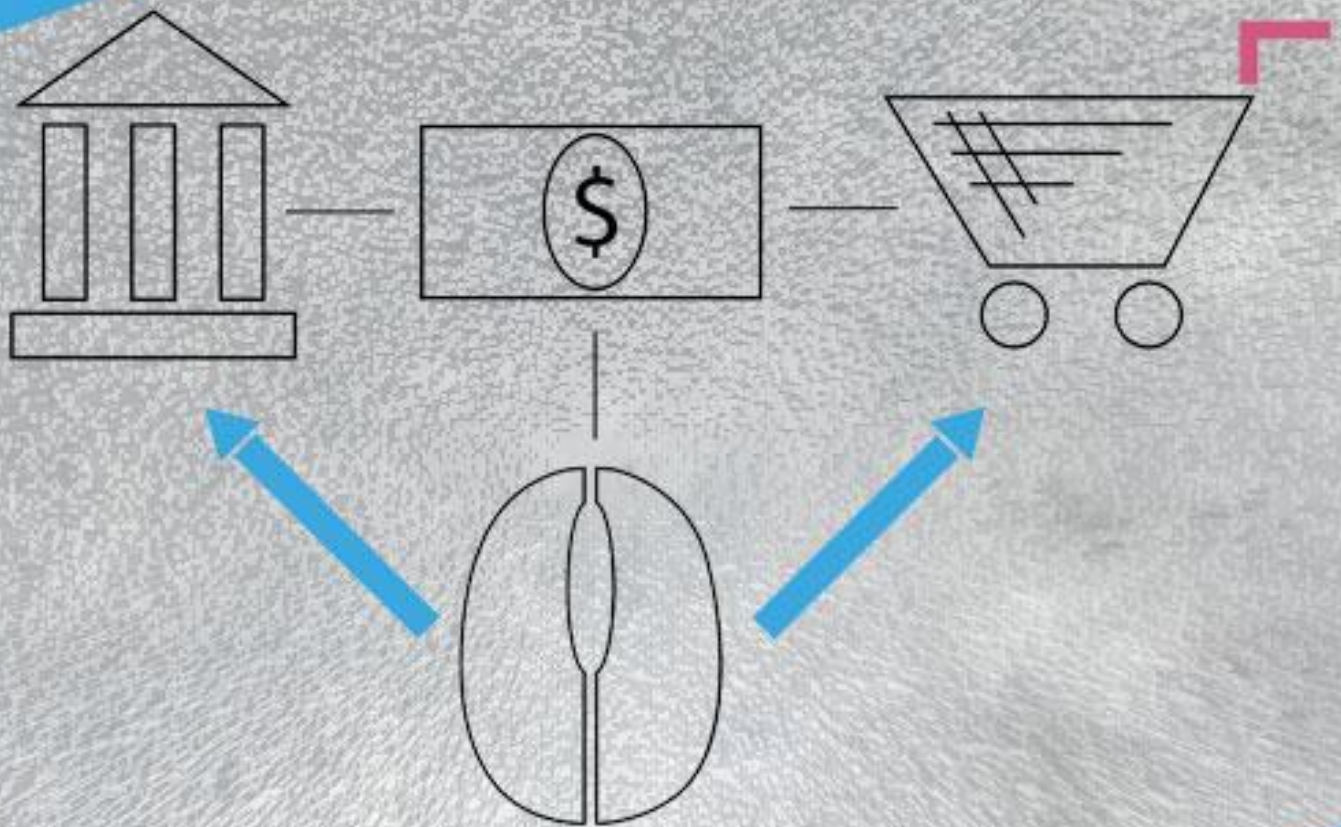




# Retail Management



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## **About the Tutorial**

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Retail Management is an activity of selling products or services to their end-users. This tutorial introduces you to various concerns of retail business such as retail marketing, space management, and retail operations. It also introduces you to visual merchandising, retail marketing mix, and e-tailing.

## **Audience**

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This tutorial is prepared keeping in mind the need of beginners who are keen to make a career in Retail Marketing and Operations. For all other enthusiastic readers, this tutorial is a good learning material.

## **Prerequisites**

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We assume the reader has a basic knowledge of business administration and marketing concepts. Creativity, analytical thinking, strategic thinking, and communication skill are a plus.

## **Disclaimer & Copyright**

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# **Part 1: Retailing Basics**

# 1. RETAILING – OVERVIEW

*"In my whole retailing career, I have stuck to one guiding principle: give your customers what they want...and customers want everything: a wide assortment of good quality merchandise, lowest possible prices, guaranteed satisfaction with what they buy, friendly knowledgeable service, convenient hours, free parking, and a pleasant shopping experience.*

*You love it when you visit a store that somehow exceeds your expectations and you hate it when a store inconveniences you, or gives you hard time, or just pretends you are invisible..."*

**- Sam Walton (Founder, Walmart)**

In the complex world of today, the consumer is king and retailers are keener on consumer satisfaction. Considering the busy lifestyles of today's consumers, the retailers also provide services apart from products.

Retailing occupies a very important place in the economics of any country. It is the final stage of distribution of product or service. It not only contributes to country's GDP but also empowers a large number of people by providing employment.

Retail Management starts with understanding the term 'Retail'.

## What is Retail?

---

*"Retailing includes all activities involved in selling goods or services to the final consumers for personal, non-business use."*

**- Phillip Kotler**

Any organization that sells the products for consumption to the customers for their personal, family, or household use is in the occupation of retailing.

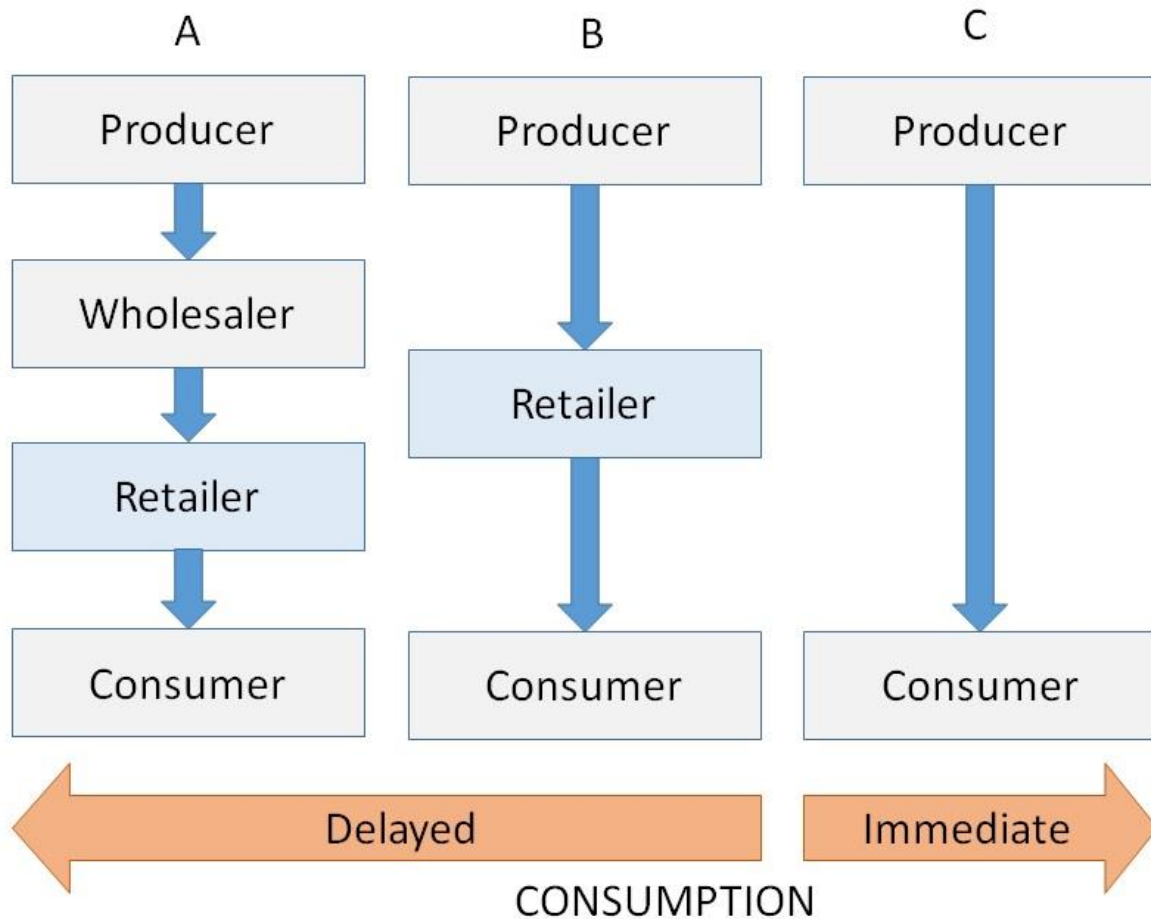
## Functions of a Retailor

Retailor provides the goods that customer needs, in a desired form, at a required time and place.

- A retailer does not sell raw material. He sells finished goods or services in the **form** that customer wants.
- A retailer buys a wide range of products from different wholesalers and offers the best products under one roof. Thus, the retailer performs the function of both **buying** and **selling**.
- A retailer keeps the products or services within easy reach of the customer by making them available at appropriate **location**.

### Retail in Marketing Channels

With industrialization and globalization, the distance between the manufacturer and the consumer has increased. Many times a product is manufactured in one country and sold in another. The levels of intermediaries involved in the marketing channel depends upon the level of service the consumer desires.



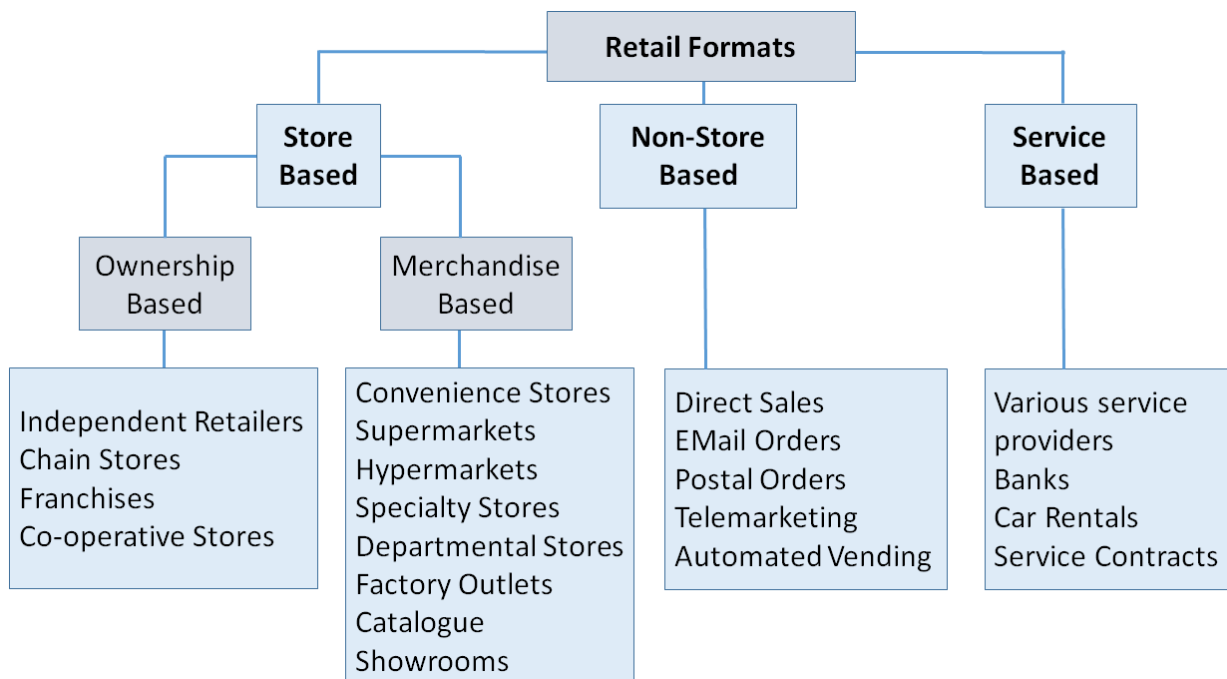
**Type A and B:** Retailers. For example, Pantaloons, Walmart.

**Type C:** Service Providers. For example, Eureka Forbes.



## Classification of Retailing Formats

The retailing formats can be classified into following types as shown in the diagram:



### Ownership Based Retailing

Let us see these retailers in detail:

- **Independent Retailers:** They own and run a single shop, and determine their policies independently. Their family members can help in business and the ownership of the unit can be passed from one generation to next. The biggest advantage is they can build personal rapport with consumers very easily. For example, stand-alone grocery shops, florists, stationery shops, book shops, etc.
- **Chain Stores:** When multiple outlets are under common ownership it is called a chain of stores. Chain stores offer and keep similar merchandise. They are spread over cities and regions. The advantage is, the stores can keep selected merchandise according to the consumers' preferences in a particular area. For example, Westside Stores, Shopper's Stop, etc.
- **Franchises:** These are stores that run business under an established brand name or a particular format by an agreement between franchiser and a franchisee. They can be of two types:
  - Business format. For example, Pizza Hut.
  - Product format. For example, Ice cream parlors of Amul.
- **Consumers Co-Operative Stores:** These are businesses owned and run by consumers with the aim of providing essentials at reasonable cost as compared to market rates. They have to be contemporary with the current business and political policies to keep the business healthy.

For example, Sahakar Bhandar from India, Puget Consumers Food Co-Operative from north US, Dublin Food Co-Operative from Ireland.

### Merchandise Based Retailing

Let us see these in detail:

- **Convenience Stores:** They are small stores generally located near residential premises, and are kept open till late night or 24x7. These stores offer basic essentials such as food, eggs, milk, toiletries, and groceries. They target consumers who want to make quick and easy purchases.

For example, mom-and-pop stores, stores located near petrol pumps, 7-Eleven from US, etc.

- **Supermarkets:** These are large stores with high volume and low profit margin. They target mass consumer and their selling area ranges from 8000 sq.ft. to 10,000 sq.ft. They offer fresh as well as preserved food items, toiletries, groceries and basic household items. Here, at least 70% selling space is reserved for food and grocery products.

For example, Food Bazar and Tesco.

- **Hypermarkets:** These are one-stop shopping retail stores with at least 3000 sq.ft. selling space, out of which 35% space is dedicated towards non-grocery products. They target consumers over large area, and often share space with restaurants and coffee shops. The hypermarket can spread over the space of 80,000 sq.ft. to 250,000 sq.ft. They offer exercise equipment, cycles, CD/DVDs, Books, Electronics equipment, etc.

For example, Big Bazar from India, Walmart from US.

- **Specialty Stores:** These retail stores offer a particular kind of merchandise such as home furnishing, domestic electronic appliances, computers and related products, etc. They also offer high level service and product information to consumers. They occupy at least 8000 sq.ft. selling space.  
For example, Gautier Furniture and Croma from India, High & Mighty from UK.

- **Departmental Stores:** It is a multi-level, multi-product retail store spread across average size of 20,000 sq.ft. to 50,000 sq.ft. It offers selling space in the range of 10% to 70% for food, clothing, and household items.

For example, The Bombay Store, Ebony, Meena Bazar from India, Marks & Spencer from UK.

- **Factory Outlets:** These are retail stores which sell items that are produced in excess quantity at discounted price. These outlets are located in the close proximity of manufacturing units or in association with other factory outlets.

For example, Nike, Bombay Dyeing factory outlets.

- **Catalogue Showrooms:** These retail outlets keep catalogues of the products for the consumers to refer. The consumer needs to select the product, write its product

code and handover it to the clerk who then manages to provide the selected product from the company's warehouse.

For example, Argos from UK. India's retail HyperCity has joined hands with Argos to provide a catalogue of over 4000 best quality products in the categories of computers, home furnishing, electronics, cookware, fitness, etc.

### **Non-Store Based (Direct) Retailing**

It is the form of retailing where the retailer is in direct contact with the consumer at the workplace or at home. The consumer becomes aware of the product via email or phone call from the retailer, or through an ad on the television, or Internet. The seller hosts a party for interacting with people. Then introduces and demonstrates the products, their utility, and benefits. Buying and selling happens at the same place. The consumer itself is a distributor.

For example, Amway and Herbalife multi-level marketing.

Non-Store based retailing includes non-personal contact based retailing such as:

- **Mail Orders/Postal Orders/E-Shopping:** The consumer can refer a product catalogue on internet and place order for purchasing the product via email/post.
- **Telemarketing:** The products are advertised on the television. The price, warranty, return policies, buying schemes, contact number etc. are described at the end of the Ad. The consumers can place order by calling the retailer's number. The retailer then delivers the product at the consumer's doorstep. For example, Asian Skyshop.
- **Automated Vending/Kiosks:** It is most convenient to the consumers and offers frequently purchased items round the clock, such as drinks, candies, chips, newspapers, etc.

The success of non-store based retailing hugely lies in timely delivery of appropriate product.

### **Service Based Retailing**

These retailers provide various services to the end consumer. The services include banking, car rentals, electricity, and cooking gas container delivery.

The success of service based retailer lies in service quality, customization, differentiation and timeliness of service, technological upgradation, and consumer-oriented pricing.

### **Product Retailing versus Service Retailing**

<b>Product Retailing</b>	<b>Service Retailing</b>
Quality and cost are prime factors in the success of product retailing.	Timeliness and nature of people involved in service retailing are crucial factors in the success.

Product retailer and consumer relationship is established only if the consumer frequently visits the outlet.	Service provider and customer relationship is established right from start.
Products can be stored in outlet while retailing.	Services are intangible hence cannot be stored while retailing.
Product retailing can be standardized.	Service retailing cannot be standardized as it highly depends upon the human entities involved.
In product retailing, the ownership of the purchased product can be transferred from owner to consumer after transaction.	In service retailing, there is no transfer of ownership. The consumer can only access the service.

## Retail versus Wholesale

<b>Retail</b>	<b>Wholesale</b>
The products are sold to the customers directly	The products are sold either to retailer for further selling or to the customer directly
Retailer sells the products by adding his own profit margin hence the cost of product increases	The cost of product sold at wholesale is always lesser than retail cost
Retail business generally does not have direct contact with the manufacturer	Wholesale business has a direct contact with the manufacturer
Retail business buys products from wholesaler in small quantities. Hence, there is always an upper hand to question the quality and discard the damaged products	Wholesale businesses have to buy from the manufacturer in bulk. Hence if there is some issue with the quality of the product, they can hardly complain
Retail has to work on attracting customers, managing selling space, employee's salaries, etc.	Wholesale business is not much engaged into such activities
Retail business earns lesser profit	Wholesale business earns more profit

## Retail Terminology

Here are some commonly used terms in Retail Management:

Consumerism	The organized-efforts by individuals, groups, and governments to protect consumers from policies and practices that infringe consumer rights.
Consumption	Using a product or a service for one's benefit in particular time; not for resale.

Customer Satisfaction	It is the degree at which the customer is pleased after purchasing and using a product or availing a service, and going to the same retailer or service provider.
Distribution	It is movement of products or services from manufacturer to end consumer through a channel.
Empowered Consumers	The consumers with access and knowledge of Internet, exploiting the power of digital technologies, and demanding products and services matching their personal preferences.
Inventory Shrinkage	Reduction of inventory due to theft by employees, customers, or by error from merchandise management at the time of receiving merchandise.
Logistics	It is planning, executing and controlling of the procurement and movement of material and resources on some beneficial purpose.
Markdown	Reduction in price.
Planogram	Predetermined layout of display to promote merchandise sale.
Procurement	It is the process of buying a product or a service. It involves various stages such as planning, researching supplier or service provider, negotiating price, placing order, making payment and availing the product or service.
Retail	Sale of products or services to end customer for consumption rather than resale.
Supply-Chain Management	It is the management of material and information flow in a chain from manufacturer to consumer for providing highest level of customer satisfaction at lowest possible price.
Switching Costs	The costs incurred by a consumer for switching from one supplier or marketplace to another.
Wholesale	The business of selling products of large quantity at lesser price to retailers or consumers.

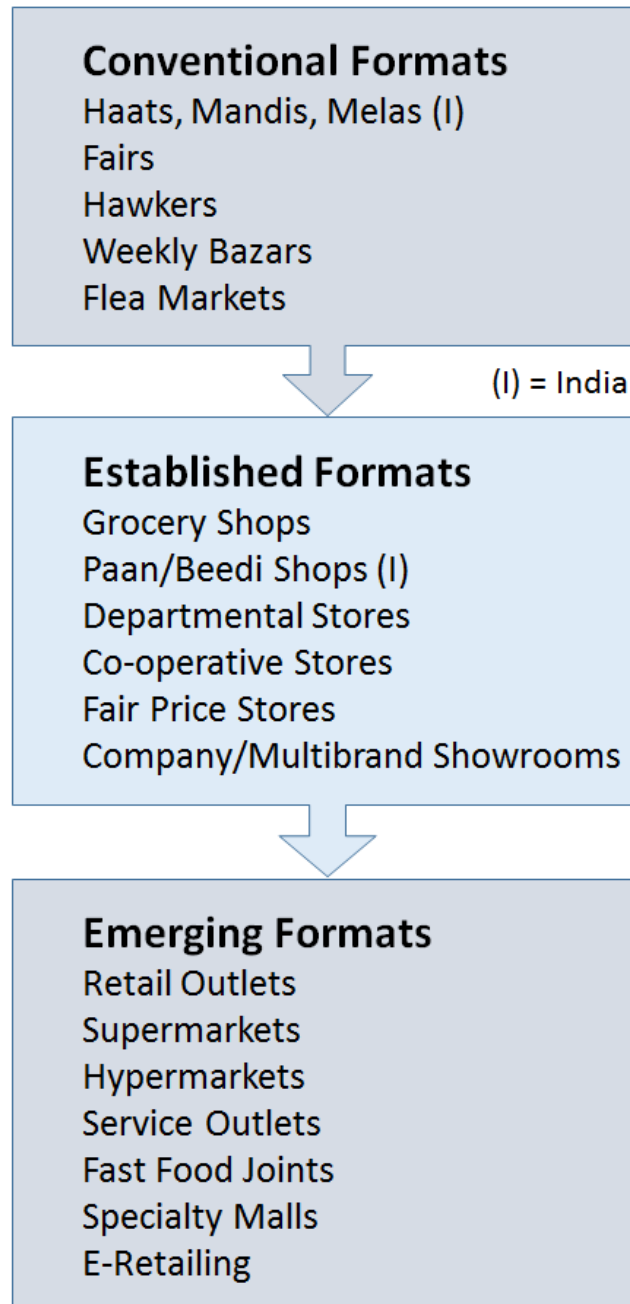
## Evolution of Retail

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Though the barter system is considered as the oldest form of retailing, the traditional forms of retailing such as neighborhood stores, main-street stores and fairs still exist in the laid-back towns around the world. During post-war years in the US and Europe, small retailers reformed their shops into large organized stores, markets, and malls.

Retail evolution mainly took place in three stages:

- Conventional
- Established
- Emerging



## 2. RETAIL SECTORS

***"We have learnt that if we provide people with an occasion and an excuse to shop, they will come."***

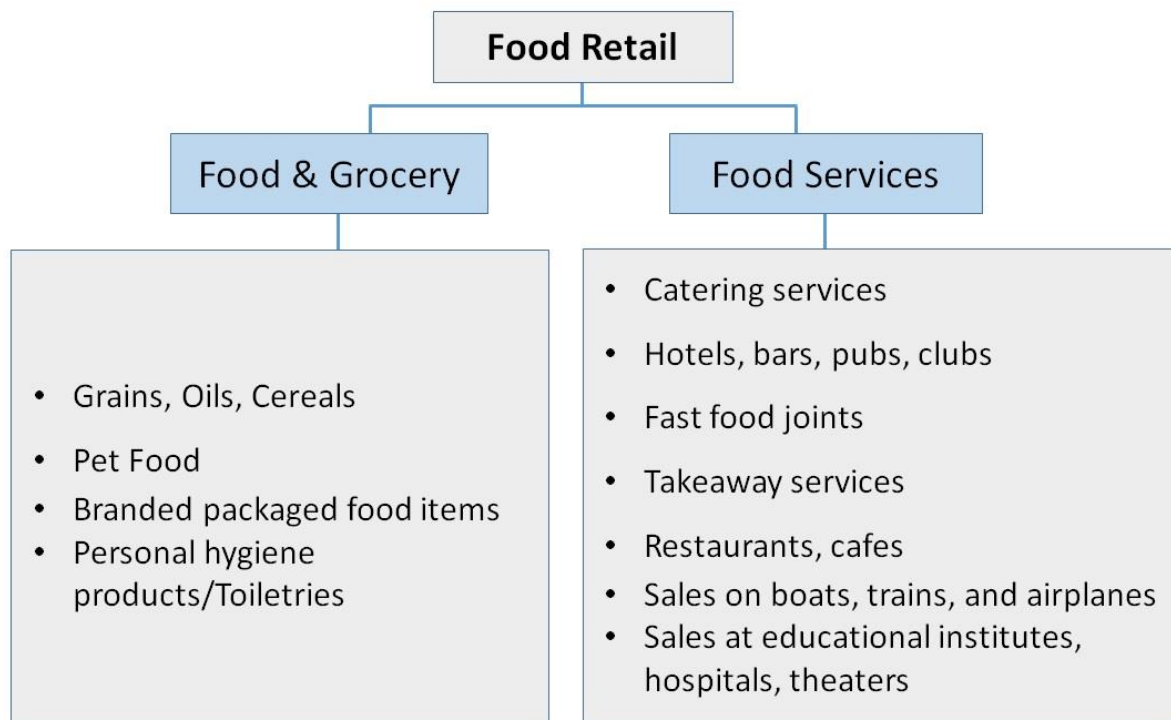
- ***Kishore Biyani (CEO Future group)***

Today's retail market is satisfying diverse needs of its consumers. The consumer's needs range from as basic as food & food services to as luxurious as jewelry items. In this chapter, we analyze prominent retail sectors around the world, their structure, and the key players in that sector.

The retail sectors are prominently divided into Food, Clothing & Textiles, Consumer Durables, Footwear, Jewelry, Books-Music-Gift Articles, and Fuel.

### Food

It comprises of food and grocery, and food services. The consumers buy packaged food, ready-to-eat food, and avail food services at workplaces. Visiting a restaurant is no more a luxury in today's busy life. The retail food industry is growing rapidly with the pace of lifestyles around the world.



**Key Players:** Food and Grocery retail: Food Bazar by Pantaloons, More by Aditya Birla, Haldiram's (India), Tesco (UK), Walmart (US), Carrefour (France).

In food services retail: KFC, McDonalds, Pizza Hut, Barista, Café Coffee Day.

## Clothing & Textile

Similar to food, clothing is one of the basic needs of humans. The textile industry includes manufacturing of fabrics such as natural fibers, synthetic fibers, looms, and various blends. Clothing is mainly seen as ready-to-wear apparels such as shirts, T-shirts, trousers, jeans, ladies wear, kids wear, baby clothes and hosiery garments such as socks, gloves, and inner wear.

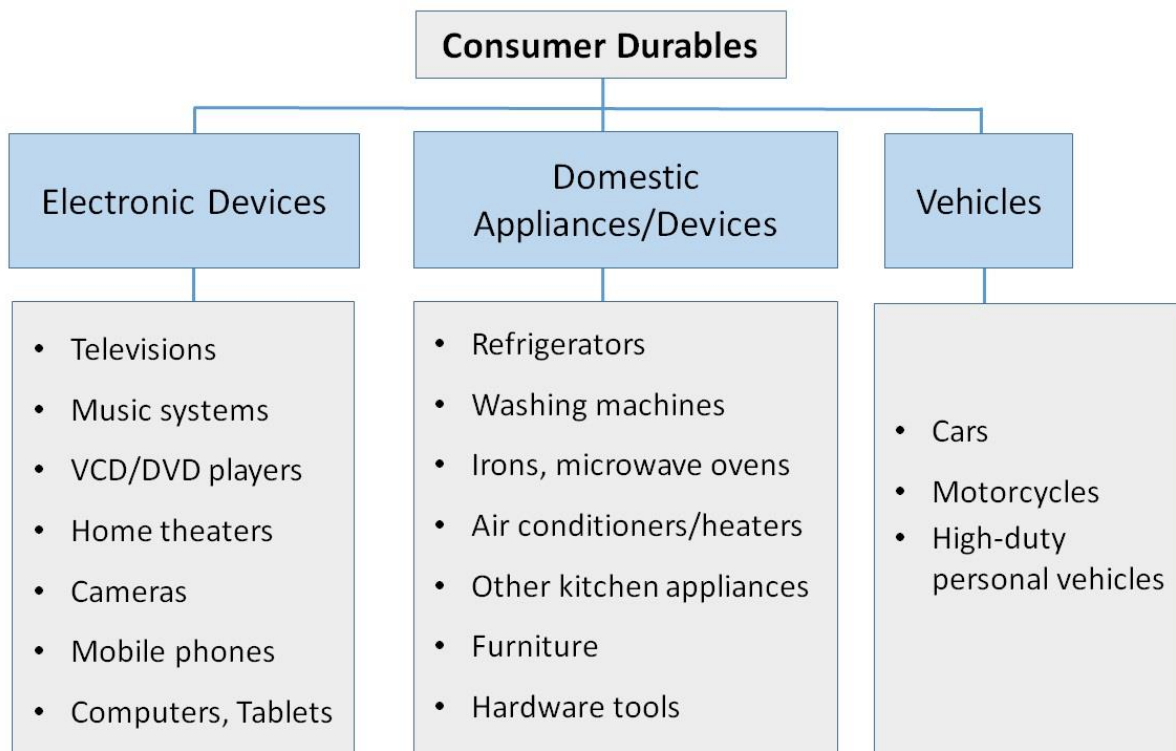


**Key Players:** Arrow by Arvind Mills, Park Avenue by Raymond, Century Textiles (India), Lee, Wrangler, Nautica, and Kipling, all by VF Corp (US), Bonito Deco Inc. (Taiwan).

## Consumer Durables

The consumer durables are expected to have long life after purchase and are not purchased frequently. It comprises retailing cars, motorcycles, and home appliances.





**Key Players:** Vijay Sales, Croma by Tata, Maruti-Suzuki (India), Honda Motors (US), Samsung Electronics (Korea).

## Footwear

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Footwear is categorized according to the consumer's gender, raw material of product, and design as shown in the diagram.

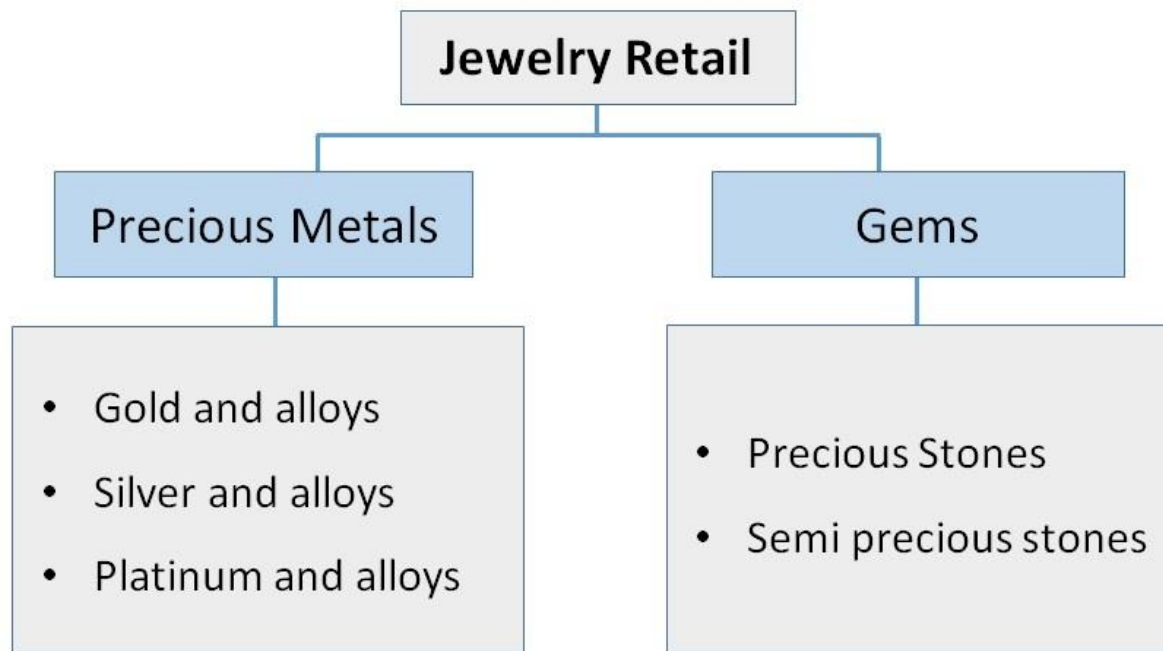


**Key Players:** Bata, Liberty Footwear, Metro Shoes Ltd. (India), Reebok International Ltd. (UK)

## Jewelry

Two major segments in this retail sector are precious metal jewelry and gemstones. Out of the precious metals, Indian jewelry market forms 80% of gold jewelry, 15% of gemstone studded jewelry, and 5% of other metal jewelry.

Regional festivals, special days, and customs drive the demand in this retail sector.



**Key Players:** Tanishq by Tata, Gili by Gitanjali Group.

## Books-Music-Gift Articles

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This includes assorted books, movie or audio CDs, gift articles, and souvenirs. These retail shops are often found near residential areas, tourist places, and historical monuments. Festivals and celebrations are main driving factors for sale in this sector. These items are not very frequently purchased and consumer's emotional factor is attached to the products than its benefit.

**Key players:** Landmark bookstore by Tata enterprise (India), Paperchase (UK).

## Fuel

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The highest five fuel consuming countries in the world are the US, China, Japan, India, and Russia. This retail involves activities such as production, refining, and distribution. Fuel companies tie up with other retailers such as pharmacies, food & food service, gift article retails to enter into petrol pump convenience business.

**Key Players:** Bharat Petroleum Corporation Ltd., Hindustan Petroleum Corporation Ltd., Oil & Natural Gas Commission Ltd. (India), Siemens Oil & Gas Co. (US), Caltex Australia Petroleum Pty Ltd. (Australia).

# 3. RETAIL CHALLENGES & THEORIES

Michael Porter, a professor from Harvard Business School, designed a framework named **Five Forces Analysis** for structured analysis of industries. This framework helps to understand the degree of competition in the industry. Let us see according to his framework, what are the five fundamental forces of competition in the retail industry:



## **Threat of New Competitors**

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The easier it is for a new company to enter the industry, fiercer is the competition. Any new entrant poses a threat to the existing players as it can decrease the profit share of existing players. The factors that limit new entrants are:

- How loyal are end consumers in the industry?
- How difficult it is for the consumer to switch to the new product?
- How large is the amount of capital required to enter into the industry?
- How difficult it is to access distribution channel?
- How hard it is to acquire new skills for the staff?

Threat is high when...	Threat is low when...
Products of the retail company are not differentiated.	Products of the retail company are differentiated.
Consumer perception is not good for existing product and switching cost is low.	Consumer perception is healthy for existing product and switching cost is high.
Retail brand is not well-known.	Retail brand is well-known.
Accessing distribution channels is easy.	Accessing distribution channels is remote.
Proprietary technology and material, government policies, and location are not troublesome issues.	Proprietary technology and material, government policies, and location are troublesome issues.
The number of buyers of existing product are low.	The number of buyers for existing product are high.

For example, Pizza Hut, an old player in food services retail, was founded in 1958 at Kansas, US. The entry of Dominos in 1960 at Michigan posed a threat of competition to it. But following their different marketing policies, they both have acquired prominent places in the market.

## Threat of Substitutes

Substitutes are the products or services that provide the same functionality. A successful product leads to creating other similar products. While entering into retail, one should think of:

- How many near substitutes are available in the market?
- What is the price of the substitute?
- What is the consumer perception about those substitutes?

By advertising, marketing, and investing in R&D for the product or service, a retail business can elevate its position in the industry.

Substitute threat is high when...	Substitute threat is low when...
Products of the retail company are not differentiated.	Products of the retail company are differentiated.
Products are costly.	Products are inexpensive.
Consumer's brand loyalty is low.	Consumer's loyalty is high.
Cheaper parallel products of the same category are available.	No cheaper parallel products are available.

For example, Google+ and Facebook both are social platforms the consumers use for socializing. They provide similar features such as posts, chat, share text, graphics and media content, forming groups, etc.

## **Bargaining Power of Buyers**

---

It is the position of buyers and likelihood of their ability to gain benefit while buying. If there are many suppliers and few buyers, the buyers are at advantageous position while pricing and they generally have the last word. The retail managers need to think of the following:

- How large market share the retail company has?
- What size of consumers is the company depending upon for its sales?
- Are buyers buying in large volumes?
- How many other retail competitors are in the same product line?

## **Bargaining Power of Suppliers**

---

It is the ability of the supplier to control the cost and supply of the products in the market. If the suppliers are at a dominating position over the company while product pricing, threatening to raise price or reduce supply, then that retail industry is said to be less attractive. The retail managers need to find out answers for the following:

- What are the substitute products other than what the supplier provides?
- Is the supplier providing goods to multiple industries?
- Is the supplier-switching cost high?
- If the supplier and the company are capable of entering into one another's business?

## **Intensity of Rivalry among Existing Competitors**

---

The rivalry is intense when there are more or less equal sized competitors in the market and there is no unparalleled market leader.

<b>Intensity of Rivalry is high when...</b>	<b>Intensity of Rivalry is low when...</b>
There is no or very less product or service differentiation.	The product or service is in differentiation.
There are less competitors.	There are more competitors.
Availability of product in a particular area is less.	The product is widely available in a particular area.

## Theories of Development

In retail management, theories can be broadly classified as follows:

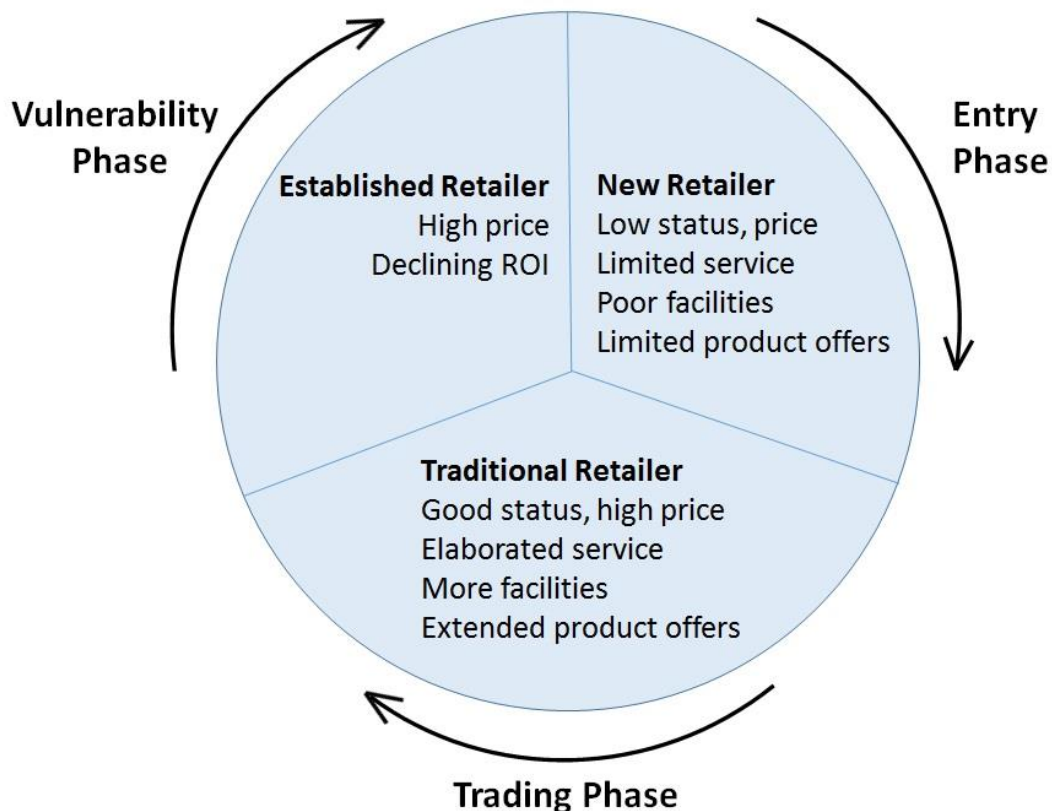
### Environmental Theory (Natural Selection)

It is based on Darwin's theory of survival: "The fittest would survive the longest". The retail sector comprises consumers, manufacturers, marketers, suppliers, and changing technology. Those retailers that adapt to changes in demography, technology, consumer preferences, and legal changes are more likely to survive for long and prosper.

### Cyclical Theory

McNair represents this theory by **Wheel of Retailing** that explains the changes taking place in retailing.

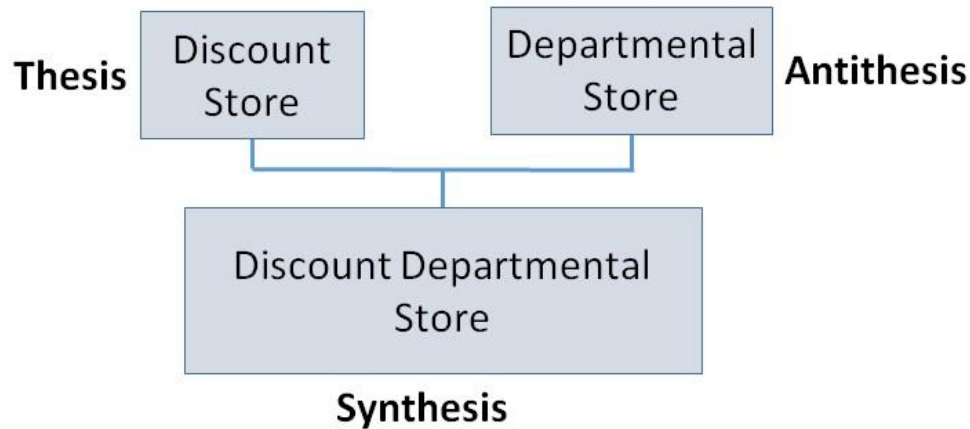
According to him, the new entrant retailers are often into low cost, low profit margin, low structure retail business, which offers some unique, real benefit to the consumers. Over some time they establish themselves well, prosper, and expand their products with more expensive facilities, without losing focus on their core values.



This creates a place for yet new entrants in the market thereby creating threat of competition, substitution, and rivalry.

### Conflict Theories (Evolution through Dialectic Process)

Within a broad retail category, there is always a conflict between the retailing of similar formats, which leads to the development of new formats. Thus, the new retail formats are evolved through dialectic process of blending two formats.



Say, **Thesis** is a single retailer around the corner of the residential area. **Antithesis** is a large departmental store nearby the same residential area, which develops over some time in opposition to Thesis. **Antithesis** poses a challenge to **Thesis**. When there is conflict between Thesis and Antithesis, a new format of retail is born.



## 4. UNDERSTANDING RETAIL CONSUMER

***"Whether it is stocks or socks, I like buying quality merchandise when it is marked down."***

- **Warren Buffet (American business magnate)**

Understanding retail consumer deals with understanding their buying behavior in retail stores. Understanding the consumer is important to know who buys what, when, and how. It is also important to know how to evaluate consumer's response to sales promotion. It is very vital to understand the consumer in the retail sector for the survival and prosperity of the business.

### Consumer versus Customer

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A **consumer** is a user of a product or a service whereas a **customer** is a buyer of the product or service. The customer decides what to buy and executes the deal of purchasing by paying and availing the product or service. The consumer uses the product or service for oneself.

For example, the customer of a pet food is not the consumer of the same. Also, if a mother in a supermarket is buying *Nestlé Milo* for her toddler son then she is a customer and her son is a consumer.



## **Identifying a Customer**

It is sometimes difficult to understand who is actually a decision maker while purchasing when a customer enters the shop accompanying someone else. Thus everyone who enters the shop is considered as a customer. Still, it is necessary to identify composition and origin of the customers.

- **Composition of Customers:** It includes customers of various gender, age, economic and educational status, religion, nationality, and occupation.
- **Origin of Customer:** From where the customer comes to shop, how much the customer travels to reach the shop, and which type of area the customer lives in.
- **Objective of Customer:** Shopping or Buying? Shopping is visiting the shops with the intention of looking for new products and may or may not necessarily include buying. Buying means actually purchasing a product. What does the customer's body language depict?

## **Customer's Buying Behavior Patterns**

---

The needs, tastes, and preferences of the consumer for whom the products are purchased drives the buying behavior of the customer. The pattern of customer's buying behavior can be categorized as:

### **Place of Purchase**

Customers divide their place of purchase. Even if all the products they want are available at a shop, they prefer to visit various shops and compare them in terms of prices. When the customers have a choice of which shop to buy from, their loyalty does not remain permanent to a single shop.

Study of customer's place of purchase is important for selection of location, keeping appropriate merchandise, and selecting a distributor in close proximity.

### **Product Purchased**

It pertains to what items and how many units of items the customer purchases. The customer purchases a product depending upon the following:

- Availability/Shortage of product
- Requirement/Choice of product
- Perishability of product
- Storage requirements
- Purchasing power of oneself

This category is important for producers, distributors, and retailers. Say, soaps, toothbrushes, potatoes, and apples are purchased by a large group of customers irrespective of their demographics but live lobsters, French grapes, avocados, baked beans, or beef are purchased by only a small number of customers with strong regional demarcation.

Similarly, the customers rarely purchase a single potato or a banana, like more than two watermelons at a time.

### Time and Frequency of Purchase

Retailers need to keep their working time tuned with customer's availability. The time of purchase is influenced by:

- Weather
- Season
- Location of customer

The frequency of purchase mainly depends on the following factors:

- Type of commodity
- Degree of necessity involved
- Lifestyle of customers
- Festivals and customs
- Influence of the person accompanying the customer.

For example, Indian family man from intermediate income group would purchase a car not more than two times in his lifetime whereas a same-class customer from US may buy it more frequently. A tennis player would buy required stuff more frequently than a student learning tennis at a school.

### Method of Purchase

It is the way a customer purchases. It involves factors such as:

- Is the customer purchasing alone or is accompanied by someone?
- How does the customer pay: by cash or by credit?
- What is the mode of travel for the customer?

### Response to Sales Promotion Methods

The more the customer visits a retail shop, the more (s)he is exposed to the sales promotion methods. The use of sales promotional devices increases the number of shop visitors-turned-impulsive buyers.

The promotional methods include:

- **Displays:** Consumer products are packaged and displayed with aesthetics while on display. Shape, size, color, and decoration create appeal.
- **Demonstrations:** Consumers are influenced by giving away sample product or by showing how to use the product and its benefits.
- **Special pricing:** Unit's special price under some scheme or during festive season, coupons, contests, prizes, etc.

- **Sales talks:** It is verbal or printed advertisement conducted by the salesperson in the shop.

An urban customer, due to fast paced life would select easy-to-cook or ready-to-eat food over raw food material as compared to rural counterpart who comes from laid-back lifestyle and self-sufficiency in food items grown on farm.

It is found that the couples buy more items in a single transaction than a man or a woman shopping alone. Customers devote time for analyzing alternative products or services. Customers purchase required and perishable products quickly but when it comes to investing in consumer durables, (s)he tries to gather more information about the product.

## Factors Influencing Retail Consumer

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Understanding consumer behavior is critical for a retail business in order to create and develop effective marketing strategies and employ four Ps of marketing mix (Product, Price, Place, and Promotion) to generate high revenue in the long run.

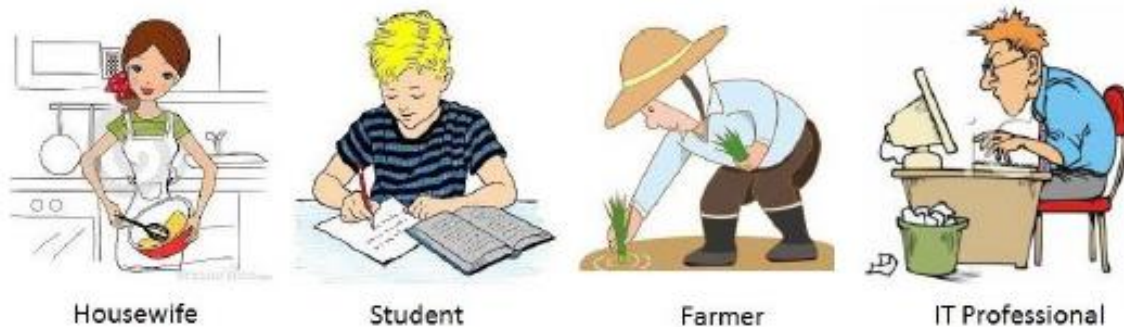
Here are some factors which directly influence consumer buying behavior:

### Market Conditions/Recession

In a well-performing market, customers don't mind spending on comfort and luxuries. In contrast, during an economic crisis they tend to prioritize their requirements from basic needs to luxuries, in that order and focus only on what is absolutely essential to survive.

### Cultural Background

Every child (a would-be-customer) acquires a personality, thought process, and attitude while growing up by learning, observing, and forming opinions, likes, and dislikes from its surrounding. Buying behavior differs in people depending on the various cultures they are brought up in and different demographics they come from.



### Social Status

Social status is nothing but a position of the customer in the society. Generally, people form groups while interacting with each other for the satisfaction of their social needs.

These groups have prominent effects on the buying behavior. When customers buy with family members or friends, the chances are more that their choice is altered or biased

under peer pressure for the purpose of trying something new. Dominating people in the family can alter the choice or decision making of a submissive customer.

### Income Levels

Consumers with high income has high self-respect and expects everything best when it comes to buying products or availing services. Consumers of this class don't generally think twice on cost if he is buying a good quality product.

On the other hand, low-income group consumers would prefer a low-cost substitute of the same product. For example, a professional earning handsome pay package would not hesitate to buy an iPhone6 but a taxi driver in India would buy a low-cost mobile.

### Personal Elements

Here is how the personal elements change buying behavior:

**Gender:** Men and women differ in their perspective, objective, and habits while deciding what to buy and actually buying it. Researchers at Wharton's Jay H. Baker Retail Initiative and the Verde Group, studied men and women on shopping and found that men buy, while women shop. Women have an emotional attachment to shopping and for men it is a mission. Hence, men shop fast and women stay in the shop for a longer time. Men make faster decisions, women prefer to look for better deals even if they have decided on buying a particular product.

Wise retail managers set their marketing policies such that the four Ps are appealing to both the genders.

- **Age:** People belonging to different ages or stages of life cycles make different purchase decisions.
- **Occupation:** The occupational status changes the requirement of the products or services. For example, a person working as a small-scale farmer may not require a high-priced electronic gadget but an IT professional would need it.
- **Lifestyle:** Customers of different lifestyles choose different products within the same culture.
- **Nature:** Customers with high personal awareness, confidence, adaptability, and dominance are too choosy and take time while selecting a product but are quick in making a buying decision.

### Psychological Elements

Psychological factors are a major influence in customer's buying behavior. Some of them are:

- **Motivation:** Customers often make purchase decisions by particular motives such as natural force of hunger, thirst, need of safety, to name a few.
- **Perception:** Customers form different perceptions about various products or services of the same category after using it. Hence perceptions of customer leads to biased buying decisions.

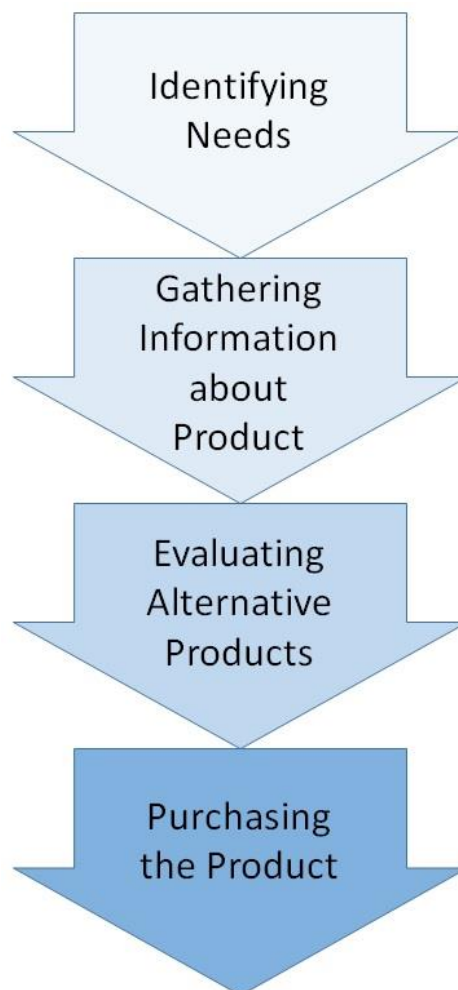
- **Learning:** Customers learn about new products or services in the market from various resources such as peers, advertisements, and Internet. Hence, learning largely affects their buying decisions. For example, today's IT-age customer finds out the difference between two products' specifications, costs, durability, expected life, looks, etc., and then decides which one to buy.
- **Beliefs and Attitudes:** Beliefs and attitudes are important drivers of customer's buying decision.

## Consumer's Decision Making Process

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A customer goes through a number of stages as shown in the following figure before actually deciding to buy the product.

However, customers get to know about a product from each other. Smart retail managers therefore insist on recording customers' feedback upon using the product. They can use this information while interacting with the manufacturer on how to upgrade the product.



- Identifying one's need is the stimulating factor in buying decision. Here, the customer recognizes his need of buying a product. As far as satisfying a basic need such as hunger, thirst goes, the customer tends to decide quickly. But this step is important when the customer is buying consumer durables.
- In the next step, the customer tries to find out as much information as he can about the product.
- Further, the customer tries to seek the alternative products.
- Then, the customer selects the best product available as per choice and budget, and decides to buy the same.

## **Part 2: Inside Retail Management**



# 5. RETAIL MARKET SEGMENTATION & STRATEGIES

***"Market segmentation is the natural result of vast differences among people."***

- **Donald Norman (Director, The Design Lab)**

Market segmentation gives a clear understanding of the retail customers' requirements. With the clear understanding of market segmentation, the retail managers and marketing personnel can develop strategies to reach out to the customers with specific needs and preferences.

## What is a Market Segmentation?

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It is a process by which the customers are divided into identifiable groups based on their product or service requirements. Market segmentation is very useful for the marketing force of the retail organization to create a custom marketing mix for specific groups.

For example, Venus is in the business of retailing organic vegetables. She would prefer to invest her money for advertising to reach out to working and health conscious people who have monthly income of more than say, \$10,000.

Market segmentation can also be conducted based on customer's gender, age, religion, nationality, culture, profession, and preferences.

## Types of Retail Markets

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There are two types of retails: Organized Retail and Unorganized Retail.

### Organized Retail

Organized Retailing is a large retail chain of shops run with up-to-date technology, accounting transparency, supply chain management, and distribution systems.

### Unorganized Retail

Unorganized Retailing is nothing but a small retail business conducted by an owner or a caretaker of the shop with no technological and accounting aids.

The following table highlights the points that differentiate organized retail from unorganized retail:

Parameter	Organized Retail	Unorganized Retail
Scale of Operations	Large	Small
Scope of Operations	Nationwide, Worldwide	Local
Employees	Professional, skilled, and trained	Unprofessional

Number of Stores	Chain of multiple stores	Maximum 2-3 outlets of the same owner within a city or across nearby cities
Ambience of Store	Pleasant, attractive	Lack of good ambience
Range of Products	Wide range of products across the nations	Only a range of local products
Shopping experience	Excellent, memorable, engaging	Average
Bargaining	Not possible. Pricing doesn't depend on relationship	Possible. Pricing varies according to personal rapport
Source of merchandise	Directly from manufacturer/producer	Mostly from wholesaler
Convenience of choosing products	Very high. Customer can walk around and choose the product	Very less
Examples	Walmart, HyperCity, Big Bazar	Standalone shops

## What is Retail Strategy?

It is a plan designed by a retail organization on how the business intends to offer its products and services to the customers. There can be various strategies such as merchandise strategy, own-brand strategy, promotion strategy, to name a few.

A retail strategy includes identification of the following:

- The retailer's target market.
- Retail format the retailer works out to satisfy the target market's needs.
- Sustainable competitive advantage.

## Strategies for Effective Market Segmentation

For effective market segmentation, the following two strategies are used by the marketing force of the organization:

### Concentration (Niche) Strategy

Under this strategy, an organization focuses going after large share of only one or very few segment(s). This strategy provides a differential advantage over competing organizations which are not solely concentrating on one segment.

For example, Toyota employs this strategy by offering various models under hybrid vehicles market.

### Multi-segment Strategy

Under this strategy, an organization focuses its marketing efforts on two or more distinct market segments.

For example, Johnson and Johnson offers healthcare products in the range of baby care, skin care, nutritionals, and vision care products segmented for the customers of all ages.

## **Strategies for Market Penetration**

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Market penetration strategies include the following:

### **Price Penetration**

It is setting the price of the product or service lesser than that of the competitor's product or service. Due to decreased cost, volume may increase which can help to maintain a decent level of profit.

### **Aggressive Promotion**

Increasing product or service promotion on TV, print media, radio channels, e-mails, pulls the customers and drives them to view and avail the product or service. By offering discounts, various buying schemes along with the added benefits can be useful in high market penetration.

### **High Product Distribution**

By distributing the product or service up to the level of saturation helps penetration of market in a better way. For example, Coca Cola has a very high distribution and is available everywhere from small shops to hypermarkets.

## **Growth Strategies**

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If a retail organization conducts **SWOT Analysis** (Strength, Weakness, Opportunity, Threat) before considering growth strategies, it is helpful for analyzing the organization's current strategy and planning the growth strategy.

### **Ansoff's Matrix**

An American planning expert named Igor Ansoff developed a strategic planning tool that presents four alternative growth strategies. On one dimension there are products and on the other is markets.

		Products	
		Existing	New
Markets	Existing	Market Penetration	Product Development
	New	Market Development	Diversification

This matrix provides strategies for market growth. Here is the sequence of these strategies:

- **Market Penetration:** Company focuses on selling the existing products or services in the existing market for higher market share.
- **Market Development:** Company focuses on selling existing products or services to new markets or market segments.
- **Product Development:** Company works on innovations in existing products or developing new products for the existing market.
- **Diversification:** Company works on developing new products or services for new markets.

# 6. RETAIL BUSINESS LOCATION

**"Silicon valley is a mindset; not a location."**

- **Reid Hoffman (Co-Founder, LinkedIn)**

Before visiting a mall or a shop, the first question that arises in consumers' mind is, "How far do I have to walk/drive?"

In populous cities such as Mumbai, Delhi, Tokyo, and Shanghai to name a few, consumers face rush-hour traffic jams or jams because of road structure. In such cases, to access a retail outlet to procure day-to-day needs becomes very difficult. It is very important for the consumers to have retail stores near where they stay.

## Importance of Location in Retail Business

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Retail store location is also an important factor for the marketing team to consider while setting retail marketing strategy. Here are some reasons:

- Business location is a unique factor which the competitors cannot imitate. Hence, it can give a strong competitive advantage.
- Selection of retail location is a long-term decision.
- It requires long-term capital investment.
- Good location is the key element for attracting customers to the outlet.
- A well-located store makes supply and distribution easier.
- Locations can help to change customers' buying habits.

## Trade Area: Types of Business Locations

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A **trade area** is an area where the retailer attracts customers. It is also called **catchment area**. There are three basic types of trade areas:

### Solitary Sites

These are single, free standing shops/outlets, which are isolated from other retailers. They are positioned on roads or near other retailers or shopping centers. They are mainly used for food and non-food retailing, or as convenience shops. For example, kiosks, mom-and-pop stores (similar to *kirana* stores in India).

**Advantages:** Less occupancy cost, away from competition, less operation restrictions.

**Disadvantages:** No pedestrian traffic, low visibility.

## Unplanned Shopping Areas

These are retail locations that have evolved over time and have multiple outlets in close proximity. They are further divided as:

- Central business districts such as traditional “downtown” areas in cities/towns.
- Secondary business districts in larger cities and main street or high street locations.
- Neighborhood districts.
- Locations along a street or motorway (Strip locations).



**Advantages:** High pedestrian traffic during business hours, high resident traffic, nearby transport hub.

**Disadvantages:** High security required, threat of shoplifting, Poor parking facilities.

## Planned Shopping Areas

These are retail locations that are architecturally well-planned to provide a number of outlets preferably under a theme. These sites have large, key retail brand stores (also called “**anchor stores**”) and a few small stores to add diversity and elevate customers’ interest. There are various types of planned shopping centers such as neighborhood or strip/community centers, malls, lifestyle centers, specialty centers, outlet centers.



**Advantages:** High visibility, high customer traffic, excellent parking facilities.

**Disadvantages:** High security required, high cost of occupancy.

## Factors Determining Retail Locations

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The marketing team must analyze retail location with respect to the following issues:

- **Size of Catchment Area:** *Primary* (with 60 to 80% customers), *Secondary* (15 to 25% customers), and *Tertiary* (with remaining customers who shop occasionally).
- **Occupancy Costs:** Costs of lease/owning are different in different areas, property taxes, location maintenance costs.
- **Customer Traffic:** Number of customers visiting the location, number of private vehicles passing through the location, number of pedestrians visiting the location.
- **Restrictions Placed on Store Operations:** Restrictions on working hours, noise intensity during media promotion events.
- **Location Convenience:** Proximity to residential areas, proximity to public transport facility.

## Steps to Choose the Right Retail Location

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A retail company needs to follow the given steps for choosing the right location:



**Step 1 - Analyze the market in terms of industry, product, and competitors** - How old is the company in this business? How many similar businesses are there in this location? What the new location is supposed to provide: new products or new market? How far is the competitor's location from the company's prospective location?

**Step 2 – Understand the Demographics** – Literacy of customers in the prospective location, age groups, profession, income groups, lifestyles, religion.

**Step 3 – Evaluate the Market Potential** – Density of population in the prospective location, anticipation of competition impact, estimation of product demand, knowledge of laws and regulations in operations.

**Step 4 - Identify Alternative Locations** – Is there any other potential location? What is its cost of occupancy? Which factors can be compromised if there is a better location around?

**Step 5 – Finalize the best and most suitable Location for the retail outlet.**

## Measuring the Success of Location

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Once the retail outlet is opened at the selected location, it is important to keep track of how feasible was the choice of the location. To understand this, the retail company carries out two types of location assessments:

### Macro Location Evaluation

It is conducted at a national level when the company wants to start a retail business internationally. Under this assessment, the following steps are carried out:

- Detailed external audit of the market by analyzing locations as macro environment such as political, social, economic, and technical.
- Most important factors are listed such as customer's level of spending, degree of competition, Personal Disposable Income (PDI), availability of locations, etc., and minimum acceptable level for each factor is defined and the countries are ranked.
- The same factors listed above are considered for local regions within the selected countries to find a reliable location.



## **Micro Location Evaluation**

At this level of evaluation, the location is assessed against four factors namely:

- **Population:** Desirable number of suitable customers who will shop.
- **Infrastructure:** The degree to which the store is accessible to the potential customers.
- **Store Outlet:** Identifying the level of competing stores (those which decrease attractiveness of a location) as well as complementary stores (which increase attractiveness of a location).
- **Cost:** Costs of development and operation. High startup and ongoing costs affect the performance of retail business.

# 7. MERCHANDISE MANAGEMENT

***"Advertising moves people toward goods; merchandising moves goods toward people."***

- ***Morris Hite (American Advertising Expert)***

In the fierce competition of retail, it is very crucial to attract new customers and to keep the existing customers happy by offering them excellent service. Merchandising helps in achieving far more than just sales can achieve.

Merchandising is critical for a retail business. The retail managers must employ their skills and tools to streamline the merchandising process as smooth as possible.

## **What is Merchandising?**

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Merchandising is the sequence of various activities performed by the retailer such as planning, buying, and selling of products to the customers for their use. It is an integral part of handling store operations and e-commerce of retailing.

Merchandising presents the products in retail environment to influence the customer's buying decision.

## **Types of Merchandise**

There are two basic types of merchandise:

<b>Staple Merchandise</b>	<b>Fashion Merchandise</b>
It has predictable demand	It has unpredictable demand
History of past sales is available	Limited past sales history is available
It provides relatively accurate forecasts	It is difficult to forecast sales

## **Factors Influencing Merchandising**

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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?

## Shopping Options

Today's customers have various shopping channels such as in-store, 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.

## Functions of a Merchandising Manager

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A merchandising manager is typically responsible to:

- Lead the merchandising team.
- Ensure the merchandising process is smooth and timely.
- Coordinate and communicate with suppliers.
- Participate in budgeting, setting and meeting sales goals.
- Train the employees in the team.

## Merchandise Planning

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Merchandise planning is a strategic process in order to increase profits. This includes long-term planning of setting sales goals, margin goals, and stocks.

- **Step 1 - Define merchandise policy.** Get a bird's eye view of existing and potential customers, retail store image, merchandise quality and customer service levels, marketing approach, and finally desired sales and profits.
- **Step 2 – Collect historical information.** Gather data about any carry-forward inventory, total merchandise purchases and sales figures.
- **Step 3 – Identify Components of Planning.**
  - **Customers** – Loyal customers, their buying behavior and spending power.
  - **Departments** – What departments are there in the retail business, their sub-classes?
  - **Vendors** – Who delivered the right product on time? Who gave discounts? Vendor's overall performance with the business.
  - **Current Trends** – Finding trend information from sources including trade publications, merchandise suppliers, competition, other stores located in foreign lands, and from own experience.

- **Advertising** – Pairing buying and advertising activities together, idea about last successful promotions, budget allocation for Ads.
- **Step 4 – Create a long-term plan.** Analyze historical information, predict forecast of sales, and create a long-term plan, say for six months.

## Merchandise Buying

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This activity includes the following:

- **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.

## Vendor Relations

Cordial relationship with the vendor can be a great asset for the business. A strong rapport with vendors can lead to:

- Purchasing products when required and paying the vendor for it later according to credit terms.
- Getting the latest new products in the market at discount prices or before other retailers can sell them.

- Having a great service of delivery, timeliness of delivery, returning faulty products with exchange, etc.

## **Merchandise Performance**

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The following methods are commonly practiced to analyze merchandise performance:

### **ABC Analysis**

It is a process of inventory classification in which the total inventory is classified into three categories:

- **A – Extremely Important Items:** Very crucial inventory control on order scheduling, safety, prompt inspection, consumption pattern, stock balance, refill demands.
- **B – Moderately Important Items:** Average attention is paid to them.
- **C – Less important Items:** Inventory control is completely stress free.

This approach of segregation gives importance to each item in the inventory. For example, the telescope retailing company might be having small market share but each telescope is an expensive item in its inventory. This way, a company can decide its investment policy in particular items.

### **Sell-Through Analysis**

In this method, the actual sales and forecast sales are compared and the difference is analyzed to determine whether to apply markdown or to place a fresh request for additional merchandise to satisfy current demand.

This method is very helpful in evaluating fashion merchandise performance.

### **Multi-Attribute Method**

This method is based on the concept that the customers consider a retailer or a product as a set of features and attributes. It is used to analyze various alternatives available with regard to vendors and select the best one, which satisfies the store requirements.

# 8. RETAIL BUSINESS OPERATIONS

***"Customers remember the service a lot longer than they remember the price."***

- ***Lauren Freedman (President, E-tailing Group)***

The retail business operations include all the activities that the employers perform to keep the store functioning smoothly. The shopping experience of a customer is planned before the customer enters, shops, and leaves the store with a smile or with agony by carrying a perception about the store. This experience drives the customer's decision of visiting the store in future.

Let us see, what efforts retail business operations executives put in to make the shopping experience memorable for the customer.

## **Store Management**

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The retail store being the fundamental source of revenue and the place of customer interaction, is vital to the retailer.

The store manager may not himself perform, but is responsible for the following duties:

- Maintaining cleanliness in the store.
- Ensuring adequate stock of merchandise in the store.
- Appropriate planning, scheduling, and organization of staff, inventory and expenses, for short and long-term success.
- Monitoring the loss and taking preventive measures to protect the company's assets and products in the store.
- Upgrading store to reflect high profitable image.
- Communicating with head office/regional office when required.
- Conducting constructive meetings with staff to boost their morale and motivate the staff to achieve sales goals.
- Communicating with customers to identify their needs, grievances, and complaints.
- Ensuring that the store is in compliance with employment laws regarding salary, work hours, and equal employment opportunities.
- Writing performance appraisals for assisting staff.

The store manager ensures that these duties are performed according to the guidelines set by the company.

## Premises Management

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The store premises are as important as the retail store itself. Managing premises includes the following tasks:

**Determining Working Hours of Store.** It majorly depends upon the target audience, retailed products, and store location.

For example, a grocery store near residential area should open earlier than a fashion store. Also, a solitary store can be open as long as the owner wants to but a store in a mall has to adhere to working hours set by the mall management.

**Managing Store Security.** It helps avoiding inventory shrinkage. It depends upon the size of store, the product, and the location of store. Some retailers attach electronic tags on products, which are sensed at store entrance and exits by sensors for theft detection. Some stores install video cameras to monitor movement and some provide separate entry and exit for personnel so that they can be checked.

For example, a large departmental store needs high security than the grocery store located near residential area.

Here are some basic formulae used while managing premises:

$$\text{Transaction per Hour} = \text{No. of Transactions} / \text{Number of Hours}$$

The retailer keeps track of the number of transactions per hour, which helps in determining store hours and staff scheduling.

$$\text{Sales per Transaction} = \text{Net Sales} / \text{Number of Transactions}$$

The result gives the value of the average sales and net return, which is used to study sales trends over time.

$$\text{Hourly Customer Traffic} = \text{Customer Traffic In} / \text{Number of Hours}$$

This measure is used to track total number of customer traffic per unit time. It is then applied to schedule hours and determine staff strength.

## Inventory Management

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Merchandise manager, category manager, and other staff handle the inventory. It includes the following tasks:

- Receiving products from the vendor.
- Recording inward entry of the products.
- Checking the products against quality norms laid by the retail company and for details such as colors, sizes, and styles. In case of large stores, this task is automated to a large extent.

- Separating and documenting the faulty or damaged products for returning.
- Displaying the products appropriately to gain customers' attention. Heavy products are kept at the lower level. Most accessed products are kept at the eye-level and the less accessed products are kept at high level of shelves. On-the-fly-purchased products such as chocolates, candies, etc. are placed near payment counters.

Here are some formulae used for inventory control:

$$\text{Inventory Turnover Rate} = \text{Net Sales} / \text{Average Retail Value of Inventory}$$

It is expressed in number of times and indicates how often the inventory is sold and replaced during a given period of time.

$$\text{Cost of Goods Sold} / \text{Average Value of Inventory at Cost}$$

When either of these ratio declines, there is a possibility that inventory is excessive.

$$\% \text{ Inventory Carrying Cost} = (\text{Inventory Carrying Cost} / \text{Net Sales}) * 100$$

This measure has gained importance due to rise in inventory carrying cost because of high interest rates. This prevents blockage of working capital.

$$\text{Gross Margin Return on Inventory (GMROI)} = \text{Gross Margin} / \text{Average Value of Inventory}$$

The GMROI compares the margin on sales on the original cost value of merchandise to yield a return on merchandise investment.

## Receipt Management

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Managing receipt is nothing but determining the manner in which the retailer is going to get the payment for the sold products. The basic modes of receipt are:

- Cash
- Credit card
- Debit card
- Gift card

Large stores have the facility of paying by the modes listed above but small retailers generally prefer accepting cash. The retailer pays card fees depending upon the volume of transactions with the suppliers, manufacturers, or producers.

The staff responsible for accepting payment needs to clearly understand the procedure for accepting payment by cards and collecting the amount from the bank.



## Supply Chain Management and Logistics

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Supply Chain Management (SCM) is the management of materials, information, and finances while they move from manufacturer to wholesaler to retailer to consumer. It involves the activities of coordinating and integrating these flows within and out of a retail business.

Most supply chains operate in collaboration if the suppliers and retail businesses are dealing with each other for a long time. Retailers depend upon supply chain members to a great extent. If the retailers develop a strong partnership with supply chain members, it can be beneficial for suppliers to create seamless procedures, which are difficult to imitate.

## Customer Service

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The top management of a retail business decides the customer service policy. The entire retail store staff is trained for customer service. Each employer in the retail store ensures that the service starts with smile and the interacting customer is comfortable and has a pleasant shopping experience.

The promptness and politeness of the retail store staff, their knowledge about the product and language, ability to overcome challenges, and rapidness at the billing counter; everything is noted by the customer. These aspects build a great deal of customer's perception about the store.

Many retail stores train staff members to handle the cash counter. They have also introduced a concept of express billing where customers buying less than 10 products can bill faster without having to stand in the regular payment queue.

During festivals and markdown periods, the trend of shopping increases.

$$\text{Customer Conversion Ratio} = (\text{Number of Transactions}/\text{Customer Traffic}) * 100$$

The result is the retailer's ability to turn a potential customer into a buyer. It is also called "walk to buy ratio". Low results mean that promotional activities are not being converted into sales and the overall sales efforts need to be assessed afresh.

# 9. RETAIL SPACE MANAGEMENT

Space management is one of the crucial challenges faced by today's retail managers. A well-organized shopping place increases productivity of inventory, enhances customers' shopping experience, reduces operating costs, and increases financial performance of the retail store. It also elevates the chances of customer loyalty.

Let us see, how space management is important and how retailers manage it.

## What is Space Management?

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It is the process of managing the floor space adequately to facilitate the customers and to increase the sale. Since store space is a limited resource, it needs to be used wisely.

Space management is very crucial in retail as the sales volume and gross profitability depends on the amount of space used to generate those sales.

## Optimum Space Use

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While allocating the space to various products, the managers need to consider the following points:

- Product Category:
  - Profit builders: High profit margins-low sales products. Allocate quality space rather than quantity.
  - Star performers: Products exceeding sales and profit margins. Allocate large amount of quality space.
  - Space wasters: Low sales-low profit margins products. Put them at the top or bottom of shelves.
  - Traffic builders: High sales-low profit margins products. These products need to be displayed close to impulse products.
- Size, shape, and weight of the product.
- Product adjacencies – It means which products can coexist on display?
- Product life on the shelf.

## Retail Floor Space

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Here are the steps to take into consideration for using floor space effectively:

- Measure the total area of space available.
- Divide this area into selling and non-selling areas such as aisle, storage, promotional displays, customer support cell, (trial rooms in case of clothing retail) and billing counters.
- Create a **Planogram**, a pictorial diagram that depicts how and where to place specific retail products on shelves or displays in order to increase customer purchases.
- Allocate the selling space to each product category. Determine the amount of space for a particular category by considering historical and forecasted sales data. Determine the space for billing counter by referring historical customer volume data. In case of clothing retail, allocate a separate space for trial rooms that is near the product display but away from the billing area.
- Determine the location of the product categories within the space. This helps the customers to locate the required product easily.
- Decide product adjacencies logically. This facilitates multiple product purchase. For example, pasta sauces and spices are kept near raw pasta packets.
- Make use of irregular shaped corner space wisely. Some products such as domestic cleaning devices or garden furniture can stand in a corner.
- Allocate space for promotional displays and schemes facing towards road to notify and attract the customers. Use glass walls or doors wisely for promotion.

## Store Layout and Design

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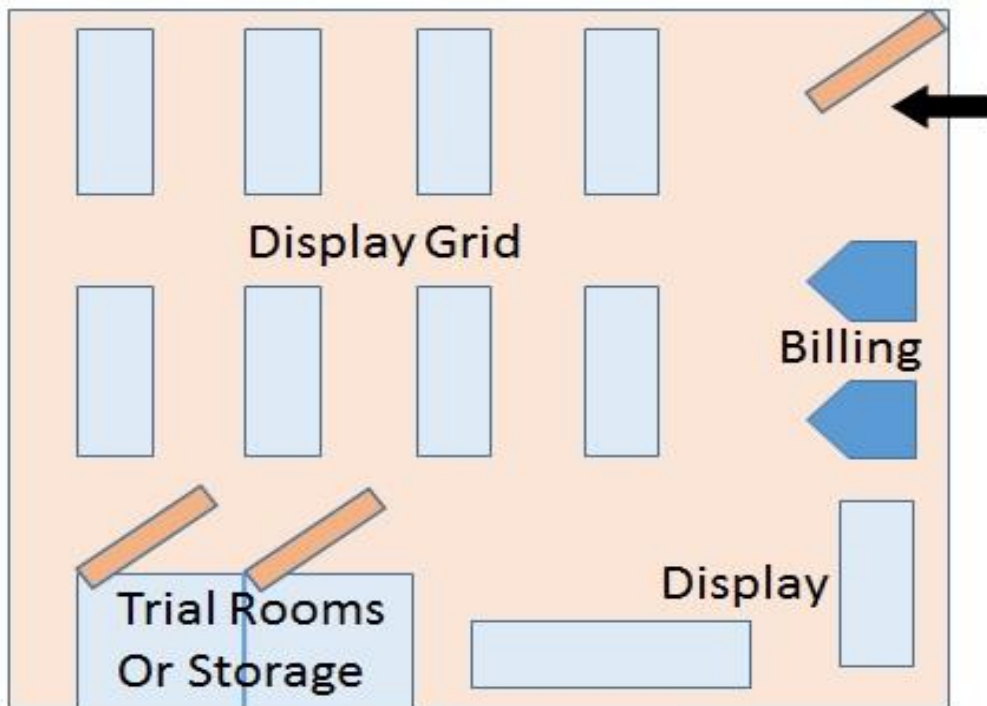
Customer buying behavior is an important point of consideration while designing store layout. The objectives of store layout and design are:

- It should attract customers.
- It should help the customers to locate the products effortlessly.
- It should help the customers spend longer time in the store.
- It should motivate customers to make unplanned, impulsive purchases.
- It should influence the customers' buying behavior.

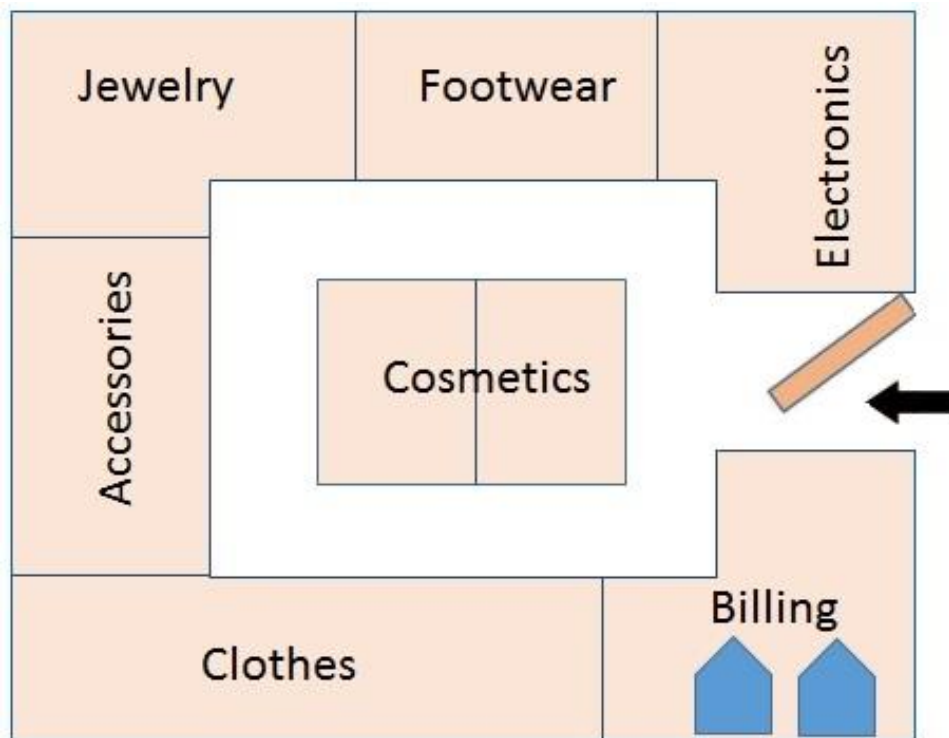
## Store Layout Formats

The retail store layouts are designed in way to use the space efficiently. There are broadly three popular layouts for retail stores:

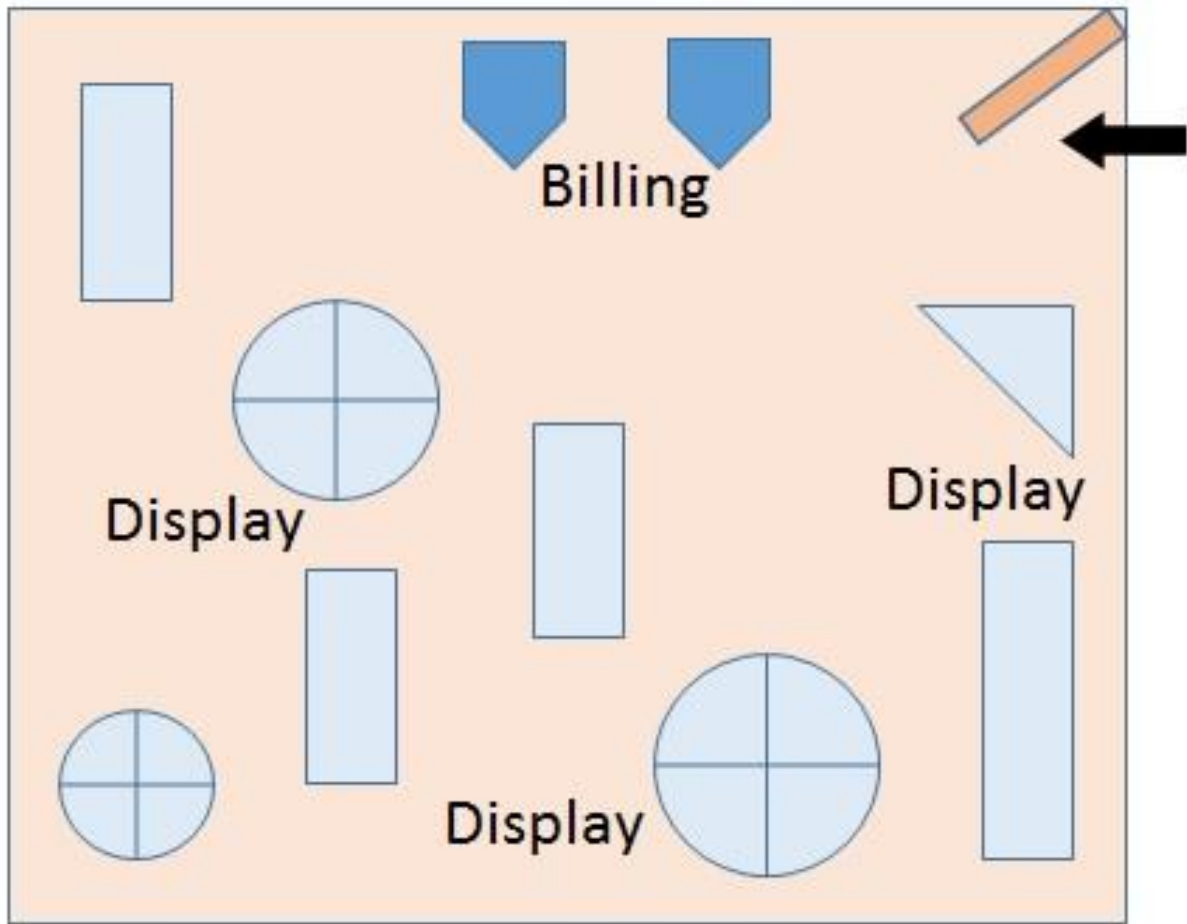
**Grid Layout:** Mainly used in grocery stores.



**Loop Layout:** Used in malls and departmental stores.



**Free Layout:** Followed mainly in luxury retail or fashion stores.



## Store Design

Both internal and external factors matter when it comes to store design.

### Interior Design

The store interior is the area where customers actually look for products and make purchases. It directly contributes to influence customer decision making. It includes the following:

- Clear and adequate walking space, separate from product display area.
- Free standing displays: Fixtures, rotary displays, or mannequins installed to attract customers' attention and bring them to the store.
- End caps: These displays at the end of the aisles can be used to display promotional offers.
- Windows and doors can provide visual messages about merchandise on sale.

- Proper lighting at the product display. For example, jewelry retail needs more acute lighting.
- Relevant signage with readable typefaces and limited text for product categories, for promotional schemes, and at Point of Sale (POS) that guides customers' decision-making process. It can also include hanging signage for enhancing visibility.
- Sitting area for a few differently abled people or senior citizens.

### Exterior Design

This area outside the store is as much important as the interior of the store. It communicates with the customer on who the retailer is and what it stands for. The exterior includes:

- Name of the store, which tells the world that it exists. It can be a plain painted board or as fancy as an aesthetically designed digital board of the outlet.
- The store entrance: Standard or automatic, glass, wood, or metal? Width of the entrance.
- The cleanliness of the area around the store.
- The aesthetics used to draw the customers inside the store.

## **Part 3: Retail Selling**

# 10. RETAIL PRICING

***"The bitterness of poor quality remains a long after low price is forgotten."***

- **Leon M. Cautillo**

We as customers, often get to read advertisements from various retailers saying, "Quality product for right price!" This leads to following questions such as what is the right price and who sets it? What are the factors and strategies that determine the price for what we buy?

The core capability of the retailers lies in pricing the products or services in a right manner to keep the customers happy, recover investment for production, and to generate revenue.

## What is Retail Pricing?

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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.

## Factors Influencing Retail Prices

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Retail prices are affected by internal and external factors.

### 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 costs 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. For example, 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.

### Demand-Oriented Pricing Strategy

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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.

## 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:

$$\text{Selling Price} = \text{Average unit cost} / \text{Selling price}$$

**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:

$$\text{Contribution} = \text{Selling price} - \text{Variable cost per unit}$$

**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:

$$\text{Target return price} = \text{Total costs} + (\text{Desired \% ROI investment}) / \text{Total sales in units}$$

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:

$$\text{Target Return Price} = (5000 + (20\% * 10,000)) / 1000 = \text{Rs. } 7$$

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.

### Competition-Oriented Pricing Strategy

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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.

### Differential Pricing Strategy

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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.

# 11. RETAIL MARKETING

Retail marketing is the range of activities the retailer does to create awareness about the products or services among customers for selling.

Retail marketing consists of visual merchandising, sales promotion, advertising, and marketing mix. All these factors are involved in shaping the marketing strategies of retail.

## Visual Merchandising

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It is the activity of developing floor plans and three-dimensional displays in order to engage customers and boost sales. Both, products or services can be displayed to highlight their features and benefits.

It is based on the idea that good looks pay off. It requires creativity and an eye for presenting the products or services aesthetically so that the customers find it appealing and are motivated towards buying. Visual merchandising involves displaying products or services aesthetically using various objects, colors, shapes, materials, designs, and styles to attract the customers.

## Retail Advertising

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It is advertising the product or service on communication media. The retailer can advertise on electronic media such as television, radio, mobile, and Internet. Print media such as newspaper, brochures, handbills, product catalogues, are also popular among retailers to publish Ads. Retail advertising enables the retailer to reach out to a large number of people and create awareness among them about the product's availability.

The success of an Ad on a particular media depends upon the literacy level of the customers, their age and location.

## Sales Promotions

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Sales promotion is the communication strategy designed to act directly as an inducement, as added value, or as incentive for the product to the customer. Advertising may create desire to possess the product but sales promotion actually helps conversion to sales.

Sales promotion drives existing customers' loyalty, attracts new customers, influences customers' buying behavior, and increases sales. It includes the following techniques:

### Point of Purchase (POP) Displays

They are Ads placed **near the merchandise** to promote the sale where the customer makes buying decision.

## Point of Sale (POS) Displays

They are Ads placed **near the checkout or billing** counters to promote on-the-fly purchase that the customer makes at the last minute.



## Promotional Prices

Some techniques such as **Loss Leading** (where irrespective of how luxurious the product is, retailer offers steep discount), **Markdown** (where retailer brings down the prices for wide range of products in the store), and **Bundle Pricing** (Buy one get one free or Get 3 pay for 1) are used in promotional pricing.

## Loyalty Programs

Retailers conduct loyalty program for the customers who make frequent purchase by offering first access to new products, free coupons, or special discounted price on particular days.

## Customer Relationship Management (CRM)

It is identification, satisfaction, and management of customers' stated and unstated needs and demands by the retailer for mutual benefit.

It include four prominent phases:

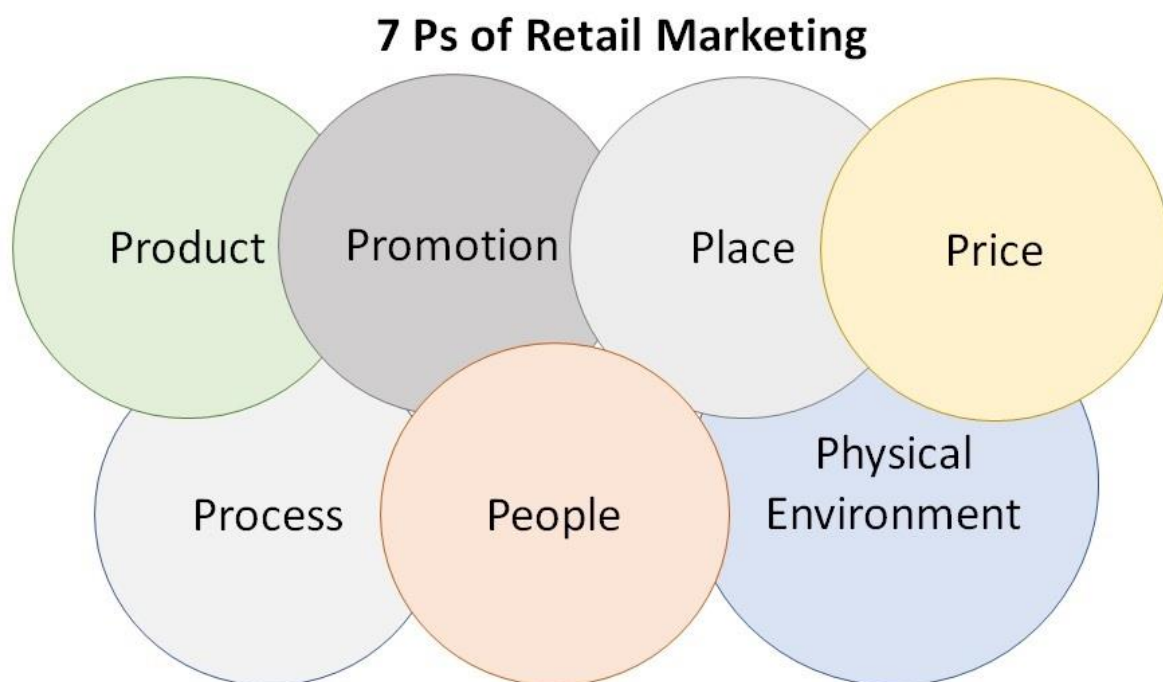
- **Develop and Customize:** Develop products or services to meet customers' requirements. Customize the same according to customer segments.

- **Interact and Deliver:** Communicate with existing and prospective customers and deliver the product or service with the added value.
- **Acquire and Retain:** Acquire new customers and retain the loyal ones.
- **Understand and Differentiate:** Understand customers' needs, differentiate policies and products depending on customer behavior and preferences.

### Elements of Retail Marketing Mix (7Ps)

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The retail marketing mix is the combination of marketing activities that the retailers carry out to meet the target market's requirements in the best possible way. Retail marketing mix is a combination of 7 Ps:



- **Product** – The quality and range of variants of the product or service.
- **Place** – It is the location where the product or service is sold: online, type of store, location of store, time taken and the mode of transport to reach the retail place.
- **Price** – Cost of product or service for different customer segments by considering various price affecting factors.
- **Promotion** – It is raising customers' awareness about the product or service and driving customers to buy the products by offering tempting deals.
- **People** – This includes internal stakeholders such as customers, sales staff, management staff, and external stakeholders such as suppliers and supply chain management force.

- **Process** – It is the range of activities involved in manufacturing and delivering the product or service to the customer.
- **Physical Environment** – Presenting the products or offering services in a well-organized and attractive manner, keeping an aesthetic sense in presentation to elevate customers' shopping experience.

## Retail Communication

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Retailers communicate with the customers about their products or services, new product updates, and upcoming events regarding retail business via print, audio, video, or Internet media. Retail communication involves the following strategies:

- Providing retail information based on stored data about celebration dates of the customers.
- Holding contests to gain new customers and keep existing ones.
- Posting retail information on social websites to increase followers.
- Sending coupons on mobile so that customers can avail the benefits of the schemes right when they enter the store.
- Conducting customer surveys and reviews. Rewarding participating customers.
- Using automated retail communication.

# 12. EMERGING TRENDS IN RETAIL

***"Retail is a pretty simple business, but what adds complexity is the size and scale. We couldn't do it without technology."***

- **Bob Nardelli (American businessman)**

In today's era, the places in the cities have become congested, infrastructure has changed, transport facilities have increased, and the speed of exchanging information has become extremely fast. Retailers are adopting new technology. Society is changing, consumers are changing and so are the retailers. Retailing has managed to keep itself paced with the changing times.

## **Changing Nature of Retailing**

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Retailers are changing their business formats, store designs, modes of communication with customers and ways of handling commercial dealings.

- Modern retailers are adapting new technology for marketing, retail operations, and business transactions.
- Forward-thinking retailers are using social media to communicate with the consumers.
- With the space crunch, modern retailers have learnt how to use every inch of the floor constructively.
- Apart from opening online retail store, the retailers take the help of **Augmented Reality** such as 3D mock-ups to let the customer try the products on themselves.
- Retailers are working progressively on delivery of orders that customers placed through online shopping.
- Retailers are bringing something new now and then to charm the customers. Those places where internet is still not accessible, retailers are exploiting the power of mobile phones to advertise their products.

## **Modern Retail Formats**

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Today, the Internet has changed the way products are advertised and the manner of selling-buying transactions.



Here are some modern innovations in retail:

- Modern retail businesses such as malls, specialty stores, and hypermarkets are using micro development and contemporary technology to increase customers' shopping experience and in turn generate business revenue.
- Around the year 2000, online retail startups started changing the face of retail businesses around the world.
- Social media websites such as Facebook changed consumer behavior as well as made retailers sweat out to take the benefits and develop their brands.
- Modern e-commerce facilities enable faster transactions and allow purchase on a simple 30-day credit facility.

## E-Tailing

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It is nothing but E-Retailing. It is the process of selling or purchasing the products using Internet for B2B or B2C transactions. E-tailing process includes the customer's visit to the website, purchasing products by choosing a mode of payment, product delivery by the retailer and finally, the customer's review or feedback.

### E-tailing Benefits

- It does not require floor space to display products.
  - It allows the customer having internet access to shop any time, any place.
  - It saves time of the customer otherwise spent travelling to a shopping place in the real world.
- It creates a platform for products from around the world, which are imported by the e-tailer when the customer places an order.