women behind. Price has ceased to be the primary driver of customer satisfaction. Convenience, quality and freshness have assumed greater significance in customer's mind share.

Frequent shopping bouts have resulted in grocery baskets becoming smaller. Convenience shopping has become the norm. Parking, a well lit environment, a good ambience, store atmospherics and a 24 × 7 service have become major attractions.

Convenience food outlets are now catering for lower to middle income consumer markets as well. Growth is expected from this market. Consumers today are seeking a shopping experience. Shopping is not only about consumption, but also about an experience. Traditionally the larger centres fulfil the shopping experience expectations of consumers. To meet and sustain such expectations in the longer-term, shopping centres have to offer good quality public space, ease of movement, whilst providing meeting places for relaxation such as coffee shops and restaurants. These facilities must make use of both indoor and outdoor spaces. This is one of the reasons for the popularity of so-called lifestyle centres. Interactive shops would include golf shops where shoppers can experiment with golf clubs, coffee shops with bookshops and music shops.

The youth of today have considerable spending power and have major influences on spending. The importance of brands and branding should not be underestimated in retailing, particularly with the youth sectors of the market. Apart from shopping the social component of this market is very important, adding to the entertainment sector of a shopping centre. This market is also called the 'one universal market' because trends are set and followed world-wide.

There is a definite trend emerging towards longer shopping hours. This has been the norm in convenience stores for some time, but there are indications of this penetrating the larger and regional shopping centres. The implementation of extended shopping hours is very important. Increase in population, growing affluence of the South African population and increasing home ownership are contributing to the growth of retail in South Africa.

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# 21 EXPERIENTIAL RETAILING – A STRATEGY FOR THE FUTURE

## Learning objectives:

- To understand what experiential retailing entails.
- To explore the reasons behind the growth of experiential retailing
- To identify the unique benefits of experiential retailing to the retailer
- To learn about the challenges in implementing experiential retailing.
- To understand the various components of experiential retailing.
- To learn about the steps retailers are taking to embrace experiential retailing.

E-commerce has become immensely popular due to the plethora of benefits that it offers in relation to in-store shopping. However, the popularity of e-commerce, in particular e-tail, hasn't made the physical stores less attractive. However, the footfalls in physical stores have fallen over the years. Traditional retailers and online retailers are struggling to integrate online and brick-and-mortar commerce. The tendency is to expose consumers to a strategy of "bricks and clicks". Retailers are realizing the need and importance of a seamless Omni channel experience that synergizes online and in-store purchases, exchanges and returns. This has made retailers change their marketing, advertising and social media strategies drastically.

Most goods can be purchased online. Service-based activities like dining, exercise, drama, theatre involve in-person interactions and so will need a visit to the facility. Furniture, sports goods, clothing and cosmetics can be purchased online – however customers often do not wish to forego the experience of touching these items, trying them or interacting with these goods before committing to them. Capital investments involving high value purchases like television, beds etc are best purchased by visiting a store. Retailers know this and they do everything possible to recreate a home-like experience. Digital aids ensure that customers can do a thorough due diligence before purchasing a particular item. Thanks to Internet, customer feedback can be obtained through a click and so this influences consumer decision making to a great extent.

The term "experiential retail" has become appropriate to describe the forms of physical retail spaces that are thriving and becoming more popular in today's Omni channel retail world. Brick and mortar locations play a greater role in defining the customer experience. Such experiences make real world shopping more appealing.

Traditional and online retailers are struggling with the integration of online and brick-and-mortar commerce. Most retailers understand the importance of a seamless Omni-channel experience that combines online and in-store purchases, exchanges and returns. This integration has made it necessary for retailers to introduce important changes in their marketing, sales, advertising and social media efforts. Retailers have also realized that accounting and inventory systems need to be changed to facilitate this integration.

Most goods can now be purchased online. But service based activities like dining; exercise and theatre are all about experiences. These can only be transacted at physical locations. When people want to buy furniture or sporting goods or electronic appliances they always appreciate the physical interaction of goods before committing to buy them.

Thus the term “experiential retail” has become a popular way to describe the forms of physical retail spaces that are thriving and becoming even more popular. The bottom line seems to be that while most “stuff” can be bought online, people will still go to brick-and-mortar locations to have “experiences.” These experiences can be wide-ranging, and include the following:

- Personal services such as nail and beauty salons.
- Health and fitness facilities such as yoga, massage and meditation studios, as well as traditional gyms.
- Restaurants.
- Cinemas and theaters that present plays, concerts, comedy shows, lectures and more.
- Art galleries and stores.

Many retailers, recognizing the need to offer hands-on, authentic experiences that will draw shoppers into their stores, are adapting their store formats in order to do so.

These include:

- Arts and crafts and hobby shops that offer classes in activities like quilting, knitting, model making and paper art.
- Home improvement stores that offer “do-it-yourself” classes.
- Appliance stores that offer cooking classes or allow a shopper to try out a dishwasher or washing machine before they purchase it.
- Grocery stores that have introduced food and wine bars where people can enjoy a meal or a drink as well as a social experience.

- Sporting goods stores that incorporate golf and tennis simulators that enable shoppers to “test drive” equipment.
- Clothing retailers with high-tech fitting rooms that enable shoppers to see what an item of clothing would look like in different sizes, colors, styles.

The intention behind all these efforts is to make shopping more enjoyable, appealing and personalized. These efforts provide shoppers the opportunities to touch, feel and/or taste items allowing them to try out the goods before committing to buy them.

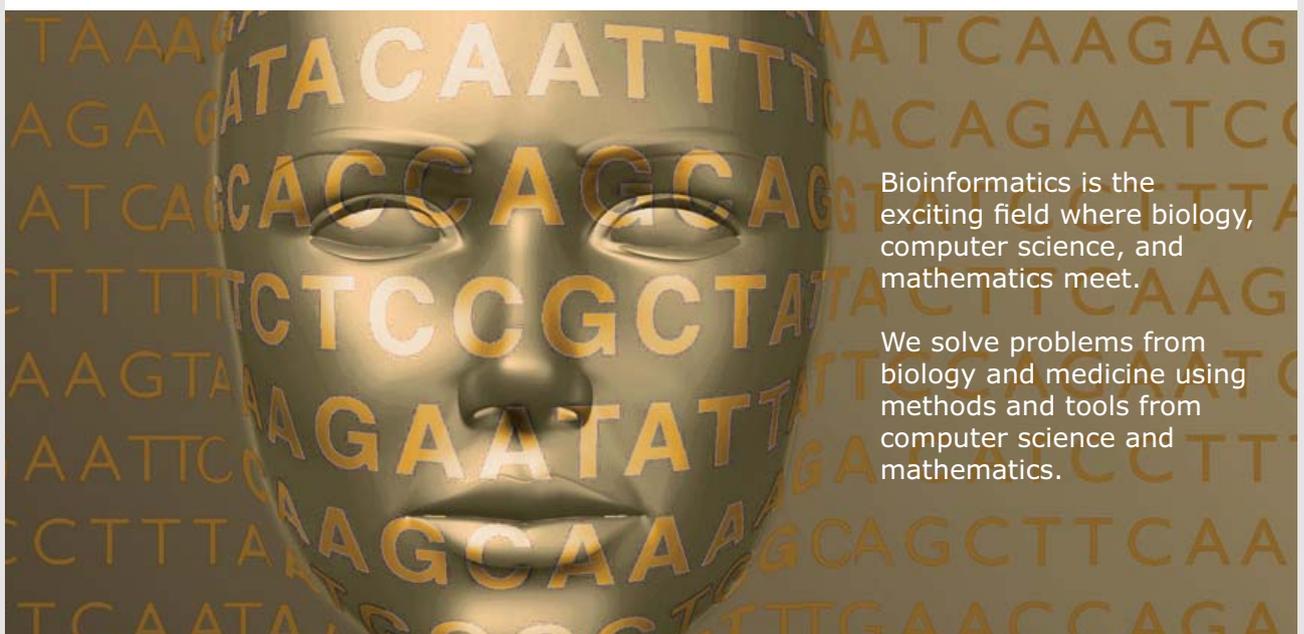
This development is impacting the formats of retail spaces resulting in both smaller and larger stores for different types of goods and services. Developers and landlords have to answer questions like – “What is the right type and mix of retailers for a particular venue” or “What bay depths and widths and layouts are desirable for today’s retail environments?”

The main objective of experiential retailing is to create pleasant, memorable and interactive experiences that appeal to all the five senses of the customers. To integrate strategies across marketing channels, a deep understanding of the shopper’s journey is essential.



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The true “winners” in the experience retail game are consumer centric, technologically nimble and know the difference between winning and competing. These retailers are willing to embrace cultural changes that are needed for success in experiential retailing. Cultural shift is inherently a leadership issue and must be driven by the CEO.

Shoppers are looking for a better, cheaper, faster and seamless journey. Developers, property owners and retailers alike must rethink their strategies to create experiences that draw consumers in – to a website, a mall, a shopping district or a store – and keep them coming back.

When stores create special diversions and amenities for visitors, it is called as experiential retail. This kind of retailing can provide emotional benefits to shoppers. People have hectic life styles. So it is important to provide a climate in a store that can allow them to relax.

Millenials appreciate prize engagement and unique moments. They research products and services extensively online and when they enter stores, they seek hands-on experience and stimulation. Retailers are setting up cafes, wine bars, bakeries and even mini-hair salons. People are allowed to indulge in their passions. Book clubs, baking lessons are examples wherein retailers give opportunities for shoppers to get a firsthand experience.

In 2016, the office supplies giant Staples told the public that part of its stores would be reserved as work spaces for people to come in and use. A store could host a lecture or a tattoo session for kids or invite customers to watch a TV show.

Experiential retail allows people to get to know brands well. When they're impressed by a company's displays or activities, they're more likely to buy things from it in person or online. And such experiences can make consumers feel more loyal to a certain brand. In that way, they represent a powerful form of advertising.

Moreover, when people have a blast at an experiential retail location, they often recommend that place to friends and family members. Word-of-mouth publicity tends to be especially persuasive.



Shoppers are seeking experiences and relationships when they shop and they want this experience to be consistent across all touch points. A survey has revealed that 58% feel that online shopping lacks the service that can be offered in a brick-and-mortar store. Thus, retailers have tremendous opportunities to implement innovative, customer-focused and contextual service offerings – either based in the store or delivered to the customer’s home via a field force.

Retailers must appreciate the fact that relevant and contextual services are the key to driving engagement and customer loyalty. Shoppers prefer experiences over things. They are spending more on entertainment, food, drink and travel. So retailers must differentiate their brands by improving service and experience offerings.

The services must be aligned with the company’s mission in order to be relevant. Services that resonate what customers want ensure that customer engagement and loyalty thrive beyond the first store interaction. Retailers have to understand what their customer needs are. This will help them in tailoring bespoke solutions to address those needs. The key is to ask if this particular service is adding value to the customer.

The retail environment today is data-driven. So brands cannot have an excuse not to know the behavior of customers. Business intelligence tools and predictive analytics platforms have resulted in department stores analyzing customer interactions to identify which are the products that customers purchase more often and which promotions have been the most successful.

Retail is a tough business. But it is important to give customers what they want. Big department stores are struggling with this. Every retail store must look at ways of reinventing itself to enhance the shopping experience.

Consumers are increasingly using experiences to define themselves. Examples – customers may wish to chronicle a trip on Snap chat or wish to use Instagram to inform their friends that they are in a night club. Facebook is another social platform where consumers can speak about their interactions with brands. Consumers are looking for experiences that enrich their lives.

The expectations of modern shoppers have undergone a dramatic transformation. A retailer needs to focus on helping consumers embody the lifestyle that they strive for. Retailers can create new and innovative shopping experiences like providing cooking classes or implementing mobile app contests. This way retailer can create memorable experiences or several “moments of truth” when a shopper interacts with a brand. Shopper intelligence tools allow retailers to unlock unique insights to understand buyer behavior. Data-driven insights can be used to deliver an experience that is tailored to the needs for each customer. This breeds customer loyalty.

As it turns out, experiential retail means something entirely different to different retailers. But what retail experts are pointing out is that in all this melee retailers should not forget basic customer etiquette. Believing that experiential retail can move the needle is fraught with risks. At the end of the day, the experience that a consumer gets must be matched by superior quality products and services. Both are not mutually exclusive.

To cite a cliché, everything in life is an experience. Retail is no exception. Experiential retailing has become the latest buzzword. However though it is easy to talk about experience, it is hard to deliver unless the retailer knows what experience customers are looking for.

As retailers battle for footfall, they are exploring a wide range of experiential options to attract customers. Whether it is wine bars or cook-yourself restaurants or yoga sessions or hair salons, experiential retail is being seen as strategically rewarding. Shops are now placing entertainment at the center of their offering. With the advancement of new technologies like augmented and virtual reality, experiential retail is only expected to get bigger in the near future.

Millenials place a far greater emphasis on being engaged in-store than they do on customer service. These people want elements in the store to engage them while they are here. This means that stores can no longer afford to execute a transactional function. Brands must always look at new ways of enhancing the customer's journey both online and in store and this can prove to be the first step in transforming customer's experience. Experiential retail focuses on creating meaningful and memorable relationships with customers.

Experiential retail is also gaining ground across Europe and demonstrates a growing trend to connect with consumers across all channels. Experiential retail does not have to mean a huge investment by retailers, but it does have to be something more memorable than the everyday shopping experience. It is not just confined to store and it is not just a fad – it's a new way of connecting with customers, offering something unique and rewarding customer loyalty.

The idea around experiential retail stems from the consumer's desire to get more out of the shopping experience than just a product. This experience is what will draw customers to the store again and again and make them advocates for the store. Pricewaterhouse Coopers did a survey and the results revealed that consumers aged 18-34 are more interested in spending their money on experience-related purchases.

To harness these trends, retailers are altering the way in which they deliver customer service to meet the changing expectations of these experiential consumers. They are creating new and innovative shopping experiences such as cooking classes and running clubs that deliver unique experiences each time shoppers enter their stores.

### **To sum up**

Brands are now looking to innovate regarding the retail shopping experience by enhancing the in-store experience. This is called as “Experiential Retailing”. Customers are getting tired of similar offers made by every other retailer. The focus is on energizing the interactions the customer has within the store. The better the experience, the better is the motivation for the customer to spend more time in the store. Walt Disney called customers guests and labeled his employees as cast members and is credited with introducing experiential retailing.

For long retail marketing has been about brand, product, price and promotion. The time is now ripe for taking it to the next level. Experiential marketing helps consumers to cope up with information overload. Interactive retailing forms the basis of experiential retailing and store atmospherics plays a vital role in enhancing the shopping experience.

Most retailers are not only looking at the interactions of its frontline staff with customers but are also improving the hygiene in stores by providing better washroom facilities in stores. Design of the store is planned in such a way that the customer can move around and freely inspect the merchandise without becoming the victim of “brush and butt” syndrome.

The Apple store deploys technical experts who educate customers to make shopping a pleasurable experience. Adidas has an interactive touch screen through which shoppers browse the inventory. Build-a-bear shop is one where customers can customize a teddy bear according to their needs. Experiential retailing in brick and mortar stores is becoming all the more significant due to increasing penetration of retail by e-commerce. So there is a need for brick and mortar stores to move beyond transactional mode into a relationship mode.

Brand experts feel that experiential marketing brings the brand alive and tries to establish an emotional connect with retailers. Fiat launched Fiat Click – car showrooms within UK shopping centres that enabled people to browse a car and then order it online. This obviated the need for having a dealership.

Intensifying competition demands that retail stores become a fun place to shop where one can shop and relax or shop to relax. Customers are given exciting offers. These efforts need the retailers to study consumers and gain unique research insights about what is it that can excite customers and make them stay in the store for a longer time and maximize their purchases. If this means simplifying the shopping process so be it.

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## 22 RELIGION BASED RETAIL

### Learning objectives:

- To understand the various dimensions of religion based retail
- To review the pros and cons of religion based retailing

Some of the largest US retail companies like Forever 21, Chick-fil-A, Hobby Lobby, H-E-B, JC Penney and Whole Foods were founded by leaders with strong religious beliefs that these beliefs became part of their business operations. Religious founders also ensure that the mission and vision statements have religious tone built into them. However, in reality, retail chains prefer to present a secular image to their customers. This is because retailers fear alienating customers with different religious values.

CEO Dan Cathy of Chick-fil-A created controversy when he took a religious stand against a political issue. Cathy denounced gay marriages and this created a storm. Howard E Butt, founder of H-E-B grocery store chain introduced policies like closing the store on Sundays and not selling alcohol. These business practices got diluted over a period of time. But even now H-E-B donates 5% of its pre-tax profits to charity.

Hobby Lobby's founder David Green openly and unapologetically leads his company based on his own Christian beliefs. The Hobby Lobby mission statement makes direct reference to Christian principles, and clearly intends to align all stakeholders with biblical principles. Green demonstrates his personal commitment to his Christian-based business by keeping his retail stores closed on Sundays. Hobby Lobby is a privately held chain of more than 450 arts and crafts stores. It has never shied away from accepting its Christian orientation. The company is operated in a manner that is consistent with Biblical principles. Hobby Lobby attributes its sustainability to the grace of God. Hobby Lobby doesn't want to cover its employees' morning after pills.

Tyson Foods, Inc is the world's largest chicken company. It employs a team of chaplains who guide employees at production facilities and corporate offices. These chaplains provide compassionate pastoral care to team members and their families.

The son of a minister, James Cash Penney believed strongly in the philosophy of The Golden Rule. By embracing the values of honesty and trust with both his employees and his customers, Penney built both loyalty and a [good reputation](#), which he used as the platform to grow his own chain of namesake jc Penney branded retail stores. Today the jc Penney chain is not considered to be a religious-based company, but it still has a strong set of guiding principles that guide its employees to live and work with the spirit of The Golden Rule which so strongly guided the jc Penney founder. Whole Foods founder John Mackey didn't study retailing or business management in college. Instead Mackey studied philosophy and religion at the University of Texas – Austin.

Earlier a successful retailer had to stock the right products. Consumers have their own preferences. So retailers attempted to offer them either the best or the cheapest. As globalization, the internet and social media bite into retail, retailers have been working hard to build a compelling in-store experience. By providing a pleasant and streamlined buying journey, the customer will be encouraged to shop at the store. This has driven the recent wave of investment in Omni-channel, in-store Wi-Fi and mobile apps.

Consumer behavior is changing. There is always a time lag between identifying a need and actually purchasing it. Browsing for shopping goods can be done during a spare moment using a tablet or a smart phone and then we end up purchasing something using a channel that is convenient to us at that point of time.

Drawing customers to the store before they want to buy something has become important. Retail must make itself part of the consumer's identity, it needs to become one of their habits or rituals rather than providing a mere delivery mechanism for someone else's products. Meeting the needs of customers is of primary importance to a retailer. Growing the retail business mandates business to be made into a community hub. It involves creating a religion.

Community – not the products – becomes important here. Business provides a place – both physical and virtual – for the community to gather and share stories and then the retail space is populated with products and services that support the community. As long as people are part of the community they will purchase the products and services that you provide.

For all our attempts to draw the customer to a store, sometimes the best strategy is just to be at the right place in the right time. It may not be possible to charge a premium price from the customer. But we can expect steady foot-falls in the store. This is the reason retailers are deserting the high street and heading to the malls. Developing a relationship with the consumer is essential to avoid being a commodity.

Forever 21 is a young women's clothing company known for its skimpier and saucier offerings. The words John 3:16 – a citation of a biblical verse popular among evangelical Christians – appears at the bottom of its stores' shopping bags.

Tom's of Maine was launched in 1970 by CEO Tom Chappell and his wife Kate. Chappell left it to pursue full-time Christianity. He received a master's at Harvard Divinity School. A professor advised him to just treat his business as ministry. Spiritual leaders began talking to the board to influence them to use spiritual principles to run the company.

Service Master is a company founded in 1929 by Marion E Wade. Wade had a strong personal faith and a desire to honor God in all he did. Translating this into the market place, he viewed each individual employee and customer as being made in God's image – worthy of dignity and respect.

Herman Miller is Michigan-based furniture manufacturer. The founders believed in the Protestant tradition. Their business practices are centered on respecting the dignity of the human being. Herman Miller prides itself on environmental philanthropy.

Western US burger chain In-N-Out has printed citations of Bible passages on cups, wrappers and other pieces of packaging since the late 1980s. For instance, “John 3:16” appears on the bottom of soft drink cups, a reference to the Bible passage, “For God so loved the world, that he gave his only begotten Son, that whosoever believeth in him should not perish, but have everlasting life.”

Fans of In-N-Out Burger always seem to be proselytizing the popular West Coast fast food chain’s decadent ‘Animal Style’ topping. What doesn’t get discussed as much is the writing on the underside of each French fry container, milkshake cup and cheeseburger wrap.

Walmart has used Christian servant leadership models to grow its retailing business. The company’s Arkansans roots helped sensitize it to the shopping habits of churchgoers. Walmart has also successfully sold Christian books so much so that it has now become a business threat to Christian booksellers.

Big brands are intensely religious though their consumers may not realize it. These religious beliefs are invariably passed on by the founders. Retailers are often wary about showcasing religious beliefs for fear of polarizing their customers. Mixing religion with business can be dangerous. Sometimes controversy can help a business though this is not always the case.

India’s \$30 billion religious and spirituality market is full of gurus, temples and pilgrimages. Tech entrepreneurs are now set to take a leap of faith. Karni Mata temple is also known as the Temple of Rats. 26 year old engineer Goonjan Mall visited this temple and realized that the difficulty of getting ‘prasad’ ruined the religious experience. Prasad means a food offering that is made to Hindu Gods. This food is distributed to the devotees thronging the temple and seeking divine blessings from the Almighty. At many Indian temples, the devotees become hassled due to mismanagement of crowds, pestering touts and serpentine queues. There are charges for availing a “special” view of Gods and Goddesses and there are queues for such “special” views too. Mall came up with a solution by proposing online ordering of “prasad”. Mall felt that technology was a good enough tool for simplifying religion.

Mall launched a company called OnlinePrasad.com – a website that enables devotees to get Prasad from more than 50 temples delivered to their homes. Devotees also organize a pooja – a prayer ritual – at any temple. Onlineprasad.com now boasts over 2500 daily visitors and has 120000 followers on Facebook.

As India's religious market grows entrepreneurs are using technology to tap into niche segments and differentiate themselves from competitors. Online portals like Onlineprasad.com are aimed at the multi-billion dollar market that has been traditionally exploited by spiritual gurus and religious trusts, offering customized pilgrimages, rites and rituals and personal accessories. ProudUmmah.com, for instance, focuses on Islamic pilgrimages to Mecca. Launched by ex-[Google](#) employee Abid Khan in Hyderabad, the site sells kits designed for the pilgrimage, provides information on associated rites and rituals and facilitates travel through a network of over 1,200 registered agents.

Shubhpuja.com, another online portal, extends beyond religion offering astrology, numerology and vastu consultations. The site was launched by Saumya Vardhan after a stint as technology consultant at KPMG and [Ernst & Young](#). She now employs over 30 religious studies post-graduates and doctorate holders in a bid to bring top talent to the disorganized market.

Shubhkart was launched by [Aditya Pittie](#), CEO of the [Pittie Group](#) that has businesses across food & wellness, entertainment, and realty among others. So, what makes this startup with a family-led seed funding of Rs 1.5 crore (\$200,000 approx) so special? For starters, it is the only branded player for this segment with such a wide offering, especially in a market hugely dominated by unorganized players barring a few Cycle and Mangaldeep Agarbatti brands (Incense sticks incidentally account for Rs 10,000 crore of the Rs 2.5 lakh crore market.)

The inability of institutionalized religion to cater to specific spiritual needs of individuals has made many Indians turn to gurus who offer personalized service. People are tormented by their conscience and so they seek spiritual solace.



AOL Retail, Golden Temple, Ramanashram, Yogi Ramsuratkumar, Ratnagiri Murugan temple are some of the spiritual places that have started selling merchandise. Of course one cannot compare them with regular retailers. These ashrams sell knick-knacks like bags, books, pouches, wallets etc that have the particular guru's image imprinted on the cover.

At the outset one may feel that there is no connection between religion and retailing. Ethnic factors are apparent in Northern Ireland. For example – there could be two different branches of the same retail stores owned by shopkeepers of different religious affiliations. Green colored garments do not sell well in Protestant districts. Some retailers in Protestant districts were once being “asked” to remove renegade Irish goods from their shelves.

Umme-Hani Khan is a Muslim teenager in California who applied for a job at an Abercrombie & Fitch outlet in her local mall. During her job interview, she wore a headscarf, as her faith requires her to do in public. She was hired, and for four months wore her headscarf with no incident. Until, that is, a district manager spotted her and she was sacked. The Equal Employment Opportunity Commission then intervened on her behalf, and a federal judge has now come down on Khan's side against the clothing chain, which maintained her headscarf violated its “Look Policy.”

In a 27-page ruling, US District Court Judge Yvonne Gonzalez Rogers found Abercrombie & Fitch had produced zero evidence showing Khan's headscarf had done the store any harm – and thus failed to accommodate her religious beliefs.

In a religiously diverse country, people of different faiths will have different needs. Some workers need to wear headscarves, some need Saturdays off, some cannot assist with abortions or capital punishment. The sensible response to most of these differences is to accommodate them – to recognize that our society is filled with wonderful differences, and to find ways to work around those differences without kicking people out of their jobs.

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## 23 MULTI CHANNEL RETAILING

### Learning objectives:

- To understand multi channel retailing
- To learn about the drivers of successful multi channel retailing
- To identify the best practices in multi-channel retailing

**Multichannel retailing** is when a company provides numerous ways for customers to purchase goods and services. This marketing strategy could include selling through traditional outlets such as catalogs, brick-and-mortar stores, mail, and telephone.

Multi-channel retailing is a marketing strategy that offers your customers a choice of ways to buy products. A true multi-channel strategy covers purchases from a store, purchases from a website, telephone ordering, mail orders, interactive television, catalog ordering and comparison shopping sites. The aim of a multi-channel retailing strategy is to maximize revenue and loyalty by offering your customers choice and convenience.

Multi-channel retailing is an ecommerce selling strategy that targets customers on various channels beyond a company's website. Multichannel retailing has evolved beyond promotion to include selling directly to consumers on social media, marketplaces, and other mediums.

### Experience

A successful multi-channel strategy offers customers a consistent quality of experience. Customer's experience while buying a product influences the perception about the brand. Customer Relationship Management is important but customer experience management is even more important. The frontline employees in contact centers, retail outlets, order processing departments and website development must understand and comply with company's customer service standards. Policies such as returns and delivery charges should also be consistent across each channel.

### Integrate

Data available from multi-channel strategies can be used to identify customer preferences and maximize lifetime revenue. In a multi-channel strategy, customer profiles can become fragmented across channels. If strategy is integrated, purchasing data is consolidated into a single database so one gets a 360 degree view of the customer.

### **Research**

For a multi channel strategy to be effective, an informative website is as essential requirement. Shoppers, powered by the Internet conduct their pre-purchase research though they may use any channel to make the final purchase. The definition of multi-channel retailing must therefore take account of each stage of the purchasing process.

### **Pricing**

When it comes to a multi-channel strategy, the same price can be charged for a product across all channels or a differential pricing strategy can be adopted. Website prices are lower than store prices because website operation doesn't involve the kind of overheads that a physical store has to deal with. Customers have to choose between lower online prices and personalized attention in a physical store.

However, the quality of personalized attention also plays a role. The service rendered by the frontline employee must be a value addition – the employee must provide more information than what the website offers. This is what will attract customers to visit a physical store. In reality, store employees often fail to provide good service, are disinterested in their work and this reflects in their interactions with employees. Employees who interact with customers have to be trained so that they are more knowledgeable and can satisfactorily answer customer queries.

### **Reach**

A multi-channel strategy gives you the ability to expand your business on a national or global scale without investing in further physical stores. An e-commerce website can be designed to operate in multiple currencies and with local content to attract customers in many countries. Business can be conducted across multiple time zones with no restrictions on opening or closing times.

Retailers utilizing two channels averaged double the revenue of those who sold only through one. Additionally, those who sold on two online marketplaces instead of just one (plus their website) averaged 190% more sales revenue than single-marketplace retailers.

Given user's cross-channel interaction with brands and products, online sales are no longer limited to an ecommerce website. Channels that were previously considered part of the awareness stage, such as social media and content platforms, can now be sources of revenue. Reaching consumers at every possible touch point validates a brand and enables merchants to earn repeat customers who otherwise may not find them.

### **Three important retail channels**

1. Social Media is proving to be a promising new sales channel. The “buy button” feature in social media websites has now become a common feature. For example, the Twitter Buy Button automatically appears with any product that has been tweeted. Thus, social sites are not just places where you can merely advertise your product. Pinterest has recently reconfigured their buy button so that virtually any company can have one. Facebook Shop lets businesses place buy buttons on their Facebook home pages. With any of these channels, customers can buy without leaving the social site and do it from a mobile device if they wish.
2. Marketplaces such as eBay, Amazon, and Rakuten, where businesses can offer their products for sale. Many shoppers begin their product search on a marketplace, including an astounding [40% that start on Amazon](#). Marketplaces don't have to be considered a competitor: they can be a source of revenue.

3. Comparison Shopping Engines (CSEs) are a great way to let products outshine those of competitors. There are over 100 CSE sites, including Google Product Search and dShopping.com. CSEs can either sell products directly or drive traffic to ecommerce site product pages.

### **Keys to successful multichannel retailing**

Strategy execution is important. Multi channel strategies need to focus on

1. Differentiation – Convey value proposition at first glance. Each point of customer contact must offer something unique like special discounts, coupons, free samples and points in a membership program.
2. Brand consistency: All channels need to have consistent graphics and messaging to increase brand recognition.
3. Streamlined operations: The most daunting aspect of multichannel retailing is managing sales, processing orders, and fulfilling customer purchases – across multiple channels. In the absence of synchronization, retailers run the risk of overselling or having to manage multiple order management interfaces.  
Creating a successful multi-channel experience is no longer an option for retailers. Let us see the benefits that multi-channel retailing offers to retailers.

### **Customer Perception**

Multi-channel retailing improves customer perception. Customers are expecting integration with their shopping experience – for example using of tablet while watching television. Digital generation has more buying power and so brands have to work hard to provide that kind of experience.

Stores that create a seamless experience for the customer by integrating all different forms of technology can engender customer loyalty. If customers feel that a particular brand is forward-thinking and more agile in terms of meeting the customer requirements, they will keep coming back. Brands have to compete on experience rather than just price. Customers may not mind paying slightly more for the convenience.

### **Increased sales**

The basic objective behind having a cogent strategy is to increase profit and achieve growth in sales. As multi channel retailing offers a variety of engagement points for the customer, it increases the convenience for the customer and makes a shopping a pleasurable experience.

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 smart phone 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**

Multi-channel retailing provides vast opportunities to know the customer. Thus, information can be gathered and then used more effectively. Customers may be more comfortable entering their email address in a kiosk than giving it to a salesperson. When this information is available across a variety of channels, retailer has more business opportunities to capture the information.

Tracking what a customer is purchasing can strengthen targeted marketing efforts. For example – if a customer has a tendency to browse online and then purchase in-store, then he can be invited for a private showing in a store where the list of products can be sent before the event. This improves the chance of purchase.

However there is a word of caution here. The system should be such that once a customer enters the information – it should be possible to capture it across all channels. If we ask the customer to enter the information repeatedly then this can prove to be intrusive and annoying.

### **Enhanced productivity**

Multi-channel retailing arms workers with more information and increases their efficiency. If employees have tablets, they can help the customers better. They can find out what is in stock, what is available in other stores, how much time it will take to move the required item from another store and also when new products might be launched. Thus, a customer can make the purchase via the tablet instead of standing in a queue.

### **Best practices in multi channel retailing**

#### **Be consistent.**

When a retailer is communicating a message across all channels, the channels should ensure that the customer knows exactly the brand that he is interacting with. Creation of a single marketing message and having a strategy to deploy it across all channels is important.

### **Provide a value-add.**

Each engagement point with the customer must offer something to the customer. Sales person must have more information than what is available on the website. This is where value is getting added.

### **Security**

Today customers are more knowledgeable thanks to the plethora of information that is available to them. Customers are wary of providing too much personal information as they know that there could be security issues. Being helpful is one thing. Being intrusive is another thing. Retailers have to draw a fine balance between being helpful and being intrusive. Customers should feel that they will benefit by sharing the information.

### **Be committed.**

Multi channel retailing needs investment in time and money. Clear cut strategy across all the teams is essential. All stakeholders need to be involved. They need to understand the process. The total marketing strategy for the retailer is to invest in the future of the customer acquisition, retention process and loyalty programs.

## 24 GREEN RETAILING TO GAIN COMPETITIVE ADVANTAGE

### Learning objectives:

- To understand how green retailing can lead to sustainable competitive advantage for retailers.
- To appreciate the need and importance of green retailing.
- To review the challenges associated with green retailing.
- To identify the steps to success for sustainable retailing.

Green retailing refers to the management approach that focuses on environmental protection to improve the retail value chain through elimination of waste, increase in efficiency and reduction in costs. Green Retailing is an approach toward managing any retail business by incorporating sustainability focused practices and environmentally friendly processes.

Retail sector is realizing the importance of becoming eco-friendly. Global warming and reduction of green cover due to adverse manufacturing processes is fast becoming an important issue across all the nations. Consumers are becoming aware of green and organic products and realize the need for eco-friendly practices. This presents a great opportunity for retailers to expand their offerings. Today consumers are ready to spend on green products. Retailers have also realized that building an eco-friendly brand would differentiate their offerings from those of competitors.

The focus has also shifted to green practices in store operations and also along the supply chain. There is also increased awareness among retailers about carbon footprints at the manufacturing and operations level. Retailers are looking to create a positive impression on the consumer's mind about their brand. Carbon footprint is the total amount of CO<sub>2</sub> emissions that an individual or organisation is responsible for.

Some of the eco-friendly practices that retailers can follow for their stores are:

- Opt for green construction processes for stores
- Reuse packing material and cardboard boxes
- Print double sided whenever possible
- Use renewable sources of energy
- Reduce paper transactions by adopting technology for billing, invoicing, vendor payments and order management

- Use rechargeable batteries
- Reduce wastage of paper, electricity, water, etc in stores
- Purchase energy efficient equipment inside stores
- Use eco-friendly cleaning materials
- Recycle paper, plastic, metals, cartridges, etc

### **Benefits of following green practices in retail**

- Optimal usage of infrastructure leading to reduced operational costs
- Reuse of materials and reduced wastage leading to substantial cost savings
- Investment in technology that can save time and resources on operations
- Would help in branding the company as eco-friendly
- With government increasingly enforcing environmental protection, green practices would ensure compliances and also tax benefits in future.

However it is not easy to convert conventional stores to eco-friendly stores. Large investments are needed for introducing renewable options. It takes time and effort for the in-store staff to be conscious of wastage reduction and recycling options. Successful implementation of green practices a holistic approach and a complete change in the mindset of all the stakeholders along the supply chain.

Integrating green policies and practices in retail sector is an important area of research. Let us look at some of the definitions that are associated with green efforts in retailing:

Waste Management: Waste management includes generation, minimization, removal, transportation, and treatment of waste. It also looks into the aspects of recycling, reuse and disposal of residual parts of used products.

Green Transportation: Green Transportation or Sustainable Transportation comprises of those modes of transportation that do not depend on diminishing natural resources like fossil fuels. These transportation modes rely on renewable energy sources. They also have very low impact on the environment as these modes produce minimal or no greenhouse gas emission.

Green Packaging: Green packaging or sustainable packaging uses environmentally-sensitive manufacturing methods and recyclable and biodegradable materials for the purpose of product packaging, so that the package has low impact on the environment and the packaging process consumes minimum energy.

Green Promotion: Green Promotion refers to the specific type of advertising that focuses on the promotion of sustainable policies, environmentally friendly operations, green packaging and environmental measures adopted by a firm.

Green Procurement: Green procurement refers to the spending and investment policy adopted by a firm toward purchase of environmentally friendly products as well as services, selection of vendors and the setting of required environmental criteria.

Energy Conservation: Energy conservation refers to reduction in the amount of energy consumption for either a process or a system through rational usage, reducing the requirement of energy intensive services.

More and more retailers are joining the green bandwagon. Green retailing is being increasingly considered as a strategic tool to differentiate a retailer's offerings. Sustainability is fast becoming the new mantra. For the retailer, sustainable retailing means encompassing supplier management, brand management, the customer experience and the bottom line.

Until recently, however, sustainable retailing had been restricted to environmental issues and planet stewardship. While environmental impact and planet stewardship are important issues, the lifeblood of retail is profit. The hurdle for many retailers is finding buy-in for something that may give you a warm feeling but may not move the needle as it relates to sales and marketing. However, a growing number of retailers are seeing the opportunities for increased profits and cash flows via sustainable retailing. Today, sustainable retailing goes beyond green packaging and carbon footprint reduction, encompassing supplier management, brand management, and even customer experience. Today's green retail movement must also move the bottom line.

Going green leads to a strategic and tactical shift in internal business processes and cost efficiencies in retail. It opens the path for a new way of engaging the customer by leveraging sustainability initiatives so that both retailer and customers can foster a partnership to become good global citizens. Going green not only leads to operational efficiencies for the retailer but also breeds customer loyalty.

Regardless of its origin, sustainability is becoming a core consideration for the retail industry, affecting strategy, operations, workforce engagement, and connection to consumers and communities. To forge a path forward on social and environmental issues where there is often no precedent, retailers are reaching out to nonprofits, academics, and governments, as well as to their suppliers, consumers, investors, vendors, and communities to solidify a realistic course of action. In most cases, this path starts behind the scenes, looking at the environmental impact of company operations.

Today there is greater public awareness about environmental issues. For example – many retailers have stopped issuing plastic bags or they charge for plastic bags. Namdhari Agro in Bangalore, India sells jute bags at a price. The wastefulness associated with plastic bag use has become symbolic of the entire green movement. Many retailers run recycling programs to encourage customers to return items that they no longer use. Green retailing involves efforts by retailers to play a part in reducing global warming by also educating consumers on the importance of going green. Green retailing also includes efficient and clean transportation, recycled packaging and reduction of paper consumption for corporate communication.

For retailers, saving money and resources while providing an excellent customer experience is a critical business goal. Retailers can reduce the consumption of electricity. Retailers must engage their customers to claim the reputation benefits of being an environmentally friendly company. As retailers build their sustainability programs, they have developed management, measurement and IT systems for continuous improvement. In retail stores, companies aim to provide a place for employees and customers to flourish while minimizing the environmental footprint.

### **8 Steps to Success for sustainable retailing**

- Assign an executive champion for enterprise wide green initiatives.
- Improve communication with internal and external stakeholders. Gaining stakeholder understanding and buy-in is a crucial element to enterprise wide success. Without this regular sharing of vision and effort, it becomes far more difficult to attain three other key benefits of sustainability platforms: effective collaboration, innovation, and dramatically improved customer loyalty.
- Institute an alternative energy management and control strategy. This will lead to cost optimization.
- Engage the use of technology and services as part of the green retail initiative.
- Centralize responsibility for all enterprise wide green and sustainability initiatives. Seek a qualified candidate with experience dealing with external factors like compliance and reporting, as well as internal issues of cross-functional alignment and identification of areas of opportunity.
- Implement internal training and education around the company's green/sustainability mission. Ensuring internal alignment around program objectives requires that everyone understands not only their role, but the CSR (corporate social responsibility) position and commitment of the entire company.
- Go customer-centric. Enterprises of all sizes need to focus on understanding and improving the customer experience of the growing number of responsibility-driven consumers. Implementing responsibility-focused research and marketing programs allows insight into the needs and wants of green-focused buyers.

- Move more aggressively to expand investments in sustainability-oriented software and assets. Having the assets and software to efficiently provide a deep view of asset performance and overall enterprise-sustainability performance will help to highlight both successes and opportunities for improvement. Sustainability-oriented software offers a granular view of financial and nonfinancial performance and metrics that can be presented, analyzed, and acted upon by key stakeholders.

### **To sum up**

- Green practices will lead to improved customer experience: an appropriately lit, climate controlled and ventilated space can feel inviting and comfortable.
- Energy and waste reduction are important considerations for efficient and comfortable stores.
- Installation of building automation systems that track energy and control temperature settings, monitor alarms and help identify areas for energy savings and for retrofitting mechanical systems with more efficient models.
- For retail formats like grocery and convenience stores, retailers can install advanced refrigeration systems with self-closing doors, motion activated lighting, and refrigerants with a lower climate impact.
- Lighting is another way to introduce efficiency. Retailers are installing low-energy lighting systems, including fluorescent and LED lamps, which use about 75% less energy over a longer lifespan than standard incandescent bulbs. They are also incorporating day lighting to reduce the need for artificial light during daytime hours.

On-site renewable energy is a long-term investment that hedges energy costs, saves money, reduces emissions, and provides reputational benefits. Rooftop solar energy systems are the most common approach. As retailers continue to make progress toward carbon reduction, strategic and comprehensive initiatives like sub metering, efficiency retrofits, and renewable energy generation will become increasingly common.

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# 25 RETAIL COMMUNICATION

## Learning objectives:

- To identify the various communication strategies in retail
- To review retail promotion as a tool for growing the business
- To study the elements of retail promotion mix
- To identify the ethical issues associated with celebrity endorsements
- To review the dimensions of integrated communication

## RETAIL PROMOTION

Retail promotion is any communication by a retailer that informs, persuades and reminds the target market about any aspect of the firm. Employees have to engage with customers, understand their unique needs and tailor new offers for customers. District managers monitor store operations and meet regularly with store managers to discuss merchandising, new product introductions, sales promotions, customer loyalty programs, employee satisfaction surveys, store operating performance.

## Elements of Retail Promotion Mix

- Advertising
- Public Relations
- Personal Selling
- Sales promotion

## Advertising

- Paid non-personal communication transmitted through out-of-store mass media by an identified sponsor
- Differences between retailer and manufacturer strategies – manufacturers unlike retailers can use national media
- Retailers stress immediacy, manufacturers are more concerned with developing favorable attitudes,
- Retailers stress prices in ads, while manufacturers focus on product attributes in the ads.
- Two retailers or wholesaler and retailer may share the manufacturing costs. This is co-operative advertising.

### Objectives of advertising

- Grow sales
- Increase customer traffic
- Develop retail image
- Keep customers informed
- Stimulate demand for private brands

Advantages of advertising	Disadvantages of advertising
Attract large audience	Standardized messages lack flexibility
Costs per viewer or listener low	Needs of individual customers not focused on
Retailer has control over message content	Media may reach large geographical areas and for retailers this may be wasteful
Messages in print media can be studied easily by target market	Advertising for fad items need shorter lead times which may not be possible sometimes

Retailers choose media like newspapers due to reach, short lead time, reasonable costs, graphics but it can also lead to wastage and lesser memory recall. **Free distribution shopper papers called penny savers with little news content and delivery to all households is popular today.**

**Radio** is also used by retailers as costs are low. But it has no visual impact and needs repetition. TV ads have large coverage and availability of sponsors. But costs are high, attention is lost due to channel surfing and ads in between television serials or movies are considered as irksome by viewers.

There is also advertising on web, on trains, buses, taxis, autos. Retailers also use billboard advertising. Single page flyers or multiple page circulars are also used by Retailers that are distributed to individual households mostly with newspapers.

### Types of advertising

Pioneer Ads- Goal is awareness and giving information

Competitive Ads – Persuasion

Reminder Ads – Address to loyal customers

Institutional Ads – To advertise the retailers names more than the sale of product or services

In vertical co-operative advertising agreements, manufacturer, retailer and wholesaler share the costs of advertisement. In the horizontal agreement, two retailers share the cost of advertisement. The Globus ad asked people to vote and get a discount on purchases. This was an example of institutional advertisement.

### Different forms of branding

- Basket Branding
- Trolley branding
- Instore promotion
- Product Displays
- Retail television network
- Branding suspended from the ceiling near cash counters

### Public Relations

It represents communication that fosters a favorable image for the retailer among the public. Publicity is non-personal form of public relations whereby messages are transmitted through mass media. No payment is made and there is no sponsor also. Advertising is paid form while publicity is non paid and so non controllable.

### Objectives of PR

- Increase awareness
- Maintain retailer image
- Innovativeness
- Reduced cost

Advantages of PR	Disadvantages of PR
Image can be enhanced	Little control of retailer on publicity
No cost for message time or space	More suitable for short run
Address mass audience	Costs for PR staff, planning, store opening activities etc.
People pay more attention to news stories than to clearly identified ads	Retailers do not want to spend money on image related communication

PR activities are considered as part of the promotion mix because publicity can be positive or negative. Publicity can be planned or it can be unexpected. The publicity may enhance the image or erode the image.

### **Function of store personnel**

1. Greet customer and determine his wants
2. Show merchandise
3. Give sales presentation
4. Demonstrate good or service
5. Answer objections
6. Close the sale
7. Get feedback

A memorized repetitive speech given to all customers interested in a particular item is called as canned presentation.

### **Sales Promotion**

It is a paid communication activity that stimulates consumer purchases. It includes displays, contests, coupons, frequent shopper programs, prizes, gifts etc. The idea is to increase short term sales volume, maintain customer loyalty and complement other promotion tools. It helps draw customer traffic, increased loyalty, increased impulse purchases and add the fun element in shopping but the effects can only be short term and if promotions are sub-standard the retailer's image will get affected.

### **Frequent shopper programs**

Customers are given points or discounts based on the dollar amounts of their purchases. The points are accumulated to acquire goods or services.

### **PERSONAL SELLING**

It is oral communication with one or more prospective customers for the purpose of making a sale. The level of personal selling depends upon the retailer. The goals of personal selling are to persuade customers to buy and give feedback to the management. The attention span of the customer is higher and the sales person can be flexible in offering ways to address customer needs but only a few customers can be handled at a given time. Customers cannot be lured into a store only through personal selling.

Order taking sales person performs sales functions like setting up displays, stocking shelves and answering simple questions. This is more of a clerical nature of work. Order getting sales person is involved in persuading customers and closing sales. Example: Real estate, car, consumer electronics. Sometimes manufacturer may incentivize sales people for selling their brand using push money but retailers do not encourage this because the sales person will not be responsive to the brands required by customers but which do not have push monies backing them.

## **Personal Selling vs. Direct Marketing**

Direct marketing and personal selling are two selling techniques that are very similar to each other as both involve making a direct contact with the end consumer rather than relying on the traditional mode of letting products or services sell off the shelves in shops and stores. However, there are differences in these two techniques that pertain to the approach of selling with one emphasizing the role of the salesman while the other focusing more on closing the sale. Let us take a closer look and find out more differences between personal selling and direct marketing.

### **What is Personal Selling?**

Personal selling, as the name implies, is one technique where the seller seeks to develop relationships with customers and makes use of communication and negotiation skills to close the sale of a product or service that is complex and cannot sell on its own off the shelves in a market place.

Personal selling requires oral presentation on the part of the salesman in a bid to close out a sale. At first, the dialogue between the salesman and the prospective client seems like an attempt to make the person aware of a product, but the end of the process usually takes the shape of a deliberate attempt to somehow make the sale of the product.

Being one of the oldest forms of selling, personal selling can make use of either push or pull strategies in a bid to close out a sale.

### **What is Direct Marketing?**

Have you ever received an invitation from a telemarketer on behalf of a company or a business to have a lunch or dinner to listen to some exciting schemes? If yes, you have experienced a kind of selling that is the backbone of many businesses and is known as direct marketing. This involves removal of middlemen from the sale process and addressing the target customers directly.

Business of all sorts engage in direct marketing, and if you thought that only small and unknown companies employed this strategy, to achieve higher sales, forget it as even some companies in Fortune 500 make use of direct marketing for selling their products and services.

The methods employed to reach out to target customers are calling through mobiles, sending SMS, emailing, sending out invites through magazines and newspapers to attend a seminar or a conference, etc. Telemarketing is perhaps the most common form of direct marketing, and most effective too, though many people find it too aggressive and even offensive at times as it invades their privacy without any prior information. Direct marketing is mostly based upon call to action by alluring the customer with an incentive or an offer that sounds irresistible.

### **What is the difference between Personal Selling and Direct Marketing?**

- Personal selling is more for products and services that are complex in nature and cannot sell off the shelves on their own such as financial products.
- Direct marketing is a selling technique that involves making direct contact with the intended customer through phone calls, emails, offers through newspapers and magazines etc.
- Direct marketing is more aggressive than personal selling that appears like an attempt to arm the client with important information at first.
- There is an emphasis on building up a relationship with the customer in personal selling whereas direct marketing seeks to impress upon the benefits of the offer.
- Personal selling is the oldest form of selling while direct marketing is being used increasingly by small and big companies to increase their sales.

### **Celebrity endorsements: Are they the right advertising pull strategies?**

Celebrity endorsements have been part of the advertising strategies of many firms since the last few decades. Lux is considered as the beauty soap of film stars and this has been the strategy of Levers since the early 40's. Salman Khan endorses Rotomac pens. Sachin Tendulkar endorses Reynolds pens. Amitabh Bachchan has endorsed Parker pens. Puneet Rajkumar, Akshay Kumar and Mohanlal vouch for Manapuram Gold Loan & finance. Hema Malini has endorsed services of Bank of Rajasthan and she is often found endorsing a brand of water purifier.

The question is – what is the value addition of these celebrities to these advertising strategies? Has someone done research that has correlated the celebrity endorsements with growth in revenue or brand equity? Very little is known about this.

Companies that cringe to pay genuine separation dues for their employees do not bat an eye-lid before paying a bomb to film stars for 5-minute appearances or paying the celebrities crores of rupees for endorsements. When a celebrity's market image falls, he or she is promptly replaced by another. The companies make their profits, celebrities grow richer and richer and the common man stays where he is. Amways tried to create greater awareness around it but the multi-level marketing principle is essentially flawed. It tries to make A richer by making A sell to B at a margin and so on and so forth.

Celebrity endorsements have also been plagued with controversies galore. Mahendra Singh Dhoni had an infamous spat with regards to the agreement that he signed for Mysore Sandal Soap. The company making the soap wasn't doing too well and they thought that Dhoni could do the trick. But the deal fell through and ended up in a court dispute.

Amitabh's contention that he stopped endorsing Pepsi after a little girl asked him why he was asking them to drink poison attracted lot of flak. Here was a man who has earned crores and crores of rupees in his endorsement deals and now after earning so much money, he now starts looking down upon the very brand he endorses. If Pepsi is poison, what is a convenience food like Maggi Noodles that supposedly has 'vanaspathi', an ingredient known to clog your arteries over a period of time? Can a celebrity afford to have double standards? May be.

At times one fails to understand why companies feel so chuffed towards celebrity endorsements if there has been little conclusive evidence regarding their correlation with a brand's success. I once asked Mr. V C Jayaram (CEO of the firm making Reynolds pens) the reason why Sachin was roped in as the brand ambassador for Reynolds. He felt that Sachin represented the youth of the nation and Sachin signified "speed". So, when Sachin endorses a Reynold pen, consumers associate that with writing speed. I am someone who is fond of writing but I have paid more attention to the quality of writing than anything else. For all you know I may be wrong.

Often, the celebrity status is so over-powering that consumers forget the brand that was endorsed by the celebrity. This can dampen the brand value. We have to understand that for the concerned celebrities, it is about money and nothing else. Often the celebrities may never use the brands that they endorse. Juhi Chawla has endorsed the "teda hai par merahai" Kurkure brand and there were whispers that the Kurkure brand did not exactly classify as a healthy convenience food. The health scare did not dissuade Chawla from recommending the brand for close to a decade.

Then there are celebrities who never endorse a brand that they do not personally use. Some celebrities like Bollywood actor Sunny Deol endorse brands that go with their macho image. Some celebrities make a fool of themselves by endorsing brands that are an exact antithesis of their image and screen persona. For instance – “arty” Bollywood actor Irfan Khan (The Namesake, The Life of Pi) trying to do a Michael Jackson in a soft drink ad is a bit too much. Veteran actress Rekha made an advertising debut to sell “Snickers” chocolates but the advertisement proved to be a damp squib. The story board fell flat on its face.

Vidya Balan who acted in “The Dirty Picture” was chosen as the celebrity brand ambassador for the Government’s sulabh shauchalaya (Build toilets in rural areas) program. Kajol & Juhi Chawla, actresses who are also mothers in their real-life endorse baby products and this is somewhat believable. But Abhishek Bachchan and Aishwarya Rai talking about “cooking” using Prestige Pressure Cooker is hardly believable. More so, when Rai, in a recent interview said that she did not know cooking.

Way before the alleged pesticides-in-cola controversy broke in India badminton ace Pullela Gopichand spurned an offer to endorse a fizzy drink because he believed they weren’t good for health. His far richer, much more sought after contemporaries like Sachin Tendulkar and Shah Rukh Khan continued to trade in their star aura for the same products.

The gap between conviction and plausible justification can be both a narrow and wide one. It is difficult to maintain a puritanical attitude when the moolah is large. In such a case, conscience is conveniently dumped in the dust bin.

A valid argument is that the blame should rest with those people who can’t exercise self control, not the celebrity promoting the drink. If you are stupid enough to drink poison just because your favorite celebrity is endorsing it, then you really can’t blame anyone.

There is lot of debate and discussion about corporate social responsibility. What about CESR? Celebrity Social Responsibility? Celebrities should question their endorsement choices and attempt to make informed decisions.

Morality thankfully is constantly evolving. Smoking is considered immoral and unhealthy. Indians still squirm at divorces and extra marital affairs. Fairness creams are being attacked for glorifying fairness, but it seldom impacts a village girl’s desires to try out that cream. It is just not possible to do moral policing beyond a limit. Individuals need to have the discretionary power to decide what is wrong and what is right.

The courts placing a degree of accountability on celebrities who endorse products/services is a step in the right direction. You may not lose much if you buy soap endorsed by an actress for Rs.10 and end up becoming dissatisfied. But in case of services, considering the assurance element, celebrities play a much greater role. In endorsing services, celebrities need to remember that their image plays a much greater role in branding and positioning the service. Celebrities who endorse services should put themselves in the shoes of the consumer and then decide. But in a world where easy money means a lot, it is too much to ask, isn't it?

### **Integrated marketing communication**

A concept of marketing communications planning that recognizes the added value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines and combines these disciplines to provide clarity, consistency and maximum communications impact. It is a marketing communications planning concept that recognizes the value of a comprehensive plan. A plan that evaluates the strategic roles of several communications disciplines:

- Media advertising, Direct marketing, Interactive/internet marketing, Sales promotion, Publicity/Public relations

Combines the disciplines to provide:

- Clarity, Consistency, Maximum communications impact

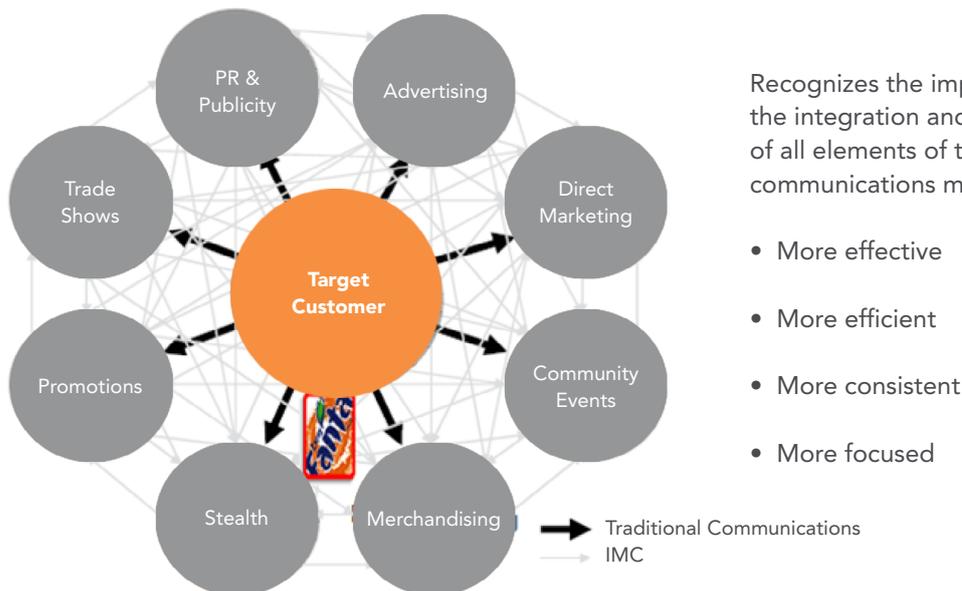
Marketing Mix:

- Product or Service, Pricing, Channels of Distribution, Promotion

Promotional Mix:

- Advertising, Direct Marketing, Interactive/internet marketing, Sales Promotion, Publicity/Public Relations, Personal Selling

## The IMC Approach



## The Communication Planning Process

- ❖ Consumer-centric brand positioning.
- ❖ Engage consumers by “fitting in” not “Standing out”.
- ❖ Leverage the emotional code of the context of consumers live.
- ❖ Change the everyday life experience Not Just The Purchase Experience.
- ❖ Link the brand across the consumer journey.

## Communication Levels

### Corporate Level

Messages sent by a company’s overall business practices and philosophies such as mission, labor practices, philanthropies, culture and other processes

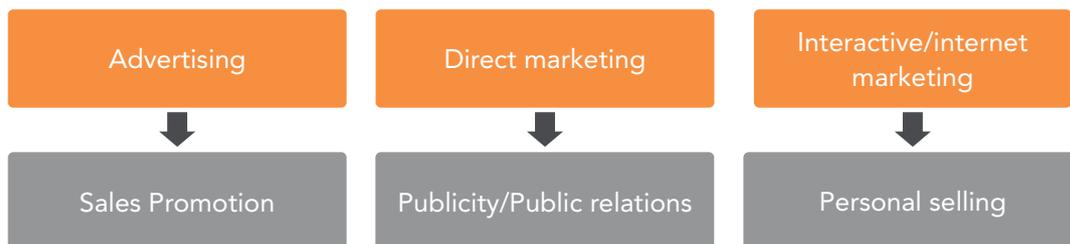
### Marketing Level

Messages sent by or inferred from by various aspects of marketing mix such as product performance, design, appearance, pricing and distribution

Marketing Communication Level- Strategic and executional consistency among all forms of marketing communication

## Reasons for growing importance of IMC

- Shift from media advertising to other forms of marketing communication.
- Movement away from advertising focused- approaches that emphasize mass media.
- Shift in power from manufacturers to retailers.
- Rapid growth of database marketing.
- Demands for greater advertising agency accountability.
- Changes in agency compensation.
- Rapid growth of the Internet.
- Increasing importance of branding



## Marketing plan

A document that describes the overall marketing strategy and programs developed for a company, product or brand. The plan includes: A detailed situation analysis and specific marketing objectives. It is a marketing strategy and program that includes selection of a target market and plans for marketing mix elements. It is a program for implementing the strategy and a process for monitoring and evaluating performance.

## Situation analysis

### Internal Factors

- Assessment of the firm's promotional organization and capabilities
- Review of the firm's previous promotional programs
- Assessment of firm or brand image and implications for promotion
- Assessment of relative strengths and weaknesses of product/service

### External Factors

- Customer analysis
- Competitive analysis

### Environmental analysis

- Technological Political/Legal
- Demographic Socio/Cultural
- Economic

### Competitive Analysis

- Direct and indirect competitors, Position relative to competitors, Size of competitors' advertising, promotional budgets, IMC strategies being used by competitors

### Customer Analysis

- Who buys our product or service?
- Who initiates and makes the decision to purchase and who influences the process?
- How is the purchase decision made?
- What attributes or criteria are important to customers?
- What are customers' perceptions of and attitudes toward our company, product/ service or brands?
- What factors influence the decision making process?
- Contact points where customers can be reached

### **Interactive/Internet Marketing**

*A form of marketing communication through interactive media which allow for a two-way flow of information whereby users can participate in and modify the content of the information they receive in real time.*

### **Advantages**

Can be used for a variety of IMC functions

Messages can be tailored to specific interests and needs of customers

Interactive nature of the Internet leads to higher level of involvement

Can provide large amounts of information to customers

## **Disadvantages**

- Internet is not yet a mass medium as many consumers lack access
- Attention to Internet ads is very low
- Great deal of clutter on the Internet
- Audience measurement is a problem on the Internet

## **Use of the Internet as an IMC Tool**

- As an advertising medium to inform, educate and persuade customers
- As a direct sales tool
- To obtain customer database information
- To communicate and interact with buyers
- To provide customer service and support
- To build and maintain customer relationships
- As a tool for implementing sales promotion
- As a tool for implementing publicity/public relations programs

## **Promotional Management**

- *Coordinating the promotional mix elements to develop a controlled, integrated program of effective marketing communications.*

Considerations for developing the promotional program include:

- Type of product, Buyer's decision process, Stage of product life cycle, Channels of distribution

### **The Retail Promotional Mix**

Store-Based

POS display presentation of products to shoppers. Personal selling

In store sales promotion

In-store advertising

The retail sale (promotional prices for a specific period)

### **Market- based**

Sales Promotion – Inducements to purchase

Advertising

Direct marketing – Direct contact with shoppers

Sponsorship – Link to related event, individual or company

Public Relations – Information management via 'views' sources

Exterior design – Communication with passersby (window display)

**Sales Promotion**

Marketing techniques used on a temporary basis, to make goods and services more attractive to the consumer by providing some additional benefit whether in cash or in kind.

**Money based sales promotion:** Effective reduction in the purchase price either by an actual price reduction or volume discount. Frequent buyer programs, loyalty cards and expenditure based discounts.

Interest based sales promotions: Generate positive shopper attitudes towards a purchase category or entire assortment by presenting the items in an eye catching way.

Value based Methods: Give shopper increased value for money without an effective lowering of the price. E.g. Advertising specialties are products offered to shoppers on a ‘no- purchase required’ basis. Shoppers voucher, can get a free item when they visit a given store. Premiums are complementary items. A free mug after the purchase of 5 jars of coffee can be considered as an example.

Cafe Coffee day coffee powder outlets give coupons on every purchase of coffee powder and if you have collected 5 or 10 coupons, you get a stainless steel item as a gift. Self-liquidating premium – e.g. when you buy a pressure cooker, you get a tawa priced at Rs. 2000 for Rs 1200 only. But if the perceived value of the main product is significantly higher than the perceived value of the premium, shoppers see the incentive to buy as rather limited. The incentive to buy increases as the perceived value of the premium increases but only up to a point. If the free item is more valuable than the product itself, then shoppers become suspicious of the premium.

**Point-of-sale display**

Window display – objectives are increased sales and store traffic.

Retail Advertising

<b>Market Based Advertising</b>	<b>Store Based Advertising</b>
Shoppers receive the advertising message outside the store environment and decoding the message is beyond the retailer’s control.	This includes all the methods by which a message can be communicated to a shopper while in the controlled store environment Signage, announcements, packaging and display leaflets. In-store TV and video. Interactive information systems.

Nike utilizes a large number of TV screens in its own branded stores to demonstrate products being used by sports personalities. Information kiosks offer simple data base enquiries to the customer as well as communicating certain sales promotion efforts of products to the shopper.

### **Direct Marketing**

Retailers are using direct marketing to build closer relationships with shoppers. Direct media include electronic mail and postal mail. Telephone establishes one-to-one contact with shoppers unlike mass media advertising.

Public Relations is the deliberate, planned and sustained effort to establish and maintain mutual understanding between an organisation and its public. PR is used to generate favorable publicity or lessen the negative effects of unfavorable publicity. PR can inform, persuade and reinforce.

### **What is controlled communication?**

Controlled communication in PR is publicity material for company use and includes annual reports, educational material, leaflets and audio visual presentations.

Use of PR by retailers is increasing. Shoppers are becoming more sophisticated.

Advertising is less effective. Reduction in source credibility means that the message is seen to come from an organisation that has a reason to present a distorted version of the facts. Noise generated by increasing competition reduces the effectiveness of advertising. Competition between retailers intensifies the need for effective communication to communicate and reinforce differentiation and positioning in general.

### **There are 4 types of PR strategies**

1. Recovery strategies: Actions taken after adverse publicity. E.g. A product quality scare or survey showing a retailer to be more expensive than competitors.
2. Relationship Strategies are concerned with building shopper loyalty by building positive shopper perceptions.
3. Product and store promotion places relevant stories or news items about favorable aspects of the store or the store's assortment.
4. Store image building relates to the retailers overall image and may concern issues such as ethics, honesty, fair operations etc.

**Personal Selling:**

This is an important promotional method for all retailers. The shopper's perceptions of the performance of sales staff tend to determine their satisfaction with the retailer and purchase experience. This is particularly relevant for high involvement retail situations like purchase of jewellery and furniture. Personal selling that is highly in-depth is called as creative selling. Sales staff members provide in-depth customer support unique to each encounter.

Probably the most infamous promotional method used by retailers is the sale. Historically, sales were a big event that attracted queues of shoppers looking for a bargain. Shoppers adopted a typical shopping behavior. This behavioral change occurred because sales were something special and were relatively infrequent.

Modern times have seen retailers extending the duration and frequency of sales to the point where shoppers no longer see them as a special event.

Shoppers now expect frequent sales and have adopted a more rational approach. This sales fatigue has rendered the sales quite ineffective and has led to an increasing usage of the EDLP (everyday low prices.).

So, if sales take a less prominent role in the promotional mix what methods are being used in its place? Market based methods such as mass-media advertising have become more prominent as have a mix of store based methods. Despite the decline of sales, retailers are using an increasingly broad set of promotional tools to achieve their objectives.

## 26 THE BULLWHIP EFFECT IN RETAIL

### Learning objective:

- To learn about bullwhip effect (also called as information distortion in supply chains)

Jay Forrester is seen as the inventor of the Bullwhip Effect. Nevertheless, he has never craved any attention for his discovery. It was his seminal work on system dynamics that led to path breaking research work on “Information distortion in Supply Chains”, popularly called as [the Bullwhip Effect](#). This, in my opinion, makes the Germeshausen Professor Emeritus in Sloan School of Management an unsung hero. This is the story of Jay Forrester.

### Early days – the management scientist who grew up in a cattle ranch

Forrester grew up in a cattle ranch in Nebraska. However, it would soon become clear, that he was a very talented young man. Even when he was in high school, he impressed all by constructing a wind driven electricity plant. After finishing his school education, he decided not to work in the family farming business. Instead he chose a career in electrical engineering. He joined [Massachusetts Institute of Technology](#) (MIT) after his graduation where he landed a \$100 per month research assistantship. It was at MIT that Forrester started to work with Gordon Brown, who would later become his mentor, to develop technology for radar antennas. Together they developed the SAGE air defense system.

### Engineering to Management

By 1956, Forrester felt that the days in digital computers were over. He had already gained experience in management by managing his projects and decided to engage fully in the field of management. What also worked in his favour at the time was that Alfred Sloan, the former president of the General Motors Corporation, had given a grant of 10 million dollars to MIT. The funding was used to start a management school in a technical environment. This was different from Harvard or Columbia as these management schools were based in a liberal arts environment.

### The birth of system dynamics

During conversations with people from General Electric, Forrester realised that the GE team was trying to work out what went wrong in their household appliance plants in Kentucky. These plants were working for three or four shifts a day but then a few years later half of the staff were made redundant. It was not the reversal of fortunes in the business cycle that was solely responsible for this turn of events. Forrester was sure that it was something more than that.

Forrester began to study the hiring and inventory decisions at GE and started a simulation using a pencil and paper. He drew three columns – inventories, employees and orders. Even when there was a steady stream of incoming orders, there was uncertainty about the employment because of decision making policies of the firm. His findings would mark the beginning of system dynamics.

Sometime after that, Forrester developed a [simulation model](#) using the talent and competence of a brilliant programmer called Richard Bennett.

When Forrester started modeling high technology growth companies, he got a few insights about why such companies have a fast pace of growth in the first few years and why they start stagnating later on.

### **Low cost housing – bohemian views**

Forrester might have been praised for his models of high growth technology companies, but he received a lot of criticism for his bohemian views on low cost housing. He believed that low cost housing was a double edged sword and led to the worsening of urban conditions. His opinion was that housing used up space where jobs could have been created. He felt that low cost housing created poverty instead of alleviating it. Despite initial opposition to the idea, he was successful in spreading his message. Even people who opposed his findings realised the gravity of what he had discovered.



### **The rise of System dynamics**

Housing was not the only topic, Forrester had strong views on. He strongly believed that computer modeling should be taught to students as young as ten. As a result, system dynamics later found its way into high schools.

Earlier scholars used the system dynamics model to make recommendations about an organisation but seldom were these recommendations viewed seriously. As expected, the traditional ways of working continued as they were justified under the garb of “operational efficiency” and “we-have-been-there-done-that” syndrome. However, Forrester feels that a mindset change is possible where contrarian thinking gets easily accepted and digested.

### **So, what can system dynamics do?**

- Organize the descriptive information
- Retain the richness of the real processes
- Build on the experiential knowledge of managers
- Reveal the dynamic behaviors that follow from different choices of policies
- Lead to greater interdisciplinary sharing of information

After a period of hibernation, work on system dynamics was researched further and by the early nineties, Hau Lee had published the seminal paper on bullwhip effect in supply chains. Sterman popularized it with the Beer game in the nineties. Academic research on bullwhip effect has been abundant since the 90's despite the fact that there are still gaps in the research that can fuel future academic research.

### **What is Bullwhip Effect?**

There is little doubt that Operations Management has evolved as a distinct functional discipline today. Bullwhip effect is a phenomenon that is a subject of intense academic research. Forrester called this ‘Industrial dynamics’. After some research on Bullwhip Effect in the early 60's, there was a lull for a long time until the subject was rediscovered in the 90's by Hau Lee, distinguished professor of strategy and supply chain management who teaches in Stanford University.



Considering the pioneering work done by him in this area in the field of Supply Chain Management, Hau Lee has often been hailed as “the father of bullwhip effect”. Despite intense academic research in this area, there are still lots to be done as the research has yet to reach its level of maturity.

Let us take an example of Oral-B toothpaste. P&G has been flashing advertisements for this tooth paste for long but I do not get this toothpaste in Bangalore. Elaichi Horlicks is available only in select pockets in India. In both these cases, there is a demand that is not getting fulfilled. On the other end of the spectrum, when you visit a retail store, you look at some items and realise that they are old – some of them are reaching their expiry date and the retailer, to motivate you to purchase these items, dangles the carrot of discounts in front of you. Thus, demand management has always been a complex and challenging task as far as supply chain is concerned.

If the demand is not properly ascertained, then either you stock less or stock more. If you stock less, then you are losing out by your inability to meet the demand leading to less sales and less profits. If you stock more and demand falls then you are often left with a dead inventory. Your working capital is blocked in this inventory. This is not an acceptable situation.

The problem is actually more complex when it comes to real world supply chains. The demand placed by the downstream (the end consumer) varies by the time it reaches the upstream (the manufacturer). Additionally, this variability gets amplified. i.e. variability in demand is not uniform. This phenomenon is called as “The Bullwhip Effect”. When you swing a bullwhip, it fluctuates so much that a small movement of the bullwhip leads to a greater swing of the bullwhip. Thus a small variation in the downstream demand gets amplified as one moves up the supply chain.

Four causes of bullwhip effect were identified by Hau Lee. These were – incorrect demand forecasts, batching, shortage gaming/rationing and pricing. So if the price of an item falls, demand fluctuates. If forecast is incorrect, then this can trigger fluctuations in demand. Some customers want to buy in bulk to derive benefits of economies of scale and this is called as batching. So, demand will again start fluctuating. If there is a shortage of an item, customers will inflate the demand fearing that they may not get what they demand. For instance, if your demand is 100 items and you know that there is a shortage and that your demand is going to be rationed, then you will place your demand as 200 items so that even if demand is rationed, you will still get 100 items which is what your actual demand is.

Other researchers have explored other causes of bullwhip effect. Academic interest is being directed at understanding the behavioral causes behind the bullwhip effect. Though sharing of information between all the actors in the supply chain (manufacturer, customer, dealer, distributor, wholesaler, retailer) has been recommended as a remedial strategy for the bullwhip effect, questions have been raised regarding its effectiveness. Why should someone share information if this is not a quid-pro-quo type of arrangement?

Stearman's beer game is a very popular experiment that is used in b-schools across the world. The game is not only exciting to play but it also gives you a glimpse about the different ways in which demand information gets distorted across the supply chain. Not being able to forecast the demand accurately is one thing – this is uncertainty of demand. Additionally, if demand also varies across the supply chain, this can lead to losses for the supply chain. Therefore, managing the bullwhip effect in the supply chain becomes very important for driving operational efficiencies.

# 27 RETAIL DEMAND MANAGEMENT

## Learning objectives:

- To understand demand management and its significance in retail marketing
- To learn about the predictability matrix

## Retail Demand Management

### Four options are available to the Retailer

1. Manage input rate
2. Change the output rate
3. Alter the average shopping time
4. Recovery measures

Market research can be done to predict shopping patterns. Unforeseen changes must be reacted to quickly and effectively.

If a demand increase is unforeseen and the shoppers have to be turned away, this may build shopper dissatisfaction so the retailer must change the output rate to increase throughput or must adopt recovery measures to avoid a negative perceived store shopping experience.

If unforeseen demand can't be met, retailers can use recovery measures or take no action. If demand changes are foreseen, the retailer can manage the input rate, change the output rate or alter the average shopping time. If the situation cannot be managed, the retailer must resort to recovery measures.

Let us look at some of the common terminologies:

A direct supplier: door-to-door sales person or through internet. Manufacturer or supplier: Someone who rarely gets an opportunity to interact with the end consumer.

Types of retailer: Level of purchase experience control, Number of different product categories.

Retailers manage the purchase experience so the degree of control refers to the degree to which the retailers can control and manage this experience.

High level of control – A retailer has a selling environment with a few unmanageable factors. Retailers with a high level of purchase control are those that adopt a store based approach. The high level of control comes from the retailer’s ability to design a self- contained selling environment that gives the shopper a unique store shopping experience. Retailers with a moderate level of control have a distance based approach where physical contact between the shopper and the retailer is limited. Example – An online retailer of footwear, apparel.

Retailers offering a large number of different categories are mass retailers.

**Level of purchase experience**

High	Moderate
<i>Mass retailer (Store based)</i>	<i>Mass retailer (Delivery based)</i>
Specialist retailer (Store based)	Specialist retailer (Delivery based)

**The Predictability/Manageability Matrix**

Input rate management is concerned with accessibility and shopping patterns. Traffic queues, road access are factors that the retailer cannot control. Input rates have to be increased to counter periods of low demand while rate decreases are associated with avoiding severe crowding or system overload. Input rates have to be increased also to counter poor performance.

Demand management problems can be foreseen or unforeseen. Market research and past experience allow shopping patterns to be predicted with reasonable degree of accuracy. Complete accuracy is seldom possible due to dynamic changes happening in the retail environment and macro environment. A competing store may have experienced a fire accident and the store must have been forced to shut down the operations. This benefits the nearby retailer for sometime at least and this demand opportunity needs to be exploited. Foreseen demand changes can be planned for while unforeseen changes must be reacted to quickly and effectively.

Demand management problems can also be manageable or unmanageable. For example – a store near a sporting ground can experience a spike in sales during the time a tournament or a match is in progress. This may have been foreseen but not easily manageable if the size of the store is inadequate to meet the demand. If a demand increase is unforeseen input rate management tactics cannot manage it. Such tactics seek to change demand in advance so once shoppers have arrived at the store there is little that retailer can do to change the input rate apart from turning the shoppers away. This causes dissatisfaction to the shopper and may turn them away forever. It also affects the retailer’s image. So retailer has to either change the output rate to increase throughput or must adopt recovery measures to avoid a negative perception about the store image.

Incentives are given to shoppers to visit the stores during slack periods (in store promotions).

Appeals to groups who do not have any time constraints (e.g. elderly, unemployed).

In Western countries, shopping at peak times is more expensive. E.g. Parking costs are high or lesser number of shopping trolleys may be available but these are negative operational situations to a marketing problem. But it is important to take care of loyal customers.

	Predictability – Unforeseen	Predictability – Foreseen
Manageable	Change output rate	Change output rate or manage input rate or alter shopping time.
Unmanageable	Recovery or acceptance	Recovery

**Store capacity and output Rate management**

1. Shopping time is effectively managed if the store design allows for efficient shopping. This depends on the store layout.
2. Educate shoppers on store layout, signages and arranging merchandise in category groupings.
3. IKEA – the layout is such that all customers move in the same direction so that there are no shoppers who are moving against the customer flow.
4. Online shopping – time spent navigating the website should be reduced.
5. Restaurants and cafes extend serving areas on to the pavements in front of the premises, which is one way of extending the store’s physical limits.
6. Crèches in retail stores can help parent’s focus on buying merchandise.
7. Setting up an information desk to assist customers.

8. Creative ideas must be evaluated in respect of the costs.
9. Separate counter for single items, separate counter for less than 10 items.
10. Separate counter for cash and credit card payments.
11. Open more exit points during peak hours.
12. Monitor number of shoppers entering a store so that in case of potential crowding extra staff can be arranged (e.g. Transfer staff from back-of-store operations to assist during a peak demand period.).
13. Retailer has to therefore:
  - Cross train employees to relieve short –run demand surges
  - Match staffing levels to predicted demand levels.
  - Training staff to increase throughput levels.

A bad experience means the retailer could lose a customer forever. The cost of customer recovery is usually much greater than the additional cost of coping with irregular peak demand periods. Recovery means targeting affected customers and devising a marketing programme that will retain or retrieve these customers instead of losing them to competitors.

Anticipation of problems beforehand and trying to tackle it is a much better option. Music has been used in the stores to influence the shopper's level of perceived control. Store design can be modified to allow threshold consumer density to be increased and shopping to be easier under conditions of perceived crowding.

### **Managing demand is a crucial role of Retail marketing**

1. The retailer has to focus on shopping experience.
2. Attract customers into a store, ensure that the customer has a good time in the store and he leaves the store without any trouble.
3. Marketing has to ensure that all employees of a retail organisation can appreciate the situation from a customer perspective.
4. Marketer must act as an advocate of the customer, reflecting customer need into the store design, the systems utilized and the way the staff are trained and prepared for their job of satisfying those needs.
5. Customer satisfaction is a balance between the benefits expected or received and the perceived cost in acquiring them.
6. Managing the expectations of customers can lead to long term satisfaction.
7. In retail marketing the role of marketer as an influencer is more important as regards the focus on customer communication and customer focused strategies.

Marketing can make promises to customers, but it takes everyone and a whole organisation to deliver satisfaction.

### **Components of the Retail Marketing mix**

1. Location of the store
2. Image of the store/reputation
3. Design and atmosphere of the outlet
4. Range
5. Assortment and quality offered
6. Competitive pricing of products
7. Specific promotions
8. Level of service

Being demand-driven means delivering the right quantities of the right products at the right places and times at the right ratios of total landed costs to target service levels. Using software, businesses can generate a single integrated forecast for all channels (e.g. e-tailers, web, retail) at the SKU/item/day level of detail. It continuously and automatically adjusts this forecast as actual demand changes throughout the day without introducing any nervousness into the chain. Each adjustment in demand is shared across the entire supply chain. This optimizes replenishment, logistics, inventory and production plans. Collaboration of partners around demand driven processes now becomes a reality.

Retail sector will benefit through forecasts that are updated with actual demand throughout the day. Planning is married to execution and this incrementally adjusts all required supply and execution plans in real time. Demand is managed across all channels (stores, websites etc). The biggest advantage is the incredible responsiveness in highly volatile events like promotions and new product introductions. The automatic propagation of demand information to all trading partners and internal departments can benefit the retailer as well as the supply chain.

Demand management can deliver more value to customers and trading partners while reducing inventory and operations costs.

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# 28 ONLINE RETAIL MARKETING

## Learning objectives:

- To learn about online retail marketing
- To learn about competitive positioning in a crowded retail market space

E-commerce – transactions that are made totally over the internet. They are of 4 types:

1. B2B
2. Consumer to consumer
3. Business to consumer
4. B2B transactions account for a major part of online retailing

Online retailing can offer easy access to the global market place.

## Positives of online retailing

- Convenient
- flexible
- operational and financial benefits for retailer
- can reach a large number of shoppers
- can be tailored to individual shopper requirements
- Technology makes access faster.

## Negatives of online retailing

1. Delivery issues
2. Absence of social contact
3. high hidden costs for retailer
4. payment issues
5. absence of impulse purchasing
6. Limited ability of retailers

Online retailers are not constrained by store size. Assortments can be changed quickly. Intermediaries may be cut out of the supply chain, thus reducing channel costs.

Amazon.com has low stock levels so working capital is limited and the assortment is huge so shoppers have access to a much wider selection of books. Online retailing also offers advantages. Data mining is possible, so the online retailer can develop bespoke approaches to attract the customers. This 1-to-1 approach is the ultimate in segmentation and targeted marketing. As the volume of online purchasing increases delivery becomes a challenge.

Online retailing can't boast of things like point of sale promotion, personal service and store design issues like display and atmospherics. Virtual design can be observed but that has little to do with the way a product is arranged on a store shelf. A shopper's experience is strongly influenced by such in store tactics.

Hedonic shopping (shopping for pleasure) is not possible in online retailing. Interaction with other shoppers or personal assistance from store personnel, taking a trial of an apparel, finding a footwear that matches the exact size- these things are not possible in an online retail store.

Sarees can be purchased online but many women would like to see the sarees by draping them in front of a mirror, so the offline experience can never be replicated in an online store.

Security of online payments is an issue. Cyber crimes are on the rise, so sometimes people are wary about using credit cards for online transactions.

Technological change (move towards virtual reality) can replace physical contact with virtual contact. If online clothing retailers could offer a virtual fitting service more shoppers may be persuaded to shop online.

Online retailers have the ability to offer a large assortment of products and a high level of choice. There are no physical space constraints though there are issues with logistics and distribution.

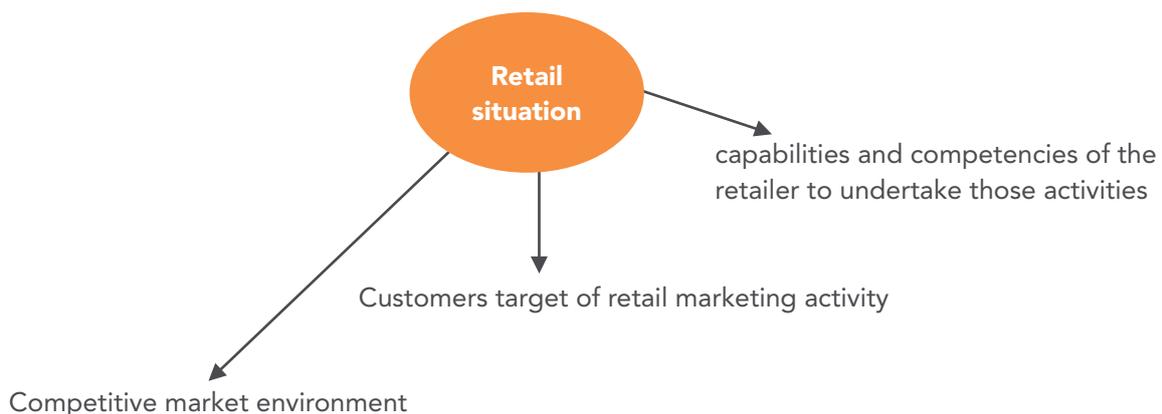
Depth of assortment refers to number of varieties of a given product. Width of assortment – Greater number of different types of product or product categories offered. As the depth of assortment increases, so does shopper choice. Too much choice can lead to shopper confusion. This perpetual overload can lead to purchase deferment or an unsatisfactory purchase experience. Therefore online retailers must be aware that the benefits of choice often follow an inverted u-shaped curve.

In online retailing, prices can be compared more easily. Online markets can become more commodity-like. The time saved by consumers in physically searching for locations is used instead for price searching. A move towards a market price should increase the usage of everyday low pricing (ELDP).

The absence of physical contact dilutes the service encounter causing problems for retail situations where service is important (high involvement products). Such products need creative selling approaches. E.g. buying a microwave oven, buying a pressure cooker, buying a car, buying a washing machine, jewellery can be treated as examples. The key problem area in online retailing is that of personal selling and service. Price awareness of consumers in online retailing is very high. The online retailer has a much more limited ability to influence the shopper inside the store.

Marketing – creation of a profitable exchange between a supplier and a customer.

Market strategy – Process by which the organisation translates its business objectives and business strategy into market activity.



The crucial test of a strategy is its feasibility. Strategy derived from the Greek word strategos which means a general – one who leads an army. Strategy – Every decision made in the market place. Strategy – Major decisions concerning the future direction of retail business.

Tactical decisions – How to manoeuvre into a more favourable position by modifying one or more component of the retail marketing mix.

The obvious areas of strategic importance relate to

1. Markets to be served
2. Class
3. Range of merchandise to be offered
4. Overall position regarding price, quality, value

TESCO – Low price, convenience store – Transition to a high quality super market

Jack Cohen founder of TESCO had a strategy of trading by ‘pile it high sell it cheap ‘creating huge success for TESCO. But when the need to change was identified change management was a painful process and it took several years to change the customer’s perception.

1. Start with the overall objectives of the company
2. Options – How these objectives might be achieved
3. Evaluate the options
4. Decide regarding the overall direction of the retail venture

This is market based planning. Some retailers develop strategy on a sequential basis. Problems are considered when they arise with a limited number of alternatives. Once the new venture is successful, a more systematic strategic planning approach is adopted.

1. Where are we now?
2. Where do we want to be?
3. How can we get there?
4. Which way is best?
5. How can we ensure that we are on course?

### **Key Marketing Factors in Retailing**

- Location and perceived image
- Internal environment and core product (assortment of goods offered)
- In store stimuli – price, value perception, promotions, service levels both during and after sales
- Relationship issues and building loyalty.

### **Key questions**

1. Does our total offering have a competitive advantage?
2. Are we still attracting the right customer groups?
3. Does our operation have sufficient resources and capabilities to continue successfully in the future?

### **Competitive positioning in a Retail market place**

Within every market, you have a – market leader who has faced challenges to create a niche value among the customers. Retailers use their strength in one area which is how customers are attracted into the store, then supplementing the core merchandise offered with other unrelated but relevant items. Michael Porter talked about three generic positions that a company could occupy in its market.

1. Cost leadership
2. Differentiation of the offering
3. Focus on a niche market

The focus category was subdivided into cost focus and differentiation focus. A retailer can be both a cost leader and a differentiator. Porter's argument was that it is very difficult to offer variety whilst driving costs down. Every retailer has to consider the strategic aspects of their market position. Quality service and value are part of a retailer's market position, but influencing the perception of the customer is important. This needs the retailer to invest in strategic activities and allow time for shoppers to appreciate them.

## 29 RETAIL PRICING STRATEGIES

**Learning objective: To understand the various pricing strategies in retail**

Elasticity is the extent to which the quantity demanded changes as price is increased or decreased. In the retail context, customer loyalty, competitive factors and quality preferences can add to the shopper's price sensitivity. High loyalty may decrease sensitivity.

Once pricing objectives have been identified a strategy can be selected to achieve those objectives. A pricing strategy may set prices below, at or above the market level. Shoppers, competitors, retailers themselves will affect pricing strategy selection.

### Four Generic Strategies

Premium  
Economy  
Penetration  
Skimming

Two specific approaches

EDLP – Everyday low pricing  
HLP – High low pricing

Actual quality is not the issue. Perceived quality is. Convincing the shopper about the quality is important.

1. Expected value has two extremes – a high price for a high perceived quality (premium pricing) and a low price for a comparably low perceived quality (economy pricing).
2. In both cases, the price would be seen as fair or the market price.
3. Prices can also be seen as offering – value in excess of that expected (penetration) owing to the price being below the expected level for the perceived quality gained.
4. A skimming price sees lower than expected value as the perceived quality does not match the price.

EDLP: Everyday low pricing strategy is a strategy that sets a stable price at a point somewhere between competitor's regular prices and promotional (sale) prices. The approach is all about setting a low rather than the lowest price on any given day.

The price is kept constant throughout the year, so an average taken for a significant time period (say 1 year) the approach will typically give the lowest average price.

Successful ELDP relies on the shopper's perception of penetration pricing. A company switching to EDLP may see a reduction in average profit margins. But the system is more efficient as stock outs are minimized and there is high demand conversion on the negative side, EDLP is hard to maintain. Products have to be sold at low prices throughout the year. Shoppers may perceive low price products as low products quality and that can be a real challenge.

### **What is High/low pricing?**

This is a mixed approach that sets prices at levels both above and below EDLP. Regular price is at a higher level than competitor's ELDP levels, but frequent promotional (sale) prices are set that undercut EDLP. This is the method used for seasonal sales. Shoppers will pay higher prices for the bulk of the year but get reduced prices on sale stock. HLP- Premium prices throughout the year + short period of penetration pricing.

### **Drawback of this strategy**

Temptation to increase sale periods in order to increase sales volume is common. Shoppers will feel that the non-sale prices are inflated so they will wait for sales to happen. Margins therefore suffer.

### **Advantages**

HLP strategy can appeal to a large number of shoppers.

If sales are not too frequent then shopper's value perceptions will remain unharmed.

**Tactical pricing:** Day-to-day setting of prices for specific products.

**Differential Pricing:** Different prices being set at the same time due to differences in store location and trade area.

## **Promotional Pricing**

**Bundling:** Several products sold at one price.

**Multiple units:** Several units of the same product sold at one total price.

**Sale:** Discounted price for same time.

**Introductory offer:** Discounted price for launch of a new product.

**Seasonal:** Price varieties depending on time of the year.

**Leader line:** Key items, competitively priced.

**Matching:** Price promise guarantees – shopper cannot get a cheaper price for the same product in any competitor's store.

**Oddball:** All products sold at the same price.

**Psychological pricing:** Practice of setting prices that influence the customer on either a conscious or subconscious level.

**Unit Pricing** offers a pack price as well as a price per unit. E.g. 3 kg rice has a pack price (Rs 90) and a price per kg (Rs 30).

**DPP – Direct product profitability** is the detailed measure of an individual product's profit contribution. Adjust the gross margin of a product to reflect allowances, discounts or any other form of income then subtract any costs that are directly attributable to the product.

**DPP – Measures the true profitability** of a given product by allowing for hidden costs and income.

**DPP – Adjusted gross margin – direct product costs**

**Adjusted Gross Margin – Total gross margin + allowances for gains such as volume discounts**

Direct product costs – include warehousing, transport, store and headquarters’ costs.

DPP/Sqft of selling space = AGM- DPC/selling space requirements

A retailer has 2 different products in its assortment A and B

The retailer has a selling space for only one of these 2 products- which to keep and which to delete.

	Product A	Product B
Gross margin	2.75	3.08
Additional income	0.16	0.20
Adjusted gross margin	2.91	3.28
Directed products costs	1.21	1.48
Directed product profitability	1.70	1.80
Selling space profitability	1.10	2.55
DPP/unit area	$1.70/1.10 = 1.55$	$1.8/2.55 = 0.71$

On the basis of DPP calculation, product A is retained and product B is deleted. Product A is selected by retailers as DPP per sqft is more than double that of product B. IF space was not an issue for the retailer, product B would be selected as the normal DPP (1.80) is slightly higher.

KVIs – Known value items – shoppers have an idea of a normal price range.

CCP – Competitor comparison products perception of acceptable value based on an understanding of the product’s composition (features, constituents). CCP’s are used as a benchmark or point of comparison between stores. KVI’s are used to estimate the overall store price level.

### **Leader line pricing**

Prices on a small number of items, usually those that will have a high price impact are reduced to convey a lower price image to shoppers. Shoppers may base inter-store price comparisons on a small number of products owing to the difficulties involved in comparing every product. Leader line pricing if the correct products are discounted, can affect the inter-store price perceptions.

### **What is incidental learning?**

This is used to explain the effect of price endings in psychological pricing. Incidental learning is the process by which shoppers learn over time to associate a particular price ending with a given retailing context. A 0.99 ending price is seen as being a sale or discounted price. Over time shoppers learnt to make the association between 0.99 and a discount.

Number Processing: is based on the notion that shoppers process prices by looking at left most digits first. E.g. A shopper sees two prices – one at £9.99 and the other at £10.00. Shoppers perceive the prices to be in the £9 range and £10 ranges even though the actual difference is only £0.01.

## 30 THE EPICUREAN MISER

### Learning objectives:

- To understand the importance of a retailer striking a balance between affordability and indulgence.
- To identify the relation between consumer behavior, retailer's strategies and sales growth.

Consumers have two conflicting choices before them – brutalized by recurring economic recessions they are forced to adopt a conservative stance when it comes to retailing. At the same time ambivalence subsumes them as they feel that they have been penny pinching for quite a while and that now is the time to splurge. They feel that it is high time they listened to the other inner voice that asks them to splurge. This behavioral tenet is what most retailers are trying to focus on so that they can influence shopper behavior to their advantage.

Retailers are faced with the puzzle/riddle of connecting their brand message with customers who are caught between the devil and the deep sea when it comes to purchasing. Reconciliation of these two seemingly divergent behaviors is a major challenge for retailers.

Customer experience shapes loyalty and once customers believe that they have got value for the money that they spent they spread this value message through word of mouth testimonials, positive comments on Facebook and Twitter and such behaviors add value to a retailer's presence in an intensively competitive market.

Contrary to popular perception, value is not about price alone. In a tough economy as consumers grapple for more with less, retailers who are able to convince the customer that they have landed the best bargain are the ones who benefit the most.

Consumers have become intelligent today. They are well informed. Social media helps them stay connected. They know where to source information from. They know that they can talk to friends and colleagues and relatives should they need an opinion. They also have easy access to online reviews of products and services.

It is important for retailers to define their value proposition and consistently communicate the brand message to the customer. The message should hit the shoppers to force them to think that they are buying something that is affordable but not cheap ; something that is worth their hard earned money. Though the environment plays a role in shaping consumer influences, there are other factors like the variety of products and services that are available.

Shoppers want to be pampered. They yearn to be taken care of. If they are taken care of well, they do not mind rewarding the shopper through their positive behaviors. Shoppers also want choices. In a carefully calibrated retail environment, the ability to choose from a plethora of options can give the customer a new high. It is the retailer's job to create a gratification zone that indulges the customers and makes him yearn for more.

The value that the consumer can get beyond price is what appeals to him – be it freshness, timeliness, trendiness, convenience, healthy, environment friendly status etc. There is evidence that shoppers do not turn their faces away from opulence when they have the moolah to support such indulgence. Thus the epicurean miser looks at value with new lenses.

What most retailers do not realize is that too much focus on price reduction can lead to the erosion of the quality image of the product/service in the minds of consumers. Retailers who are savvy create a retail experience that satiates the craving of the consumer for a proposition that is a balance between indulgence and affordability. The more a retailer is able to meet the needs of the customer, the more is his competence in luring the customers to his store again and again. A right approach by the retailer will make customers enthusiastic to return to the store. A not so great experience will put off the customer. It is this understanding of the customer's pulse and satiation of his emotions that will lead to sustainability of a retail operation.

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# 31 THE FUTURE OF RETAIL – LEARNING FROM GLOBAL BEST PRACTICES IN RETAIL MANAGEMENT

## Learning objectives:

- To track the progress of retail
- To understand what flow casting is
- To identify the critical success factors driving the growth of retail in the future
- To learn about future strategies in retail.
- To understand the new product development process in retail.
- To learn about important terminologies in retail

Today's battle of business is developing more and more into a series of problems in modern methods of management. This is as true in retailing as in any other phase of business activity. The merchant of today is confronted with problems that are deeper – more fundamental – than those commonly met in buying and selling as such.

The real competition is not for sales volume, but for profit volume. Sales are the means to the desired end of profit. How can we get more profit from a given volume of sales? That is the main question. Retailers found it wise to build distribution centers in geographic areas with a heavy concentration of retail stores.

The objective was to achieve economies of scale in transportation, handling and warehousing costs and improve services to retail stores and consumers. To reduce distribution costs, wholesalers and retailers started looking at technology (automation).

## DRP

Distribution Resource Planning. Within a manufacturing company, the capabilities of production facilities were out of sync with the needs of distribution facilities. Inventory management and replenishment practices had to accommodate inventory and production dependencies throughout the company's internal supply chain.

## Forecast

The greatest cost of doing business today is in managing uncertainty. By forecasting only at the retail store, the entire retail supply chain benefits in two major ways: simplicity (demand throughout the supply chain can be calculated from the store-level forecast) and second from the ability to model several weeks into the future the flow of the product from the store shelf to the factory.

This connects every trading partner in the supply chain. By time-phasing recommendations for product over a period of several days, weeks and months into the future, retailers can simulate the future in the way they actually do business.

This modeling greatly improves decision making, customer services and reduces costs. It gives retail supply chain partners greater control of their business activities.

## FLOWCASTING

The ability to calculate, in a time phased manner, the flow of products in and out of each node in a given supply chain from the factory to the store shelf.

1. Forecast what consumers will buy each day over the forecast period – typically one full year to capture the entire business cycle.
2. Calculate dependent demand to predict how much inventory regional distribution centers must ship to the stores and when specified quantities of product must arrive to meet consumer demand from several days to weeks into the future.

Flow casting can reduce cost of selling and distributing products.

## NPD

New Product Development is the term used to describe the complete process of bringing a new product or service to market.

Idea generation, product design and detailed engineering

Market Research, marketing analysis

## The NPD Process

1. Idea Generation – The Fuzzy Front End of NPD process: Brainstorming, Ethnographic research (search for user patterns and habits), corporate espionage, crowdsourcing, R&D, focus groups, employees, salesmen, trade shows.
2. Idea Screening – Eliminate ideas that are not workable, Ask questions. Will the customer in target market benefit from the product? Is it technically feasible to manufacture the product? Will the product be profitable?
3. Concept development and testing – Develop market and engineering details, product features, manufacturing mode, design, proto typing, test the concept by asking a sample of prospective customers what they think of the idea
4. Business analysis – Estimate sales volume, profitability, break-even point
5. Beta testing – Produce physical proto type or dummy. Test the product and packaging. Conduct focus group customer interviews or introduce at a trade show. Do test marketing
6. Technical Implementation
7. Commercialization – Launch product, advertisements and promotions, fill distribution pipeline with the product.

Flexible product development is the ability to make changes in the product being developed or in how it is developed, even relatively late in development, without being too disruptive. The later one can make changes, more flexible the process is, the less disruptive the change is, the greater the flexibility.

Time to market – length of time it takes from a product being conceived until it is available for sale.

### Important terminologies in retail

<b>Assortment</b>	<b>Grouping products according to their sizes, weight.</b>
<b>Attitudes</b>	Inner expressions or feelings that reflect a person's behavior
<b>Bait-Leader Pricing</b>	Markdown pricing, advertise the price of an item that is not intended to be sold – it is only an attraction to the customer.
<b>Cash Generators</b>	Products with high stock turns and margins
<b>Cash and Carry</b>	A membership based retail store selling limited SKUs in bulk packets
<b>Category Management</b>	Managing a distinct group of products or services which the consumer thinks to be interrelated. Manage promotions, merchandising and logistics
<b>Catchment area analysis</b>	Location around the store, existing competitors, their strengths and weaknesses, total number of people and demographics and accordingly space allocation for each category in the store
<b>Category Specialists</b>	CATEGORY KILLERS. Specialize in goods within a specific range such as hardware, books or electronics

<b>OTB</b>	Open to buy – the amount of merchandise that may be ordered for delivery during a control period.  Difference between planned purchase and required stock levels during the period.
<b>RESIDENT BUYING OFFICES</b>	RBOs – they provide retailers with merchandising information
<b>Consumer Research</b>	Study and understand consumers' needs, wants and how they make purchase decisions
<b>Cross Docking</b>	Allows retailers to bypass warehousing
<b>Database marketing</b>	Emphasis on the use of analytic methods in selecting or targeting customers for marketing purposes
<b>Dealer Loader</b>	Incentive given to induce a retailer to purchase and display a product

<b>CPFR</b>	<b>Collaborative planning forecasting replenishment</b> <b>Category forecasts made in</b> <b>collaboration with vendors</b>
<b>MAP</b>	Multiple attribute performance – a weighted average score is given for each vendor, vendor reputation, merchandise quality, vendor history, and vendor lead times.

Cobrands – Usage of two or more brands on one certain product. Dell computer carries three brands – Dell, Microsoft windows, Intel.

Brand licenses – Contractual agreement where a company lets another organization use its brand on other products in exchange for a licensing fee.

Cash Cow – product or business unit that generates unusually high profit margins and contributes a great deal to the company’s operating profit. Risks of a cash cow include complacency with management ignoring the need for change as market forces erode value. Business units having high market share and low market growth are called as cash cows.

Concept Testing – Process of using quantitative and qualitative methods to evaluate customer response to a product idea prior to the introduction of a product to the market.

Mandatory Labelling – Requirement of consumer products to state their ingredients or components.

Product Bundling – marketing strategy that involves offering several products for sale as one combined product. E.g. bundling a word processor, a spreadsheet, a database into a single office suite are examples.

Pure bundling – consumer purchases the bundling or nothing

Mixed bundling occurs when consumers are offered a choice between purchasing the entire bundle or one of the separate parts of the bundle.

Reverse hierarchy promotes the idea that the most important employees are those who deal daily with the organisation’s customers.

Trade allowances are short term incentives offered to induce a retailer to stock up on a product.

Push Money also called as spiffs. It is an extra commission paid to retail employees to push products.

Clip Strip is a retail product display so named because it is a length of material [plastic or metal] with clips or hooks at regular intervals upon which merchandise is hung. Clip strip is a effective retail device as it increases a customer's exposure to impulse-buy items. Strips can be easily moved from one location to another, to maximize their exposure.

### **CLICKS VERSUS BRICKS: THE BATTLE FOR THE HIGH STREET**

The High Street has contracted into the primary space: when prime location space becomes available it is let easily. Big chains and smaller retailers have been suffering from a toxic combination of weak demand and rising costs. Cost of doing business has escalated. Retailers are under immense pressure and the situation worsens when there is weak consumer demand. E-commerce has proved to be threat for traditional retailers. Nearly one-fifth of all retail transactions in UK are now made online. Internet shopping is now more popular in the U.K. than any other country. The recent failures simply omitted to embrace the multichannel world.

It is important to interact with consumer in multiple ways. John Lewis have done that and leveraged their multiple channels and touch points with the consumer very well. Apple too have embraced the multichannel approach very successfully with their showcase stores in conjunction with online and mobile channels.

**The future of retail** will be characterized by transition to e-commerce in those markets where it has not yet happened. Brick and mortar will continue to exist. Niche products and locations will thrive on narrowly focused offers. High end products like food or jewellery will benefit from carefully crafted retail experiences. Gigantic malls in Dubai are akin to tourism and so one can expect this trend to get bolstered in the future. In the multichannel retail world a shop needs to be more than just a physical space on the high street or in a giant mall. Retailers need to take a lease on the online virtual, mobile and social media high streets as well.”

Most retail innovations center on products, store design, technological innovations. 20<sup>th</sup> century retail dealt with treating labour as a nuisance that had to be minimized. Sam Walton, the founder of the biggest retailer in the world, said it best in his book “Made in America”: “No matter how you slice it in the retail business, payroll is one of the most important parts of overhead, and overhead is one of the most crucial things you have to fight to maintain your profit margins. That was true then, and it is still true today.” In the 21st century retailers will finally realize that labor is the key resource that can drive sales and customer satisfaction.

Scheduling labor according to demand forecast is essential. But innovative companies are closely tracking customer flow through the store using technological solutions and adjusting labor in real time to improve conversion rates. Scheduling labor based on store traffic can help retailers identify stores that are overstaffed and understaffed and this can help in reallocation of labour among them to achieve significant sales increases at minimal costs.

Employees are different and have varying productivity levels. Innovative retailers use business analytics to track performance of individual store associates so that best people are available in the store at the most crucial times. Ann Taylor, a clothing retailer, was one of the early pioneers that recognized the value of scheduling retail labor according to past performance of sales associates: best sales people would obtain first choices of times to work at and more schedule flexibility.

In the end, ensuring that the store employee is there at the right time does not necessarily mean that the employee will know to do the right thing. The only way to be sure is to track customer behavior within the store, while trying to understand the nature and the outcomes of customer-employee interaction.

The future of retail depends on how bold and innovative a retailer can get. A new perspective is needed to visualize the actual future. Compete for customer experience has become the new mantra. Retailer has to eschew false standards. He has to design initiatives that drive shared experiences, reviews and referrals online. Engaging with employees and customers and exploring new technologies will become more and more relevant. Investment in innovation centers and setting up rapid prototyping programs will be rewarding in the long run. Embracing of multi channel retailing and having access to different touch points with the customer will become inevitable.

When customer actively takes part in the outcome it is called as co creation. Co-creation applies anywhere that a retailer or brand offers a service of some kind, whether related to the product itself or related to the brand or the lifestyle the brand represents. At the most basic level of passive participation, co-creation involves configuring a product from a set of choices. At the brand or lifestyle level, passive participation is found in the form of event attendance, for example attending a lecture hosted by the retailer. Engaging with shoppers is critical for sustenance.

Speed and convenience will define a shopping experience. Customers value the ability to buy quickly and easily and are getting impatient when it comes to waiting – for orders to be delivered, for new goods to show up in stores and for great deals. One day delivery will gain popularity. Personalization will become a key differentiator in the future.

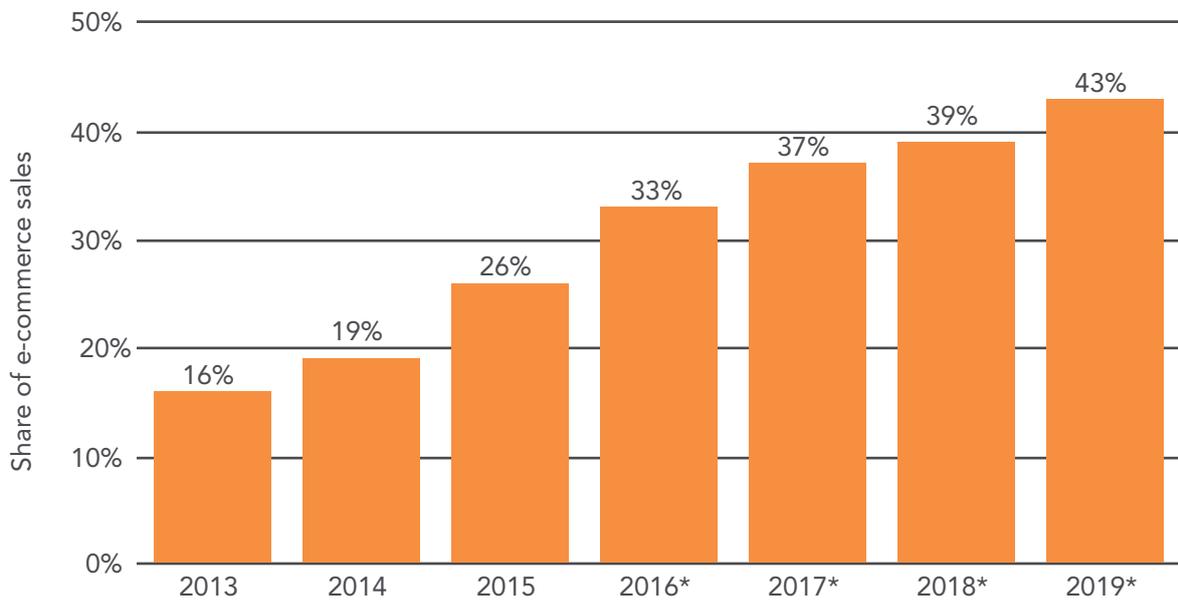
Frictionless payment is a key component in a seamless shopping experience. Easy and quick payment solutions will characterize a significant component of customer satisfaction with retail.

Companies have been working with biometric information, so that in the near future, payments might be secured through iris scanning, facial recognition or fingerprint verification. The aim is always the same: using technology to make the shopping experience smoother, quicker and safer.

Small-format stores have been popping up everywhere in the past couple of years; the trend will consolidate in the future. Many retailers, rather than trying to compete with online stores' large catalog and endless aisles, are taking an inverse approach: survive by becoming small and nimble. This is not just a matter of downsizing: many of the big boys, from Target to Walmart to Sainsbury's, are keeping their big box locations while adding smaller stores to their mix. These new locations are conceived as one-stop shops storing all sorts of goods; there may not be everything, but there is a bit of everything.

Retailers have embraced a variety of technologies to engage their customers. Five areas are moving the field forward: (1) technology and tools to facilitate decision making, (2) visual display and merchandise offer decisions, (3) consumption and engagement, (4) big data collection and usage, and (5) analytics and profitability.

**U.S. mobile retail commerce sales as percentage of retail e-commerce sales  
from 2013 to 2020**



<https://www.weforum.org/agenda/2017/01/3-predictions-for-the-future-of-retail-from-the-ceo-of-walmart/>

Retailers have almost always focused on customer satisfaction and the future will empower customers so that they can drive the change that they want. Customers will have greater control over their shopping experiences. Technology dominance – internet, mobile and analytics – will continue to build competitive momentum. Customers need easy access for items that they regularly use. Technology has redefined the trade-off between price and service. Customers expect to save time and enjoy the experience as they save money.

Retailers will be forced to provide a truly unique and enjoyable shopping experience to customers and they will have to train their associates. Customers are placing greater emphasis on personalization and convenience. With the growth of the internet of things, customers will enjoy an increasingly connected or “smart” shopping experience through a network of connections linking the physical and digital worlds into an ecosystem of devices, including vehicles, stores and software. The internet of things, drones, delivery robots, 3D-printing and self-driving cars will allow retailers to further automate and optimize supply chains too. Both sides of the equation – demand and supply – will change dramatically.

Customers will continue to demand transparency around pricing and supply chain. Customers may be hard pressed for a deep research on the products that they wish to buy – but they will care about how the products will be sourced. Retailers have to work with manufacturers to source items responsibly and sustainably. Retailers have to demonstrate exemplary sense of social responsibility. Retailers have to use information sharing mechanisms to earn the trust of the customers. The retail business has to create shared value to benefit shareholders and society.

Social and environmental sustainability will be engineered into our systems, and that will strengthen the communities in which we operate, which will in turn appeal to customers. These changes are both challenges as well as opportunities for retailers.

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# EPILOGUE

The contribution of retail to gross domestic product of developed and developing nations has increased in the last decade. Retail sector has existed in India earlier but there was no formal industry structure. The opening up of India's economy after 1991 has paved the path for foreign retailers to enter India to leverage the opportunities. The advent of liberalization led to growth in services sector, tremendous employment opportunities and rise in disposable incomes eventually leading to construction of malls. The malls provided a platform for the retail sector to sell their produce. Entry of foreign players in retail led to competition for the domestic retail sector in India. Today both organized retail and unorganized retail coexist in an intensely competitive market.

Every retail business knows that its success is in details – in terms of understanding changing consumer preferences and how to offer bespoke strategies to influence customer loyalty. Identifying the right segments and addressing their needs is crucial.

Technological influence on business is growing rapidly. Artificial intelligence, automation, cloud computing and analytics are redefining the business landscape. New age entrepreneurs are proposing digital marketing strategies to capture a greater share of market. Retail business is not impervious to invasion of digital technologies.

Retail sector has been in the forefront in terms of its superlative absorptive capacity to deploy advanced technologies to influence consumer behavior. Many retailers are using smart-phone based text messages to lure customers. But there is a difference between sales promotion efforts and abuse of the medium available to chase prospects. This is something that retailers need to understand.

Sales promotion is not about spamming people's inboxes with offers whether they like it or not. While trying to attract prospects to become customers is not bad per se, aggressive marketing tactics can actually put off customers and become counterproductive. Retailers often fail to appreciate the fact that in-store experience must complement the offers, deals and discounts. Technology can at best be an enabler. Technology cannot substitute people who play a crucial role in terms of delivering an experience to the customer.

In retail, the customer experience is what is going to make customers visit the retail store again and again. Therefore the need is to move beyond the tenets of Customer Relationship Management and engage with customers. Understanding needs of customers will lead to conditions conducive for customers to have a great shopping experience. Feedback from customers has to be respected and this should be used to reengineer the existing business processes.

The front line sales employees have to be trained in customer etiquette so that they can influence customer perception in a positive fashion. The front line sales people often called as “boundary spanners” play an important role in shaping customer experiences and engendering “moments of truth”. A trained frontline employee will minimize cognitive dissonance of customers.

The traditional retail formats have faced a massive challenge from electronic retailers. In India, there have been a plethora of such retailers in the recent past. Among these retailers, Flipkart and Amazon have managed to capture a greater mind share of consumers than others. These e-commerce websites have been successful in attracting traffic to their website with discounts and festive offers. They have definitely dented the prospects of traditional “brick and mortar” stores. The “clicks and bricks” strategy by a few retailers has also led to immense success in the last five years. Electronic retailers have been facing last mile delivery issues. Despite these challenges, the electronic retail sector has managed to sustain. Electronic retailers have the advantage of reduced operating costs and overheads as compared to traditional retailers. They have milked this opportunity to the extent possible.

Newspaper reports in 2017 paint a dismal picture of retail industry in US. Many retail outlets have shut shop due to lack of patronage from customers. Retailers who have been unable to keep pace with changing preferences of customers have lost the battle. A strategic mindset is essential to sustain in the long run. Retailers who are ill-equipped or have to struggle with resource constraints are unable to scan the external environment and predict future trends that can impact their fortunes – both in the short run and in the long run. Large stores have managed to sustain due to their sheer size and scale of operations. Additionally, these stores have proved to be effective in strategy formulation, development and implementation.

So what does the future portend? There is enough space in the market for both offline and online retail to co-exist. However, the retailers who are successful will be those with an eye for detail and those who are able to relate to the pulse of the customer better than competition. Both strategy and innovation are drivers for success in a business world that is increasingly characterized by frequent recessions and new technologies.

No matter what academicians say about retail, the truth is that ground realities can differ. Customers can be fickle and so breeding customer loyalty is not an easy job in a competitive market. There is enough scope for segmentation and sub-segmentation in retail but in a market like India, the price-conscious customers cannot be taken for a ride. This is where some retailers falter. For example – apparel retailers in India offer attractive discounts during festival seasons – but during the slack seasons they are unable to attract customers because of their pricing strategies.

Finally, retail is an industry that combines products and services. So service is truly the differentiator in retail. Every retail organisation must strive to improve its service quality to retain customers. Creating a unique experience that has a lasting impression on the minds of customers is essential for sustaining in a competitive market. Retailers must move beyond the paradigm of discounts, offers and promotions. They must strive to provide a truly world class service.