NAVSARI AGRICULTURAL UNIVERSITY

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Compiled by
**Dr. Ruchira Shukla**
Professor
Department of Agribusiness Marketing


## INSTRUCTIONAL MANUAL

# FOOD RETAIL MANAGEMENT

**COURSE No.: ABM-529 • COURSE CREDIT: 2+0 = 2**

Name of Student: ____________________________________________

Registration No.: ______________________ Roll No.: __________________

ASPEE AGRIBUSINESS MANAGEMENT INSTITUTE
Navsari Agricultural University
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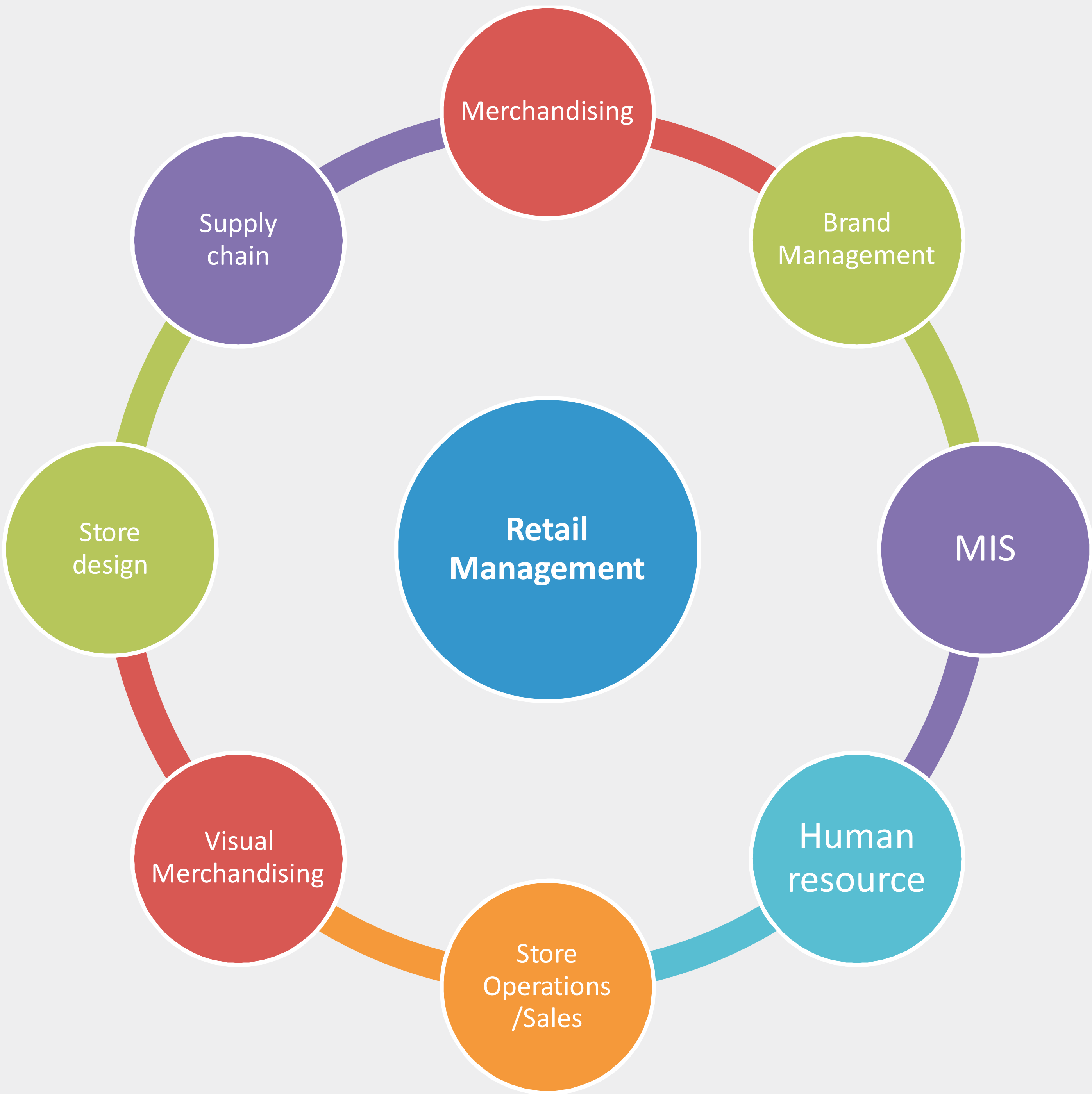
Retail Management
Merchandising
Brand Management
MIS
Human resource
Store Operations /Sales
Visual Merchandising
Store design
Supply chain

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:: Edition ::

March-2020

:: Copies ::

100

:: Publisher ::

**Principal**

**ASPEE Agribusiness Management Institute**

Navsari Agricultural University,

Navsari- 396 450

Gujarat

Phone: (02637) 282960

:: Printed at ::

Asian Printery

Ahmedabad. Ph.: 079-22148826

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# FOREWORD

Food Retailing in India is witnessing a progressive change with the emergence of the hypermarkets/supermarkets and rapid expansion of organized retail sector in India across various parts of the country. With the world's second-largest population and rising composition of middle-income group, India has emerged as the world's most attractive retailing destinations especially in the Food & Grocery segment. Indian food and grocery market is the world's sixth largest, with retail contributing 70% of the sales. Retailing has evolved into a high-tech, global growth industry. The developments in the industry are providing challenging and rewarding opportunities for agribusiness students interested in retailing careers and companies supporting the Food retail and food service industry. Organised Retailing also creates opportunity for farmers by providing an alternative farm-market linkage for high value markets.

Considering the importance of this Food Retail Management subject for Agribusiness students this instructional manual has been designed to give proper coverage of modern concepts of Retailing management as applied to Food and grocery markets. The focus is to ensure that the instructional manual helps the students of Agribusiness Management to learn and practice the basic concepts, tools, and functions of Retailing as well as to inform students about the exciting new developments in the retail industry. I have tried to collect and compile useful information about this very important subject for the students of Agribusiness Management.I would like to express my gratitude to all those who provided support, talked things over, read, wrote, offered comments and assisted in the editing, proof reading and design.

My deepest thanks to Honourable Vice Chancellor of Navsari Agricultural University Dr. Z. P. Patel for providing inspiration for preparation of quality instructional material. I am heartily grateful to the Director of Research and Dean PG Studies Dr. S. R. Chaudhary at Navsari Agricultural University for encouragement which helped in developing a confidence which was much needed for preparation of Instructional manual. I am grateful to the Ex-Principal of the Institute Dr. H. R. Pandaya for providing valuable suggestions and constant encouragement during the preparation of the manuscript.

I am grateful to all my well wishers and friends who have always appreciated and encouraged my efforts. My faculty colleagues at ASPEE Agribusiness Management Institute have provided necessary support, encouragement and constructive suggestions for the preparation of manuscript which is gratefully acknowledged. I am thankful to my students in the classroom whose queries and curiosities have helped me better understand their requirements.Lastly I shall be glad to receive constructive comments, suggestions and corrections from seniors ,colleagues and students.

**Ruchira A. Shukla**
Professor

# SYLLABUS

**ABM-529** | **Food Retail Management** | **CREDIT 2+0**

## Objective

The objective of this course is to assist students in understanding the structure and working of food marketing system in India, to examine how the system affects farmers, consumers and middlemen and to illustrate the response of this dynamic marketing system to technological, socio-cultural, political and economic forces over time.

## Contents

- **UNIT - I**

  Introduction to International Food market, India's Competitive Position in World Food Trade, Foreign Investment in Global Food Industry, Retail management and Food Retailing, The Nature of Change in Retailing, Organized Retailing in India, E-tailing and Understanding food preference of Indian Consumer, Food consumption and Expenditure pattern, Demographic and Psychographic factors affecting Food Pattern of Indian Consumer.

- **UNIT - II**

  Value Chain in Food Retailing, Principal trends in food wholesaling and retailing, food wholesaling, food retailing, the changing nature of food stores, various retailing formats, competition and pricing in food retailing, market implications of new retail developments, value chain and value additions across the chain in food retail, food service marketing.

- **UNIT - III**

  4 P's in Food Retail Management, Brand Management in Retailing, Merchandise pricing, Pricing Strategies used in conventional and nonconventional food retailing, Public distribution system, Promotion mix for food retailing, Management of sales promotion and Publicity, Advertisement Strategies for food retailers.

- **UNIT - IV**

  Managing Retail Operations, Managing Retailers' Finances, Merchandise buying and handling, Merchandise Pricing, Logistics, procurement of Food products and Handling Transportation of Food Products.

- **UNIT - V**

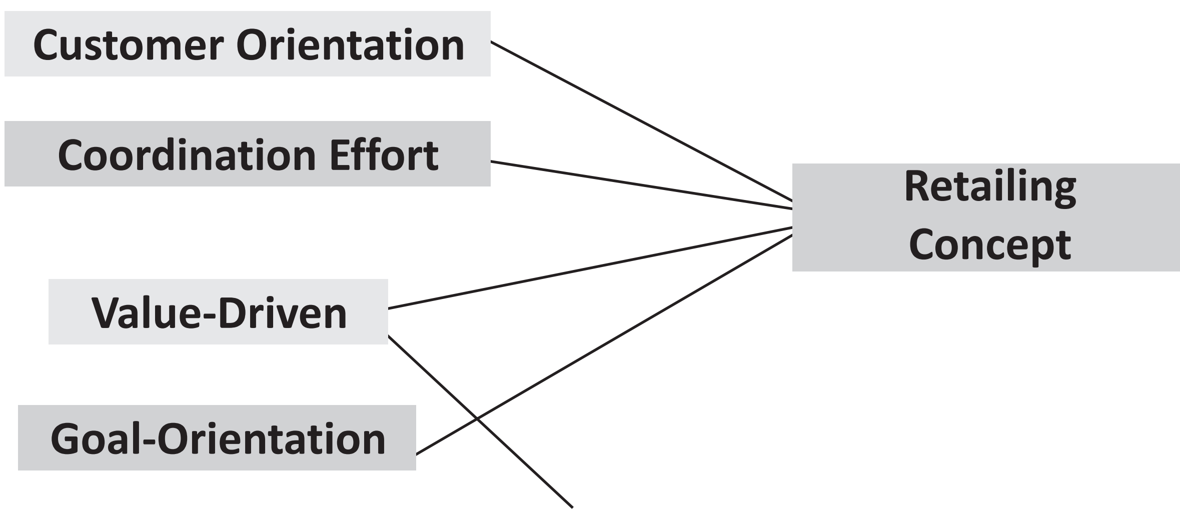
  Retail Sales Management Types of Retail Selling, Salesperson selection, Salesperson training, Evaluation and Monitoring, Customer Relationship Management, Managing Human Resources in retailing, Legal and Ethical issues in Retailing.

## Suggested Readings


- Berman & Evans. 2008. *Retail Management: A Strategic Approach*. 10th Ed. Prentice Hall of India.
- Cox. 2006. *Retailing: An Introduction*. 5th Ed. Pearson Edu.
- Levy M & Weitz BW. 2004. *Retailing Management*. 5th Ed. McGraw Hill.

# INDEX

# Retailing Concept




**Value is based on perceived Benefits Vs the price paid**

# Unit 1 : Introduction to Retail

## Introduction

Liberalized financial and political environment in India has prompted a wave of large number of entrants into the country's rapidly growing retail industry during the past few years, without doubt, the retail industry in India is in the stage of radical restructuring. Retailing in general sense consists of business activities that are involved in buying and selling of goods and services to ultimate consumers for their own use – ranging from food items to automobiles to apparels to food delivery services.

In India, after agriculture, the retail is the second largest sector that provides employment to Indian workforce. But retailing in India is at cross roads on the one side, retail sales are making new heights year after year and on the other side, traditional Indian retailers (Kirana stores) face numerous challenges.

The retail sector in India is witnessing a huge revamping exercise as traditional markets make way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. Western-style malls have begun appearing in metros and second-rung cities alike introducing the Indian consumer to a shopping experience like never before.

## 1.1 Meaning and Scope of Retail

**Retailing:** a set of business activities that adds value to the products and services sold to consumers for their personal or family use.

A retailer is a business that sells products and/or services to consumers for personal or family use.

Two key-phrases in this definition that separate retail from wholesale are –

- **Small quantities of goods:** Unlike manufacturing or wholesale, the number of goods involved in a retail transaction is very less.
- **Directly to the consumer:** Retail stores are the last channels of distribution where the actual sales to the customer happen.

Retailing is the business activity of selling goods and services to the final consumer. Retailing can be defined as the business products and services to consumers for their own use.

According to Kotler, “Retailing includes all the activities involved in selling goods or services to the final consumers for personal, non-business use”.

Retailing is all about the distribution of goods and services because retailers play a key role in the route that products take after originating from a manufacturer, grower or service-provider to reach the person who consumes.

Retailing is also one of the key elements of a marketing strategy facilitating the targeting process, making sure that a product reaches particular groups of consumers. Retailers provide a collection of service benefits to their customers such as being located in convenient places, providing product ranges according to customer choice and selling goods in quantities that match personal consumption levels.

Retailing is the last link in the marketing channel. The word 'retail has been derived from the French word “retaillier” and means 'to cut a piece' or 'to break bulk'. It covers all the activities involved in the sale of product and services.

Retailing is a high-intensity competition industry. The reason for its popularity lies in its ability to provide easier access to a variety of products, freedom of choice, and many services to consumers.

Retailing is an important marketing activity. Not only the producers and consumers meet through retailing actions, but retailing also creates customer value and has a significant impact on the economy.

To consumer, the value of retailing is in form of utilities provided. Retailing's economic value is represented by the people employed in retailing as well as by the total amount of money exchanged in retail sales.

## 1.2 Functions of Retailing

Retailers perform various functions like providing assortments, sorting, breaking the bulk, rendering services, bearing risk, serve as a channel of communication, transportation, advertising and holding inventory. Following are the functions of a retailer:

**Buying and Assembling:** A retailer performs the dual functions of buying and assembling of goods. The responsibility of a retailer is to identify the most economical source for obtaining the goods from the suppliers and passing on the advantages to the consumer.

**Providing assortments:**

Manufacturers make one single line or multiple product lines and will always prefer to sell their entire output to few buyers to reduce their costs. Final consumers will prefer to choose from a large variety of goods and services and then usually buy in smaller quantities. Retailers have to strike a balance between demands of both the sides, by collecting a combination of goods from different producers, buying them in large quantities and selling them to individual consumers in smaller quantities.

Offering an assortment enables customers to choose from a wide selection of brands, designs, sizes, variants and prices in one location.

**Breaking Bulk**

Retailers buy the goods from manufacturers and wholesalers in sufficiently large quantities but sell to the customers in small quantities. Retailers offer the products in smaller quantities tailored to individual consumers and household consumption patterns. This reduces transportation costs, warehouse costs and inventory costs. This is called breaking bulk.

**Channel of Communication**

Retailers are the bridge between the manufacturer and the end customers. They serve as a two-way channel of communication. Since retail involves direct contact with the end consumers, Retail also acts as a mediator between the company and the customer and communicates the feedback given by the customers back to the manufacturer or wholesaler. The manufacturer collects customer choice and preference data and provides information about existing and new products through the retailers. The manufacturer too collects customer data, data on gaps in demand and supply cycles and customer satisfaction from retail points.

**Marketing**

Retail stores are the final channels where the actual decisions are made. Hence, they act as important marketing channels for the brands. Smart placements, banners, advertisements, offers, and other strategies are executed by the manufacturers to increase their sales in retail stores. The retailers are responsible for the product promotion and advertisement by planning the product displays and visual merchandising for attracting the customers. Retailers act as a vital channel for the launch of new products in the market as they are the direct interface with the consumers and can communicate directly with the targets consumers about the new product features and advantages.

**Rendering Services:**

Retailers render services that make it easier for customers to buy and use products. They provide credit facilities to the customers. They display products, which attract the customers. They provide services by which the ownership can be transferred from manufacturer to the end consumers with convenience. They also provide after sales service and also deal with consumer complaints. Retailers also offer credit to consumers and also fill orders, promptly process, deliver and install the product at customer point. Retail sales people answer the customer complaints and demonstrate the product for the customer to evaluate before making a choice. They also help in completing a transaction and realizing the sale.

**Risk Bearing:**

A retailer needs to have robust risk management capabilities. Retailers bear the risk of business and market as well as financial risk. They also bear risks of product obsolescence. They finance the trade. The retailer bears the risk of physical damage of goods and also that of price fluctuations. Moreover, risk of fire, theft, deterioration and spoilage of goods has also to be borne by him. Changes in fashions, tastes and demand of his customers also have an adverse effect on his sales; nevertheless a retailer does not lose heart. Often retailers grant credit to customers and also bear the risk of bad debts, which go along with credit sales.

**Storage:**

After assembling the goods, the retailer stores them in his godown so that they are held as reserve stocks for the future. Storage of goods in ready stock is also necessary. Warehousing and store keeping helps in ensuring uninterrupted availability of the goods to the consumers.

**Holding Inventory:**

A major function of retailers is to keep inventory so that products will be available for consumers. Retailer's inventory allows customers instant availability of the products and services.

**Transportation:**

Retailers also help in transporting function. The larger assortments are transported from wholesaler's point to retailers point by retailer's own arrangements and many times, the retailer delivers the goods at final consumer's point. So, retailers provide assistance in storage, transportation and pre-payment of merchandise.

**Selling:**

The ultimate aim of every retailer is to sell the goods he buys. So he employs efficient methods of selling to dispose off his products at a faster rate so that he can increase his turnover in a period of time.

**Packing and grading:**

A retailer packs his goods in small packets and containers for his customers. The retailer is responsible for the packing of goods in small packages or small containers for the customer's convenience. Occasionally he may be required to grade the goods also. A retailer performs the crucial function of grading for all those goods which at times are either left ungraded by the wholesalers or manufacturers so that the customers readily accept the goods.

From an economic standpoint, the role of a retailer is to provide **real added value or utility** to the customer. This comes from different perspectives.

1. **Form:** First is utility regarding the ***form*** of a product that is acceptable to the customer.
   - The retailer does not supply raw material, but rather offers finished goods and services in a form that the customers want.
   - The retailer performs the function of sorting the goods and providing us with an assortment of product in various categories.
2. **Time:** Retailer creates ***Time*** utility by keeping the store open when the consumers prefer to shop.
3. **Place:** By being available at a convenient location, he creates ***place*** utility.
4. **Ownership:** Finally, when the product is sold, ***ownership*** utility is created.

## 1.3 Services Provided by a Retailer

**To Customers:**

- A Retailer ensures ready stock availability of goods for the customers in sufficient quantities and sells the goods to the customers as per their quantity specifications.
- A retailer ensures availability of a wide variety of choices of products for the customers by keeping different varieties at various prices and also different brands as well.
- A retailer can provide credit facilities and cash discounts on the purchase of different products to the customers.
- Retailers can provide customized services and pay personalized attention to the customers for achieving a higher level of satisfaction with the delivery of product or service.
- Retailers introduce new products to the customers and also guide them with the usage of the products.
- Retailers can provide additional services like free home delivery or after sales services.
- Retailers purchase and maintain a stock of those products which are mostly demanded by the customers. They aim at catering to the requirements of all kinds of customers with varied buying capacities.

**To Wholesalers/Manufacturers:**

- Retailers are a valuable source of information and feedback for the manufacturer as well as wholesalers. Crucial information related to the changes in the buying preferences of the customers, their experience with the usage of the products, feedback on the prices and quality of the products is passed on to the wholesalers. This helps in improving the existing services and in customizing the product solutions as per the requirements of the customers.
- A retailer absorbs most of the burden of the wholesaler and also of the manufacturer by selling the goods in small quantities to the customers.
- Retailers are responsible for creating and improving the demand for various products by taking care of the display and merchandising activities.
- Retailers act as a major source of funding for the wholesale trade by placing the orders and making payments in advance to the wholesalers for those goods.

## 1.4 Myths in Retailing

- ☐ **Retailing is sale of Tangible goods**: Retailing is not merely sale of goods but retailing is also services as they are provided to end customers/ Services retailing is a vast and promising sector.
- ☐ **Retailing has to involve a store:** Besides store formats of retailing such as Kirana stores, departmental stores, supermarkets etc various Non store formats of retail are phone orders, vending machines, web transactions, teleshopping etc.
- ☐ **Retailing is done by retailer:** Anyone who sells to end consumer is a retailer whether it is any business or person. Manufacturer, wholesaler, importers act as retailer if they sell to end user.

## 1.5 Characteristics of Retailing

Retailing can be differentiated from wholesaling or manufacturing because of its certain distinct characteristics which include –

- **Direct contact with the customer –** Retailing involves direct contact with the end customer and are a mediator between the wholesaler and the customer or the manufacturer and the customer depending upon the distribution channels used.

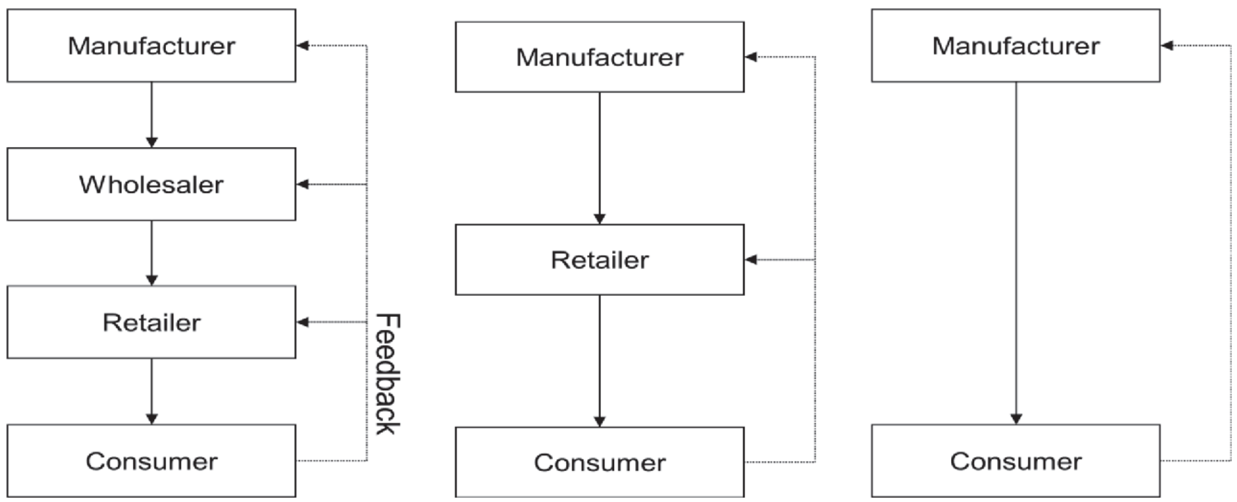
- **Relationship with the customers –** Retailers form a bond with the customers and help them decide which products and services they should choose for themselves.
- **Stock small quantities of goods –** Retailers usually stock small quantities of goods compared to manufacturers and wholesalers.
- **Stock goods of different brands –** Retailers usually stock different goods of different brands according to the demand in the market.
- **Customers' contact with the company –** Retailers act as the representatives of the company to the end customers who give their feedback and suggestions to them.
- **Have a limited shelf space –** Retail stores usually have very limited shelf space and only stock goods which have good demand.
- **Sells the goods at maximum prices –** Since retailing involves selling the products directly to the customers, it also witnesses the maximum price of the product.

## 1.6 Special Characteristics of retailing

- **Small Average Sales:** One special characteristics of retail business is that average sales size is small per customer which implies tight control over costs of each transaction, and also need to maximize no. of customers.
- **Impulse Purchases:** A large number of purchases are impulse or unplanned. This has implications for retailers to emphasize on good visual merchandising. Impulse purchases also challenges retailers ability to forecast, budget,order merchandise and have proper number of sales people.
- **Popularity of Stores:** Retailer needs to consider factors such as location, transportation hours, product assortment, advertising, proximity of competition as the popularity of store plays an important role in its profitability.

## 1.7 Marketing Retail Equation

Marketing has been defined as "the process by which individuals and groups obtain what they want and need through creating, offering and freely exchanging products and services of value with others". Meaning of marketing is to identify the customer needs and satisfy those needs as desired by the customer.




In the above figure we can see that in different marketing channels retailer or retailing function is there. Even in direct marketing channel,manufacturers performs retailing function. So we can do away with retailer but not with the retailing function.

**The Supply chain**

Manufacturers ............ Wholesalers………… Retailers ................ End User (Consumer)

- **Manufacturers -** Manufacturers are the ones who are involved in production of goods with the help of machines, labour and raw materials.
- **Wholesaler -** The wholesaler is the one who purchases the goods from the manufacturers and sells to the retailers in large numbers but at a lower price. A wholesaler never sells goods directly to the end users.
- **Retailer -** A retailer comes at the end of the supply chain who sells the products in small quantities to the end users as per their requirement and need.

The end user goes to the retailer to buy the goods (products) in small quantities to satisfy his needs and demands. The complete process is also called as Shopping.

## 1.8 Social and Economic Significance of Retailing

In the entire complicated process of marketing, retailer acts an intermediary in the complex marketing & distribution channel. Though manufacturers can directly sell their products and services to the end customers ultimately, it may result in high expenses, inconvenience and time-consuming process.

**Social Significance**

Retailing contributes to quality of life. Retailing helps in creating form, time, place, ownership utility for the consumers and raises the quality of life. In the present business scenario, social responsibility and increasing importance are being given to driving the marketing functions with a sense of social responsibility. This has resulted in retail organizations paying a great deal of attention towards the social responsibilities which they have towards their customers. The retail fraternity should give importance to the cultural differences and also the differences in the values, beliefs, and faith of people while formulating their marketing strategies and business development plans. This will be helpful in meeting the demands of the consumers by understanding their expectations.

**Economic Significance**

Retailing plays important role in economy. Retailing in India is second largest industry in terms of employment and establishments. Most of developed economies rely on retail sector for growth. Growing organized retailing is likely to accelerate productivity growth by restructuring back end supply chain. For expansion of business opportunities globally and tapping larger business prospects, large retailers have been diversifying their business formats by way of mergers or acquisitions to cater to the growing needs of a diverse and a larger customer segment. Moreover, the retail industry has been impressive regarding generating large-scale employment opportunities worldwide .

## 1.9 Career in Retail

**The retail sector has opened newer job avenues for people having different areas of specialization with diverse skills and qualification backgrounds**. These opportunities could be in the areas of Finance & Accounting, Retail Operations, Commercial Operations, Inventory & Warehousing, SCM & Logistics, HRM, Distribution Systems, Marketing & Brand Management, IT, New Products Development & Market Research/Business Analysis.

Retailing career can be quite rewarding right from the start of the career for a person as it may require bearing a handling a lot of challenges and responsibilities right from the beginning. Moreover, retailing has given rise to entrepreneurial opportunities, and few of the wealthiest entrepreneurs are involved in the retail business.Retailing has the potential and provides opportunities to develop as individuals (responsibility, career advancement, compensation). Besides lessons drawn from customer service aspects of retailing apply to your daily life and success regardless of your career choice.

Retail managers oversee everything that makes a store work, from behind the scenes functions (such as buying, inventory, and merchandising) to the sales floor (such as sales and customer service). Some common tasks you can expect to perform during your retail management career include:

- Hiring, managing, and motivating a team to increase sales
- Overseeing vendors and the buying process
- Managing inventory
- Creating and maintaining store displays
- Developing and executing sales and promotions
- Analyzing market trends and researching competitors
- Monitoring sales figures and forecasting future sales volumes, and meeting sales quotas
- Dealing with questions, complaints, and comments from customers
- Monitoring budgets, controlling expenses, and maximizing profits

This brings in the need for an increasing number of qualified professionals. Every retail outlet requires customer-friendly sales executives, who relate to the product.When hiring retail staff in India, some of the vital pointers to keep in mind, as far as attributes of the staff member is concerned are as follows:

**Traits commonly found in successful retail managers.**

- Result-oriented (Traits)
- Strong customer service skills
- Patient
- Good communicator
- Good listener
- Communication skills
- Well groomed
- A good team member
- Ability to motivate, train, and develop others
- Natural leader
- Cheerful
- Professional
- Strong negotiator
- Friendly personality
- Ability to tackle tricky situations
- Knowledge of the product

As the saying goes, "the customer is always right." Knowing that sentiment, retail managers are often presented with the most challenging situations and must exercise the utmost care when dealing with customers.

# Unit 2 : Retail in India

## Introduction

Retailing business in India is undergoing rapid transformation. Over the years, retailing in India has been one of the most dynamic and fast paced industries, which has travelled through different phases. Origins of retailing in India can be traced back to the emergence of kirana and mom & pop stores, but with Indian economy getting liberalised in early 1990s, many indigenous franchise stores propped up. Many domestic players like Raymond, Bombay Dyeing etc. started to forward integrate from manufacturing to retailing thereby catering to a larger base of customers.

Currently, driven by strong macroeconomic factors, India is one of the fastest growing economies globally and the fourth largest retail market in the world. It thus holds a very strong position as far as its market potential is concerned. Retailers are continuously trying to fully tap the depth of this potential by making use of latest technologies along with next gen tools like data analytics, e commerce, CRM solutions etc. which form the backbone of modern retailing. In the backdrop of evolutionary times coupled with day to day disruptions, retail outlets like Shoppers Stop, Planet M, Crosswords, Pantaloons etc. entered the market in the 1990s, followed by a few shopping malls, department stores and supermarkets. Thus, from early 90s to about 2005, shoots of organized retail started emerging in India. 2005 onwards marked a phase of growth and stabilization where large corporates like Reliance, Aditya Birla, Godrej etc. entered and grew their retail business. In the decade the industry saw many ups and downs and a few groups also exited retail who were not being able to grow and compete in the sector. A large number of International brands and retailers also entered India during this phase, many of them like Zara and H&M becoming extremely successful while the others still struggle to find a foothold.

As internet penetration increases, more international retailers set up shops in India and established Indian brands and retailers set themselves on a high growth trajectory, the share of organised retail market is expected to increase from 12 percent in FY 2019 to 25 percent in FY 2024.The e-commerce market itself is estimated to grow from US$ 24 billion in FY 2019 to US$ 98 billion in FY 2024. Going forward, given the strong retail and consumer outlook, India is expected to witness redefining trends which will shape the future of the retail market. The Global Retail development Index developed by International business consulting firm A.T.Kearny has ranked India First (2018) among the top 30 emerging markets in the world. The GRDI 2017 and 2018 named India as the top developing country for retail investment and china as second.GRDI 2019 ranked India as Second most emerging market for retail and China as first. It is believed that India has the potential to deliver the fastest growth over the next 50 years. Retail is considered as Second largest sector after Agriculture in India.

The burgeoning millennial population, growing middle income households and increasing women workforce provide a highly positive outlook for the retail businesses in India. Fuelled by these factors, the Indian retail industry is expected to grow from US$ 790 billion in FY 2019 to US$ 1400 billion by FY 2024, as the overall economy crosses the US$ 5 trillion mark.

Comprising of organized and unorganized sectors, India retail industry is one of the fastest growing industries in India, especially over the last few years.

## 2.1 Organised Retail

The National Commission for Enterprises in the Unorganized Sector (NCEUS) defines Unorganized sector as 'Unorganized Sector is a Sector consisting of all unincorporated private enterprises owned by individuals or households engaged in the sale or production of goods and services operated on a proprietary or partnership basis and with less than ten total workers.

Based on this definition, Organized sector in India is defined as 'Organized sector is a sector consisting of all incorporated enterprises which are engaged in the sales or production of goods and services operated as private limited or limited organizations governed by Companies act and having more than ten total workers.'

**With this definition, Organized Retail Sector will be characterized as:**

Company owned retail setups, Part of the employees are on the direct payroll of the company (some may be on the contract also) Employees will be governed by minimum wages act. These outlets can be "standalone company owned showroom" or "The retail space" in any of the super market or mall, etc.

Organised retailing in India, refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the publicly traded supermarkets, corporate-backed hypermarkets and retail chains, and also the privately owned traditional large retail businesses who constantly keep upgrading to the market dynamics and change.

Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local corner shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc. Most retailing of fresh foods in India occurs in Mandis and roadside hawker parks. These are highly organized in their own way. If we put all these hawkers together they almost measure upto a large supermarket.

## 2.2 Evolution of Retail in India

Today we find the more refined self service 'cash and carry' organized retail stores in the form of supermarkets, department stores, shopping malls and the like. These stores signified the beginning of organized retailing and its evolution across the world. This new breed of organized retailers have their shelves neatly stacked with a huge variety of products which include anything from cans, packed food, bread, dairy products, fresh meat and fish, apparel, shoes, furniture or any conceivable item one can think of.

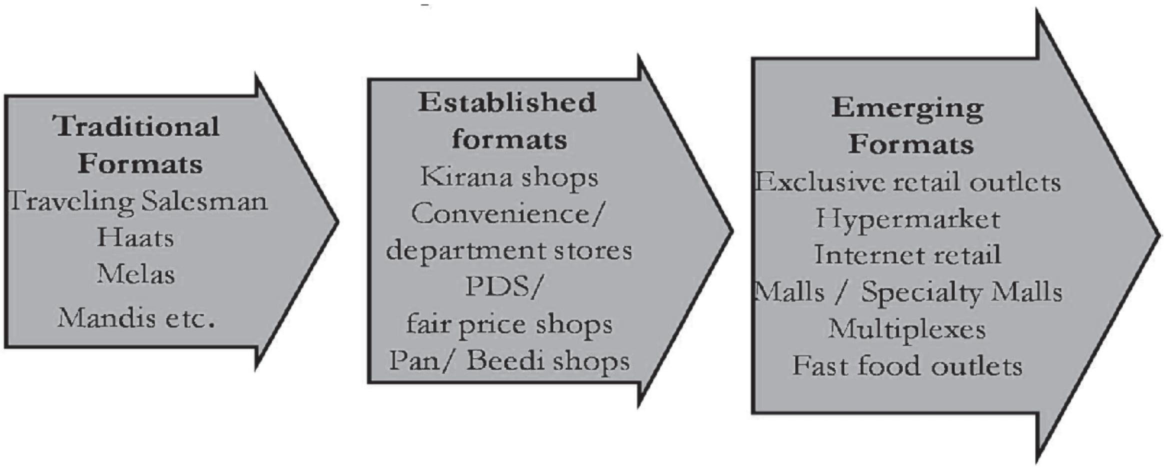
- ❖ Retail in India has evolved to support the unique needs of our country, given its size and complexity. *Haats, Mandis* and *Melas* have always been a part of the Indian landscape. They still continue to be present in most parts of the country and form an essential part of life and trade in various areas. While barter would be considered to be oldest form of retail trade, since independence , retail in India has evolved to support the unique needs of country, given its size and complexity.
- ❖ The PDS (Public Distribution System) would easily as the single largest retail chain existing in the country. Evolution of the PDS of Grains in India has its origin in the ***"rationing system"*** introduced by the British during world war II. The system was started in 1939 in Bombay and subsequently extended to other cities and towns. The system was abolished post war but however attaining independence India was forced to reintroduce it in 1950.There was rapid increase in the ration shops ( being increasingly called the Fair Price Shop or FPSs)
- ❖ The Canteen Stores Department and the Post Offices in India are also among the largest network of outlets in the country reaching population across the country.
- ❖ The Khadi & Village industries (KVIC) was also set up post independence. The cooperative movement was again championed by the government.

**India's Largest retail Chains:**

- ❖ PDS : 463,000
- ❖ Post offices : 160,000
- ❖ KVIC : 7,000
- ❖ CSD Stores : 3,400
- ❖ In the past decade, the Indian marketplace has transformed dramatically. However from the 1950,s to the 80,s, investment in various industries was limited due to low purchasing power in the hands of the consumer and the government's policies favoring the small scale sector.
- ❖ The first attempts at organized retailing were noticed in the textiles sector. One of the pioneers in this field was Raymond's which set up stores to retail fabric. Raymonds distribution network comprises 20,000 retailers and over 256 exclusive showrooms in over 120 cities of the country.

- Other textile manufacturing who set up their own retail chains were Reliance- which set up Vimal showrooms and Garden Silk Mills, which set up Garden Vareli showrooms.
- India's first true shopping mall complete with food courts, recreation facilities and large car parking space was inaugurated as lately as in 1999 in Mumbai. (This mall called "Crossroads").

**Figure 2.1: Evolution of Retail in India**




**Classification of organised retail evolution in India**

- **Initiation - Pre 1990s :** Manufacturers establishing their presence in retail
- **Conceptualization - 1990 - 2005 :** Pure-play retailers who entered the retail market, to expand pan-India, for instance Pantaloons, Shoppers' Stop and Lifestyle
- **Retail Expansion - 2005 through 2010 :** Most active phase of the Indian retail industry in terms of growth, entry of new players and development of new formats. Reliance, Tata, Aditya Birla and Mahindras and global retailers such as Metro AG, Shoprite, Hypercity entered and Carrefour, Tesco and Zara that announced their India entry ,joint venture of Bharti-Walmart , FDI policy 2005-2006 allowing single-brand foreign retailers to take up to 51% stake in a joint venture with a local firm.
- **Consolidation and Growth - 2010 onwards**
  - Cumulative FDI inflow from April 2000 to March 2017, in the retail sector, reached US$ 988.56 million
  - Movement to smaller cities and rural areas
  - More than 5-6 players with revenues over US$ 1 trillion by 2020
  - Large-scale entry of international brands
  - FDI in single-brand retail up to 100 per cent from 51 per cent
  - Approval of FDI limit in multi-brand retail up to 51 per cent
  - Rise in private label brands by retail players
  - Sourcing and investment rules for supermarkets were relaxed
  - E commerce has emerged as one of the major segments

## 2.3 Drivers of Retail Change in India

**Following are the drivers of retail change in India:**

- o Raising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence of consumer tastes
- o Liberalization of the Indian Economy
- o Increase in per capita income and spending

- o Advent of dual income family also helps in the growth of retail sector
- o Shift in consumer demand to foreign brands
- o Consumer preference for shopping in new environment.
- o The Internet revolution is making the Indian consumer more accessible to the growing influence of domestic and foreign retail chains.
- o Reach of satellite T.V channels and Dth is helping in creating awareness about global products for local markets

## 2.4 Size of Retail in India

The retail sector in India is emerging as one of the largest sectors in the economy. It contributes 10 per cent to GDP and 8 per cent to employment. The total market size of Indian retail industry stood at US$ 950 billion in 2018 and is forecast to reach US$ 1,200 billion by 2021 and US$ 1,750 billion by 2026. India's high growth potential compared to global peers has made it a highly favourable destination. According to a study by Boston Consulting Group, India is expected to become the world's third largest consumer economy by reaching US$ 400 billion in consumption by 2025. In FDI Confidence Index, India ranked 16 (after US, Canada, Germany, UK, China, Japan, France, Australia, Switzerland and Italy).

In FY19, traditional retail, organized retail and E-commerce segments accounted for 88 per cent, 9 per cent and 3 per cent of the market, respectively. The organized retail market in India is growing at a CAGR of 20-25 per cent per year. It is projected that by FY21, traditional retail will hold 75 per cent of the total retail market, followed by organised retail at 18 per cent and Ecommerce retail at 7 per cent.

## 2.5 Factors Driving the Growth of Indian Retail Market

**Indian consumption and retail market growth is largely supported by the following factors:**

- ✓ **Burgeoning Millennial Population and Changing Outlook towards Spending -** With median age of 27 years, India is home to world's largest Millennial population. With 440 million of them, they make 34 percent of the total population in India. Further, their contribution to the Indian workforce is significantly higher at nearly 48 percent in FY 2019.This set of consumers are more confident of future success and earning at a much younger age than their parents. They also spend on things that improve their lives and their "image". The focus is shifting from items like house and cars that the last generation saved and spent on, to spending more on experiences and on day to day things, buying better products and brands in a more convenient way. Young Millenials having more disposable income to spend on "self", thereby growing various categories like personal gadgets, solo holidays etc.
- ✓ **Brand consciousness:** Factors like young demographic composition, increasing personal disposable income, preference towards affordable luxury and rising middle class population are developing preferences for specific brands.
- ✓ **Increasing Women Workforce:** With changing societal mind set, women entering workforce has been on the rise in past few years. From FY 2014 to FY 2019, women workforce in India has increased from 5 million to 7 million respectively and is expected to reach 10 million by FY 2024. This has led to the increase in earning members and family income, thereby giving rise to discretionary spending. Today, women in India are getting independent in terms of their purchase decisions. This coupled with increasing time pressures and aspirations to spend on self-development, is giving rise to the consumption of new categories like personal care, readymade products and processed food products etc.
- ✓ **Growing Wallet Share and Price Trade-Off:** India's per capita GDP increased to Rs 143,048 (US$ 1,982.65) in FY19 from Rs 129,901 (US$ 1,800.43) FY18. Indian consumers are now shifting more towards premium brands by paying more for value and service. With growing GDP per capita and higher disposable incomes, consumers have become more aspirational and are open to buying new

categories. This has led to a change in wallet share of Indian consumers. Earlier wallet share of Indian consumers was largely dominated by food and clothing only, but with evolving buying behaviour, new categories like mobile and communication, beauty & grooming, personal gadgets etc. have now become a part of Indian consumer's wallet share. Consumers have traded "durability" for "price" and "fashion". Millenials buy the durables products every 5-7 years as products with new features and designs are launched. Thus, the market for these products has grown tremendously as first-time buyers purchase these products driven by greater affordability and there is a high replacement driven demand.

✓ **Use of Plastic money and easy consumer finance opportunity :** Easy availability of credit and use of 'plastic money' have contributed to a strong and growing consumer culture in India. Consumers have become more comfortable using online services. Retailers now provides various credit and payment options driven by increasing internet penetration, 24*7 accessibility, convenience and secured transactions.

✓ **Growth of Markets:** With online players now delivering to the smallest of towns, consumers in these cities are aware of many international and indigenous brands available in the market. This spells a big opportunity for the modern retailers who are looking to enter into Tier III & IV markets. Many consumers living in Tier III &IV towns have now experienced the brands, through online purchases. Leading national brands are now looking at 500 plus cities as their market and are already opening stores.

✓ **Growth of Malls:** There has been a sharp rise in the number of malls operating in India. Earlier the mall development was confined to top tier cities like Delhi- NCR, Mumbai, Hyderabad, Chennai, Pune etc. However the next round of mall development is expected to come from Tier III cities like Allahabad, Coimbatore, Jamshedpur, Panaji, Udaipur etc. Malls have also progressively become bigger and are considered to be destinations or experience centres instead of just shopping or transactional places. Today, malls have started to focus on the growing significance of offering a good line-up of experiential categories like food and beverage, entertainment options like multiplexes, gaming centres along with other amusement options to encourage greater footfalls and more return visits.

✓ **Growth of Online Retail:** A major driver of this high growth trajectory of organised retail has been online retail which is projected to grow at a CAGR of 33 percent between FY 2019-24. Growth in online retail is majorly attributed to factors including:

❖ Increasing internet penetration

❖ Growth in number of smart phone users

❖ Growing number of online shoppers

Although mobile, tablets and electronics as a category continue to be the dominant one in the online market of India, new breed of online players are targeting other categories like food & grocery, pharmacy etc. These will be the categories where we will see 40 percent plus year on year growth in the online space.

✓ **Private label opportunities:** The organised Indian retail industry has begun experiencing an increased level of activity in the private label space. The organised retail sector is forecast to witness strong growth in the coming years. The share of private label strategy in the US and UK markets is 19 per cent and 39 per cent, respectively, while its share in India is just 6 per cent. Stores like Shopper Stop and Lifestyle generates 15 to 25 per cent of their revenue from private label brands.

✓ **Sourcing base:** India's price competitiveness attracts large retail players to use it as a sourcing base. Global retailers such as Walmart, GAP, Tesco and JC Penney are increasing their sourcing from India and are moving from third-party buying offices to establishing their own wholly-owned/wholly-managed sourcing and buying offices.

## 2.7 FDI Policy on Single and Multi-Brand Retail in India

**51 per cent FDI in multi-brand retail Policy:**

- Minimum investment cap is US$ 100 million.
- 30 per cent procurement of manufactured or processed products must be from SMEs. Minimum 50 per cent of total FDI must be invested in backend infrastructure (logistics, cold storage, soil testing labs, seed farming and agro-processing units).
- Removes middlemen and provides better price to farmers.
- Development in retail supply chain system.
- 50 per cent jobs in retail outlet could be reserved for rural youth and a certain amount of farm produce to be procured from poor farmers.
- To ensure public distribution system (PDS) and food security system (FSS), the Government reserves the right to procure a certain amount of food grains. It will keep food and commodity prices under control. It will also cut agricultural waste as mega retailers would develop backend infrastructure.
- Consumers will receive higher quality products at lower prices and with better service.

**100 per cent FDI in single-brand retail:**

- Products to be sold under the same brand internationally. Sale of multi-brand goods is not allowed even if produced by the same manufacturer.
- 100 per cent FDI allowed in single-brand retail under the automatic route. Single-brand retail entities (SBRT) would be permitted to set off their incremental sourcing of goods from India for global operations during the initial five years, as against the compulsory sourcing requirement of 30 per cent of purchases from India
- After completion of five-year period, the SBRT entity will be required to meet the 30 per cent sourcing norms directly towards its India's operation, on an annual basis.
- 100 per cent FDI in retail trading of food products manufactured or produced in India.
- Liberalization of FDI is expected to give a boost to Ease of Doing Business and Make in India.

## 2.8 Challenges to retail Development in India

- ✓ **International Standards:** Even though India has well over 14 million retail outlets of different sizes and styles, it still has a long way to go before it can truly have a retail industry at par with International standards. This is where Indian companies and International brands have a huge role to play.
- ✓ **Inefficient supply chain management:** Delivering the right goods at right time at right place is very important .Indian retailing is still dominated by the unorganized sector and there is still a lack of efficient supply chain management. India must concentrate on improving the supply chain management, which in turn would bring down inventory cost, which can then be passed on to the consumer in the form of low pricing, discounts to customer and better customer retention.
- ✓ **Lack of Retail space:** 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 $m^2$) in size. India has about 11 shop outlets for every 1000 people. Most of the retail outlets in India have outlets that are less than 500 square feet in area. This is very small by International Standards.
- ✓ **Cultural Diversity:** India's huge size and socio economic and cultural diversity means there is no established model or consumption pattern throughout the country. Manufacturers and retailers will have to devise strategies for different sectors and segments which by itself would be challenging. Retailing is also a very local business.

- ✓ **Real estate issues:** Huge growth of retail industry has created a huge demand for the real estate. This is leading to increase in property prices. Starting a new store needs huge investment in purchasing a land. This huge investment is also a challenge for the retail outlets. Rental prices are also increasing, leading to increase in the overall costing. Lease rentals are quite high in malls and are a big challenge for the retailers for store operations and expansion.
- ✓ **Shrinkage and Frauds in Retail:** Retail shrinkage is one of the primary challenge that companies would have to face. Retail shrinkage is the difference between the value of the stock as per the books and the actual stock available in the outlet. It is one of the primary challenges the companies face. Frauds, including vendor frauds, thefts, shoplifting and inaccuracy in supervision and administration are the challenges that are difficult to handle. This is so even after the use of security techniques, such as CCTVs and POS systems.
- ✓ **Challenges with Infrastructure and Logistics:** The lack of proper infrastructure and distribution channels in the country results in inefficient processes. This is a major hindrance for retailers as a non-efficient distribution channel is very difficult to handle and can result in huge losses. Transportation, including railway systems, Airport capacities and power supply have to be enhanced. Warehouse facilities and timely distribution are other areas of challenge. To fully utilize India's potential in retail sector, these major obstacles have to be removed.
- ✓ **Lack of Technology Adoption :** The availability, feasibility and adoption of technology is the major challenge faced by the Indian retail outlets. Technology is being used for the day to day functioning of the retail outlets like billing and payments, prevention of shrinkage, keeping record of stock, supply chain management. But the scope of technology is wider. Other softwares can be used like RFID for tracing and tracking the produce, understanding customer preference, CRM for customer relationship management and consumer behaviourial analysis and using ERP Packages to facilitate back end operations. Indian retail outlets need to adopt technology and use different high end softwares for managing the functioning of retail outlets from simple EPOS to Advanced MIS to improve efficiency of retail operations. Use of security systems, barcoding and scanning, RFID(Radio frequency identification) is also becoming rampant in organized retail for improved functioning.
- ✓ **Scarcity of Skilled Workforce:** The Indian organized retail players spend more than 7% of the sales towards personnel cost. The retail industry faces attrition rate as high as 50% which is very high as compared to the other sectors. Industry has to pay more in order to retain the trained man power. Store operations accounts for 70-80% of the total manpower of the organized retail sector. Unfortunately, there are very few specific courses for retail industry. Graduates and Post graduates from the other streams are hired and are trained in retail sector.
- ✓ **Increasing Competition and Price War:** There is increasing competition and price war between different retail organizations. Every organization is trying to provide goods at low cost and offers various lucrative promotional schemes. In such situation, it is difficult to attain customer loyalty and companies keep marginal profit to provide the goods at competitive prices. Competition is at different levels i.e intra type (between same formats), inter type (between various formats dealing in similar merchandise), vertical (between members at various levels in same channel) and also private labels of retailers and various other manufacturer brands at retail points.
- ✓ **High Cost of Operations:** Retail outlets has to incur very high cost of operation. This is on account of high labor cost, training cost of human resource, high real estate cost and rentals, air conditioning, power back ups cost, high maintenance cost, high electricity tariffs, high taxes, investment in supply chain and logistics, investment in technology, high investment in equipments and fixtures to give modern look to the store, etc. So retail outlets has to incur high cost of operation still they have to provide goods to the customers at lower prices. This is a big challenge for the retail outlet.

- ✓ **Understanding customer:** These days it is very difficult to understand the customer behavior. So many factors plays an important role in effecting the customer behaviour and loyalty such as product quality, service quality, customer satisfaction, promotions, offers provided by other players in the market. Ever increasing demand of the customers is also a challenge to the retail outlets because of Globalization awareness among the customers is increasing. Customers psychology is changing and becoming more demanding. They want to pay less for more and more.

## 2.9 Critical Success Factors

- Making adequate capital investments.
- Maintaining low cost operations
- Investing in appropriate and cost effective technology
- Effective positioning of retail outlets
- Focusing on customer service and loyalty.
- Building a reliable supply chain and logistics system
- Effective HR training and retention
- Creating and nurturing private label brands
- Reducing shrinkage and Pilferage.

## 2.10 Key Learning for Retailers Going into the Future

Consumers in India have far evolved and expect their shopping experience to be seamless across every channel be it brick and mortar, an e-commerce website or a mobile app. With these changing consumer demands and expectations retailers are required to work continuously towards gaining a competitive advantage. Having realised the scope of mass digitization of the retail ecosystem, retailers are required to proactively take steps to fine tune their day to day operations to achieve enhanced customer value. Therefore, retailers need to invest funds towards revitalising the customer experience to build loyalty.

Consumer experience will be the key focus of the retailers, while technology will play an important part in increasing sales as well as facilitating the enhancement of consumer experience throughout their shopping journey. The next 10-12 years will be the defining years for Indian retail as the market will mature and organized retail will penetrate deeper into smaller cities and towns. While on one side more international brands and retailers across categories and formats will aggressively enter and grow the Indian business, India will become the key growth market for the ones already present. Technology will replace many 'human roles' in retail and new ways to emotionally connect with consumer will evolve. New markets will develop, and new channels will disrupt and reshape the markets.

# Unit 3 : Food Retailing

Food retail implies sales of myriad kinds of food items purchased by consumers and consumed off the premises. Retail food is available in supermarkets and retail stores and it is in the form of packaged product. It includes fruits, meat, vegetables, snacks, milk, and organic food products. For our understanding, Food as a specialized sector in retail has been categorized into Food & Grocery segments and Food Services. Food & Groceries is further subdivided into packaged & branded foods, fresh groceries, hygiene & toiletries products and unprocessed dry groceries. On the other hand, food services include catering services, fast food centers, restaurants and other services.

## 3.1 Food Retailing: Global Perspective

The global food and grocery retail market size was valued at USD 11.7 trillion in 2019 and is expected to grow at a compound annual growth rate (CAGR) of 5.0% from 2020 to 2027. Increased disposable income as a result of economic growth has fuelled the spending on consumables. Furthermore, an increasing number of middle-class consumers and rising brand consciousness among them have been driving the market for food and grocery retail in developing countries, including India and China. Change in the food habits, standard of living, and lifestyle is expected to steer the growth of food retail industry. Furthermore, change in the food intake patterns of the customers and rise in their food spending capacity will add towards the expansion of the market. Apparently, rise in the consumer inclination towards private label brands will fuel the food retail industry over the next couple of years.

In addition to this, rise in the shopping activities in hypermarkets and supermarket stores will escalate the business growth over the forthcoming years. Apart from this, supermarkets in the countries like the U.S. have added healthy checkout lanes stocked with products having high nutritive value. Moreover, supermarkets in Europe and America improve the visual appeal of healthy diet through exquisite packaging, lightning, and signage. The food retail stores in the western countries also offer healthy food samples and comprehensive information about the nutritive contents of the food product, thereby driving the growth of the food retail market across the globe.

Furthermore, rise in the shopping activities at grocery stores, specialty food stores, and convenience stores will steer the business space over the coming years. In addition to this, the profit or revenue of the food retail industry is impacted by product, placement or locating, promotion or advertisement, and pricing strategies of the retailers along with presentation or demonstration as well as staff.

The growth of the market in Asia Pacific is due to swiftly expanding food retail chains in the emerging economies such as China and India. In addition to this, large presence of small & local retail stores in this region will further boost the regional market. Apparently, rise in digital shopping and online food retailing activities particular by the middle-income group population in the region will embellish the regional business growth.

With the increasing use of online shopping platforms, several players in the industry are entering into e-grocery and improving their presence. For instance, Walmart has expanded its online distribution channel and started same-day delivery in 2019. Similarly, Kroger Co has increased its pickup sites for online orders. Additionally, in June 2017, Amazon declared its acquisition of Whole Foods Market Inc. This acquisition has enhanced Amazon's fresh grocery retail services in new markets. Such initiatives to strengthen the online presence of the competitors have been shaping the buying behavior of the consumers.

Price and convenience have a significant impact on a consumer's choice as these are the two primary concerns of the consumers while purchasing grocery products. As a result, in-store or online price parity influence market growth positively. Furthermore, supermarkets have been arranging special events, such as cookery classes, to increase the footfall and boost consumer engagement. Retail suppliers often partner with brands for such initiatives. For instance, Target Brands, Inc. partnered with Chobani, a Greek yogurt manufacturer, to arrange a yogurt bar inside its retail stores.

### 3.1.1. Product Insights

Packaged food dominated the market for food and grocery retail with more than 40% share of the total revenue in 2019. High consumption of the packaged foods and grocery products, such as bread, butter, cheese, desserts, frozen groceries, edible oil, processed meat, savory snacks, and yogurt, has fueled the growth of the packaged food segment. Factors including effortless cooking and consumption, easy handling, and better protection from external tampering have been driving the demand for these grocery products among the consumers.

Over the past few years, demand for ready-to-eat, ready-to-cook, and bakery products has been witnessing significant growth across the globe. This has been accelerating the growth of the packaged food segment. Manufacturers have been innovating and internationalizing their packaged food and grocery products to expand their consumer base.

### 3.1.2 Distribution Channel Insights

The supermarkets and hypermarkets held the largest share globally of over 55% in 2019. The majority of consumers prefer to handpick things themselves. Consumers feel more comfortable with selecting their own grocery items, especially with fresh products. Generally, consumers have very specific preferences for fruits and vegetables. For example, they prefer some products green and some ripe. Other factors driving this distribution channel include price discounts, shopping experience, immediate purchase of grocery products, and availability of a wide range of products in a single shop. Furthermore, enhanced services such as click and collect have fueled the sales of grocery products through this channel.

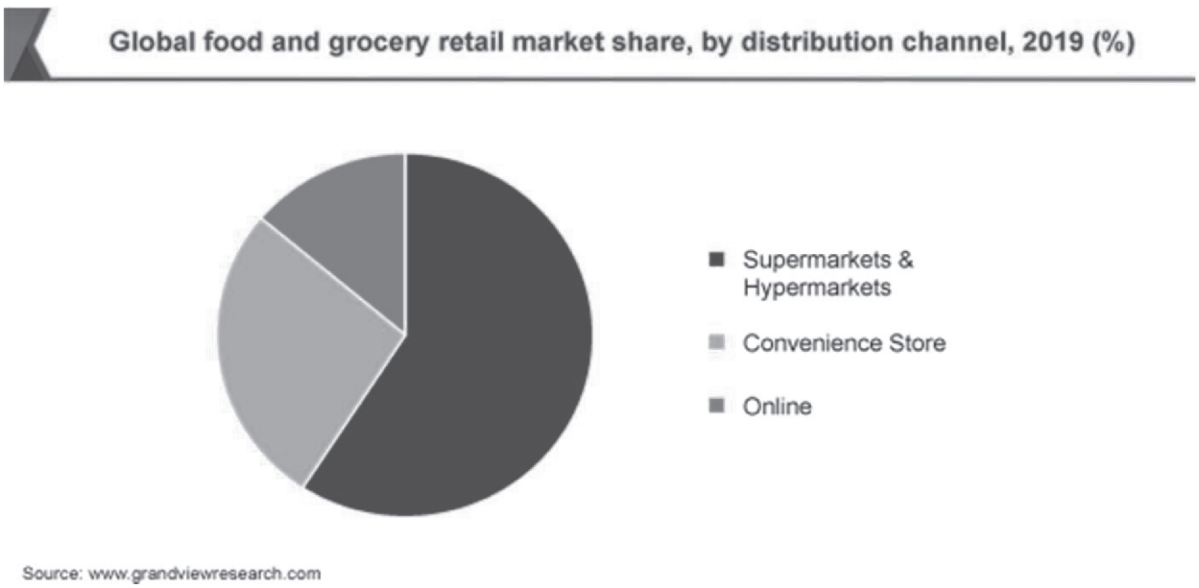



**Fig 3.1 : Global food and grocery retail market share, by distribution channel, 2019 (%)**

Online distribution channel is projected to witness the fastest growth in the upcoming years. Retail giants including Walmart, Kroger, and Target have been investing in online ordering and distribution capabilities in order to compete with large e-commerce platforms, such as Amazon. Constant increase in smartphone and broadband adoption, especially in the developing nations, has been boosting online retail sales. Flexible retail option is the key factor fueling the growth of the online distribution channel. Online sales of several food products, such as liquid milk, chocolate, cookies, have increased notably over the world. Furthermore, rising enthusiasm and comfort for digital shopping among the millennials and Generation Z consumers have been boosting the growth of the segment in the food and grocery retail industry.

### 3.1.3. Regional Insights

Asia Pacific dominated the market for food and grocery retail in 2019 with more than 45% share of the global revenue. China, India, Japan, and Indonesia are the key markets in the region. The growth of e-commerce and online retail has positively impacted the China's market. Vendors have been shifting their focus towards second and third tier cities as first-tier cities have become saturated. Similarly, India has huge potential in the region. The Indian market is majorly dominated by traditional retail and other grocery stores. However, modern retail chains are also expanding significantly in the key cities and urban centers.

Middle East and Africa is anticipated to witness the fastest growth over the forecast period. The region presents a wide scope for the development of food and grocery retail in the upcoming years. The transition from traditional retail to modern retail format is expected to fuel the growth in the region. Furthermore, the growing middle-class population, along with increasing affordability in South Africa and UAE, will boost the expansion of the food and grocery retail industry.

### 3.1.4 Key Companies

Key players influencing the market growth globally are Seven and I Holdings Co., Ltd., Costco Wholesale Corp., REWE Group, The Kroger Co., Carrefour S.A., AEON CO., LTD., Wal-Mart Stores, Inc., Metro AG, Tesco Plc, and Group Auchan S.A. Companies have been expanding their geographic presence across the globe in order to increase their consumer base. For instance, in April 2019, Walmart announced to invest more than USD 800 million in Texas, California, Florida, and other states of U.S. to open new retail stores and renovate. Some of the prominent players in the global food and grocery retail market include:

- Walmart
- 7-Eleven, Inc.
- Schwarz Gruppe
- Carrefour
- Target Brands, Inc.
- Amazon
- Albertsons Companies
- Costco Wholesale Corporation
- The Kroger Co
- ALDI Purchasing GmbH & Co.
- Tesco PLC
- Ahold Delhaize

## 3.2 Food Retailing: Indian Perspective

Food Retailing in India is witnessing a progressive change with the emergence of the hypermarkets/ supermarkets and rapid expansion of organized retail sector in India across various parts of the country. With the world's second-largest population and rising composition of Middle-Income group, India has emerged as the world's most attractive retailing destinations especially in the Food & Grocery segment. This growth trend is expected to be steady, and the analysts estimate an increase in the population by 475 million by the year 2030.

**Of the overall retail industry, food and grocery accounts for the largest share in revenue in India.** India is the world's second-largest producer of food. Food and grocery retail in India exceed US $294 billion representing 16 percent of India's GDP. By 2020, food and grocery segment is estimated to constitute 66 percent of the total revenue in the Indian retail sector, followed by the apparel segment. The organized food and grocery retail market was estimated to have a penetration rate of six percent of the target market by 2021 in India, increasing from four percent in 2018. It was the major contributor to the overall organized retail market in 2018 with over 34 billion Indian rupees.

**Organized share in Food & Grocery is lowest compared to other categories**

Of India's retail basket, Food & Grocery (F&G) category comprising fresh fruits & vegetables, packaged food, personal care & home care and utilities is a significant 65% ($525 Bn) of the wallet spend whilst the organized share is marginal, at lowest penetration factor of 3.6% contribution.

Though organized F&G retail has been around for over three decades now, it was marked by constrained growth owing to the diluted focus on format, geography, assortment mix, customer segments by business conglomerates eager to leverage the potential. The food and grocery organized sector, however, will grow at a robust 25% CAGR to an increased 6.7% penetration by 2023.

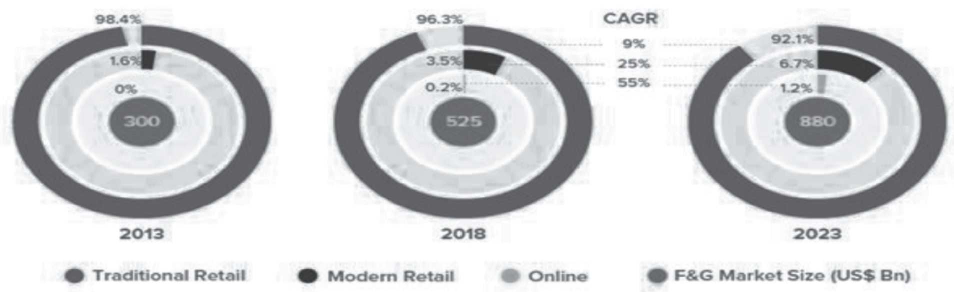



**Fig 3.2 : Share of traditional, modern and online retail in F&G market in India**

Source: https://redseer.com/newsletters/organized-grocery-retail-in-india/

**Organized Food & Grocery share in India is low compared to other developed and developing market**

**Table1: Share of Modern and Traditional Retail in Food and grocery market in various countries**

| Country | Modern retail % share | Traditional retail % share | Online | F&G market size in 2018 US$Bn |
|---|---|---|---|---|
| **USA** | 90% | 8% | 2 % | 1525 US $Bn |
| **Brazil** | 8% | 91.5 % | 0.4% | 322 US$Bn |
| **UK** | 86% | 8% | 6% | 268 US$Bn |
| **China** | 52 % | 43% | 5% | 1500 US$Bn |
| **Indonesia** | 10 % | 89% | 0.4 | 210 US$Bn |
| **India** | 3.5% | 96.3% | 0.2 | 525 US$Bn |

Source: https://redseer.com/newsletters/organized-grocery-retail-in-india/

Retail market CAGR of major sub sectors over the last 5 years is depicted in the graph below. Breakfast cereals, sweet and savoury snacks, confectionery and soft drinks have been growing at a CAGR of about 24%-26%.

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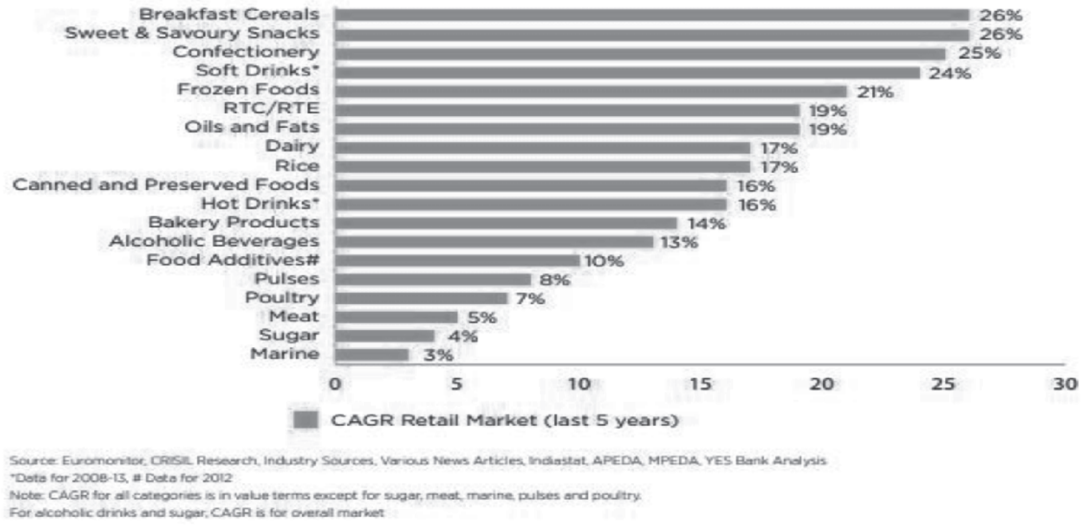



**Fig 3.3 : Retail market CAGR of major sub-sector (2009-14**

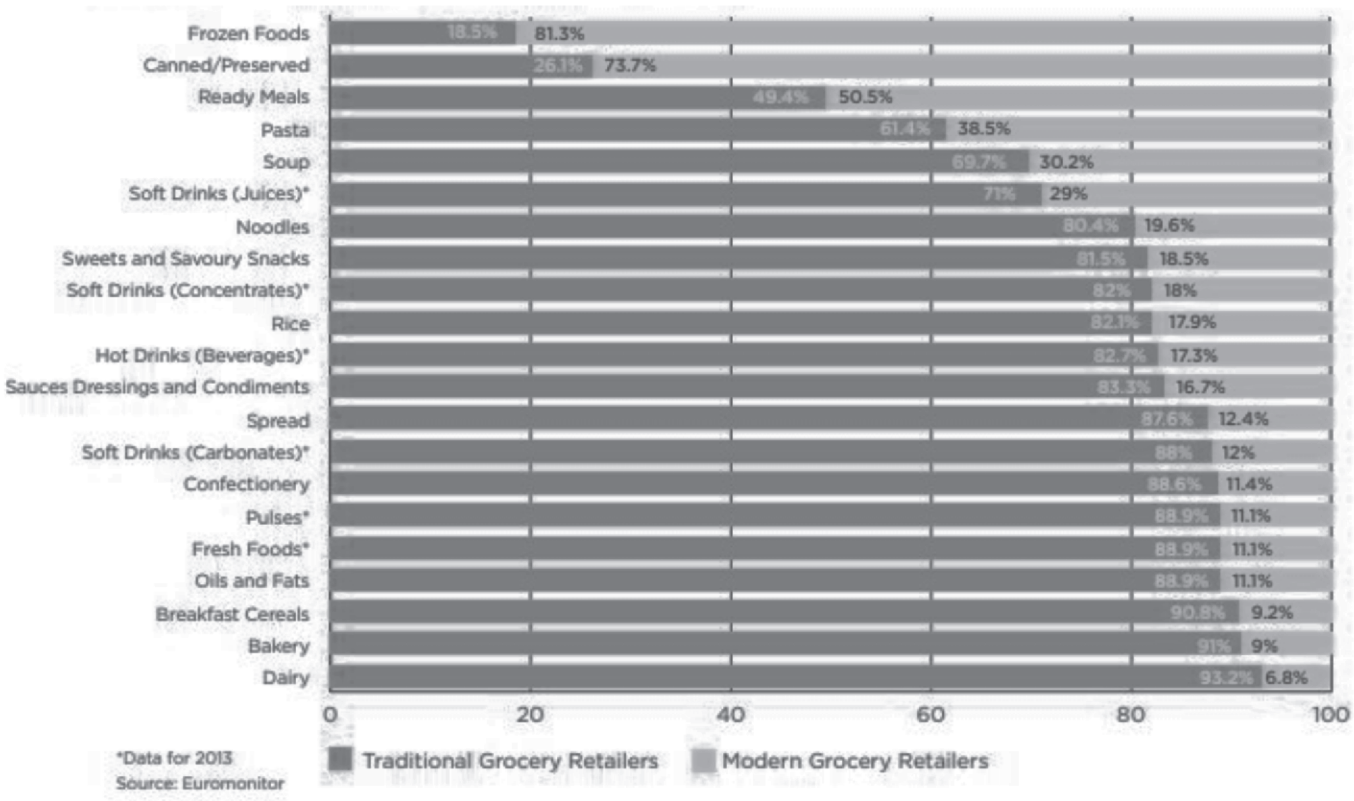



**Fig 3.4 : Category wise store based retailing (2014)**

## 3.3 Food Retailing Formats In India:Organised And Unorganised

Traditional retailers contribute towards more than 80% of the total sales in the Indian market, and Kiranas (mom & pop stores) continue to rule the food retailing industry. Organized retailing is gradually and impressively expanding its operations in India with the rise of modern retailing formats like supermarkets, hypermarkets, mall culture, convenience stores and various other forms.

The same is the case with the food retail market where the organized market constitutes only 3 percent in comparison to the unorganized segment that forms 97 percent of the food retailing market. The organized retail in India is growing at a CAGR of 20-25 percent per year, which is a strong indicator of its growth potential in the years to come.

The unorganized sector in food retail is predominantly dominated by general stores, kirana stores, convenience stores and street markets. There are more than 15 million mom-and-pop stores. On the other hand, the organized sector includes gourmet stores, department stores, discount stores, supermarkets and hypermarkets, e-tailers and cash-and-carry formats.

Globally, India is the **sixth-largest grocery market** and has a humongous potential for growth due to the rising population as well as disposable incomes. The Indian Food Retail Model is largely characterized by the coexistence of various retail formats operating both in a disorganized and organized manner. **The Hawkers** operating on the roadside or the mobile retailers who sell their products by moving from place to place by using a pushcart or vehicle. **Kirana format** is equivalent to the mom and pop stores popular in the US.In the Organized retailers' category mostly covers Value for money stores like Food bazaar, Experience stores (More )and Home Delivery format like Bigbasket, Grofers,Dominos etc.Day to day purchase requirements is fulfilled by small retailers/shops, baniyas, haats, ration shops and cooperatives. The small retailers offer the facility of buying on a credit basis and equally provide the service of delivery at the doorstep.

The impressive performance of the organized sector in Food Retail industry in India could be attributed to changing lifestyles and buying preferences of the consumers. Earlier, the consumers preferred buying fresh food at affordable prices. But in the present scenario, consumer preference for grocery & food shopping has changed with increasing preference for visiting malls, hypermarkets or supermarkets. The consumers with higher income capacity prefer visiting these chain stores since they have the advantage of buying various products in one location, though the products are priced slightly higher. The modern retail outlets offer the facility of payment by cards or net banking, which facilitates convenience in payment techniques and the consumers need not have to carry cash everywhere..

In the present scenario, the modern retail format is mostly dominated by the Indian players, but recently due to the changes in the FDI policies and economic reforms introduced by the Indian government, foreign players have also entered the Indian retail industry. The top five retailers in the Indian market who are ruling the industry are: the top position is held by Future Value Retail of Future Group. Big Bazaar and Pantaloon are the hypermarket retail formats of Future Value Retail which have earned impressive revenue volumes for the Group. Reliance Retail occupies the second spot in the Indian retail industry; the reason behind its success is its focus on the value proposition and low prices of the food & grocery items. Reliance Retail operates various formats like Reliance Super, Reliance Fresh, and Reliance Hyper Chains. After Future Group and Reliance Retail, the next in the line are Mother Dairy, Aditya Birla Group, and Spencer's Group. The other key players in the Hypermarket segment are Easy Day Market of Bharti Retail, More Mega Market of Aditya Birla, which have been equally performing well in the organized retail sector in India.

In recent times there has been a growth in the franchise openings of foreign food chain players in India like Dominos, Pizza Hut, McDonald's, Subway, Barista and many others. These retail formats operate throughout the country and have revolutionized the entire retail functioning. These formats, to a great extent, have been able to resolve the supply chain limitations, ensured delivery of products at the doorstep of the customer and have been helpful in enhancing overall customer satisfaction.

**Fig 3.5 : Size of food services market in India (USD billion)**

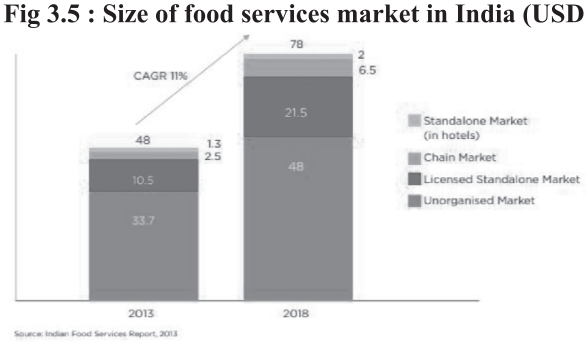
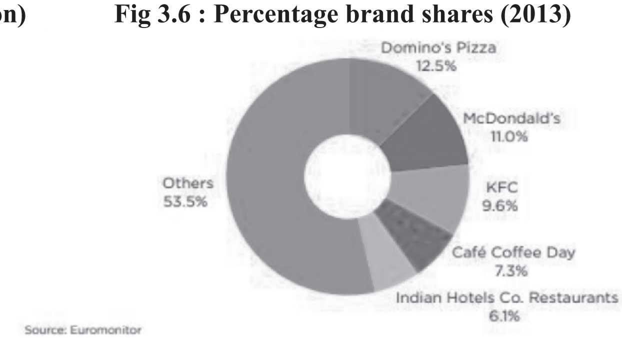



**Fig 3.6 : Percentage brand shares (2013)**




Moreover, the present day consumers are more aware and literate. They have a good exposure to the latest developments in the market globally due to the easy access to internet facilities and satellite television. In the present scenario, the consumers are in a much better position to judge the quality and prices of the products, perform a comparative evaluation of different brand offerings, and then they make a thoughtful purchase decision. Today, the consumers are more vocal and aware of the consumer protection rights and have strong knowledge of the authorities which are involved in safeguarding or protecting the consumer interests/rights. These factors have given rise to an increasing inclination or preference for the organized retail formats in the food industry.

Multiple factors such as higher economic growth, rising per capita income & buying capacity of the consumers, population growth and changes in the demographic parameters, socio-cultural changes, brand proliferation and innovations in technology play a vital role in influencing the retail market conditions.

**Table 2 : India Grocery Retailers Outlets by Channel**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| Modern Grocery Retailers | 5,852 | 5,902 | 6,152 | 6,545 | 6,670 | 7,162 |
| Traditional Grocery Retailers | 12,426,472 | 12,488,703 | 12,555,234 | 12,623,561 | 12,695,235 | 12,770,413 |
| **Total** | **12,432,324** | **12,494,605** | **12,561,386** | **12,630,106** | **12,701,905** | **12,777,575** |

## 3.4 Significant Trends In Indian Food Market:

The most significant trends emerging rapidly in the Indian food market are:

✓ **Expansion of Imported Food Market**

Imported food constitutes about 15-20 percent of the total organized retail space. Vegetables, fruits, and nuts are the major imported categories contributing 80 percent of the total food imports in India. The imported food market in India is growing at a rate of about 30-40 percent per annum from the last 4-5 years..

The categories showing growth in the imported food segment are dairy items such as cheese, creams, chocolates and dips followed by wine and packaged food. However, the imported food business is subject to severe competitive pressure – with the power shifting to retailers from manufacturers/ importers, resulting in shrinking margins at the back-end.

✓ **Gourmet Food Market**

The gourmet food market has witnessed a major transformation in recent years and is expected to grow at a CAGR of 20 percent in the coming years. Prominent players like Godrej's Nature's Basket, Le Marche, Foodhall, Nuts & Spices, Brown Tree are very positive about the ongoing trend. The segment offers high margins to retail for high-end products as it caters to premium customers who look for quality and variety and are willing to pay a premium price.The young urban Indians aged 16 to 40 years constitute the major segment of this market. They spend over 40 percent of their income on food, are ready to experiment, and are willing to pay a premium for better quality, variety, and taste. Chocolates, cookies, juices, honey, sauces and certain fruits are the major categories constituting the bulk of the gourmet market in India. Also, products such as truffles, artichokes, asparagus, Australian lamb and Norwegian salmon have also found their way into the gourmet food and beverage space.

✓ **Growth of Modern retail**

The emergence of digital platform and the increased use of plastic money and mobile wallets after demonetization have been the key drivers behind the growth of Omni channel retailing. Today's time constraint customers want seamless navigation across different retail channels.

As previously highlighted, Food & Beverage (F&B) accounts for over 60 percent of customer spend and is growing at the rate of about 30 percent per annum. In F&B, penetration of organized retail is only 3 percent of the total market. Indian customers visit both traditional (kirana) stores and modern stores in the ratio of 5:1 times per week. Modern retail is seeing a fast growth in Tier-II and Tier-III cities but the challenges for organized retail players include brand building, pricing, logistics, trained workforce, hygiene concerns, rental costs, etc.

With increasing modernization in retail, supermarkets are being set up all over India, specifically in big-city urban areas. From a mere 500 supermarkets in 2006, this number sky-rocketed to 8.5 thousand in 2016. Modern convenience stores accounted for over 50 percent of the grocery stores across India in 2016, followed by supermarkets contributing to 40 percent of the share. Only a mere seven percent of the total grocery stores consisted of hypermarkets in that year.

Modern trade is now being used by many food processing companies to introduce new products, build brands, improve customer awareness, etc. This could be followed by volume ramp up from the general trade channels, which shows the companies' belief and vision in this channel for their growth.

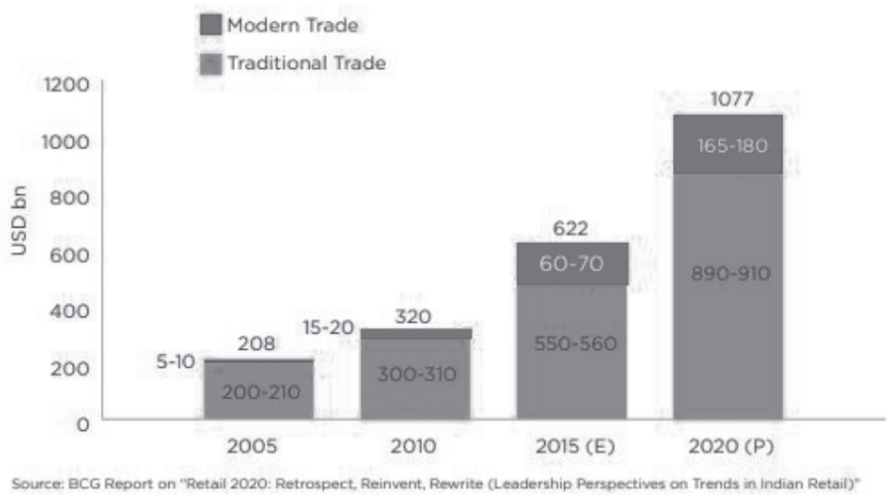



**Fig 3.7 : Growth of modern retail vis-a-vis traditional retail**

✓ **Immense growth and competition in Online Retail (E-tail)**

Online retail (E-tail) in India has grown immensely in the last five years. Online grocery is gaining acceptance in India since the past three years with a number of new companies coming up in the metro cities. Many venture capitalists are financing the e-grocers, which is a good sign for growth.Some of the top e-grocers in the country are Bigbasket.com, ZopNow.com, MyGrahak.com, Aaramshop.com, Ekstop.com, AtMyDoorSteps.com and they are continually making people's life easier. Best price and on-time delivery, and other exciting features like goods delivered to neighbours after getting the consent from the customer, are giving consumers more and more reasons to shift to online channels.

## 3.5 Drivers of Food Retail Market

The food retail market is on a tremendous growth trend and the drivers that are set to take this market further can be broadly classified under three pillars:

1. Supply Side
2. Demand Side
3. Regulatory

**Supply side features** those factors that act majorly as change-driving agents. These include:

- Infrastructure development
- Multi-channel marketing
- Easy credit availability
- Private labeling

The first three listed factors are significant drivers of growth on the supply side. The fourth, i.e, 'Private Labelling' is a relatively recent trend, which is gaining popularity and has enormous potential to drive the market scenario further.

**Demand side features** those factors that are majorly consumer-oriented and are representative of the shifting lifestyles. These include:

- Increasing urbanization
- Increasing disposable income
- Growing middle-class population
- Increasing working women
- Inclination towards healthy lifestyle
- Consumer awareness and changing preferences towards international trends
- Increasing foreign travel
- International TV shows, food festivals and Internet penetration

All these factors majorly hint towards the changing lifestyle of Indian consumers, which translates into uptake of demand in this industry. These trends will continue to evolve and India being a very fragmented market, the penetration of these patterns deeper into the society will continue to take place, thereby confirming a sustainable growth trend in times to come.

**Policy factors:**

The major features on the regulatory front are policy-driven factors initiated primarily by the Government to grow this industry. Two factors under this pillar to have contributed the most are:

**FDI policy in Multi-Brand Retail sector.**

- Implementation of Goods and Services Tax to reform the tax rates and slabs for this industry.

Modern retail formats have marked India's F&G retail landscape for over nearly three decades. The sector, however, has witnessed laggard growth owing to fragmented supply chain, distribution, limited investments in cold storage and warehousing. Evolving shopping behaviour coupled with re-aligned commensurate business models by retailers is expected to increase the growth of this organized sector over the coming years. Focus on format, geography and the right customer segment remains the key for the retailers to thrive in this sector.

## 3.6 Challenges Before Food Retail Market

The challenges restricting this industry can also be classified under three pillars – Supply side, Demand Side and Regulatory.

**Challenges on the supply side** include:

- Sourcing base and efficiency
- Real estate availability and increasing capital cost
- Workforce availability and incremental cost
- Poor distribution network
- Lack of cold chains (food wastages accounts around 20 percent)
- Changing political environment
- Currency fluctuation

**Challenges on the demand side** relate to consumer and lifestyle driven factors that hamper the growth of the industry. These include:

- Penchant for fresh/ home-made food and value consciousness
- Diversity of tastes and preferences
- Price sensitivity and change in food habits due to inflation

**Challenges on the regulatory side** are the stringent FSSAI norms and high duties and taxes. These are the two major factors that challenge the food retail market in India.

The poor logistics system in India is the biggest barrier to the growth of e-commerce in the F&G

sector. E-grocery players need to work in tandem with small stores to succeed. However, the two major business models in online space - inventory led and aggregator based - which are being used to capture the US$ 810 Billion Indian market by 2020, haven't been able to include the small stores in the organized sector. This can be attributed to the fact that these stores suffer from inefficient inventory management, lack of product variety, a high cost of procurement, and haven't adopted new technology, which limits their participation in aggregator based e-Grocery models.

On the consumer front, e Commerce players haven't been able to replicate the personalized service provided by the traditional mom and pop stores. In order to fill these gaps, Planet11 is tapping into the vast potential of the unorganized food and grocery sector. Instead of sticking to pure-play e-commerce, they have adopted the Online to Offline (O2O) format to leverage existing kirana stores and create a win-win platform by working closely with small store owners.

## 3.7 FUTURE PROSPECTS AND SCOPE OF INNOVATION IN FOOD RETAIL MARKET

- **Rise of organic foods and health and wellness segment:** To keep up with the changing lifestyle of the average Indian consumer, companies are pushing them more to satisfy the needs of their consumers, which open a whole lot of opportunities for product and market innovation.
- **Increased focus on private labels:** Following the trend of the Western world, private labels is something that everyone is banking on for the Indian market as well. The results are very positive in numbers and show a great potential and scope of improvement in the future.
- As the organized food retail market matures in India, there would be an increased need for retailers to differentiate through innovation. Innovations would mostly come under two heads:

1. **Innovation in the retail format:** Players can innovate on retail formats in different ways:

- by targeting specific customer segments and serving their needs better; e.g. working women, single office goers, etc
- by changing the product mix; e.g. special private label stores, exclusively fresh produce stores, etc.
- by offering new forms of convenience and a broader range of products to the customer; e.g. Tele-retail and Internet retail

2. **Technological innovation:** By using advanced technologies like artificial intelligence and predictive analytics, retail players can gain a competitive advantage. Examples include:

- Self-scan checkouts have the potential of both decreasing check-out time and manpower cost.
- Web-enabled POS systems, e-Procurement systems, e-SCM systems, and advanced warehouse management systems can help food retailers in integrating the entire agri-value chain leading to efficient procurement and supply chain management.
- RFID tags can be used to track and reduce in-store inventory management costs and give retailers better insights into customer in-store movement patterns. This will also reduce the chances of stock-outs.
- Use of predictive analytics can bring insights into customer buying behaviour with implications on store layout, pricing, and promotions.

**Organize the unorganized sector**

- With over 15 million traditional Kiranas across the country, a large FMCG retailer is not likely to compete in the long run. That is why, in recent years, Reliance Industries has tied up with Kiranas to better their infrastructure. Since this has already proven to bring in customers in larger numbers, the aim was to digitize and make billing easier for about five million stores by 2023. Reliance, one of the largest conglomerates in the country, powered by its intended to create the world's largest online to offline new e-commerce platform.

# Unit 4 : Theories of Retail Development and Business Models in Retail

## Introduction

Retail models are basically based on the four elements buyers, sellers, product and payments. These are the main items of any business model or generally all the planning and process of any organisation depend on these elements. Retail development theories help in explaining the development of retailing and changes in retailing formats. These theories are known for their ability to explain the evolution of retailing and the process by which the retailers gain market power and come to stay as a strong institution of the market. Business model of anything is very important part of success or failure. Business model means a proper structure or design of the retail unit, what is the location and what kind of business you want to start.

## 4.1 Theories of Retail Development

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

The two powerful theories are cyclical theories and wheel of retailing theory. Retail institutions go through different cycles over a period of time. In evolutionary theories retail organizations follow similar patterns like biological evolutions.

### 4.1.1 Wheel of Retailing Theory

According to a better-known theory of retailing – wheel of retailing proposed by Malcomb McNair (Figure 4.1), new retailers often enter the marketplace with low prices, margins, and status. The low prices are usually the result of some innovative cost-cutting procedures and soon attract competitors. With the passage of time, these businesses strive to broaden their customer base and increase sales. Their operations and facilities increase and become more expensive. They may move to better up-market locations, start carrying higher-quality products, or add services and ultimately emerge as a high cost-price- service retailer. By this time newer competitors as low-price, low-margin, low-status emerge and these competitors to follow the same evolutionary process. The wheel keeps on turning and department stores, supermarkets, and mass merchandisers went through this cycle.

**Fig 4.1 : The Wheel of Retailing**

### 4.1.2 Accordion Theory

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

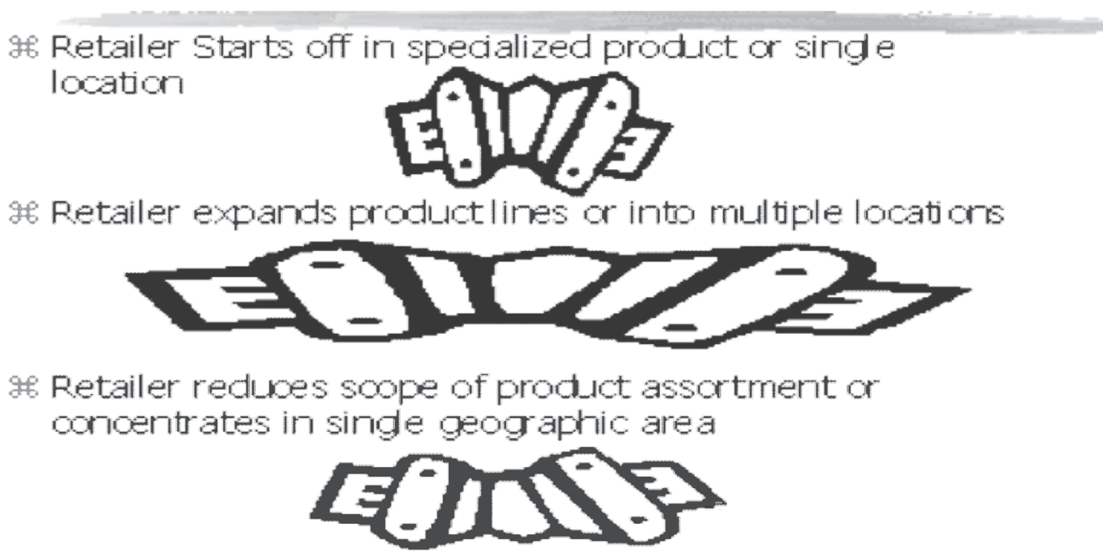



**Fig 4.2 : Accordion Theory**

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

### 4.1.3 Environmental Theory

The original idea of the Environmental theory came from Darwin's Natural Selection theory. The Natural Selection theory proposes that a species can survive only when it best adapts to environmental changes (Brown). Gist replaced the “natural species” in the Natural Selection theory with a “retail institution”, and he proposed that only a retail institution, which is most effectively adapted to environmental changes, could survive (i.e.,Adjustment theory of evolution). The Environmental theory explains how variables in the environment affect retail evolution; however, it does not explain patterns of change or changes over extended time, as do the two previous primary theories.

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

**4.1.4 Dialectic Process**

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

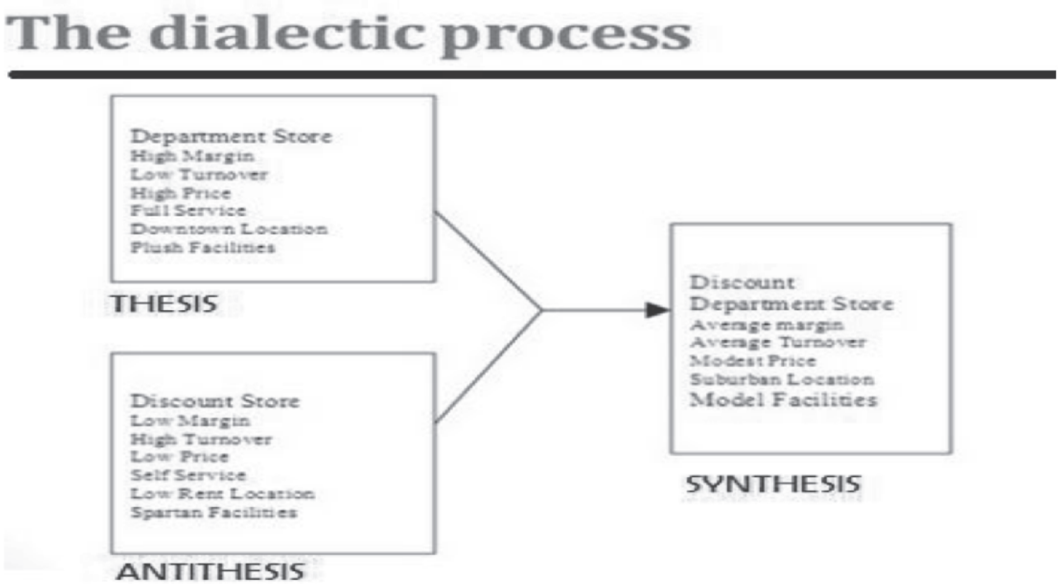



**Fig 4.3 : Dialectic Process**

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

## 4.2 Concept of Lifecycle in Retail

The concept of product life cycle as explained by Philip Kotler is applicable to retail organization.This is because retail organization pass through identifiable stages of innovation, development, maturity and decline. This is commonly termed as the *"Retail Life Cycle"*. Attributes and strategies change as institutions mature. The retail life cycle is the theory about the changes through time of the retiling outlets. This window of opportunity is useful for executives who plan their market-specific strategies; the four stages or the lifecycle of this industry is as follows:

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

**Introduction/Innovation :** A new organization is born; it improves the convenience or create other advantages for the final customers, which differ sharply from those offered by other retailers. This is the stage of *Innovation.* In Innovation organization have very few competitors. Because it is new concept , the rate of growth is fairly rapid and the management fine-tunes its strategy through experimentation. At this stage the level of profitability is moderate and this stage can last up to five years, depending on the organization.

**Growth :** In growth stage,the market is developing quickly and also ready for modern retailing. The retail organization faces rapid increase in sales. As organization moves to stage two of growth ,which is the stage of development, a few competitors emerge. As company has been in the market for a while it is now in a position to establish a position of leadership. At this stage since growth is imperative, the investment level is also high as is the profitability. This stage last from 5-8 years.

Wal-Mart success in china in the late 1990's and early 2000's gives us the importance of committing to a promising high-growth market at right time. Retailers at this stage should enter through local representations, sourcing offices and new stores. The strategy of adopting quality and styled products with new models and shift of advertising from product awareness to product preference.

**Maturity:** In this stage the market is still big and growing, but the space for new entrants will become tighter and retailers should act quickly at this stage because retailers at this stage have limited time to explore, and also their margin for error is thin. In general, they should act according to the established rules and should be open to face the competition from international retailers. This stage generally lasts longer than the previous two stages. The organizational at this stage still grows, but competitive pressures are felt acutely from newer forms of retailing that tend to arise. Thus growth rate tends to decrease.This is the time when the retail organization needs to rethink its strategy and reposition itself in the market. A change may occur not only in the format but also in the merchandise mix offered. Enter new market segments that are either enter new geographic areas e.g. Vishal mega mart has opened stores in smaller cities tier II and III cities

**Decline:** The retail organization looses its competitive edge and there is a decline. At this stage organization needs to decide is it still going to continue in the market.The rate of growth is negative, profitability declines further and overheads are high. Window of opportunity ends for about 5to10 years before a market enters the closing phase and reaches saturation level.

## 4.3 Evolution of Retail Format

It is the revolution in the shopping habits of the people across the entire world, which has virtually brought the super market to the main street. It has gone through its natural process of evolution in all areas from the initial concept of the super market and department store to the shopping mall as it exists today. The origin of retail are as old as trade itself. Barter was the oldest form of trade .For centuries most of merchandise was sold in marketplace or by peddlers. Earlier markets were dependent on local sources for supplies of perishable foods because journeys were far too. And long distance transportation. The peddlers who provided people with the basic goods and necessities could not be self sufficient. In prehistoric times the peddler travelled long distance to bring products to locations which were in short supply. In most parts of the world, a flea market-typically a place where vendors come to sell their goods-could be the earliest forms of retail congregations.

**(i) Social Developments and their impact:**

The development of trading has been intimately associated with social developments over the ages. Two important developments of the 18th century –

1. The development of rail roads and telegraphs which largely affected the growth of retail trade. . Orders could be placed largely and confirmed by telegraph and the goods arrived by train. The wholesale business actually developed with advent of the traveling salesman. The success of wholesale business led to the emergence of the departmental store.
2. In 1852 Bon Marche, the first departmental store , was set up in Paris. Bon Marche revolutionized retail at time by relying on volume rather than high mark up, to make money. By the year 1897,the store sold more than $30 million worth of goods per year. The first department store which opened in US, was Stewart's in New York, which was followed by Macy's post civil war. The late 1800's saw the rise of the so called 5 and 10 cent stores , which emerged to serve the needs of the poorer classes.

**(ii) Industrial Revolution**

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

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

**(iii) Emergence of Self-service and One stop shopping**

In the early part of the 20th century, the American housewife, while shopping for her family's dinner bought meat at one store, groceries at another, and fruits and vegetables at still another. Then it was thought that if all products available under one roof; there by we can save our time/ effort/money. The retailers tapped the need and launched the biggest hypermarkets in developed countries. Then these retail stores started to sell food, varieties of products and variety of schemes introduced in order to draw the attention of the customers.

Self service as a concept started in 1916 when Clarence Saunders started the first self service store. By the 1930s, the self-service supermarket gained immense popularity due to the choice left over on consumers (housewives).It was sparked off by the success of Michael Kullen, an independent operator who opened the King Kullen supermarket in Jamaica, New York. Storeowners found that housewives enjoy the shopping because when they are preparing the list of require items for daily purpose, they may forget, thereby again they need to shop. Here picking their groceries from shelves themselves, piling their purchase into shopping carts and wheeling the carts through the checkout counters. As supermarkets grew, they extended the self-service concept to other foods besides groceries.

**(iv) The development of supermarkets and convenience stores:**

The revolution of supermarket was first sparked off in the 1920's, and by the 1950's it had won acclaim almost throughout America . Initially, many items used to come in bulk and were sold as it is at the retail outlets. Potatoes were sold from barrels and later from 100-pound sacks, while sugar was sold from 100-pound sacks. The retailers were keen to acquire the know-how to upgrade their quantity and service for the consumers and to develop the best stores possible. First hypermarket that was developed by Carrefour in France in 1963.The new formats gave the customer the choice of picking up a product, comparing it with others and then taking a decision on buying.

**(v) Speciality stores, malls & formats:**

As the needs of the consumers grew and changed it was visible the emergence of commodity specialized mass merchandisers in the 1970s. The 70s were witness to the use of technology in the retail sector with the introduction of the Barcode.

**(vi) The Rise of the Web:**

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

**(vii) Globalization of Retailing**

Today, retailers from all over the world are venturing beyond their own borders to establish stores even in other countries. Many retailers have realized and have therefore made international expansion an integral part of their overall strategy. The immense impact of communication technology has narrowed the cultural gap between countries over the decades.The advancement of communication technologies has made a major contribution towards educating consumers about the products and services they require and the Internet explosion is bound to further trend.

**(viii) Size of the Operations**

"***Size***" has become the key word in international retailing and the larger the size of the operations, the better the economies of scale and chances of survival in this vicious war to win over the consumer. Some global retailers are now taking over existing retail chains in a desperate bid to consolidate their operation in this world of retailing. Many countries around the world have started considering retailing as an integral part of their social infrastructure, India still has to realize the benefits of organized retailing that accrue to society at large.

## 4.4 Retail Formats

The format of a retailer is the overall appearance and feels that it presents to customers, primarily its look and layout, the sort of range it stocks and the approach taken to pricing. The format, together with range, pricing and marketing, is one of the key determinants of a retailer's success. A good format will both draw in customers (generating footfall) and help present products well to generate sales.

There are numerous types of retailers all over the world. From the small, independent grocery store to the highly sophisticated multi-level department store,the number of retailer formats is absolutely unlimited.

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

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

## Classification Method for Retail Institutions

**4.4.1. Ownership**

**4.4.2 Store-Based Retail Strategy Mix**

**4.4.3 Non store-Based Retail Strategy Mix**

**4.4.1 Classification of Retail Formats based on ownership**

- **i. Independent**
- **ii. Chain**
- **iii. Franchise**
- **iv. Leased department**
- **v. Consumer cooperative**

**(i)** **Independent stores** are businesses that operate with a single retail outlet. Generally, **stores** of this type are individually owned, owned by a family, or owned by two partners. US Mom and pop stores and Indian kirana stores are types of independent stores.

Competitive State of Independent stores

**Advantages**

- Flexibility in formats, locations, and strategy
- Ease of Entry
- Control over investment costs and personnel functions, strategies
- Personal image
- Consistency and independence
- Strong entrepreneurial leadership

**Disadvantages**

- Lack of bargaining power
- Lack of economies of scale
- Labor intensive operations
- Over-dependence on owner
- Limited long-run planning

(ii) **Chain Retailers** are any of two or more **retail stores** having the same ownership and selling the same lines of goods. **Chain stores** account for an important segment of **retailing** operations in developed countries.They operate multiple outlets under common ownership and engage in some level of centralized or coordinated purchasing and decision making.

**Competitive State of Chains**

| Advantages | Disadvantages |
|---|---|
| ❋ Bargaining power | ❋ Limited flexibility |
| ❋ Cost efficiencies | ❋ Higher investment costs |
| ❋ Efficiency from computerization, sharing warehouse and other functions | ❋ Complex managerial control |
| ❋ Defined management philosophy | ❋ Limited independence among personnel |
| ❋ Considerable efforts in long-run planning | |

(iii) **Franchising:** A contractual agreement between a franchisor and a retail franchisee, which allows the franchisee to conduct business under an established name and according to a given pattern of business. Franchisee pays an initial fee and a monthly percentage of gross sales in exchange for the exclusive rights to sell goods and services in an area Franchise Formats: There are two major types of franchising formats

**Product/Trademark**

Franchisee acquires the identity of a franchisor by agreeing to sell products and/or operate under the franchisor name. Franchisee operates autonomously and provides a portion of retail franchising sales to franchisor.

**Business Format**

Franchisee receives assistance in location, quality control, accounting systems, startup practices, management training from franchisor.Iits commonly used in service sector such as for restaurants, Education,Services etc

**Competitive State of Franchising**

From the Franchisee's Perspective

| Advantages | Disadvantages |
|---|---|
| ❋ Low capital required | ❋ Franchisors may overstate potential |
| ❋ Acquire well-known names | ❋ Locked into contracts |
| ❋ Operating/management skills taught | ❋ Agreements may be cancelled or voided |
| ❋ Cooperative marketing possible | ❋ Royalties are based on sales, not profits |
| ❋ Exclusive rights | |
| ❋ Less costly per unit | |

**From the Franchisor's Perspective**

**Benefits**

- ❋ National or global presence possible
- ❋ Qualifications for franchisee/operations are set and enforced
- ❋ Royalties represent revenue stream

**Potential Problems**

- ❋ Potential for harm to reputation
- ❋ Lack of uniformity may affect customer loyalty
- ❋ Ineffective franchised units may damage resale value, profitability

(iv) **Leased Departments:** A leased department is a department in a retail store that is rented to an outside party. The proprietor is responsible for all aspects of its business and pays a percentage of sales as rent. The department store sets operating restrictions to ensure consistency and coordination.

| **Benefits** | **Potential Pitfalls** |
|---|---|
| ❋ Provides one-stop shopping to customers | ❋ Lessees may negate store image |
| ❋ Lessees handle management | ❋ Procedures may conflict with department store |
| ❋ Reduces store costs | ❋ Problems may be blamed on department store rather than lessee |
| ❋ Provides a stream of revenue | |

(v) **Consumer cooperatives:** In consumer cooperatives, customers own and operate the retail establishment. Consumers have ownership shares, hire full-time managers, and share in the store's profits through price reductions or dividends. Local, state and federal government agencies sometime own retail establishments.

**4.4.2 Classification of Store based retailers on Type of merchandise offered and strategic mix**

1. **Food oriented retailers –** Convenience stores, Supermarkets, Warehouse stores
2. **General Merchandise retailers-** Hypermarkets, Specilaity stores, departmental stores, Off price Retailers, Catalogue showrooms, Membership clubs, Flea markets

**Popular Store Based Retail Formats**

1. **Food oriented retailers**

(i) **Convenience Stores**

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

Convenience stores provide a limited variety and assortment of merchandise at a convenient location in a 2,000 to 3,000 sq. ft store with a speedy checkout. They are modern versions of the neighborhood mom-and pop stores (kirana stores).Relatively small stores located near residential areas, open for long hours and offers moderate no. of items. Their prices are average to above average .They offer products like milk, egg, breads, tobacco and snack products. Convenience stores enable consumers to make purchases quickly without having to search through a large store and wait in long checkout lines. Ex: 7 –eleven stores, Reliance Fresh

(ii) **Supermarkets:**

Supermarkets and superstores can be considered in the same 'family' of retail format, in that the stores are self-service, usually on one level and laid out in a functional grid pattern of aisles and shelving. Supermarkets are the smaller variant, usually located in a town centre or neighbourhood location ,with a product range that concentrates on food and household consumables. These are large, low cost, low margin, high volume ,self service operations designed to meet the need for food, groceries(70-90%) and other non food items (health& beauty & household maintenance products). They provide huge variety with deep assortment with a size of 8,000-20,000 Sq.ft. Internationally while around 5000 Sq.ft in India Ex. Tesco, FoodWorld, Food Bazaar, Nilgiris, D-Mart., Easyday. Some Variations in this business modelare found internationally popularly called as ***<u>Big Box Food Retailers</u>***

**Super Store:** 25,000-50,000 Sq.ft. 20-25% revenue from General .merchandise

**Combination Store:** 30,000-1,00,000 Sq.ft 40% revenue from General Merchandise

Supercenters are 150,000 to 200,000 sq. ft stores that combine a superstore and a full-line discount store which sell groceries at low prices to build store traffic. By offering broad assortments of grocery and general merchandise under one roof, supercenters provide a one-stop shopping experience.

(iii) **Cash and Carry and Warehouse Clubs**

Cash and carry traders who sell from a wholesale warehouse predominantly to other businesses, but may also sell direct to consumers. Warehouse Club is a retailer that offers a limited assortment of food and general merchandise with little service at low prices to ultimate consumers and small businesses. A warehouse club is a retail outlet that stocks a limited range of grocery and household products, some home-orientated goods and some clothing products (usually 3,000-4,000 product lines). The distinguishing feature of a warehouse club is that you have to become a member to shop there. Prices are low, and the store environment is extremely basic. Most warehouse clubs operate in a similar way to a cash and carry outlet in that the goods have to purchased in larger quantities, but some allow customers to purchase smaller quantities. Stores are large ( about 100,000 sq. ft) and located in low rent areas. Along with low-cost locations, simple store designs, warehouse clubs reduce inventory holding costs by carrying a limited assortment of fast-selling items at limited level of services. Typically members must pay an annual fee. They carry about 50% food and 50% general merchandise. Brands and items differ from time to time because the stores buy merchandise available on special promotions from manufacturers. Ex. Costco club, Sam's Club,Metro Cash and carry

**(iv) Discount Stores**

Defining a discount store is not an easy task, because the key characteristic is the price of the merchandise, which is subject to individual customer perceptions. Discount stores are sometimes run on the basis of a product range geared by opportunistic buys by the retailer, or they have planned ranges, sold with an unusually low profit margin. Discount store retailers buy products in vast quantities from manufacturers to get a massive discount. They are huge size low service stotes with lower prices. examples of discount stores such as Walmart, Kmart, Best Buy, and Target, etc.

**2. General Merchandise retailers**

**(i) Department Stores**

Retailers that carry a broad variety and deep assortment organized into separate departments, often resembles a collection of shops. They have High level of service-full range, elaborate displays and lighting with frequently stationed Sales persons.Product mix is largely nonfood like Apparel (men's, women's and children), accessories, home furnishing, furniture, Kitchenware, appliances, books,footwear etc. They generally are of size 5,000-40,000 Sq.ft(India) and 75,000 sq.ft plus in West

Ex. Macy's,Bloomingdale', Shopper's Stop, Pantaloons, Westside, Lifestyle, etc.

A department store is split up into clearly defined areas or departments according to product category. Any department stores offer width and depth in the product range so that almost every shopping need can be met, but other department stores concentrate on fewer categories and aim to offer a great choice within those categories.

**(ii) Hypermarkets** resemble a Combination of Supermarkets and Departmental store.these are Large Self service stores selling a mix of products including food and non food items like apparel, hardware, accessories, books ,electrical appliances etc. Discounted Prices and offers are key attraction for consumers.They are Synonymous with One stop Shopping. Hypermarkets are of size 80,000 to 2,20,000 sq.ft (International),40,000-75,000(India). Ex: Carrefour, Wal-mart, Target, Big Bazaar, Star India Bazaar, Reliance Mart

**(iii) Specialty Store**

A specialty store concentrates on a limited number of complementary merchandise categories and provides a high level of service in an area typically less than 8,000 square feet. By carrying a narrow variety but deep assortment, they offer customers a better selection and sales expertise in that category than department or discount stores provide. They provide high level of service/product information to customer. They have clearly defined target market. Consumers shop because of knowledgeable sales people ,choices, service, lack of crowds. These stores are normally located at high traffic areas like shopping centres. The majority of stores found in shopping centres or central retail areas are specialist stores due to the distinguishing feature of one product area dominating the retail offer. Specialist retailers are not restricted to the selling of products; many speciality outlets offer service products to consumers.

Ex-Gini & Johny (Kids Retailing), Health & Glow (Cosmetics and healthcare), Planet M,Musicworld (Music), Crossword(books), Croma(Electronics)

**(iv) Category Killers**

The term category killer, which originated in the USA, describes the large specialist discount store that offers a narrow variety but deep assortment of merchandise. These retailers are basically discount specialty stores.

Most category specialists use a self-service approach. By offering a complete assortment in a category at low prices, category specialists can "kill" a category of merchandise for other retailers and thus are frequentlly called "category killers".They stock deep,sell cheap and finally dominate the category. They can use their buying power to negotiate lower prices, excellent terms, and assured supply when items are scarce.

Size-20,000 sq.ft to 1,20,000 sq.ft (internationally),15,000 plus (India)

Ex-Toys R us ,Home Depot (Intl.),Ikea, Homedepot, Nalli's (Chennai),Kidskemp

(v) **Off-price retailers** offer an inconsistent assortment of brand name, fashion-oriented goods at low prices.Off price retailers can sell brand names and even designer-label merchandise at low prices due to their unique buying and merchandising practices. Typically off price retailers buy manufacturers seconds, overruns, and off seasons at deep discount. Merchandise may be in odd sizes, unpopular colours or with minor defects.

**Factory Outlets:** Off price retail outlets owned by manufactures which stock only company merchandise. Manufacturers view factory outlets as an opportunity to improve their revenue from irregulars, production overruns, and merchandise returned by retailers. It is used as a means to increase business and liquidate inventory.

**Single price retailers:** Single price retailers off price retailers that sell all their merchandise at a single price typically $1. for ex- Dollar store,49-99 store.They offer a wide assortment of basic household goods a t low price points.

**(vi) Flea markets:** A flea market is an outdoor or indoor facility that rents out space to vendors who offer merchandise and services that satisfy legitimate needs of customer. It provides opportunity to retailers to start business with low investment. Flea markets consists of variety of retail vendors offering a variety of products at discount prices.They collect on specific days for exchange of goods and services.

**4.4.3 Non-store Retailing formats**

Non-store Based Formats include electronic retailers, catalogue and mail order sales, direct selling, vending machine retailing and television home shopping. Different types of non-store retailing are given below:

**(i) Direct Selling**

Direct selling which started centuries ago with itinerant peddlers has burgeoned into a $9 billion industry, with over 600 companies selling door to door, office to office, or at home sales parties. Direct selling is a dynamic, vibrant, rapidly expanding channel of distribution for the marketing of products and services directly to consumers. Direct selling is the marketing of products or services to consumers through sales tactics including presentations, demonstrations, and phone calls. It is sometimes also considered to be a sale that does not utilize a "middle man" such as a retail outlets, distributors or brokers. This is needed where the products value needs more explanation and cannot be purchased off the shelf. At its best, direct selling can be an opportunity for individuals to find fulfillment, express their entrepreneurial talents and gain financial independence.

Manufacturers sell directly to consumers by making a personal contact with the end consumer at his home/place of work.There are some variants of this concept.

**Person to person**- Companies salesperson contacts directly to customer.

**Party Plan:** The host invites a group of consumers for product demos and sales. Ex:Tupperware

**Multilevel marketing:** A variant of direct selling is called multilevel marketing, whereby companies such as Amway recruit independent businesspeople who act as distributors for their products, who in turn recruit and sell to sub distributors, who eventually recruit others to sell their products, usually in customer homes. Customers act as master distributors. They appoint other people to work with them as distributors .They earns commissions on the basis of products sold and distributed by the distributors under them. Ex; Oriflame, Amway

**(ii) Direct Marketing :** Direct marketing additionally involves the use of media, print which is handled by the business. Direct communications, other than personal sales contacts, between buyer and seller, designed to generate sales, information requests, or store or Web site visits. Interactive marketing system that uses one or more advertising media to yield a measurable response or transaction at any location. In direct marketing, marketers invite customers to respond to their marketing efforts through the telephone, email etc.The effectiveness of direct marketing can be measured easily because direct feedback is available to marketers from customers. In direct marketing, generally, a data base of customers is maintained. This helps marketers understand customers and serve them better, and eventually gives the marketer a competitive advantage. Direct marketing evaluates the direct response patterns of customers, enables a company to formulate future marketing strategies for building customer loyalty and for profitable business growth.

**Advantages:**

* Less initial cost/investment
* Wide geographic coverage
* Convenience to shopper

**Limitations:**

* No opportunity to see and feel
* Low response

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

**(a) Catalogue and Mail Order Sales**

Catalogue marketing helps companies reduce their cost per customer and increase their reach significantly. Catalogue retailing is a convenient way for customer to purchase products. Retailers too have an advantage in catalog marketing as they can operate from remote locations with minimum store operating expenses and need not spend heavy amounts on store décor. Retailers can narrowly target a market, achieve good coverage, send messages quickly, and personalize mailing pieces.

However, catalog marketing is suitable only for a limited range of products. It has high per-reader cost, requires good quality, and considered junk mail by some consumers.

**(b) Internet Retailing / Electronic Retailers/E-Tailers**

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

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

E retailers sell directly to consumers via storefronts on the Web. Companies like amazon, flipkart, snapdeal are examples. Most of the traditional brick-and-mortar stores have successfully extended their presence to the Web example tatacliq, lifestyle,jiomart etc.

**(c) Direct-Response Retailing** is that form of retailing where customers order merchandise by mail or telephone**. It** Includes home shopping aided by television promotion. ***Television Home Shopping*** method of retailing has been useful for services retailing (travel, entertainment, and insurance) when the product is intangible, information-based and the price offer is variable.

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

**(iii) Vending Machine Retailing**

Automatic vending has been applied to a considerable variety of merchandise, including impulse goods with high convenience value (cigarettes, soft drinks, candy, newspaper, hot beverages) and other products (hosiery, cosmetics, food snacks, hot soups and food, paperbacks, record albums, film, T-shirts, insurance policies, and even fishing worms). An automatic vending machine is formed of a commodity-selecting device for selecting a commodity to be purchased, a device for paying money required to purchase the commodity, a commodity-transfer device for transferring the selected commodity, and a main control section. Thus, in the automatic vending machine, a user can select the commodity and place order and make payment.Vending machines coin/card operated dispensing of goods/services. It facilitates round the clock sales.

**(iv) Video kiosks** is a freestanding, interactive electronic computer terminal that display products and related information on a video screen to make selection. They are sometime inside a store to enhance customer service. Others let consumers place orders, complete transactions with a credit card and arrange for shipping.

# Unit 5 : Understanding the Retail Consumer

## Introduction

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

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

## 5.1 Need for Studying Consumer Behaviour

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

**The Changing Consumer**

Consumer trends describe how the body of consumer changes overtime and make predictions about how those people will consume in the future. The retailer can therefore build up a 'customer profile' that gives an indication of who might'typically' use their outlet. A retail customer profile is affected by the macro (general) business environment; as well as microenvironment, the specific business arena in which the individual retailer operates.

## 5.2 Factors Influencing Retail Shopper

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

**(i) Cultural Factors**

Cultural factor divided into:

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

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

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

**(ii) Social Factors**

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

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

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

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

**(iii) Personal Factors**

It includes:

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

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

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

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

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

**(iv) Psychological Factors :** It includes these Factors:

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

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

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

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

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

***Low Price***

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

***Mass Distribution***

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

***Self-service***

Self-service leads to impulse purchases in traditional stores. It facilitates consumer to gather, evaluate and take decision. In self-service, the consumer has the opportunity to pick the items as per his intentions. He could not depend on the clerk or counter salesman. In this process, consumer can shop more quickly with more freedom to look at.

***Prominent Store Display***

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

***Low-marginal Need for an Item***

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

***Small Size and Light- weight***

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

***Ease of Storage***

If the consumer does not have the space for the item, the potential impulse purchase could be eliminated.

### 5.4.1 Customer Decision-making Process

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

(i) Brand first, retail outlet second

(ii) Retail outlet first, brand second

(iii) Brand and retail outlet simultaneously.

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

**Retail outlet first and brand second**

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

**Brand first and outlet second**

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

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

Changes in consumer brand preference should be captured to formulate retail strategies. The local advertising could be different from the national advertising for the brand. A brand may be advertised on features nationally but the retail outlet may prefer to highlight the effective after-sales service associated with the brand as this may be a priority of consumers. The interest generated in the brand would have to be backed by good pre-sale services at the outlet.

**Brand and retail outlet simultaneously**

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

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

### *5.4.2 Consumer Buying Process*

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

**Figure 5.1 Consumer purchase decision making process**


Established theory suggests that each time we purchase something we go through a process composed of a number of key stages. A retailer needs to be aware of the extent to which they can contribute to the purchase decision-making process.

***Needs Recognition***

Consumers recognize a need as a result of some problem or a physical cue or stimulus. A person looks at the fuel gauge of his/her car, and knows that he/she should refuel. A person smells roasted coffee beans and might be induced to drink coffee. Such visual, or other physical cues, trigger problem or need recognition.To begin with, the retail environment itself can be used to draw attention to products and stimulate impulse purchases. In this case the need is generated during the shopping process rather than prior to it. In other instances, the recognition of need may be closely associated with the retail outlet that has become strongly connected to particular items.

***Information Search***

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

**Evaluation of Alternatives**

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

**Purchase Decision**

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

**Post Purchase Evaluation**

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

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

# Unit 6 : Retail Strategy

## Introduction

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

## 6.1 Strategy - The Retail Perspective

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

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

## 6.2. Levels of Strategy for Retail Organisation

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

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

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

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

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

## 6.3 Strategic Retail Planning Process

**Strategic retail planning process divided into the following four steps:**

1. Deciding the Store's Mission and Objectives: The retail strategic planning process starts with the identification of a store's mission for its existence, and hence the scope of the retail store.The mission of a store is identifying the goods and services that will be offered to customers. It also deals with the issue of how the resources and capabilities of a store will be used to provide satisfaction to customers and how the store can compete in the target market vis-à-vis its competitors.The mission also involves the way of the store's functioning. How a store will work and accomplish its day-to-day operations. All these questions are answered in the store's mission statement.
2. Situational Analysis: The objective of doing store's situation analysis is to determine where the store is at present and to forecast where it will be if the formulated strategies are implemented. The difference between current and future position is known as planning. And the objective of conducting store's situation analysis, normally study in the context of external environment and internal environment.

**External analysis**

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

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

**Internal analysis**

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

**The questions may arise under these resources:**

**Human Resource**

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

**Financial Resource**

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

**Physical Resources**

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

**Intangible resources**

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

## 6.4 Retail Strategy: It is a clear and definite plan outlined by the retailer to tap the market.

**Retail strategy is a statement identifying**

- o **Target market:** Retailers must select a target market and develop a retailing mix and focus resources to satisfy the chosen market. Criteria for selecting target market is that it should be Attractive i.e. Large, Growing and should have little competition leading to more profits. Target market should be consistent with your Competitive Advantages. For example, Wal-Mart's "Always Low Prices" and "Save Money. Live Better" slogans speak about the prices found in their stores and tagets the value conscious consumers as their target market.
- o **Retail Format:** Retail format is the business model of retailer with a specifics type of Retail mix consisting nature of merchandise, service level, pricing, promotion, store design, visual merchandising and typical location.
- o **Sustainable Competitive advantage:** An advantage over competition maintained over a long period of time. Globally sustainable competitive advantage
  - o Low cost, efficient operations - Wal-Mart, Carrefour
  - o Strong private label brands: Starbucks, KFC
  - o Fashion Reputation - The Gap, Zara
  - o Category dominance - Best Buy, IKEA, Toys R Us

## Sources of Sustainable Competitive Advantage:

1. **Unique merchandise:** Technological advancement, borderless economies and free flow of goods across the countries have enabled a retailer to procure any good and sell it in their stores, whenever and wherever they want, but in order to keep themselves ahead in the retailing race, many retailers get competitive advantage through development of personal/private/store brands. Many retailers develop private label brands which are products developed and marketed by a retailer and available only from that retailer.These products are designed, produced and marketed exclusively by the retailer and are sold by that retailer only. Private labels play an important feature in developing store identity.
2. **Location:** What are the three most important things in retailing? "location, location, location".Unless a retailer has a high drawing power, it is the location that determines customer traffic for a store. It is a competitive advantage not easily duplicated, relatively permanent. A good location not only reduces distribution cost to considerable extent but also attracts more customers. A high density of stores creates a top-of-mind awareness and makes it very difficult for a competitor to enter a market and find good locations. A retailer should understand that store location decision is a long- term strategic decision, which is irreversible and cannot be changed once decided upon.
3. **Customer Loyalty :** Loyal customers are long-term assets for a retail organization. They have emotional bond with a retailer and regularly visit the retailer. From a retailer's point of view, customer loyality means that customers are committed to purchase merchandise and services as and when required from the retailer with resistance of competitors' move. To retain loyal customers is not an easy task. Retailers build loyalty by:
   - Developing a strong brand for the store or store brands
   - Developing clear and precise positioning strategies
   - Creating an emotional attachment with customers through loyalty programs

4. **Price: Based on Margin- Turnover proportion retailers normally have Two types of strategy mainly**

   **Low margin -High turnover**

   Such an operation assumes that low price is the most significant determinant of customer patronage. The stores in this category price their products below the market level. Marketing communication focuses mainly on price. They provide Very few services; if any, and they normally entail an extra charge whenever they do. The inventory consists of well-known brands for which the manufacturer through national advertising creates a consumer pull. Local promotion focuses on low price. Walmart in the United States is an example and Big bazaar Indian examples of such stores.

   **High margin -Low turnover**

   This operation is based on the premise that distinctive merchandise, service and sales approach are the most important factors for attracting customers. Stores in this category price their products higher than those in the market, but not necessarily higher than those in similar outlets. The focus in marketing communication is on product quality and uniqueness. These stores provide a large number of services example: Departmental stores and exclusive brand stores

5. **Customer Service:** Good service is a valuable strategic asset but it takes considerable time and effort to build a tradition and reputation for customer service. Good customer service has today become an integral part of the retail industry. In retailing, where floor staff has to directly interact with the customers, customer service acts as lifeblood. The strength of good customer service is to develop a longlasting rapport with customers - a link that individual customer feels that he would like to pursue in the coming time. Retailers spend considerable amount to offer good services which is justified if it results into some pay offs for retailer. Retailers should determine level of service with respect to price of merchandise. Services can be classified broadly into 3 types:
   - o Services that provide convenience- home delivery, large no.of counters
   - o Services that facilitate sales-credit,exchage policy, installation
   - o Auxilliary services

## Supporting dimensions

6. **Human resource Systems:** Retailing is labour intensive business, whose knowledgeable and skilled manpower committed to retailer objectives are critical assets. Retailers need to develop programmes to motivate and coordinate employee efforts, providing appropriate incentives, fostering a strong and positive organization culture. Human resource management plays a vital role in success of retailing. Despite technological advancements, retailers still rely on people (human resources) to perform the fundamental retail activities such as procurement, displaying merchandise and providing service to customers. Retailers know the importance of hardworking and loyal employees.

7. **Distribution and Information Systems:** Better control over its distribution helps the retailer reduce the cost and provide better service to its customer, reduced inventory and logistics cost. Information systems enable smoother and hassle free communication between store and top management and vendors. Many retailers use computerized Inventory management systems. An efficient distribution and information system has two benefits for customers: (1) fewer stock outs, and (2) assortment of merchandise that customers want, where they wish to. For a retailer these benefits translate into increased sales, higher inventory turnover, and lower mark downs.

   For example, Wal-Mart being a largest retailer in the world has the largest data warehouse enabling its vendors like Proctor & Gamble to plan merchandise assortments on a store- by-store, format-by-format and category-by-category basis. This is the efficiency of Wal- Mart's distribution and information system that makes its vendors possible to offer low cost merchandise across the globe perhaps the secret of Wal-Mart's success in the world of retailing.

8. **Vendor relations:** Strong vendor relations enables obtaining special terms of purchase, it also helps receive popular merchandise in short supply, helps achieve benefits of low cost operations, efficiency through coordination, Electronic Data Interchange (EDI), Collaborative Planning and Forecasting to reduce Inventory and distribution costs. Strong vendor relations also helps in exclusive sale of desirable brands and special treatment by vendors like early delivery of new styles and shipment of scarce merchandise by reliable vendors prove to a sustainable competitive advantage.

## 6.4 Functions of Retail strategy

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

i. The products and services that will be offered.

ii. The customers who will be served.

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

| | |
|---|---|
| | Mission statement of Strabucks **“Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow.”** |
| | Mission statement of Walmart **“We save people money so they can live better.”** |

**Fig 6.1 : Mission statments**

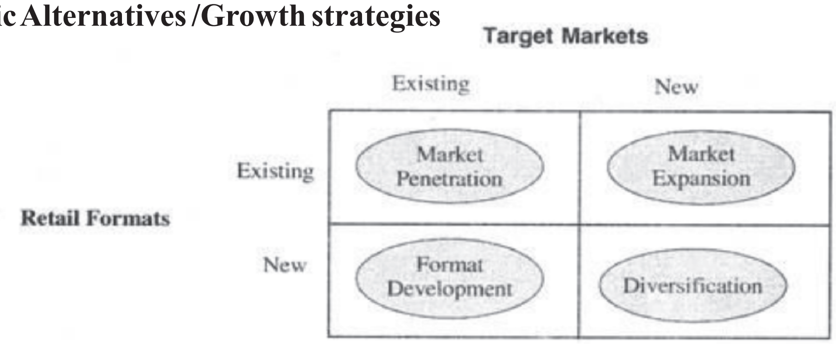
b. **Retail strategy conduct a situation analysis:** Once the retail mission is defined, the retail organization needs to look inwards; Understand what its strengths and weaknesses are; Look outwards to analyze its opportunities and threats; Situation analysis helps the retailer determine his position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

c. **Retail strategy identify options /strategic alternatives :** After determining the strengths and weaknesses vis-à-vis one environment retailer needs to consider various alternatives available to tap a particular market.

Igor Ansoff presented a matrix which looked at growth opportunities. He focused on firm's present and potential product in the existing and new markets. Ansoff's matrix also helps to understand the options available to a retailer.

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

**Major Strategic Alternatives /Growth strategies**




**Various types of Growth Strategies**

**Fig 6.2 : Ansoff Matrix**

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

**Market expansion/development :** When a retailer is said to reach out to new market segments or completely changes his customer base. This strategy involves: Tapping new geographical markets; Introducing new products to the existing range that appeal to a wider audience; Expansion by adding new retail stores to existing network is an example of geographical expansion; Introducing a pharmacy in a supermarket (e.g. the medicine Shoppe at the Supermarket) is an example of a retailer introducing new products, appealing to a different audience. Another example is McDonald's who introduced ice creams for Rs.7. This not only created add on sales, but also brought in customers who had the perception that McDonald's is an expensive fast food restaurant.

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

**Diversification:** When retailers jump into new businesses by developing new products for new market segments.

- **Related diversification:** Present target market or retail format shares some commonality with new opportunity.
- **Unrelated Diversification:** Lacks any commonality between present and new businesses

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

## 6.5 Retailer Marketing Decisions

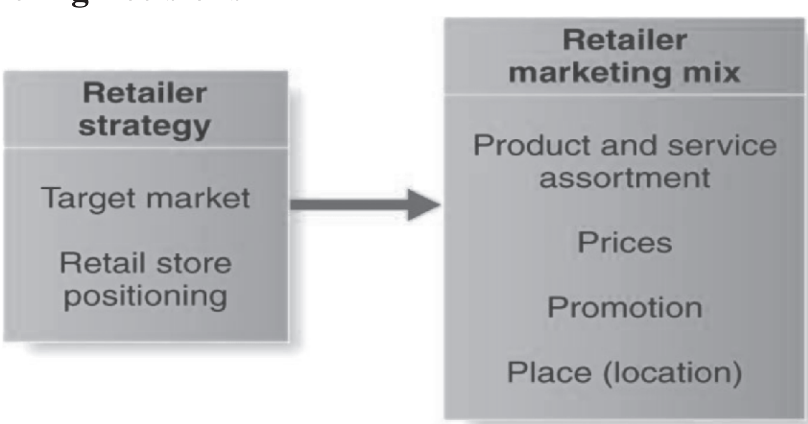



**Fig 6.3 : Retailer Marketing Mix**

Target markets chosen will affect all other decisions. Retailers must select a target market and develop a retailing mix and focus resources to satisfy the chosen market. Criteria for selecting target market is that it should be Attractive i.e. Large, Growing and should have little competition leading to more profits. Target market should be consistent with your Competitive Advantages.

Retail positioning is a plan of the store's action for how the retailer will enter the target market and will compete with its main competitors. Markets chosen and positioning need to be clear.One cannot hope to be "something for everyone" Retail positioning from a retail store's point of view,is a step-by-step plan to create and maintain a unique and everlasting image of the store in the consumers mind. Under retail positioning, a retailer conveys the message that its products are totally different and as per customer's requirement. The reason is that its products are attracted towards items that are new for them with the perception that if it is new, it will have some extra/added features.

**Retail positioning is made possible under these circumstances:**

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

**Retail mix**

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

**Product variables:**

o General merchandise categories, product lines, items within the product lines, and the depth and width of its assortments.

o Category management-overseeing an entire product line and responsible for the profitability of the product group.

o Proliferation of new products increases the competition for shelf space.

o Major retailers increasingly make demands from manufacturers-such as pricing and promotional concessions-in exchange for shelf space.

o Services mix- include special displays, convenient opening hours, easy exchanges and returns, restaurants and parking facilities.

o Atmospherics elements such as colour, light levels, sound, scents and design within your store to influence the buying habits of your customer

**Price Variables :** Markups and volume are inversely related. Prices reflect a retailer's marketing objectives and policies and affect consumer perceptions.

o Markup Amount that a retailer adds to the cost of a product to determine its selling price.

o Markdown Amount by which a retailer reduces the original selling price of a product.

**Promotion:**

Promotion informs customers about locations, merchandise selections, hours of operation, and prices. It also help retailers attract shoppers and build customer loyalty. Retailers use all five tools to promote themselves

- Advertising, personal selling, sales promotion, public relations, and direct marketing

**Place decision:**

Location is critical to attract the target market. Location depends on many factors, including the type of merchandise, the retailer's financial resources, characteristics of the target market, and site availability.

**Planned shopping center Group of retail stores planned, coordinated, and marketed as a unit.**

- Central business districts (banks, department stores, specialty stores, theatres)
- Shopping centers
    - o Regional (40-200 stores)
    - o Neighborhood (5-15 stores)

# Unit 7 : Store Location and Site Selection

## Introduction

"A store is place , real or virtual , where the shoppers comes to buy goods & services. The sales transaction occurs at this junction."

The location of retail store has for along time been considered the most important in retailing.

- Locating the retail store in the right place was considered to be adequate for success. A store may have good merchandise, good customer service and good sales promotion, but if the location where retailing has to take place is not proper, the retailer will face several day-to- day selling problems. A bad location may cause a retailer to fail even if its strategic mix is excellent. On the other hand , a good location may help a retailer succeed even if its strategic mix is mediocre.
- Location decision is strategic and long term and hence involves a large investment that is irreversible in nature. If a retailer after setting up his store realizes that the location is not proper, he has either to go on suffering losses or close down.
- While making a store location decision retailer has to weigh in not only financial aspects but also technical, commercial, social and political aspects. Poor location results in increase distribution cost, poor marketing response and dissatisfaction among employees, suppliers and customers.
- Location is generally one of the most important factors customers consider while choosing a store.
- Store location is least flexible element of retailer's strategic mix due to its fixed nature, the amount of investment, and the length of lease agreements

Location decisions ultimately decide the future and overall profitability of the organisation. Knowledgeable retailers make a thorough examination of possible locations as they know their investment will be large and they want as reasonable a prediction of success as possible before making a commitment.

## 7.1 Types of Retail Location

The choice of the location of the store depends on the target audience and the kind of merchandise to be sold. A retailer has to choosing among alternate types of retail locations available. Retailers have many store location factors to consider when choosing a place for their business. Here are a few of the more common types of retail locations. Typically a store location may be:

1. Freestanding /Isolated store
2. Part of Business District/Centers (unplanned Business Districts).
3. Part of a Shopping Center (Planned Shopping Centers)

**1. Freestanding /Isolated store.**

Where there are no other outlets in the vicinity of the store and therefore store depends on its own pulling power and promotion to attracts customers. A biggest advantages for freestanding stores is that there is no competition around. This type of location has several advantages including no competition, low rent, often better visibility from the road, easy parking and lower property costs. This type of retail location is basically any stand-alone building. It can be tucked away in a neighborhood location or right off a busy highway. It will probably have ample parking and the cost per square foot will be reasonable. These can be Neighborhood Stores; colony shops serves small locality. These can also be Highway Store such as Petrol Pumps, hotels etc.

**Business Associated Location**: These are location where a group of retail outlets offering a variety of merchandise work together to attract customers to their retail area, but also compete against each other for the same customers. Two types includes in

**2. Part of Business District/Centers (Unplanned Business Districts).**

A retail store can also be located as a part of a business district. Or we can refer this as unplanned business centers. A business district is place of commerce in a city which developed historically as the center of trade and commerce in the city or town. A business district is place of commerce in a city which developed historically as the center of trade and commerce in the city or town. A business districts can be a central, secondary or a Neighborhood business district.

A Central business District CBD is the main center of commerce and trade in the city. (high land rates, intense development). A CBD is the hub of retailing activity in a city.

CBD serves different sections of population for Examples of Cannaught place in Delhi, Colaba in Mumbai, Commercial Street in Bangalore are up market CBD's.CBD's serving the middle class customers across these cities like, Chandani chowk in Delhi, Kalbadevi-Bhuleswar in Mumbai, Chickpet in Bangalore.

Secondary Business District are composed of unplanned cluster of store often located on a major intersection of city that attracts customers from a large part of the city

**3. Part of a Shopping Center (Planned Shopping Centers)**

A shopping center has been defined as " a group of retail and other commercial establishments that is planned , developed, owned and managed as a single property" .The basic configuration of a shopping centre is a "*Mall " or Strip centre.*

***Mall***

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

***Shopping Center/Strip centre***

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

In India planned shopping centre can be categorized in two category

**Regional shopping centers or Mall:** Regional shopping centers or mall are the largest planned shopping centers. Often they are anchored by two or more major department stores have enclosed mall serve a large trading area and have high rents. (Ansal plaza,spencers plaza ,crossroads, DLF city in Gurgaon)

**Neighborhood/community/shopping centers:** Neighborhood /community centers usually have a balanced mix of stores including a few grocery stores , a chemist, a variety store and a few other stores selling convenience goods to the residents of the neighborhood.

## 7.2 Steps Involved in Choosing a Retail Location

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

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

***Home Country vs Abroad***

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

Therefore, if the management has taken a decision to set up its retail store abroad, the first step is to decide upon a particular country. This is crucial because due to LPG (Liberalization, Privatization, and Globalization) drive globally, every country is eager to attract foreign capital with a unique set of offering. The following key factors should be considered while deciding upon the name of a country:

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

***Selection of Region***

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

The factors influencing such selection are:

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

***Selection of the Locality/Community***

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

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

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

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

***Selection of the Exact Store***

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

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

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

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

**Figure 7.1 : Location Plan**

## 7.3 Market Analysis

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

**1. Market Identification:**

The first step in arriving at a decision on retail location is to identify the market's attractiveness to a retailer.This is important that retail needs to understand the market well with its own peculiarities and needs.

**2. Determining the market Potential:**

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

**(a) Population Characteristics and its Trends**

Population characteristics such as geo-demographics, psychographic, and behavioural characteristics are used to segment markets.Considerable information about an area's population characteristics can be acquired from secondary sources. Retailers can access data regarding population size, population density, and number of households, income distribution, average household income, distribution of income, employment level and type of employment, sex, education, age, occupation and mobility. The information on behavioural characteristics can be obtained by carrying out a primary study measuring store loyalty, consumer lifestyles, and store patronage. The average household purchasing power and distribution of household income can significantly influence selection of a particular retail area. Thus, as purchasing power rises, the population is likely to exhibit an increased demand for luxury goods and more sophisticated demand for necessities.

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

**(b) Competition**

Competition type, size, their strengths and weaknesses and compatibility with other retail outlets in an area should be studies.The level and nature of competition in an area also influence the selection of a particular retail location. On the basis of levels of competition, trade area can be classified into three types:

- Saturated
- Under-stored
- Over-stored

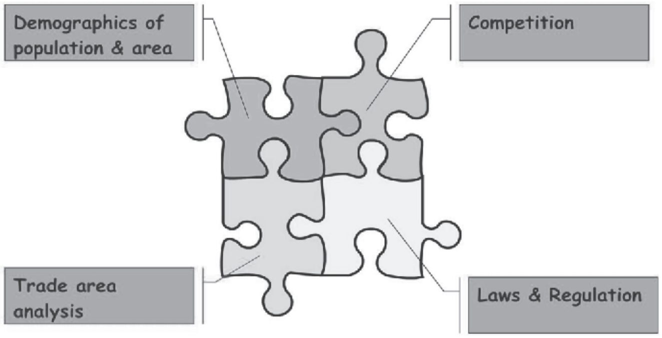
A saturated trade area offers customers a wide variety of merchandise, which also ensure impressive profits for retailers in the market. Customers tend to prefer these areas because of the variety of merchandise offered and competitive pricing. Therefore, retailers who find location characteristics compatible with their marketing mix prefer to establish their stores at such locations. Retailers located in a saturated trade area look for head-to-head competition. They develop methods and internal systems that allows them to successfully compete ensures high footballs, which can be converted into sales with sustained marketing efforts.

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

Over-stored trade areas are characterized by the presence of multiple retailers in a specific product category.These areas pose great challenges for new entrants in terms of investment and efforts in attracting customers. In India, most of the over-stored trade areas are traditional markets with limited space for new retailers and high rentals.

**(c) Laws & regulations:** Good understanding of the laws, Taxes, Licensing procedures ,operational procedures of the market is essential to asses potential.

**Fig 7.2 Determining the market Potential**




(d) **Trade Area Analysis :** A trade area is the geographic area that generates the majority of the customers for the store. Knowing the boundaries of trade area help retailer estimate the no. of customers that may patronize stores, demographic and lifestyle information of the consumers.

Analysis involves area within which a retailer operates economically i.e .relative relationship between sales volume and cost of operations.

Trade areas can vary depending upon factors like the type of products /services sold or the different market segments of customers.

**A trade area typically has three parts:**

- **Primary trade area:** primary trading covers between 50-80% of the store's customers.
- **Secondary Trading Area**: this area contains the additional 15- to 25% of the store's customers.
- **Tertiary trading area covers** the balance customers

**Fig. 7.3 Types of Trade Areas**


These trading areas are dependent on distance and do not always have to be concentric in nature. T.A.A. helps determine the no. of stores to be located in a trade area and provides key inputs for promotional strategies.

**Different business types will have different trade areas**

- Convenience shopping trade areas (ease of access)
- Comparison shopping trade areas (price, selection, quality, style)

The study of trading area of an store can be done by way of primary (store bills, frequency of purchases, average bill size )or secondary data.

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

## 7.4 Methods of Evaluating a Trading Area

The trading area analysis takes place after management has selected a specific geographic region or section of a city as a possible retail location. "Trading area" refers to the local geographical area from which a store attracts the majority of its customers.

This territory is sometimes broken down into the "primary trading area", which includes the majority of customers living within a certain range of the store and having the highest per capita sales; and the "secondary trading area", which includes almost all of the customers situated outside the primary area.

***Index of Retail Saturation (IRS)***

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

$$IRS = \frac{\text{Number of Households} \times \text{Annual Retail expenditures for a particular line of trade per household}}{\text{Total square footage of particular line in that area including the proposed store.}}$$

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

The index is based on premise that if a market has low level of retail satutation, likelihood of success is more. A higher IRS indicates a lower level of saturation, thereby increasing likelihood of retail success.

**Huff's Gravity model:**

This model is based on premise that the probability that a given customer will shop in a particular store becomes larger as the size of store grows and distance/travel time from customers to the store shrinks.

**License Plate Analysis**

One of the most common methods of measuring a trading area with comparable stores is called auto license plate analysis. The license plate numbers of cars in the area under consideration are recorded and cross-referenced with public records to get their registration addresses. By plotting these addresses on a map, you can get a good feel for the general nature of the area.

**Population Characteristics**

Population characteristics are even more critical when evaluating a trading area. As in the larger market analysis, you must understand such features as the population profile, density and growth trends in the target area. Variables such as gender, occupation, education, age, family size and ethnic breakdown are also important. If you sell young children's clothes, you'll want to know the number of local preschoolers. A craft store, on the other hand, will want information about seniors.

**Potential Sales in a Trading Area**

With the right data, you can forecast your potential sales in the trading area. Use this formula:

(Number of households in the trading area) X (Rupees per household spent on your product category)

= (Total market size) X (Your % share of the market)= Your potential sales

## 7.5 Site Evaluation

Site analysis and evaluation is an important step in the selection of a retail location. After taking decision on the location and market potential the retailer has to select the site to locate the store based on these

**A retailer has to consider the following factors while selecting a site:**

- Kind of products sold/Product mix
- Competitor's location
- Parking & Amenities
- Visibility
- Cost factor
- Ease of traffic flow and accessibility
- Market trends

**Kind of products sold**

For stores dealing in convenience goods the quantity of traffic is most important. Convenience goods are often purchased on impulse from easily accessible stores. For stores dealing in shopping goods, the quality of the traffic is more important.

**Cost factor in location decision**

Space cost is a combination of rent or mortgage payment, utilities, leasehold improvements, general decoration, security, insurance, and all related costs of having a place to conduct business operations. With the emergence of new forms of retail formats such as franchising, malls, and department stores the dependence on rent or lease is increasing. Decision may be taken to buy or to lease (terms of lease, period, rent)

**Competitor's location**

The type and number of competitors is another important factor. The presence of major retail centres, industrial parks, franchisee chains, and department stores should be noted. Intense competition in the area shows that new businesses will have to divide the market with existing businesses. If one is not might reconsider that particular location. An excellent location may be next or close to parallel or complementary business that will help to attract customers.

***Ease of traffic flow and accessibility***

These two factors are more important to some businesses than others. Consider the nature of the business you are planning to open and your potential customers. Retailers selling convenience goods must attract business from the existing flow of traffic. Studying the flow of traffic, noting one-way streets, street widths, and parking lots, is hence important. Traffic is an important determinant of the potential sales. Accessibility of the market is also a key factor such as availability of public transport and connectivity with different parts of city.

***Parking***

Parking is another site characteristic that is especially a cause for concern in densely populated areas. When evaluating the parking that exists at a retail site, there are two considerations, parking capacity, and parking configuration.

***Market trend***

Evaluate the community from a broad, futuristic perspective. Local newspapers are a good source of information. Discussions with business owners and officials in the area can also help. Make use of information available through the chamber of commerce. Is the community receptive to change and will a new business be welcome? Is there sufficient demand in the local market to support a new business?

***Visibility***

Visibility has a varied impact on a store's sales potential. It is important when a shopper is trying to find the store for the first or second time. It follows that, if a store cannot readily be seen, new residents of an area probably will not choose it. Another aspect of visibility relates to travelers and passersby. No one type of location is better than the others.

## 7.6 Choosing a Shopping Center

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

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

***Cost Per Shopper Analysis:*** One approach to determining the true “cost” of a location is to calculate the “cost per shopper”. The key here is to determine whether the traffic created at a particular site consists of your target customers or a more general customer base.

# Unit 8 : Merchandise Management

## Introduction

The efficiency of a retail store is based on the retailer's ability to provide the right goods of good quality to the consumer, in the right quantity, at the right place and at the right time. The entire process of retailing depends on efficient inventory management.

In the large retail store, we find a dizzying array of goods to clothe our bodies, decorate our homes and entertain our families. All of this merchandise comes in a variety of sizes, colors, makes and models. Bringing it all together requires the successful coordination of numerous individuals and divisions, including buyers, warehouse employees, financial staff, store operations, etc.

The merchandise management process allows the retail buyer to forecast with some degree of accuracy what to purchase and when to have it delivered. This will greatly assist the company in attaining its sales and gross margin goals. Buyers must rely heavily on historical sales data, coupled with personal experience and their own intuition about market trends.

Merchandising is the core of retailing, a key driver of retail success. The function of merchandising is an integral part of retailing and also one of the most challenging functions.

Merchandising is both **art** (retailers use their experience and intuition to spot trends and select merchandise) and **science** (taking a disciplined ,analytical approach to merchandising, retailers can place right products for right consumers at right time leading to growth in sales and profits.)

**Meaning**

Merchandise refers to the goods bought and sold in business. Merchandising refers to the activities aimed at quick retail sale of goods using bundling, display techniques, free samples, on-the-spot demonstration, pricing, shelf talkers, special offers, and other point-of sale methods.

**Definition**

According to American Marketing Association: Merchandising encompasses "planning involved in marketing the right merchandise or service at the right place, at the right time, in the right quantities, and at the right price."

Achieving these **five Right** is the key to successful merchandising and many a times, this remains an elusive goal for most retailers.

Merchandising management can be termed as **"Planning, analysis, acquisition, handling and control of the merchandise"**

- *Analysis*: because retailers must be able to correctly identify their customers before they can ascertain consumer desires and their needs/requirements for making a good buying decision.
- *Planning* is important because merchandise to be sold in the future must be bought now.
- *Acquisitions* because the merchandise needs to be procured from others, either distributors or manufactures.
- *Handling* involves seeing that the merchandise is where it is needed and in the proper condition to be sold.
- *Control* is required since the function of merchandise involves spending money for acquiring products it is necessary to control the amount of money spent on buying

  Retail Merchandising refers to the various activities which contribute to the sale of products to the consumers for their end use. Every retail store has its own line of merchandise to offer to the customers.

**Benefits**

- The display of the merchandise plays an important role in attracting the customers into the store and prompting them to purchase as well.
- Merchandising helps in the attractive display of the products at the store in order to increase their sale and generate revenues for the retail store.
- Merchandising helps in the sensible presentation of the products available for sale to entice the customers and make them a brand loyalist.

**The merchandiser must:**

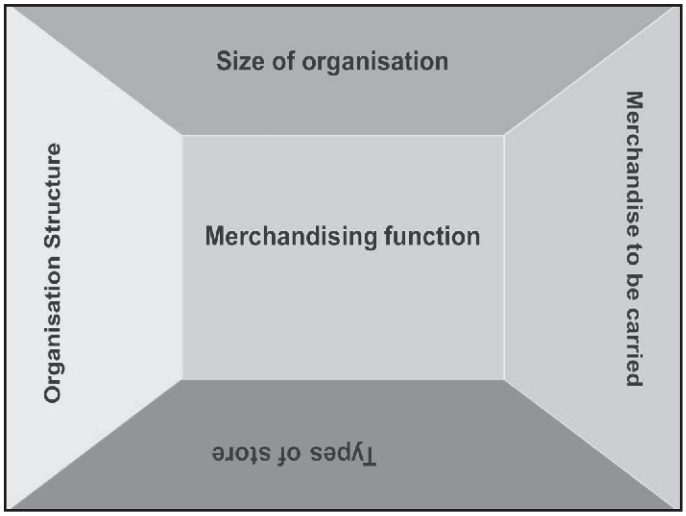
- Source something which is unique and not available at any other retail store.
- Never compromise on quality of the merchandise.Compromising on quality costs later
- Source merchandise as per the season and climate
- The merchandiser must source products according to the latest trends and season.
- The merchandise should be as per the age,sex and taste of the target market.
- The merchandiser ideally works on the "invariant right" principle. Since most of us are right handed, it is a common tendency that customers entering into retail store would first go towards the right side of the store. The merchandiser should display the unique and expensive collections on the right side of the store to entice the customers.
- The set up of the store should be such that once a customer enters into a store, he has to walk through each and every department.
- The shelves should be stocked with the latest trends. The merchandise should be well organized on the racks according to their size and pattern.
- It is the key responsibility of the merchandiser to create an attractive display to pull the customers into the store.

## 8.1 Factors Influencing Merchandising

Merchandising does not function in isolation. It is affected by various factors like the organization structure, the size of the retail organization and the merchandise to be carried. Rarely are any two stores organized in the same way. The function of the merchandising varies from one organization to another.

The following factors influence retail merchandising:

❖ **Size of the Retail Operations:** This includes issues such as how large is the retail business? What is the demographic scope of business: local, national, or international? What is the scope of operations: direct, online with multilingual option, television, telephonic? How large is the storage space? What is the daily number of customers the business is required to serve? The needs of the individual retailers vary from those of large chain store operation. May need few people or large no. of people/buying may be centralised or decentralised geographically/small or large quantities/ regional preferences.




❖ **Shopping Options:** Today's customers have various shopping channels such as instore, via electronic media such as Internet, television, or telephone, catalogue reference, to name a few. Every option demands different sets of merchandising tasks and experts.

❖ **Separation of Portfolios:** Depending on the size of retail business, there are workforces for handling each stage of merchandising from planning, buying, and selling the product or service. The small retailers might employ a couple of persons to execute all duties of merchandising.

❖ **Type of organization:** Format of store has an impact on type of merchandise.

❖ **Merchandise to be carried***:* The buying for basic merchandise is fairly different from buying fashion merchandise. A merchandiser who is handling fashion products will need to spend more time in the market, and looking for the products which is more suitable for the customers.

❖ **Organization structure** that the retail organization adopts also affects the merchandising function. Some organization may differentiate the role of the buyer and the role of a merchandiser. Merchandise philosophy of retailer affects the role,duties and responsibiliities of various persons involved in merchandising function.

## 8.2 Process of Merchandising

The process of merchandising involves understanding consumer needs, identifying & sourcing of right merchandise, deciding the right assortment, planning distribution of merchandise to different locations in the right quantities, deciding on the pricing, communicating merchandise offerings to the target customers, and taking feedback of consumers.

- ❖ **Understanding consumer needs**: The merchandiser should understand the different ways in which the consumer presently satisfies the need.
- ❖ **Identifying and sourcing of right merchandise:** Further, the merchandiser may need to identify the right merchandise.The merchandiser based on the study of consumer feedback would like to know, which one is most in demand.Suppose the merchandiser decides for 'Powdered Spice mix' .For Powdered Spice mix the merchandiser needs to identify the right suppliers/sources of this type of Powdered Spice mix. He /she may like to analyse the brands like MDH, Evererst, Ramdev etc which can supply .
- ❖ **Planning the right assortment:** Merchandiser has to plan for the different product sub-categorization. The sub-categorization can be made, based Spices Mix used for different purposes such as chana masala, paav bhaji masala, Sabji masala etc. Thus, the merchandiser must know based on past trend, experience or survey, the right quantities to be maintained under each sub-categorization. In other words, the assortment should cover needs of different customers for different recipes..
- ❖ **Planning distribution to different locations:** Once the assortment is cleared then the merchandiser needs to work out the quantities to be dispatched to different distribution centres. The quantity dispatched should be based on the number of outlets in each location, the minimum stocks to be maintained, turnover ratio, the replenishment time, etc. The logistics for delivery of goods should also be taken into account.
- ❖ **Providing right quantities:** Once the goods reach the different distribution points, the goods further needs to be sent to each of the outlets in the region. For this the retailer will take into account the consumer requirement in each of the stores based on previous sales trends or its own study of consumer needs. Thus, for each store its requirement in terms of different assortment is worked out and the goods are dispatched.
- ❖ **Deciding the price:** Once the goods reach the store, the merchandiser needs to decide on the pricing of each of the products/items. In case of certain retail chains the pricing may be left to the respective store managers also, the manager will work upon prices as per the guidelines from the chief merchandiser for the product category. The prices are decided based on the gross margin policy for each of the products.
- ❖ **Communicating offerings to target consumers**: Once, the goods are on the floor of the shop, the merchandiser will work out the visual merchandising. He/she will communicate such strategy for the given store or group of stores. The merchandiser may provide certain props and signages to each of the store to communication right messages and offerings to consumers. There could be advertisements in print media or TV or radio or hoardings etc., for giving mass publicity to the offerings.
- ❖ **Taking/understanding feedback of consumers**: The merchandising team may decide to take feedback on different brands/items to know consumers reaction to pricing, quality, availability, display, after use effect etc. The feedback acts as a guideline for improving sourcing and assortment, so as to provide maximum satisfaction to consumers.

## 8.3 Merchandise Buying Process

- ❖ Step 1 - **Collect Information:** Gather information on consumer demand, current trends, and market requirements. It can be received internally from employees, feedback/complaint boxes, demand slips, or externally by vendors, suppliers, competitors, or via the Internet.
- ❖ Step 2 - **Determine Merchandise Sources:** Know who all can satisfy the demand: vendors, suppliers, and producers. Compare them on the basis of prices, timeliness, guarantee/warranty offerings, payment terms, and performance and selecting the best feasible resource(s).
- ❖ Step 3 - **Evaluate the Merchandise Items**: By going through sample products, or the complete lot of products, assess the products for quality.
- ❖ Step 4 - **Negotiate the Prices:** Realize a good deal of purchase by negotiating prices for bulk purchase.
- ❖ Step 5 - **Finalize the Purchase**: Finalizing the product prices and buying the merchandise by executing buying transaction.

- Step 6 - **Handle and Store the Merchandise:** Deciding on how the vendor will deliver the products, examining product packing, acquiring the product, and stocking a part of products in the storehouse.
- Step 7 - **Record the Buying Figures:** Recording details of transactions, number of unit pieces of products according to product categories and sub-classes, and respective unit prices in the inventory management system of the retail business.

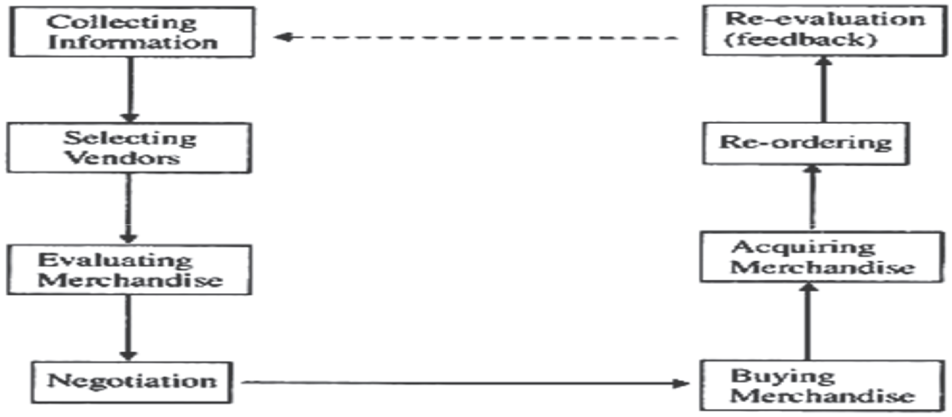



**Fig 8.1 : Merchandise Buying Process**

## 8.4 The Merchandisers Role & Responsibilities

Merchandiser is responsible for particular lines of merchandise **.**Basic duties of a merchandiser may be divided into four areas.

***Planning:*** Though the merchandisers may not be directly involved in the actual purchase of merchandise.

- They formulate the policies for the areas in which they are responsible.
- Forecasting sale for the forth coming budget period and estimate the consumer demand and the impact of changes in the retail environment.
- Sales forecasts are then translated into budgets to help buyers work within the financial guidelines.

**Directing:** Guiding and training buyers as and when the need arises, is also a function of the merchandiser. The buyers have to be guided to take additional discounts for products which may not be doing too well in the stores.

**Co-ordinating**: Merchandise managers supervise the work of more than one buyer. They need to coordinate the buying effort in terms of how well it fits in with the store image and with the other products being bought by other buyers.

**Controlling:** assessing the merchandise and buyers performance , is a also part of the merchandise manager's Job. This includes evaluation on the basis of net sale, maintained mark up percentage, and stock turnover.

- Merchandiser also visit suppliers to select merchandise and work close with retail buyers in negotiating prices, ordering, delivery dates and their timely arrival.
- Merchandiser work closely with visual display staff for proper display of goods.
- Merchandiser travel to different stores to check the response to various items in the merchandise.

## 8.5 Role of Buyers

Buyers plays an important role in the retail industry. They select and order merchandise to be sold. Buyers may be responsible for buying for a department, an entire store, or a chain of stores

1. Developing the merchandising strategies for the product line
2. Planning and selecting merchandise assortments: requires understanding of current market trends and consumer needs
3. Vendor Selection, development and management: negotiations with vendors for favourable terms and conditions
4. Pricing of the merchandise: to achieve the required targets in terms of gross margins.
5. Inventory Management: control inventory by providing according to store requirement

## 8.6 Category Management

Retail is often termed as a business of responding to change. Today's retailer is faced with a rapidly changing and demanding consumer, intense competition, and pressures on costs. The combinations of the business condition that exist today and the advances in technology have created an opportunity for the development of new management approaches. One such approach is that of category management.

Grouping products into broad categories (distinct manageable group of products and services). Items in a category shares some similar characteristics i.e. purchased from a set of vendors, sold to similar target market, similar considerations in pricing and promotion, seen as reasonable substitutes by consumers.The core of the category management concept is a focus on a better understanding of consumer needs as the basis for the retailers' and suppliers' strategies, goals and work processes.

**Definition**

**Category Management** can be defined as "the distributors' / suppliers' process of managing categories as strategic business units, producing enhanced business results by focusing on delivering consumer value."

**Category management** is the process of managing a retail business with the objective of maximizing the sales and profits of a category. It recognizes categories as strategic business units for the purpose of planning and achieving sales and profit goals. It is managing all the SKU's within a category.

Category manager is responsible for developing assortment plan for whole category, working with vendors, selecting merchandise, pricing and coordinating promotions with advertising department and stores.Managing by category ensures that stores assortment is represented by best combination of sizes and vendors i.e. one that will get the most profit from the allocated space and satisfies the customer.

**The components of Category Management**

**8.6.1. Category Definition:** Category Definition is the first step in the process. The definition of the category has a significant impact on the subsequent steps. A category definition should be based on how the customer buys, and not on how the retailer buys. For example, for a grocery retailer, aerated drinks may be one category, ready to cook meals, another and health drinks, a third category. Category definition varies from retailer to retailer.

**8.6.2 Defining the Category Role:** The category role determines the priority and the importance of the various categories in the overall business. This aids in resource allocation.

Traditionally, four categories have been identified. They are:

- ❖ **Destination Category:** This is the main product offering of the retail store. Examples include fresh groceries at a supermarket and apparel in a department store. Retailer is customer's first choice for specific products. It offers *superior* value to customer. It constitutes 5-7% of all categories.
- ❖ **Preferred/Routine Category:** These are products that a customer buys from the retailer as a matter of routine or habit. Examples include toothpaste, soaps, etc., The retailer wishes to be the preferred provider of these products to target consumer. Aim is to provide c*onsistent, competitive* value to target consumer. It has primary role in delivering profit and cash flows. 55-60% of retailer's categories have a preferred role.
- ❖ **Seasonal Category:** This includes products, which are not purchased very often or are purchased when available and needed. These are those items which are purchased infrequently or follow cyclical patterns Examples would include mangoes sold in summer, in a super market, and umbrellas and raincoats, in a department store.
- ❖ **Convenience Category:** These are products that a consumer finds convenient to buy at a neighborhood retailer. These items retailers keeps to reinforce its image as one stop shopping Examples include products like bread, eggs and even routine stationery. Category roles must be developed with the customer in mind and must reflect the typical consumer shopping behavior. These roles provide logical framework for the allocation of the retailer's resources, based on its mission, goals, and strategies.

**8.6.3 Category Assessment:** In this step, the current performance of the category is evaluated with respect to the turnover, profits and return on assets in the category. It involves an assessment of the consumers, the market, the retailer and the suppliers.

**8.6.4 Category Performance Measures:** The development of category performance measures involves the setting of measurable targets in terms of sales, margins and Gross Margin Returns on Investment (GMROI).

**8.6.5 Category Strategies:** At this point in the process, the retailers and the supplier know the category's role; they have assessed the current performance of the category and have set preliminary targets for the category's performance. The purpose of this step is to help the retailer and supplier to develop strategies that capitalize on category opportunities through creative and efficient use of the resources that are available to the category. Category strategies can be aimed at building traffic or transactions, generating cash, generating profit, enhancing the image or creating excitement.

- ❖ Traffic building (high penetration and frequently purchased products)
- ❖ Transaction building ( products with a large transaction size)
- ❖ Profit generating (products with higher margins, enjoy more loyalty )
- ❖ Excitement creating (new products, seasonal items, rapidly growing segments etc.)
- ❖ Image enhancing (help retailer communicate its desired image in the areas of Price, variety, quality, service)

**8.6.6 Category Tactics:** At this stage, category tactics are developed in the areas of assortment, pricing, promotions and the presentation of the merchandise in the store**.**

**A category captain** is supplier and aids the retailer in developing the category. Some retailers turn to one favoured vendor to help them manage a particular category i.e decisions about product placement on shelves, promotions and pricing.He takes an overall view of the category and create a plan for the category including national brands and private labels.

**8.6.7 Category Plan implementation:** A Specific implementation schedule is developed and responsibilities are assigned. Accurate implementation is the key to the success of the Category Management**.**

**8.6.8 Category Review:** The final step in the business process is the review of the progress and of the actual achievements as against the targets set for the category. Review aids in taking decisions at the right point of time. Category management is considered to be a "scientific" approach to relating in the mature markets, largely because it is date driven and fact based. The successful adaptation of category management at Pantaloon shows us how the returns on the particular product/category can be maximized by keeping the focus on the customer and creating systems and processes within the organization to aid such a focus.

**8.6.9 Understanding Category Life Cycle:** Many external factors (seasons, special vents ,competitive changes in fashion, population etc. ) and internal factors (product changes, adaptability to fashions, service, product quality, price fluctuations, promotions, inventory shortages, labor problems) affect the sales of a retailer.

When making a sales forecast it is important to know for retailer to know the type of merchandise on offer i. e whether it is a fashion, staple or seasonal merchandise as the pattern of sale varies from category to category. Knowing at what point a product category is in life cycle has a significant impact
on the target market, variety of products to be offered ,distribution, pricing and promotional strategies.

**Fad:** A phenomenon in which a merchandise category generates huge sales for a relatively short period of time. (less than a season) Unpredictable demand

**Fashion:** A phenomenon exhibited by a merchandise category that usually lasts for a few seasons with sales fluctuating significantly from one season to next.

**Staples:** enjoys continuous demand over an extended period. Basic necessities ,classics etc.

**Seasonal merchandise:** sales vary significantly at different times in a year.

## 8.7 The Merchandise & Assortment Planning

- Retailers need to preplan the financial implications of their merchandising activities. Financial plans start at the top of the retail organization with the overall financial objectives of the retailer and are broken down into objectives for various categories.
- Buyers and merchandise planners develop their own plan and negotiate up the organization. The resulting merchandise plan is a financial buying blueprint which determines how much money to be spent on a specific merchandise category so as to meet sales forecasts and financial goals.
- Once the merchandise plan is set, then buyers and merchandise managers develop assortment plan(what should be carried in a merchandise category)
- Assortment refers to the selection of merchandise carried by a retailer. Decisions on merchandise assortments is affected by choice of retail format, availability of space in the store and availability of finances to spend on merchandise.

- Variety offered by Store: Number of different lines that the retailer stocks in the store.Variety / Breadth: number of different merchandise types /brands that the retailer stocks within merchandise line .
- Assortment /Depth: is the number of SKU's within a category.
- Product availability: percentage of demand for a particular SKU that is satisfied. also referred as support/service level.
- There are Tradeoffs between variety, assortment and product availability
- Assortment and variety depends upon the marketing strategy of retailer.

**8.7.1 Factors affecting Variety and assortment**

- **Profitability of merchandise mix:** Retailers are constrained by amount of money to invest in merchandise and space to put merchandise. So try to find the most profitable mix of products.
- **Corporate strategy and positioning towards assortment**: variety and depth , diversity of portfolio, approach of top management towards a particular merchandise category( to grow or shrink)
- **Physical characteristics of store**: space and display area available with store to devote to a category
- **Complementary merchandise:** Whether the merchandise under consideration complements other merchandise in the department.

**8.7.2 Developing Assortment plan**

**An assortment plan describes in general terms what should be carried in a particular merchandise category.**

In Assortment Planning we use store grades as a way to reduce the number of decisions we have to make. If we had to plan every store individually we would end up repeating similar assortments many times. Planning at the store grade level allows us to be most effective as a result of our efforts.

Retailers commonly use sales value as the basis for store grading. This allows them to group together similarly performing stores, on the basis that they should have similar ranges assorted to them. As they become more sophisticated many retailers begin to incorporate space into the equation.

When we are making decisions about assortments we are primarily deciding which items will go to which stores in which periods. The first question that we need to ask ourselves is how many items we should be sending to each store or store grade. The factor that limits the number of items is not primarily sales velocity (derived from sales value), but also space available for display. Space is a limiting factor in bricks and mortar stores in the same way as production capacity is in manufacturing. If we are going to send similar ranges to groups of stores it makes far more sense to group these by space available for display than by sales value. We are not ignoring sales, we are merely saying that there are more relevant measures that we can use for grouping stores for assortment planning.

For developing the assortment plan for the current season ,the merchandise planner uses the sales, GMROI and inventory turnover forecasts along with the assortment plan of the previous season.

Adjustments are then made based on the expectations for what items or fashions will be important in the coming season. For example

**Table 8.1 : Assortment plan for ex. “Frozen Veggies ”**

| Frozen vegetables | Frozen Peas | Frozen Peas | Frozen Corn | Frozen Corn |
|---|---|---|---|---|
| Retail price(Rs.) | 160 | 90 | 140 | 80 |
| Brand | Safal | Safal | Safal<br>Private label | Private label |
| Pack Size | 500 gm | 250 gm | 500 gm | 250 gm |

**8.7.3 Assortment Strategies**

Assortment strategies refer to the plans that retailers (in-store and e-commerce) use to determine the optimal product mix for their daily inventory. They are important to the retail industry since customers directly interact with the product mix on display and make purchase decisions based on what they see.

**Components of Assortment Strategies**

Assortment strategies are defined according to two main factors:

1. **Product Width:** Product width refers to the range of product lines that a retailer offers. For example, a supermarket may offer product lines ranging from food items to cosmetics and over-the-counter medical supplies. They are all the product lines that are available to customers and combine to make up the product width offered by the retailer.
2. **Product Depth :** Product depth is the variety of products offered under each product line. For example, if the retailer in question is a specialized cereal store, they are likely to offer hundreds of options for cereal. The variety determines the product depth.

   Assortments strategies are determined by the product width and depth that a retailer chooses to offer, and ideally result in optimal product mixes that drive sales and increase the likelihood of customers making positive purchase decisions. The strategies employed may be dependent on the physical capacity of stores – smaller stores generally lack the space for high product width and depth and tend to focus on one or the other.For example, a specialty retailer, such as a cereal store, is likely to show narrower product width (few product lines), but high product depth (numerous options for each product line). That is, they are likely to offer only cereal but will also provide many options of cereals to choose from.

   On the other hand, a wholesaler, such as Costco, is likely to demonstrate high product width (lots of product lines ranging from fresh fruit to clothing, household furniture, and accessories), but lower depth (only a few options in each product line, e.g., offering).

**Types of Assortment Strategies**

1. **Wide assortment:** A wide assortment strategy is used when retailers aim to offer a lot of different product lines or categories, but with lesser depth in each category. It aims to provide more variety in the types of product lines offered but does not provide a high number of products in each product line. For example, a grocery store that provides a lot of different products, but only stocks one or two brands for each type of product, is employing a wide assortment strategy.
2. **Deep assortment:** A deep assortment strategy aims to provide a large number of options within a particular product category. It is common for specialty stores that focus on one or a few products to utilize a deep assortment strategy. For example, a supplement store is likely to offer many options for buyers of protein powders – it is using a deep assortment strategy by focusing on fewer product lines but with high depth and variety within each product line.
3. **Scrambled assortment:** Retailers using scrambled assortment strategies aim to offer products that are outside of their core business operations in order to attract more clients from different markets. For example, a store that is famous for its smoothies starts selling fresh fruit and packaged food, which allows it to target a wider audience, including people who wish to make smoothies at home.
4. **Localized assortment:** A localized assortment strategy allocates the product mix based on the preferences of the local population and the characteristics of the geographical region. This allows the retailer to cater to different demands according to geography and thereby increase sales.For example, a clothing retailer like Zara does not sell the same clothing inventory in a store in Mumbai, India, as it does in Vancouver, Canada. This is because the population in Vancouver requires warmer clothing for snow and the winter season, whereas the population in India exhibit different clothing preferences and requirements.
5. **Mass-market assortment:** Mass-market assortment strategies are used by stores with large physical storage capabilities, such as Walmart and Amazon. They aim to appeal to the mass-market and offer as many products and varieties as possible, catering to a much bigger customer base.

**8.7.4 Importance of Assortment Strategies**

If used effectively, assortment strategies can boost sales and help the retailer grow its customer base. They are important because they determine the goods that a customer interacts with, which leads to a purchase decision. Assortment can vary according to seasons – an ice cream store may offer different flavors in the summer and different flavors in a monsoon season.This caters to the public demand and increases sales. Similarly, in supermarkets, complementary goods, such as toothbrushes and toothpaste, are assorted strategically so that customers are persuaded to buy more than they intended to.

However, assortment strategies can be disadvantageous if the product mix and allocation doesn't appeal to the population visiting the store .For example, offering too much variety within a product line can frustrate customers because it makes it harder to make a decision. At the same time, providing too little variety can be disappointing to some customers and can negatively impact sales revenue. Therefore, it is important to conduct extensive market research related to a number of factors, such as the target customer group, location, climate, and other customer-based preferences, before designing the appropriate assortment strategy and product mix.

### 8.8 Evaluating Merchandise Performance

Measuring the performance of merchandise is necessary in order to gain an understanding of the products which have performed well and which have not performed as per the target. The performance can be as per plan,below the plan or above the plan.

Inventory turnover, which may also be called inventory or merchandise stock turn or just turnover,is a key to merchandise performance. Inventory turnover measures how long inventory is on hand before it is sold. Items that are on hand a short time have a high turnover those that are on hand longer having a low turnover.

**Retailers calculate inventory turnover in several ways:**

1. Net sales/average inventory at retail
2. Cost of merchandise sold/average inventory at cost
3. Units sold/average units in inventory

Turnover is a key to high performance, which means profits in retailing.Rapid turnover enables the retailer to reduce certain expenses. Lower inventories will obviously require less capital, and thus the retailer's interest expenses will be lower.

Success in retail can be measured by the amount of profit generated in relation to the working capital invested i.e. the return on investment. Certain costs in any business are fixed or at least are not easily flexed. Shop rents and head office costs fall into this category. Merchandise margins and product mix, however, are variable and their management can either enhance or destroy profitability.

Many retailers use the performance indicators of gross margin % (after markdown) and weeks cover to measure performance. These are very commonly available but used in isolation from each other,they are of limited value. Gross margin % gives us a measure of reactive profitability without taking into account the costs of stockholding investment. Weeks cover tells us how effectively we turned our stock without informing us about relative profitability. The financial ratio that is useful for planning and measuring merchandising performance is return on investment measure called

**Gross Margin Return on Inventory Investment (GMROI)**

It measures how much gross margin is earned over every rupee of Inventory investment.

$$\textbf{GMROI} = \frac{\textbf{Gross margin}}{\textbf{Average Inventory at cost}}$$

GMROI combines the effect of both profits and turnover. And help compare and evaluate departments with different margins and turnovers. It can also be used to compare merchandise classifications, vendor lines and items.

## 8.9 RETAIL INVENTORY MANAGEMENT

The retail industry can be extremely competitive and one of the biggest challenges is managing a store's retail inventory. Businesses need to have space to store a wide number of products along with a wide variety. If a retail store does not carry enough of a product, then they are losing potential customers who will shop elsewhere.

Retail inventory is different from other forms of inventory because of the quantities needed. Retail chains need warehouses to keep all of their stock and the means to transport it to their stores. Keeping up with such large quantities can be difficult for anyone, even with the help of an automated system. To track a company's products, a retail inventory management system needs to be successfully implemented.

**Retail Inventory Management**

Retail inventory management is the process and methods used to keep track of the stock in a retail business. These methods control everything from ordering, shipping, receiving, tracking inventory, retail turn-over, and storage. Retail inventory management can help keep a business' profits at a steady margin as well as reducing theft and loss of inventory. Many retail businesses lose money every year because they do not have a successful inventory management system in place. Retail Inventory Management should provide the following functions for a retail business:

- Track and manage all of the inventory for the business
- Keep up with store markdowns
- Evaluate how well some groups of products do in sales
- Provides analysis for comparison shopping with competitors
- Collect data on the sales and inventory of individual stores using SKU
- Allows you to accurately review your inventory

**Manage Inventory in retails**

Most businesses use some form of computer software to manage their inventory. Unless the retail business is very small, doing it manually would be very impractical, especially for large companies that deal in thousands of individual products.

A business that has a successful system for retail management will allow the business to keep a sufficient amount of stock to meet customer demand. If a business does not have enough inventories, then it can slow down cash flow. Too much inventory can cost business money and take up more room.

**When dealing with retail inventory management, companies will utilize one of these systems:**

**Point-of-sale terminals –** These are check-out points that automatically update a company's inventory levels.

**Job costing and inventory systems –** Another automatic system that updates computerized levels of inventory.

**Barcodes and readers –** Every product these days contains a barcode with the items information. Barcodes makes it easy and quick track stock.

**Electronic Supplier Product catalogs –** This system can update inventory levels automatically through either the internet or media disk.

Managing retail inventory involves several characteristics and steps. One of the most important steps is to make sure that you always remove products from the system as soon as they are sold. The same is true for receiving shipments of new stock. Make sure you record it as quickly as possible.

Physical inspections should be regularly performed to make sure the computerized system is accurate with what is actually in stock. A physical inspection involves manually looking over the stock to see that they numbers match.

Review sales reports weekly. You want to do this to see what is selling and what is not. Products that spend more time on the shelf should be re-evaluated or discounted to get rid of them.

Another step is to research to find the right products to sell. Businesses should come up with a target market and try to carry the right type of inventory to meet that target. Keeping up with retail inventory management should be delegated to several individuals or a department. By delegating inventory into smaller groups, it allows the individuals in charge of their group to have a better understanding of what stock is available and how well it sells.

**Prevention of Inventory Theft and Loss**

One of the biggest problems to plague retail inventory is theft and loss of retail products. Every time this happens, it costs business money. Preventing inventory theft can be difficult. But with the right system, we can reduce it by following ways:

- Do not share or hand out the same password for every cashier. Having separate passwords and log-ins tells who was manning the register at certain times. Always check out any transactions that were voided or canceled. This is a common way for inventory to disappear from a store.
- Set up a password-protected security on all computers and systems. Only when employees absolutely must have access should it be granted.
- Go over inventory reports every day to make sure sales figures match with the current quantities.
- Make sure the back door has a security alarm system that is activated every time the door is opened without authorization. If employees know the door should not be opened without permission, they shouldn't open it.
- Inspect the garbage every night before it goes out. Use clear plastic bags so that you can easily see inside the bag and make sure there is no inventory hidden inside.
- Set up security cameras not only in the store but in the back storage as well. This allows you to keep an eye on items out on the racks as well as in stock.

# UNIT - 9 : Store Layout, Design & Visual Merchandising

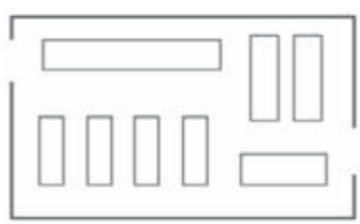
## Introduction

In addition to the store location decision, another decision vital decision that is important for a retailer is that of store design. Consumers want touch, feel and experience the product before they actually buy it. The choices that a consumer faces today extend right to the point of purchase. Good store design creates the vital difference in today's competitive marketplace. Successful companies use design as a powerful tool in their marketing strategy by making better products and building a strong retail identity. Design creates a better environment at the workplace and projects the organizational image. Good design offers many benefits-a vastly improved quality; a defined statement of identity; and optimizing of resources.

### 9.1 Store Design and Layout

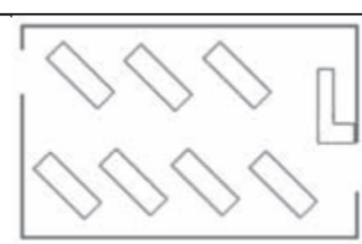
- The store design and layout tells a customer what the store is all about. It is a very strong tool in the hands of the retailer, for communicating and creating the image of the store in the minds of the customers. It is the creation of this image that is the starting point of all marketing efforts. The importance of store design needs to be understood form the perspective of the retailer and from the perspective of the consumer.
- While the merchandise, the sales personnel the location and the pricing all work towards creating an image it is the physical attributes of a store which affect the customer's sensory perceptions and makes him relate to the store in a particular manner. They work with the other elements towards creating the desired image or atmosphere.The environment which is created in the retail store is a combination of the exterior looks of the store, the store interiors the atmosphere in the store and the events, promotions and the themes, which form a part of the retail store.
- A well-planned retail store layout allows a retailer to maximize the sales for each square foot of the allocated selling space within the store.
- Each floor plan and store layout will depend on the type of products sold, the building location and how much the business can afford to put into the overall store design.
- There are a number of different types of layouts commonly found in retail stores. The layout used will be dependent on the width and depth of the product range, the nature of the product categories sold, the type of fixturing used and the constraints of the outlet in terms of size and shape. The objective of a store layout is to maximize the interface between customers and merchandise. Some of the common layouts are:

**Figure 9.1: A sample straight floor plan**



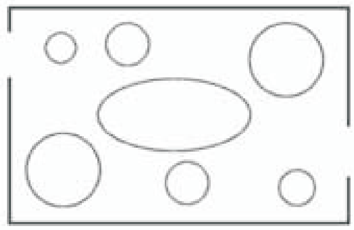
***Straight Floor Plan:*** The straight floor plan is an excellent store layout for most any type of retail store. It makes use of the walls and fixtures to create small spaces within the retail store. The straight floor plan is one of the most economical store designs.

**Figure 9.2: A sample diagonal floor plan**



***Diagonal Floor Plan:*** The diagonal floor plan is a good store layout for self-service types of retail stores. It offers excellent visibility for cashiers and customers. The diagonal floor plan invites movement and traffic flow to the retail store.

**Figure 9.3: A sample angular floor plan**



***Angular Floor Plan:*** The angular floor plan is best used for high-end specialty stores.The curves and angles of fixtures and walls makes for a more expensive store design. However, the soft angles create better traffic flow throughout the retail store.

***Geometric Floor Plan:*** The geometric floor plan is a suitable store design for clothing and apparel shops. It uses racks and fixtures to create an interesting and out-of-the-ordinary type of store design without a high cost.

**Figure 9.4: A sample geometric floor plan**

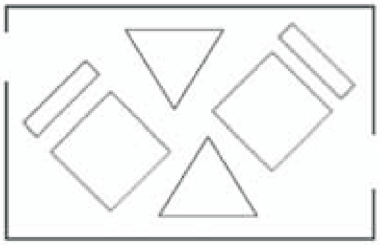
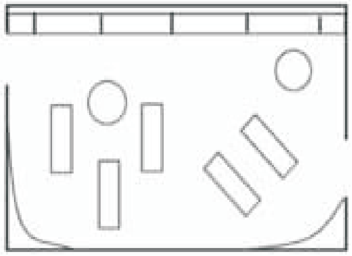


**Figure 9.5: A sample mixed layout plan**



***Mixed layout:*** The mixed floor plan incorporates the straight, diagonal and angular floor plans to create the most functional store design. The layout moves traffic towards the walls and back of the store.

## 9.2 Objectives of Store Design

***Store Design Objectives***

Following are the prime objectives of store layout and design:

- Consistent with retailers image and strategy
- Positive influence on customer satisfaction and purchase behavior
- Cost effective
- Flexible
- Meet needs of disabled

## 9.3 Four key elements of effective retail store and design

F*our key elements* of effective store and design: external signage, store layout, internal category management and internal ambience.

***Tips for Store Design and Layout***

- The signage displaying the name and logo of the store must be installed at a place where it is visible to all, even from a distance. Don't add too much information.
- The store must offer a positive ambience to the customers. The customers must leave the store with a smile.
- Make sure the mannequins are according to the target market and display the latest trends. The position of the dummies must be changed from time to time to avoid monotony.
- The trial rooms should have mirrors and must be kept clean. Do not dump unnecessary boxes or hangers in the dressing room.
- The retailer must choose the right colour for the walls to set the mood of the customers. Prefer light and subtle shades.
- The fixtures or furniture should not act as an object of obstacle.
- The merchandise should be well arranged and organized on the racks assigned for them. The shelves must carry necessary labels for the customers to easily locate the products they need.
- Never play loud music at the store.
- The store should be adequately lit so that the products are easily visible to the customers.
- The floor tiles,ceilings, carpet and the racks hould be kept clean and stainfree.
- Do not stock anything at the entrance or exit of the store to block the way of the customers.

**The retailer must plan his store in a way which minimizes theft or shop lifting.**

i. Merchandise should never be displayed at the entrance or exit of the store.

ii. Expensive products like watches, jewellery,precious stones, mobile handsets and so on must be kept in locked cabinets.

iii. Install cameras, CCTVs to have a closed look on the customers.

iv. Instruct the store manager or the sales representatives to try and assist all the customers who come forshopping.

v. Do not allow the customers to carry more than three dresses at one time to the trial room.

***Atmospherics and Aesthetics***

The important element of the store interior sis termed as atmospherics and aesthetics. *Atmospherics* is the design of an environment with the help of visual communications, lighting, color, music, and scent to stimulate customer's perceptual and emotional responses and thereby influence their buying behavior. Philip Kotler first introduced the concept of atmosphere.

***Aesthetics*** on the other hand takes into consideration factors like the actual size of the store, the colors, textures, etc, used within the store to create a particular look and feel for the store.

## 9.4 Visual Merchandising

Visual merchandising is concerned with presenting products to customers within the retail space. It refers to the efforts undertaken to make a retail outlet attractive to the prospective customers through the art of presentation, with the ultimate aim of selling the merchandise offered. VM aims at selling the image of the retail store and goods and services offered by it. It is a term sometime used as an alternative to merchandise display, but these days visual merchandising is generally understood to have a wider definition encompassing all activities concerned with the presentation of the product within the retail outlet. It includes the choice of store layout, the method of product presentation, the choice of fixture and fittings, the construction of displays, and the use of point-of-sale material. The main objective of visual merchandising is to make the customer experience memorable along with satisfying his/ her needs. It helps in increasing sale and customer satisfaction by creating the right ambience through good visual presentation and store planning.

**Visual merchandising educates the customers about the benefits of products and services in the following way:**

- ❖ It establishes a creative medium to present merchandise in 3D environment, thereby enabling long lasting impact and recall value.
- ❖ It sets the company apart in an exclusive position.
- ❖ It establishes linkage between fashion, product design and marketing by keeping the product in prime focus.
- ❖ It combines the creative, technical and operational aspects of a product and the business.
- ❖ It draws the attention of the customer to enable him to take purchase decision within shortest possible time, and thus augmenting the selling process. It makes easier for the customer to locate the desired category and merchandise.
- ❖ It makes easier for the customer to self-select.
- ❖ It makes possible for the shopper to co-ordinate and accessorize.
- ❖ It helps to highlight and demonstrate particular products at strategic locations.

### 9.4.1 Importance of Visual Merchandising

**Understand the importance of visual merchandising:** The first step to good visual merchandising is to understand how it is important. It will definitely be an asset to your store and business. With good visual merchandising, you will be able to accomplish your store's objectives easily.

**Tell your store's story through visual merchandising:** Visual Merchandising gives you the chance to convey to your customers what your store is about and how you can satisfy their needs without being too intrusive. If you are running a high end fashion store your, VM strategy will be different than other economical fashion stores. For example, if the store has a new fall collection, the visual merchandising should portray that to the customers.

**Attract customers by being different:** Just using visual merchandising is not enough. You have to invest time and effort on it. The same old tricks do not work anymore, so attract your customers by being different. For example, Instead of hanging garments on hangers or keeping them in racks, hang some of them on hooks from the ceilings.

**Tailor your displays to correspond with the kind of customers you attract:** A good visual merchandising is the one that has been done keeping in mind the objective of the store along with the needs of the customers. You should keep in mind that your VM strategy should give your customers ample opportunity to browse through your products and convert them into sales. For example, a toy store which gives a chance to the kids to touch and feel the products/ play with them, will always do better than a store which keeps it products in closed boxes, out of the kid's reach.

**Keep your visual merchandising dynamic:** The human mind gets bored easily, hence, if the display of the store is constant without any novelty, it will not attract enough customers. Keep changing your displays daily or at least once in 3 days - the more dynamic your visual merchandising, the more it attracts the customer. It also increases the awareness of your products by giving you the chance to display more products.

**Use it to fulfill the stores objectives:** It is important to understand the power of visual merchandising. You can use it to your advantage in achieving the store's objectives. For example, if your objective is just to get more footfalls other than coveting sales, make use of displays. Put up eye catching displays which say 'Walk in to get free vouchers, etc. These are just a few of the various elements that you can use to increase your store's awareness and sales through visual merchandising. Passion for creativity and design along with coming up with new ideas, are essential to ensure a good VM strategy.

### 9.4.2 Objectives of Visual Merchandising

The main objectives of visual merchandising are to support selling and to coordinate marketing activities.

**i) Support Selling:** Visual merchandising facilitates sales by

1. Communicating and reinforcing the store brand image. Visual merchandising displays and designs should be designed keeping in mind the target customers (their lifestyle, values, educational background, income group, etc.) Figure: Visual merchandising – a supporting activity
2. Informing the prospective customers about the various merchandise available in store

3. Generating excitement through window displays and in-store ambience to encourage more customers to enter the store especially during special events (like SALE, festive season, new product launch, etc.)
4. Cleverly place merchandise category adjacencies and strategic merchandise presentations and displays, not only help make sale in one category but also help cross merchandise.
5. Well planned fixture Plano-grams help save staff time while stacking and rearranging merchandise, which they can use to attend to a prospective customer.

**ii)** **Co-ordination** Just like all the departments in a retail organization work towards the advancement of sale so does the visual merchandising department. VM department does not work in isolation and has to be in synchronization with the company policies, retail merchandise to be sold (e.g. merchandise introduce/discontinued), special offers (e.g. discount sales), marketing policies, etc. A Visual merchandiser should hence co ordinate his activities and time line with the other departments in the organizations.

**Merchandising department:** The visual merchandiser must be aware and understand the merchandising department's selling strategy, including which merchandise is availed at which store, the date on which they will be made available, etc. This will help the VM to design VM plans/designs that will reinforce the sale strategy.

**Advertising/ Marketing department:** It is fruitless if the marketing department advertises some merchandise, and customer cannot locate them in the store. Hence the VM should work in coordination with the marketing team. Furthermore to create greater sales impact and greater recall value the Visual Merchandiser should try and repeat any special characters or symbols used by the marketing department.

**Operations department:** Coordination with the operations team is a key, when it comes to the execution of the VM plans. Centrally manufactured props may need to be transported to the individual store as well as maintains of the shop floor and the display props need to be looked after.

**Floor Staff:** Store floor staff is one of the best sources to know about the customer behavior at the store. They can give a visual merchandiser valuable information about which product are the hot sellers and which ones are the slow movers.

**9.4.3 Elements of Visual Merchandising** A visual merchandiser has to work with various elements of VM to bring about the desired action (purchase) and reaction (satisfaction, to return for another purchase at a future date) from the customers. These elements are as follow:

a) Store front b) Store layout c) Store interior d) Interior display

**a)** **Store Front:** The exterior of a business comprises the following:

**i)** **Marquee:** It is a sign that is used to display the store name

**ii)** **Entrances:** These are designed with customer convenience and store security in mind. There are several types of entrances each portraying a certain image Revolving – upscale stores Push-Pull – full service stores often with fancy handles Electronic – Self-serve stores, with carts such as Wal-Mart, Kroger etc. Climate Controlled – shopping malls.

**iii)** **Window Display:** Window displays acts as an introduction of what will be found inside the store. Given the fact that a pedestrian takes only a few seconds to consider a store window, a window display should be well planned to make the most impact. Main intention should be to capture the attention of the passersby. It begins with the selling process even before the customer enters the store and suggests the type of merchandise carried in the store.

**b)** **Store Layout:** Store layout describes the overall look and feel of the interior of a retail store, including the placement of fixtures and products within the store. It is an important part of implementing retail store strategy. Effective layouts are designed to expose customers to the most products possible given the amount of floor space available. It refers to the way the floor space is allocated. It is of four types.

**i)** **Selling Space:** It includes: Interior displays, Sales demonstration areas, Sales Transaction areas (wrap desk)

**ii)** **Merchandise Space:** It is allocated to items that are kept in inventory, Selling floor, and Stock room area.

**iii)** **Personnel Space:** It refers to space for employees, break rooms, lockers and restrooms.

iv) **Customer Space:** It refers the space meant for comfort and convenience of customers. It includes: Restaurants, Dressing rooms, Lounges, Restrooms, and Recreation area for children.

c) **Store Interior:** In-store displays should be in line with the window display in terms of theme and props. In-store displays can be further categorized into:

i) **High points:** When a display is placed above the eye level to be viewed from a distance is called a high point. They are usually on the top shelf of the walls fixtures featuring the merchandise stacked/hung on that wall. They are used to demonstrate the use of this merchandise and inspire the fashion trends. They can also be used to crosssell merchandise.

ii) **Focal points:** Focal points are dedicated areas within the store for displays. They display the merchandise stacked around that area which may be from different departments. They are good source to encourage cross merchandising. It affects the store's image and includes the items such as: Floor & wall coverings, Lighting, Colors, and Fixtures. It is important to create a relaxing, comfortable place for customers to shop.

d) **Interior Display:** These are the part of general store interior. It helps the customer to make a selection without personal assistance. Interior displays use fixtures and props to showcase merchandise. Props are generally classified as decorative or functional. Functional Props refers to practical items for holding merchandise such as mannequins and shirt forms whereas the purpose of Decorative Props is to enhance merchandise items such as trees, tables, cars.

**Interior display may be of different types.**

? **Closed display**: Examples are Look but don't touch, require sales person assistance, Expensive or fragile merchandise, and Jewelry cases.

? **Open Display:** Examples are to handle merchandise without a salesperson, Self-service, etc.

? **Architectural Display:** Examples are: Actual room setting and Furniture.

? **Store Decorations:** It refers to decorations for holidays such as Christmas, Halloween and Valentine's Day.

## 9.5 Fixturing

Fixturing is necessary to display merchandise to customers, whilst making best use of the retail space.Fixtures can be obtained from a shop fitting wholesaler, or they may be custom-built to tie into a specific retail design.The following fixtures are commonly found in retail stores:

shelving, gondolas railings, four-ways, round fixtures, bins, baskets and tables. The type of Fixturing used will depend on the product and its presentation method.

**Gondola Shelving Unit**

Gondola shelving units have been around for a very long time. The versatility makes gondolas easy to install and change on a frequent basis. The pegboard backing and shelving comes in several heights and depths.

Four ways Gondola

Gondola Shelving


Round Bin basket


Display counters


Bin Displays


Stacking wire basket


Tables

In order to create a consistent look within the outlet, it is sensible to choose fixturing that is coordinated in terms of the type of material and style. An array of different types of fixturing may provide flexibility, but it can make a store appear cluttered and untidy. It is generally the merchandise rather than the fixturing that should be noticed, although some fashion stores do use unique designs for fixtures that help to reinforce the retail brand image.

Fixturing is generally concerned with the housing of merchandise in what is sometimes termed 'on-shelf' displays. This is the routine display of goods from which customers are expected to make their selection.

## 9.6 Space Management / Retail Layout

Space and inventory are the two most important resources of the retail firm. The best possible allocation of the store space to departments, product categories, storage space and customer space is a major challenge for the owners and managers of the store. Retailers acknowledge the importance of space management for the success of business. It has two ways bearing on retail business - it not only attracts business by ensuring convenience to customers but also places the merchandise in accordance with the salespersons' work allocation.

**The key objectives of retail space management are:**

? To obtain a high return on investment by increasing the productivity of retail space. This requires effective utilization of space for merchandise display and customer movement.

? To ensure compatible, exciting, and rational interface between customer, merchandise and sales people.

**The space management decision also has an important influence on sub-decisions like:**

? Location of various departments

? Arrangements between departments within the shop-floor

? Selecting the layout with customer behavior in mind

? Planned traffic flow of customers

Retail space management is one of the more crucial challenges faced by retailers today with an ever expanding volume of data to which they must refer when making decisions. Problems have emerged that are intractable using traditional means but for which interactive information visualization shows much promise. These problems or tasks are exploratory in nature and use temporal multivariate data. Department stores must maximize and optimize return on allocated retail space. Although product sales are readily available, the missing link for most retailers is a precise understanding of each store's layout in relation to its capacity and performance. Visual Space Management (VSM) with a multiple-linked view application explores retail data related to space performance. Multiple-linked view application integrates familiar information visualization representations and a 3D interactive layout of store floor plans with retail data sources. Parallel coordinates plot serves as a multivariate visual control panel in the coordinated system. Seasonally retail data analysis is performed simultaneously in linked views through time. Visual inquiry methods are supported for conditioned temporal multivariate data.

**Definition**

Retail space is the last stop in the manufacturing chain, the spot where merchants sell products to customers. Retail space differs from other commercial properties, such as industrial or office space, in that the emphasis is on product display and customer accommodation.

**Managing Retail Space**

As a retailer one of your greatest assets is 'space'. However in many situations the amount of space you have is a finite resource so the asset has to be sweated – in other words made to work harder for you! It needs to be well managed.

**What should be your space management objectives?**

It goes without saying that space needs to be used effectively. This means providing a logical, sensible, convenient and inspirational customer offering and making sure that the right products are available at the right time.

**A Management Process**

'Space management' needs to be viewed as a management activity in its own right with rules of good practice and correct processes to follow. Once you have obtained a figure for the total amount of selling space available, you then need to allocate space to each product category. The amount of space devoted to each product category will be determined generally by historical data or forecasted data.

Having allocated space to each product category the next stage is to determine the location of the product categories within the space available and to decide on product adjacencies – what will go next to a particular product category. Some products of course require a disproportionate amount of space (such as garden furniture), others such as seeds can withstand a disproportionately smaller area. At this stage it is also important to consider the life cycle of the product category if the products are on the wane do you want to give them so much space? Could the space be replaced with a product that still has growth potential? Finally space needs to be allocated to each product line within a category. That, in very simple terms is how you determine how to use your space. Of course in reality it is much more complicated than I have suggested here but the principle remains the same. Space allocation must be considered thoroughly and if it can be done in conjunction with historical sales data then the entire better.

**How to View Products**

A good way of viewing products and determining their space allocation is to consider them under 4 broad categories. They are:

? **Profit Builders:** These are product categories with high profit margins but low sales. The space needs to be adjusted so that you focus on quality space rather than quantity space – so putting these products in a secondary hot spot might just pay off.

? **Star Performers:** These are product categories where sales and profit margins exceed targets. You therefore need to give them a large amount of good quality space – primary hot spots. You should consider increasing the number of products within these categories.

? **Space Wasters:** We all have these I'm sure! They will generally be product categories that have low sales and low profit margins! Do you need them? If you think you do then they should not be displayed in primary and secondary locations. Consider putting them at the top or bottom of shelves, but make sure that they are well signposted.

? **Traffic Builders:** These are product categories that have good level of sales but profit margins are small. These products need to be displayed close to impulse lines but also work on improving their margins – maybe negotiating better deals or charging a higher price.

# Unit - 10 : Retail Pricing

Price has always been one of the most important variables in retail buying decision. It is the factor which makes or mars a retail organization. It is also the easiest and quickest element to change. In this unit, you will learn about techniques of pricing of products. You will learn how pricing helps an organization to achieve its objectives. This is particularly significant for new market entrants that need to first establish a brand, and then enjoy increasing profits as the brand gets market acceptability. For a customer, price is the main reason to visit a particular store.

**Walmart** uses an Everyday Low **Price** (EDLP) **pricing strategy** as a factor in the company's revenue model. The objective of this **pricing strategy** is to attract large numbers of customers to achieve high sales volume and, consequently, a profitable business. Wal-Mart focuses on providing lowest possible **price** among competition, instead of providing promotions. Wal-Mart provides **everyday low prices** for its customers. **Walmart's** supply chain management **strategy** has provided the company with several sustainable **competitive** advantages, including lower product costs, reduced inventory carrying costs, improved in-store variety and selection, and highly **competitive** pricing for the consumer

**RETAIL PRICING**

The price at which the product is sold to the end customer is called the retail price of the product. Retail price is the summation of the manufacturing cost and all the costs that retailers incur at the time of charging the customer.

## 10.1 Factors Influencing Retail Prices

**Internal Factors:** Internal factors that influence retail prices include the following:

- ❖ **Manufacturing Cost**: The retail company considers both, fixed and variable costs of manufacturing the product. The fixed cost does not vary depending upon the production volume. For example: property tax. The variable costs include varying costs of raw material and costs depending upon volume of production such as Labor.
- ❖ **The Predetermined Objectives**: The objective of the retail company varies with time and market situations. If the objective is to increase return on investment, then the company may charge a higher price. If the objective is to increase market share, then it may charge a lower price.
- ❖ **Image of the Firm:** The retail company may consider its own image in the market. For example, companies with large goodwill such as Procter & Gamble can demand a higher price for their products.
- ❖ **Product Status:** The stage at which the product is in its product life cycle determines its price. At the time of introducing the product in the market, the company may charge lower price for it to attract new customers. When the product is accepted and established in the market, the company increases the price.
- ❖ **Promotional Activity:** If the company is spending high cost on advertising and sales promotion, then it keeps product price high in order to recover the cost of investments.

**External Factors:** External prices that influence retail prices include the following:

- ❖ **Competition:** In case of high competition, the prices may be set low to face the competition effectively, and if there is less competition, the prices may be kept high.
- ❖ **Buying Power of Consumers**: The sensitivity of the customer towards price variation and purchasing power of the customer contribute to setting price.
- ❖ **Government Policies:** Government rules and regulation about manufacturing and announcement of administered prices can increase the price of product.
- ❖ **Market Conditions:** If market is under recession, the consumers buying pattern changes. To modify their buying behavior, the product prices are set less.

- **Levels of Channels Involved:** The retailer has to consider number of channels involved from manufacturing to retail and their expectations. The deeper the level of channels, the higher would be the product prices.

## 10.2 Pricing Strategies

**A. Demand-Oriented Pricing Strategy:** The price charged is high if there is high demand for the product and low if the demand is low. The methods employed while pricing the product on the basis of demand are:

- **Price Skimming**: Initially the product is charged at a high price that the customer is willing to pay and then it decreases gradually with time.
- **Odd Even Pricing:** The customers perceive prices like 99.99, 11.49 to be cheaper than 100.
- **Penetration Pricing:** Price is reduced to compete with other similar products to allow more customer penetration.
- **Prestige Pricing**: Pricing is done to convey quality of the product.
- **Price Bundling:** The offer of additional product or service is combined with the main product, together with special price.

**B. Cost-Oriented Pricing Strategy:** A method of determining prices that takes a retail company's profit objectives and production costs into account. These methods include the following:

- **Cost plus Pricing:** The company sets prices little above the manufacturing cost. For example, if the cost of a product is Rs. 600 per unit and the marketer expects 10 per cent profit, then the selling price is set to Rs. 660.
- **Mark-up Pricing**: The mark-ups are calculated as a percentage of the selling price and not as a percentage of the cost price. The formula used to determine the selling price is:

  **Cost of good or service + markup = selling price**

  This means businesses can set their retail or selling prices by adding a certain markup to the cost they incurred from creating the goods or services. If you want the markup percentage, you can use the following formula:

  **Markup percentage = ( (sales price - unit cost) / (unit cost) ) x 100**
- **Break-even Pricing:** The retail company determines the level of sales needed to cover all the relevant fixed and variable costs. They break-even when there is neither profit nor loss.

  For example, Fixed cost = Rs. 2, 00,000, Variable cost per unit = Rs. 15, and Selling price = Rs. 20. In this case, the company needs to sell (2,00, 000 / (20-15)) = 40,000 units to break even the fixed cost. Hence, the company may plan to sell at least 40,000 units to be profitable. If it is not possible, then it has to increase the selling price. The following formula is used to calculate the break-even point:

  **Contribution= Selling Price-Variable cost per unit**
- **Target Return Pricing:** The retail company sets prices in order to achieve a particular Return on Investment (ROI). This can be calculated using the following formula:

  **Target Return price = Total costs + (Desired ROI * Investment)/Total sales in unit**

  For example, Total investment = Rs. 10,000, Desired ROI = 20 per cent, Total cost = Rs.5000, and Total expected sales = 1,000 units Then the target return price will be Rs. 7 per unit as shown below:

  Target Return Price = (5000 + (20% * 10,000))/ 1000 = Rs. 7 This method ensures that the price exceeds all costs and contributes to profit.
- **Early Cash Recovery Pricing**: When market forecasts depict short life, it is essential for the price sensitive product segments such as fashion and technology to recover the investment. Sometimes the company anticipates the entry of a larger company in the market. In these cases, the companies price their products to shorten the risks and maximize short-term profit.

C. **Competition-Oriented Pricing Strategy:** When a retail company sets the prices for its product depending on how much the competitor is charging for a similar product, it is competition-oriented pricing.

- **Competitor's Parity:** The retail company may set the price as close as the giant competitor in the market.
- **Discount Pricing:** A product is priced at low cost if it is lacking some feature than the competitor's product.

D. **Differential Pricing Strategy**: The Company may charge different prices for the same product or service.

- **Customer Segment Pricing:** The price is charged differently for customers from different customer segments. For example, customers who purchase online may be charged less as the cost of service is low for the segment of online customers.
- **Time Pricing:** The retailer charges price depending upon time, season, occasions, etc. For example, many resorts charge more for their vacation packages depending on the time of year.
- **Location Pricing**: The retailer charges the price depending on where the customer is located. For example, front-row seats of a drama theater are charged high price than rear-row seats.

## 10.3 Markups vs. Markdowns

As opposed to a markup, a markdown refers to the intentional reduction in a product or services' selling price. For instance, a markdown occurs when a business sells a product or service at a lower price than its market value or what it's currently going for on the market.

For example, in the retail industry, a shirt that typically goes for Rs 2000 may be "marked down" to Rs. 1500 as part of a sale. Oftentimes, businesses may mark down the costs of their seasonal merchandise to get rid of old merchandise and make room for the new season's products. In addition, they may markdown prices on older products to make room for new models and avoid getting stuck with old inventory.

While customers receive products and services at a lower price point, businesses use this strategy to encourage them to make additional purchases. Therefore, while markups increase prices and markdowns lower them, they're both done in an effort to increase revenue and therefore, profits. Both strategies also help them offset any of their initial losses from the production of the good or service.

# Unit 11 : Retail Management Information Systems

## Introduction

Retail management involves running a store where merchandise is sold. Retail management information systems include the use of hardware, software and procedures to manage activities such as planning, inventory control, financial management, logistics and point of sales transactions.

## 11.1 RETAIL MANAGEMENT INFORMATION SYSTEMS

Retail management information systems include the use of hardware, software and procedures to manage activities such as planning, inventory control, financial management, logistics and point of sale transactions. Information Technology (IT) refers to the management and use of information using computer based tools. It includes acquiring, processing, storing, and distributing information. Most commonly it is a term used to refer to business applications of computer technology, rather than scientific applications. The term is used broadly in business to refer to anything that ties into the use of computers. Mostly businesses today create data that can be stored and processed on computers. In some cases the data must be input to computers using devices such as keyboards and scanners. In other cases the data might be created electronically and automatically stored in computers.

## 11.2 Importance of IT in Retailing

Information technology is one of the greatest enablers of the Collaboration between the vendor and Retailer. Wal-Mart, the largest company in the world with more than 2,700 stores and $ 217 billion in revenue last year, gets a major competitive advantage from the efficiency of its electronic product information, ordering, supply-chain management and delivery systems. It possesses the influence to get manufacturers into collaborative Ebusiness, because it can represent 5% to 30% of a manufacturer's total business. Wal-Mart requires every manufacturer to manage its own in-store inventory and uses EDI networks and its private collaborative trading hub, Supplier Link, to consolidate global purchasing. It brings 10,000 suppliers online to bid on contracts and communicate sales and inventory data..Wal-Mart also uses its networks to manage its Supply Chain and Logistics. In this kind of an environment, greater data transparency and information sharing as well the speed of response cement the supplier-retailer relationship.

The same is the case with 7-Eleven Inc., with over 30,000 suppliers in all-different sizes. Even in the fashion conscious sectors of Retailing, the use of IT helps. Payless' sources nearly 80% of the 250 million pairs of shoes sold through its 5,000 stores from Asia. This represents challenges in a style-oriented business. The shoe business is very fashion driven. Many products have short lifecycles like 13 weeks. Payless is concentrating on a core vendor/core factory programme to achieve production efficiencies and stay ahead of fashion trends. The speed of interacting, enabled by IT helps in competing with similar stores in the shoe business.

Computers have replaced cash registers for billing. The bar coded products using UPC and EDI are scanned for billing. The importance of information technology in retail sector stems from the importance of data. Data is nothing but information which aids decision-making. The use of technology aids data collection. Data can be collected about consumers, frequency of their buying. This can help a retailer in distinguishing customers.

The use of information technology serves as a basis for integrating the functioning of various departments. With an increase in the number of outlets, collecting and analyzing information becomes indispensable.

Technology plays crucial role in this regard. Technology has been applied to some of the unique requirements of the retail business like the need for product identification, the need for quick billing and settlement of bills electronically and specialized logistics applications.

Modern technology is making information required for retailing decisions ever more accessible. It is possible to track customer buying behaviour and better analyse and understand what customers want. The integration of various modern technologies is allowing companies to access valuable information.

## 11.3 Integrated Systems and Networking

The technology has now become an essential tool for retailing. Some of the important applications of technology in retail sector are as follows:

1. **Marketing Information Systems (MIS):** The term 'Marketing Information Systems' refers to a programme for managing and organising information gathered by an organisation from various internal and external sources. MIS assesses the information needs of different managers and develops the required information from supplied data in time regarding competition, prices, advertising expenditures, sales, distribution and market intelligence, etc. Information sources for MIS include a company's internal records regarding marketing performance in terms of sales, and effectiveness and efficiency of marketing actions, marketing databases, marketing intelligence systems, marketing research, and information supplied by independent information suppliers.
2. **Radio Frequency Identification Device (RFID):** In a retail store, RFID assists in inventory management. All items in a retail outlet sport read-only tags that contain the product code and its description, including the batch number, expiry date and price. The shelves, exit gates, and warehouses are fitted with sensors that read the information from the RFID tag and help in updating the inventory system in real-time. This way it helps in total asset visibility and tracks the inventory stocking. It also ensures better process control for products in the store. In warehouses and container depots, containers are marked with RFID chips that contain details of origin, destination, and other details. Entry and exit gates, vehicles, and cranes are fitted with an antenna that senses the RFID tags, and records and updates the system to check for any deviation in the schedule. With precise tracking of the location of pallets and containers within the warehouse, it is easy to pinpoint unscheduled movements. The system also considerably helps reduce costs and time for check-in and checkout.
3. **Networking:** In the world of computers, networking is the practice of linking two or more computing devices together for the purpose of sharing data. Networks are built with a mix of computer hardware and computer software. Networks can be categorized in several different ways. One approach defines the type of network according to the geographic area it spans. Local area networks (LANs), for example, typically reach across a single home, whereas wide area networks (WANs), reach across cities, states, or even across the world. The Internet is the world's largest public WAN

## 11.4 ELECTRONIC-RETAILING / (E- RETAILING) / ONLINE – RETAILING

E-tailing is the selling of retail goods on the Internet. Short for “electronic retailing,” and used in Internet discussions as early as 1995, the term seems an almost inevitable addition to e-mail, e-business, and e-commerce. E-tailing is synonymous with businessto-consumer (B2C) transaction.

E-tailing began to work for some major corporations and smaller entrepreneurs as early as 1997 when Dell Computer reported multimillion dollar orders taken at its Website. The success of Amazon.com hastened the arrival of Barnes and Noble's e-tail site. Concerns about secure order-taking receded. 1997 was also the year in which Auto-byTel reported that they had sold their millionth car over the Web, and Commerce Net/Nielsen Media reported that 10 million people had made purchases on the Web. Jupiter research predicted that e-tailing would grow to $37 billion by 2002.

E-tailing has resulted in the development of e-tail ware - software tools for creating online Catalogs and managing the business connected with doing e-tailing. A new trend is the price comparison site that can quickly compare prices from a number of different eretailers and link you to them. E-tailing is gaining ground. In the year 2003, clothing and apparel segment clocked online revenues to the tune of $ 3.6 billion.

Online retailing is classified into three main categories:

? **Click:** The businesses that operate only through the online channel fall into this category. Prominent examples in this category include: Dell, Amazon.com and eBay.

? **Click and Brick:** The businesses that use both the online as well as the offline channel fall into this category. Common example includes: Barnes and Noble's.

? **Brick and Mortar:** This is the conventional mode of retailing. The businesses that do not use the latest retailing channels and still rely upon the conventional mode belong to this category.

E-tailing offers the consumers huge amounts of information in the form of web sites with useful links to similar sites that allows consumers to compare products by looking at individual items.

The convenience of online shopping is unmatched indeed. Shopping out of your home or office reduces the stresses of waiting in lines and dealing with irritating sales people. However, Retailing causes problems with fit, since the consumer cannot try the items on. Return policies may also act as turn offs and items can be difficult to return. The shipping and handling costs may turn the customers away. e-tailing requires technology savvy customers and this puts a limit on its potential reach. We can see that E-tailing is emerging as an interesting phenomenon in the retail industry that is on a rise despite the disadvantages associated with it.

**Role of Web:** It is a well-known fact that the retail industry always works on very narrow margins and the key to survival lies in optimization of resources both in space and time dimensions as well as maximization of customer satisfaction. Web services technology holds out a lot of promise for the retail industry in this respect. It is a platform-neutral, easy to deploy set of standards for achieving business data and process integration, without going for proprietary point to point connections. It promises to connect the information providers and information consumers across a wide variety of platforms, devices and on an on-demand basis.

**Online Retailing –** Advantages E-tailing offers unique advantages to the consumer that no other form of retailing can match.

- ❖ It allows for easier comparisons across broad product categories with the evolution of shopping bots and similar mechanisms. The medium also offers flexible / dynamic pricing mechanisms to the consumer.
- ❖ No Real Estate Costs: E-tailing does not require a retailer to invest in warehouses, showrooms or other commercial properties at prime locations.
- ❖ Easy and Comfortably: The Internet offers easy and comfortable access to all the required information by a customer. Over the Internet, product information is just a few clicks away, easily accessible from the comfort of a home. Consumers prefer to save their precious time so that they can better utilize it.
- ❖ Customer Interaction: The greatest benefit of online commerce is its ability to interact with the customers.Interaction acts as a vital tool for mass customization. The common examples include online marketing of books, flowers, software and education. This has also led to greater satisfaction among the online buyers.
- ❖ Search Option: With web search capabilities (which need further development) it is easier to find the particular types of goods required by a customer. The consumer decides what he wants to buy rather than the retailer offering what he wants to sell. This ultimately translates into consumer empowerment.
- ❖ User Friendly: Customers can execute transactions via the same medium the information is provided, so there is no disconnect between the desire to purchase and the ability to purchase.
- ❖ Effective Price Discrimination: E-tailers can use price discrimination in an effective and efficient manner. E-tailers can use previous transactions to identify the likelihood of products being purchased at certain price points and use this information for price discrimination.
- ❖ Customized Product Placement: E-tailers can change the online placement/display of a product based on the previous transactions so to increase the visibility of goods that the user is more likely to buy based on the previous encounter at the time purchase.
- ❖ Global Reach: Customers have a much wider choice at their fingertips (a variety of e-tail sites to choose from etc.) In this way, the web creates a global market place that brings together multiple consumers and retailers.

**Limitations of Web**

Most of the retailing ventures on web have not been as profitable as they were expected to be, the primary reasons were:

- Security issues: A lack of trust and privacy concerns prevents a lot of consumers from making online purchases. Consumers are also concerned with the use of their personal data provided during the online transactions.
- Customer retention: In e-tailing, an increase in the customer retention by 5% leads to a corresponding increase in profits by 25%. Most of the people buying on the Internet do so out of curiosity and this makes a repeat purchase highly unlikely.
- Unsuitable for certain product categories: In case of product categories that require relatively higher customer involvement, the e-tailing route is found to be grossly inadequate in providing sufficient information to the customers.
- Shopping is still a touch-feel-hear experience: Some do not suffer from 'timepoverty' and shopping is still considered to be a family outing. Hence this type of an environment creates a problem of customer retention.
- Complicated medium: Ease of use is a problem, as the web design may suffer from high complexity bordering on total chaos in some cases.
- Website design flaws: Graphic presentation and aesthetics may not be as compelling for a web site as in case of a physical retail store or a product catalog. This is a temporary issue that may resolve with the evolution of the web design.
- Limited access to the Internet: Not all customers have access to the web, as they do to the postal system. This is a temporary issue as the evolution of the web continues.

## 11.5 Digital Disruption in Retail

The advent of technology in the retail space has disrupted the traditional business models, having transformed the earlier rules of engagement to a **"Phygital"** experience with an in-built mechanism to understand the customer needs like never before. This has been made possible through continuous consumer interaction with digital platforms wherein reviews, suggestions and **AI** based product assortments have made in-store digitization possible, shaking up the entire structure in which the retail industry operates. These techniques have now allowed the retailers to influence consumer behaviour, as they can now connect with the consumers at all possible touch points.

Technology is now considered to be the major factor in **driving engagements and experiences** in consumer's shopping journey. It is enabling retailers to acquire new customers, engage better with existing customers thereby increasing sales and to reduce the cost of operations. As customers become more aware, retailers are compelled to respond using datadriven technologies to meet the growing expectations. **Emerging technologies like AR, VR, Artificial intelligence, IoT, bots, drones, cloud platforms** etc. have thereby, become indispensable in enhancing the buyer's journey. To further this experience, retailers are coming up with various innovative technologies which have been in demand, supported by growing consumer consciousness and greater preference for choice and convenience. Some of these technologies are discussed below:

**Smart Shopping Carts:** Many retailers have started introducing smart shopping carts and self- checkout options to achieve new benchmarks of convenient shopping experience. These carts serve as a direct response to online shopping, as they guide consumers to their products in their shopping list.

**New Payment Gateways:** With the advent of online payment companies or fintech companies, touchless commerce through contact less payment methods have increased exponentially. With the rise of internet and other payment methods including net-banking, online cash transfers, mobile wallets, single touch payments, payment through scanning code, etc. have shown an exponential increase in the country.

**Beacons** in outlets are used to send personalised recommendations and suggestions to consumers who are near the store. They are battery powered devices that transmit coded messages by pairing through Bluetooth. This technology has been leveraged by brands for proximity or close area marketing. Recently a major global fast food chain installed beacons at select restaurants and partnered with a shopping app to distribute coupons amongst the app users, resulting in increased sales.

**Immersive Technologies:** While online players are rapidly embracing the concept of experience-based shopping using AR/VR, especially in fashion & lifestyle and beauty & personal care products, many offline stores are also following the suit by implementing this technology in their stores. These stores are redefining convenience for consumers. In these stores, consumers are required to just walk in, choose their preferred products from a wide range of assortment through a virtual inventory. Then enter the trial room and try all the outfits via virtual mirror without actually having to perform all these tasks. This combination of technology in stores are facilitating seamless experience to the consumers. The buying experience is engaging and unique in value for the consumers.

**AI & Bots:** With excitement around artificial intelligence running high, customers are getting more and more comfortable communicating with robots. AI's impact on retail in future will grow in the area of smart speakers and chatbots. These voice-activated virtual assistants will be involved in majority of all business to consumer interactions. Retailers in future need to tap this obsession around AI to provide a better personalized experience to their customers.

Robots have started to become the first customer touch point in many retail outlets. Their impact is multi-dimensional, starting right from logistics, customer handling, warehousing to back end office work. Robots are proving to be immensely successful in increasing operational efficiencies by achieving zero logistic defects, product picking, delivery, observing customer path and analysing it. E-commerce giant Amazon has deployed an army of 45,000 robots in its warehouses in US. Retail giant Tesco has robots, scanning their inventories with increased efficiency and far less errors.

**Enhancing in store experience –** Robots are being used to enhance shopping experience for customers by welcoming them at any outlet, guiding and helping them around the store and making it hassle free for customers.In order to deliver better shopping experiences, few techniques like use of 3D scanner for frame detection of a human body or engagement with customers through speech recognition, are being taken into practice by the use of robots.

**Social Commerce:** Going forward, the technology will continue to change the rules of engagement. With consumers getting more demanding with time, getting their brand noticed amid all the noise will be a huge challenge for retailers in the future. Significance of 'S-commerce' or social commerce will significantly increase in the lives of today's connected consumers. More and more pictures and videos of products or brands will be posted by consumers on social networking sites, while sharing their experiences and stories on the web, giving ratings, writing reviews and recommendations.

# Unit 12 : Retail Supply Chain Management

## Introduction

Supply chain management was never a strategic issue in the past,when sourcing and delivery of logistics took a backseat to manufacturing. The emergence of new information technologies, however, changed the business landscape. Now organizations have the necessary tools to do business at a much faster rate. Companies that do not move their goods and information around quickly enough do not survive because they simply don't get their new products to the marketplace before their competitors do.

Logistics is one of those aspects of business, whose importance is many times greater than what it would seem to be. It involves the technique of managing and controlling the flow of goods, energy, information and other resources like products, services and people from the source of production to the marketplace. As consumers get increasingly demanding and markets increasingly competitive, companies devise ways and methods that ensure they stay ahead. Logistics provides new opportunities, for example, by providing coffee beans from Brazil or cheese from Europe, to outlets in India, at costs that permit these products to be competitive in Indian markets.

## Retail Supply Chain

A supply chain is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities transform natural resources, raw materials and components into a finished product that is delivered to the end customer. Supply Chain Management is concerned with the management of the flow of goods, flow of cash, and flow of information internally and externally of a company or a group of companies that share the same value chain. It includes the movement and storage of raw materials, work-in-process inventory and finished goods from origin to point of consumption. Supply chain management has been defined as the " design, planning, execution, control and monitoring of supply chain activities with the objective of creating value to customers, building a competitive infrastructure, leveraging logistics, synchronizing supply with demand and measuring performance.

## 12.1 Components of SCM

Supply Chain Management, or simply "SCM", is the management of the two-way flow of materials, equipment, finances, information, and manpower resources within and among organizations to ensure the efficient and fast delivery of goods and services to the end customer. It involves the oversight of synchronized movement of these logistics from the supplier to the manufacturer ,wholesaler ,and retailer,until the end product reaches the consumer.

**A basic supply chain management system has five components:**

***The plan***, which refers to the overall strategy of the SCM program including the development of SCM metrics to monitor. A plan or strategy must be developed to address how a given good or service will meet the needs of the customers

***The source***, which refers to the suppliers who'll provide you with goods and services necessary for you to run your business.This component involves building a strong relationship with suppliers of the raw materials needed to make the product the company delivers.

***The make*** or manufacturing component, which refers to the execution of processes needed to produce, test, and package your products or services. This is the manufacturing section of Supply Chain Management. The product is manufactured, tested, packaged and scheduled for delivery.

***The delivery***, which refers to the system for receiving orders from customers, developing a network of warehouses; getting the products to the customers; invoicing customers and receiving payment from them. This component in Supply Chain Management is logistical and involves the company creating warehouse networks, coordinating the receipt of orders from customers, deciding on the transportation and shipment methods, and setting up invoices to receive payment

***The return***, which is the system for processing customer returns and/or supporting customers with problems with the products they received. This is the final, service oriented part of the supply chain. In this component, the company tries to create a network that is responsible for receiving defective products or excessive amounts of them, as well as maintaining the original products sent to the customer.

Planning, sourcing, making, delivering, and returning are the five components to supply chain management.

## 12.2 Parts of a Supply Chain

**Supply:** It focuses on the raw materials supplied to manufacturing, including how, when, and from what location.

**Manufacturing:** It focuses on converting these raw materials into finished products.

**Distribution:** It focuses on ensuring these products reach the consumers through an organized network of distributors, warehouses, and retailers.

## 12.3 Objectives of SCM

- To provide an uninterrupted flow of goods and services.
- To meet quality criteria.
- To reduce the inventory investment to the extent possible.
- To offer high customer service, low inventory management and low unit cost.
- To ensure quick responsiveness to the customer changes.
- To select and maintain competent suppliers.

## 12.4 Importance of SCM in Retailing

In the Indian context, the efficiency of supply chain in retail business is not so of high importance as the vast retail market is much away from the so-called modern or organised retailing. But for the success of retail the management of supply chain is very crucial. Efficient management of retail supply chain serves as a source of competitive advantage for a retailer in competitive environment.

Amul is the best example in this context. Good SCM reduces cost and increases profitability for the retailer. In foreign context, Walmart is the best example.As the competition in the retailing industry in the current past has developed immensely, the customers are now demanding more services. Retailers are therefore offering a broad variety of products at lower rates and providing raised levels of services in their supply chain to attain a competitive advantage. The significance of supply chain management are listed right here.

A proficient supply chain management practice facilitates the sellers to decrease the inventory lugging costs. There is also a proliferation in the responsiveness to the orders of the consumers.

An efficient supply chain management helps reduce the lead time, thereby making products readily – accessible to the clients.

Effective supply chain management aids in enhancing all business processes, like data accuracy, operational complexity decrease, supplier choice, purchasing, warehousing and distribution for the retailers, etc.

With an efficient supply chain, merchants can provide a diversity of product mix at reasonable prices to the customers.

Effectively managing the supply chain solutions can help conserve operational and transportation costs in the retailing market.

Using various technologies in the supply chain helps a retailer can acquire advantages of maintaining good relation with makers. With using RFID the inventory can be tracked, and ERP aids in increasing the performance of the supply chain.

The supply chain can boost customer satisfaction, if the quality is maintained throughout.

## 12.5 Retail Supply Chain Management – Factors Responsible for Effective SCM

To make an efficient SCM, a retailer should have-

(i) Inventory perspective,

(ii) Single entity,

(iii) Doing what one can do best,

(iv) Strategic decision-making, and

(v) A systems approach.

Supply chain mangers mostly focus on consumers' needs. In order to comprehensively understand consumer behaviour, consumers are divided into different segments, and the process is known as "segmentation". Anderson et al. mentioned that consumers should be segmented according to their "service needs", "sales and merchandising needs" and "order fulfilment needs".

In order to understand customers, we should know the consumers properly. For example, Amazon in 2011 launched Amazon Prime which has free shipping in two days and discounted shipping in a single day. People are still debating the success of this programme.

A supply chain system is embedded with systems that help in creating a leaner organisation. The focus is to reduce lead times and improve quality and flexibility. These strategic decisions have vital impact on operational activities. These decisions have to be brainstormed at the top management level and cannot be left for the lower level employees only. One common practice in retail firms is that they create teams of senior managers who plan the inventory management since it affects companies' profitability. To achieve this, the help of technology is being taken so that the information flows smoothly across the system.

## 12.6 Push or Pull View of Supply Chain:

The supply chain can be categorised into a push or pull type. Although these terms originated in supply chain but their use has been most frequent in marketing. Pull term is used for consumers who demand a product for their needs and push is used for suppliers when they push the product towards the consumers. Thus, if it is conducted on the basis of a customer order then it would be categorised as "pull" but on the other hand if it is in anticipation of a customer order, then it would be categorised as "push".

**1. Supply Chain Push View:**

The customer's demand speculation is dependent on push view. Many types of merchandise are pushed into the market. To adapt to the market, it takes a much period of time. In the push view, vital role is played by forecast. Maximum product level manufacturing is helped by forecasting of long-term duration. When the push process is speculative, there is much inventory cost, production cost as well as cost of transportation since firms prefer buffer at this situation.

A good example is of a company involved in textile production producing huge quantities of apparel with the hope that the same fashion would remain much long and they tried pushing the same fashion in apparel market. Abruptly the fashion become out-dated and customer preferred latest fashion.

The required data is provided to the institution after some time which causes large time delay (lead). There are chances of large batch size and large inventory in push process. There is tendency of companies of forgetting responsiveness and reducing down the supply chain cost. The difficulties of transportation and demand management are posed by push view.

**2. Supply Chain Pull View:**

There is a real demand and reaction to demand by a firm in the process of pull in supply chain. In the production of good number of merchandise, this system helps. There is loss of opportunity cost in pull system when a company has less capacity and customer demand is high. In the pull system, the chances of lead time are low.

There is dependence of distribution and production on the effective demand. There is supply chain of reactive nature in this view of the firm. There is less variability and low products in this view. In the entire process, there is reduction of lead time. In this view the biggest limitation is that there is no possibility of cost reduction by operation and production scaling.

The strategic fit requires that a company achieve the balance between responsiveness and efficiency in its supply chain that best meets the needs of the company's competitive strategy. The Table 10.7 makes a comparison of efficient and responsive supply chains.

**Table 12.1 : Comparison of Efficient and Responsive Supply Chanis**

| Aspect | Responsive supply chain | Efficient suppiy chain |
|---|---|---|
| Primary goal | Supply demand at the lowest cost | Respond quickly to demand |
| Product design strategy | Maximize performance of minimum product | Create modularity to postponement of product differentiation |
| Pricing strategy | Lower margins : price is a prime customer driver | Higher margins because price is not a prime customer driver |
| Manufacturing strategy | Lower costs through high utilization | Maintain capacity flexibility to buffer against demand/supply uncertainty |
| Inventory strategy | Minimize inventory to lower cost. Maintain buffer inventory to deal | with demand/supply uncertainty |
| Lead time strategy | Reduce but not at the expense of costs | Aggressively reduce even if the costs are significant |
| Supplier strategy | Select based on cost and quality | Select based on speed, flexibility, reliability and quality |

To understand how a company can improve supply chain performance in terms of responsiveness and efficiency, one has to examine the four drivers of supply chain performance- facilities (warehouses), inventory, transportation, and information. These drivers not only determine the supply chains performance in term of responsiveness and efficiency, they also determine whether strategic fit is achieved across the supply chain.

For each of the individual drivers, supply chain managers must make a trade-off between efficiency and responsiveness. The combined impact of these drivers then determines the responsiveness and efficiency of the entire supply chain. Table below shows the logistics-mix for responsiveness and efficiency.

**Table 12.2 : Logistics-Mix of a firm for Different Responses**

| Elements | Responsiveness | Efficiency |
|---|---|---|
| Warehouses | More and distributed | Fewer and concentrated |
| Inventory | High level | Low level |
| Transportation | Faster mode, high cost | Slow mode, low cost |
| Information | information needs and costs are high | Information needs and costs are less |

## 12.7 Retail Supply Chain Management – 5 Main Drivers:

In today's growing global economy, it has become crucial to recognise, understand and analyse the impact of certain business drivers on retailers supply chain and their business growth.Each driver should be understood for an effective SCM operation. Supply chain of a retailer is going to get affected by each driver. Therefore, they should analyse the results that can be achieved by using various combinations of these drivers.

**1. Production:**

It refers to the supply chain capacity to manufacture and store products in factories and warehouses. The trade-off between supply chain responsiveness and efficiency is the most important factor for any operations manager. If manufacturing plants have excess capacity, then the plant is highly responsive and flexible and product demands can be met effectively. If all the capacity of a manufacturing plant is being used then they cannot respond effectively to changes in demand. However, building manufacturing capacity involves money and excess capacity, if idle, does not generate any revenue.

**2. Inventory:**

Inventory is universal across all the activities of supply chain, ranges from raw material to finished goods and from manufacturer to retailers. In such a time, it becomes important for managers to decide how they want to trade-off between efficiency and responsiveness. A firm can attain higher responsiveness by holding large amounts of inventory but then it would increase its storage and maintenance costs. On the other hand, holding too less of inventory may lead to under stocking and thus dissatisfied customers.

**3. Location:**

It refers to the “where” or positional setting of the SCM facilities. It has got a significant impact from convenience as well as supply chain point of view. The location of a retail store affects the choice of consumers in a big way. During the selection of a location the management has to consider several factors such as the cost of facilities, availability, and cost of human resource, infrastructure conditions, laws, and regulations of that place, tariffs, and taxes, and distance between suppliers, and consumers. Locational decisions are generally capital intensive and therefore strategic in nature.

**4. Transportation:**

It refers to the movement of products and materials from one place to another. It has a large bearing on the responsiveness versus efficiency trade-off. To achieve a responsive supply chain, faster modes of transportation such as airplanes are used but they are very costly. On the other hand slower modes such as ship are preferable for achieving efficiency but they tend to consume more time. Moreover transportation can largely effect the entire supply chain in terms of delay and negligence and to avoid those problems marketers are outsourcing such activities to third-party vendors and also ensure that proper tracking mechanisms are used.

**5. Information Technology:**

It connects all the activities and operations in a supply chain. An efficient information system ensure proper and timely inventory, accurate data and new market trends. Nowadays, firms are investing heavily to get correct and time information. The role of information is not only to connect the firm with its suppliers but it also plays a role in handling its products and reducing its material handling costs.

The biggest role of information is that it helps in reducing transaction costs. Concept like VMI where the supplier manages the inventory of the buyer is just not possible to conduct without the help of information. Today, firms are working on collaborative planning where they make forecasts along with their vendors. The role of IT has still improved with the introduction of online retailing. It has helped in behaviour tracking, managing the warehouses and tracking the logistics.

## 12.8 Innovations: VMI and Collaborative Planning, Forecasting and Replenishment

**1. VMI:Vendor managed Inventories**

In the VMI approach, the vendor takes the responsibility of undertaking the inventory management of the retail stores. Lead time reduction has a direct benefit of Efficient Consumer Response, eliminates the need for paper transactions. Using technological innovativeness like email and cell phone messages helps in reducing lead time.The electronic system of vendor takes the data automatically in the system, and there is no need to enter the input manually which saves the extra time required and also eliminates the vendor's wrong data feeding in the system. It lowers down the inventory expenditure and increases the product availability. It also helps in redlining logistics expenses.

With VMI inventory system, retailers can come to an agreement with the vendor which offers direct store delivery. In this system the vendor delivers the product to each store of the retailer in the area rather deliver the product to their central facility. So, the retailer can save the transportation cost. In a vendor-retailer partnership, the vendor makes the main decisions regarding the inventory replenishment for the shopper.The vendor role can be played by any of the following- manufacturer, distributor, or a reseller. These suppliers monitor the inventory levels for shoppers' and they effectively take decisions regarding the timing, order quantity, and other supply decisions.

**2. Collaborative Planning, Forecasting and Replenishment:**

Collaborative planning, forecasting, and replenishment (CPFR) is a new concept very much suitable in the supply chain context. CPFR aims to enhance supply chain assimilation by taking and supporting joint practices. CPFR enhances the visibility and manage the replacement of products and thus management of inventory enhances. It is a very good tool in enhancing profit margins, because it helps in reducing inventory levels. This technology helps in forecasting due to available data analysing techniques on internet. If the forecasting does not match, then it alerts the management about the same and the management tries to resolve the problem by deciding several factors like, what to be sold, how it will be shipped and promoted.

## 12.9 Basic Patterns of Control: Vertical Marketing Channel and Conventional Marketing Channel

Many chains consist of independent business firms who, without the proper leadership, may lookout solely for themselves, to the detriment of the other members. For this reason, experts agree that no supply chain will ever operate at a 100 % efficiency level. Supply chain members must have as their goal “to minimise the sub optimisation” of the supply chain.

The two basic patterns that supply chain follows are vertical marketing channel and conventional marketing channel.

**Conventional Channel of Marketing:**

It is an orientation in which supply chain members are aligned loosely having orientation of short term.

It is the distribution channel which is the most common form of distribution channel. All working independently, it involves retailers, wholesalers and producers. It becomes very difficult in making coordination among the three.The chances of conflict in channel are common among the three and it leads to distribution disruption. In addition, members are unable to see the possibility of shifting or dividing the marketing functions among all the participants.Due to this reason, the companies are transforming themselves into integrated channel of marketing.

**Channel of Vertical Marketing:**

Like the marketing channel of conventional type, marketing (vertical) is a channel in which merchandise moves in a series of steps to the end customer from the producer. The main set of differences is that they are planned and strategised by a system of central programming.

There is network of levels which is coordinated in the channel of vertical marketing, in which all level works in coordination to reach merchandise to the ultimate consumer. With many levels of channels of marketing, companies can reach this by owing and branding in cooperative agreement. Mainly the types of channel of marketing are of three distinct types— administered, contractual, and corporate. In the last half-century, it has improved significantly.

**i. Corporate Channels:**

**Vertical Channel of Marketing (Corporate):**

The first type includes the manufacturer which formed their own outlets of retail and own warehousing, or internet selling sites. An example includes Holiday Inns, which for years was vertically integrated to run motels, carpet mills, etc. In corporate channel it is not difficult to programme the channel for productivity and profit goals since a well-established authority structure already exists. Independent retailers that have aligned themselves in a conventional marketing channel are at a significant disadvantage when competing against a corporate vertical marketing channel.

**ii. Contractual Channels:**

Contractual vertical marketing channels, which involve the groups which are wholesaler sponsored, retail programme (franchised), and cooperative (retailer- owned) which make use of agreement that regulates the relation among the retail members. However, they are more difficult to manage than corporate vertical marketing channels because the authority and power structures are not as well defined. Supply chain members must give up some autonomy to gain economies of scale and greater market impact.

Independent retailers is a term embracing anything from a single mom-and-pop store to a small local chain grocers and offers them a coordinated merchandising programme (store design and layout, store site, and location analysis, inventory management channels, accounting, and bookkeeping channels, insurance services, pension plans, trade area studies, advertising and promotion assistance, employee- training programmes) as well as the programmes of buying which can give advantage to the micro-retail business that is same as those enjoyed by the retail chain outlet rival.

In return, the independent retailers agree to concentrate their purchases with that of the wholesaler. It is a voluntary relationship; that is, there are no membership or franchise fees. The independent retailer may terminate the relationship whenever he or she desires, so it is to the wholesaler's advantage to build competitive merchandise assortments and offer services that will keep the voluntary group satisfied.

**Retailer-Owned Cooperatives:**

Another common type of contractual vertical marketing channel is retailer-owned cooperatives. These channels are wholesale operations organised by retailers and owned by retailers. For example, True Value offers the economies of scale and services to the retailers and its related members, which helps in competition of small retail with giant retail organisation.

**Franchises:**

The third type of contractual vertical marketing channel is the franchise.Franchise is such type of business in which license is provided to other business people who can use identity or brand of parent company and pays royalty or fees to the franchisor in return. Franchisor authorise the franchisee to set up a franchise in the name of franchisor. The franchisee then after authorisation by franchisor can sell the products and goods under the name and supervision of franchisor or as per the agreement clause between the franchisor and franchisee. The franchisee maintains the level of quality standards set by the franchisor.

In order to maintain uniformity of operations and to make sure that each of the operational units are catering to the vision and mission of the organisation as a whole, the franchisor must exercise the degree of control over the franchisee to maintain the reputation and qualitative standards of the brand.

**iii. Administered Channels:**

The final type of vertical marketing channel is the administered channel. Administered channels, although not new in concept, have grown substantially in recent years. Frequently, administered channels are initiated by manufacturers because channel members have historically relied on manufacturers' administrative expertise to coordinate the retailers' marketing efforts.

Many manufacturers with “fringe” items have been able to elicit such cooperation only through the various concessions provided by manufacturers, financial assistance and flexible distribution policies. These policies protect the resellers from risk which is involved in business operations. Some of the concessions manufacturers are offering these days to retailers are as follows-return policies, in store use of material display, allowances on advertising, payment liberty on product, training programmes of employee, store layout assistance, and design, maintenance of inventory, technological support, and even free merchandise.

# The Retail Mix

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