# RETAIL MANAGEMENT AND MERCHANDISING

**(MKT-511)**


Organized by:

**Kumar Biswazit Saha**
Department of Marketing
JATIYA KABI KAZI NAZRUL ISLAM UNIVERSITY


15.08.2026

# Course Contents

| Chapter | Chapter Title | Contents |
|---|---|---|
| 1 | **Introduction to Retailing** | Chapter Objectives; Introduction; Place of Retailing in a Distribution Channel; Importance of Retailing in the Economy; Functions of Retailers; Understanding Customers' Needs and Wants; Providing an Assortment of Products or Services to Consumers; Breaking Bulk; Providing Services; Holding Inventory; Providing Information to Suppliers; Points to Remember; Review Questions. |
| 2 | **Retailing Concepts** | Chapter Objectives; Introduction; Customers; Competition; Environmental Trends; Retail Mix; Place; Product; Price; Promotion; Theories of Retail Change; Theory of Natural Selection in Retailing; Theory of the Wheel of Retailing; General-Specific-General Cycle or Accordion Theory; Retail Life Cycle Theory; Points to Remember; Review Questions. |
| 3 | **Retailers and Retail Formats** | Chapter Objectives; Introduction; Classification of Retailers; Legal Form; Operational Structure; Range of Merchandise; Degree of Service; Pricing Policy; Location; Size of Outlet; Based on Customer Contact; Types of Retailers Based on Merchandise and Pricing; Departmental Stores; Specialty Stores; Discount Stores; Supermarkets; Superstores and Hypermarkets; Types of Retailers Based on Operational Structure; Independent Traders; Multiple or Retail Chain Stores; Cooperative Societies; Concessionaires; Franchising; Non-Store Retailing; Mail Order; Direct Selling; Automatic Vending; Electronic Retailing; Comparison of Different Types of General Merchandise Retailers; Service Retailing; Points to Remember; Review Questions. |
| 4 | **Retail Shop Management** | Visual Merchandising Management (VMM); Visual Merchandising in India; Visual Merchandising at MICA; Visual Display; Window Displays; Merchandising Training; Prior Visual Merchandising Experience; Qualifications for Visual Merchandisers; Skill Requirements; Physical Requirements; Additional Requirements; Education Requirements; Compensation; Retail Advertising and Promotion; Objectives of Retail Advertising; Advantages of Retail Advertising; Disadvantages of Retail Advertising; Dig Deeper; Accounting; Retail Accounting Services; Integrated Systems and Information Technology; Importance of Retail Information Systems; Various Information Systems; Advantages of Computerization; Limitations of Computerization; Database Management in Retailing; Choosing the Right System; Emerging Trends in Systems and Communication; Retail Management Information System (RMIS). |
| 5 | **Retail Marketing Strategy** | Introduction; Retail Marketing Strategy; Retail Marketing Planning; Situation Analysis; SWOT Analysis; Mission Statements; Setting Goals and Objectives; Identifying Consumers; Developing Retail Strategies; Implementation of the Marketing Plan; Internal and External Marketing Audits; Market Attractiveness; Value Chain; Sources of Competitive Advantage; Market Penetration and Diversification; Portfolio Analysis; Competitive Marketing Objectives; Marketing Strategy in Relation to HRM and Finance Strategy; Chapter Summary; Exercises and Questions; |

| | | |
|---|---|---|
| | | References; Further Reading. |
| **6** | **Retail Consumer Behaviour and Market Segmentation** | Introduction; Retail Consumer Behaviour and Attitudes; Consumer Motivation and Needs; Consumer Decision-Making; Experiential Consumer Behaviour; Influences on Consumer Purchasing Behaviour; Customer Loyalty; Negative Consumer Behaviour; Customer Profiles; Retail Marketing Research; Chapter Summary; Exercises and Questions; References; Further Reading. |
| **7** | **Retail Buying and Merchandising** | Introduction; Buying and Merchandising Roles; Centralised and Decentralised Buying; Organisational Buying Theories; Buying Branded and 'Designer' Merchandise; Buying Own-Label Merchandise; The Retail Buying Cycle; Retail Buying for Online and Mail Order (Home Shopping) Companies; Supply Chain Management and Stock Control by Retailers; Retail Space Planning and Allocation; Retail Sales Forecasting and Budget Planning; Chapter Summary; Exercises and Questions; References; Further Reading. |

## Case Studies

- Re-evaluating the Store — Richard Hyman, Strategic Retail Adviser to Deloitte
- Targeting the Female Consumer
- Supply Chain — Back to the Source
- Case Study 1: Akashganga
- Case Study 2: ITC e-Choupal
- Case Study 3: Wal-Mart
- Case Study 4: Customer Psychology
- Case Study 5: "Milkman of India" Is No More

## Recommended Books

**1. Retail Management: Just about Everything a Retail Manager Needs to Know** — Arif I. Sheikh & Dr. Kaneez; Himalaya Publishing House; First Edition, 2008.

**2. Retail Marketing Management: Principles and Practice** — Helen Goworek & Peter Mcgoldrick; Pearson; First Published, 2015.

**3. Retail Management** — Dr. A. Mustafa; Himalaya Publishing House; Edition, 2023.

# Retail Management

## Just About Everything a Retail Manager Needs to Know

**Arif I. Sheikh**
**Dr. Kaneez**

Himalaya Publishing House

MUMBAI • NEW DELHI • NAGPUR • BANGALORE • HYDERABAD • CHENNAI • PUNE • LUCKNOW • AHMEDABAD • ERNAKULAM

# Unit – 1

# Introduction to Retailing

# CONTENTS



# OBJECTIVE OF THE UNIT

## General Objective:

1. To Understand the basic concept of retailing

## Specific Objectives:

1. Explain the term retailing with reference to organized retail business.
2. State the functions of retailers.
3. Describe the importance of organized retailing in the growth of economy.
4. Differentiate between organized and unorganised retailing business

## 1.1 INTRODUCTION

Where do you buy your requirements of grocery, garments, watches, etc. and your requirements for services such as haircut, tailoring, dry-cleaning, etc.? You fulfil these requirements either by going to a super-market, kirana shop for grocery, an apparel shop or a garment store for garments, a showroom for watches, or a saloon for hair-cut, a tailor for tailoring, a dry-cleaner for dry-cleaning, etc. What are these stores, shops or super-markets doing? They are providing you either products or services. They are all engaged in retailing.

For people living in metros, large or small cities, retailing is a familiar phenomenon. Because, there are number of markets, different types of shops and many shops competing among themselves for selling similar goods. Even a vegetable market is a retail business. Retail business is more unorganised in rural areas and isolated habitats because the shop or a few shops available there may be selling most of requirements of the local people. But, still they are doing retailing.

We notice or get involved in activities related to retailing almost each day in our lives. Our houses are filled with articles obtained through retailing. Some of us, who are in marketing, involve in retailing activities to supply goods and/or services to the customers. In fact, most of us become either customers or sellers in retailing transactions very regularly in our daily lives. Historically, retailing has been continuing with the development of a civilised society. There are different kinds of shops in a market. They range from a hardware store to a sweet shop. You must have noticed that these shops are independent of each other. They have no relation in terms of sharing gains from each other's business. Retailing is now taking shape of an organised business where a supermarket/hypermarket is as big as a market of a small city and it comprises of different kinds of product/services providers. It may have extensions to other parts of the city or even other cities it means, it has a chain of stores. The many shops available there share the gains of customer presence and plan their selling activities in such a way that most customers are attracted towards the shop and buy products/services. Therefore, study of retailing requires a systematic and scientific study of different areas of selling involved in it.

**Retailing** includes all the activities involved in selling goods or services directly to the final consumer for personal or non-business use. (Philip Kotler).

In other words, **retailing** is the sale of goods and services to the ultimate consumer for personal, family or household use. Thus, retailing involves more than selling tangible products. It includes every sale of goods and services to the *final* consumer.

Thus purchase of a service such as reservation of railway ticket, consultancy of a physician, maintenance services of a plumber, carpenter, hair-cut etc., dry cleaning, stay at hotel, rental of book/video cassette, home delivery of goods, consultation by lawyer/doctor are also a retail transaction.

The term 'final consumer' is a key issue in the concept of retailing. The person/s who run the retail shop will not be the ultimate or final or 'end of the chain' customers (end users). The person/s to whom the retailers sell are the final players in buying the goods or services. Intermediate customers can also be frequently found. Examples can be: Maruti Udyog for automobile parts produced by an outsourced manufacturer, a pharmaceutical firm buying chemicals from another firm, a pan wallah getting beetle leaves (pan leaves) from a wholesaler, Liberty Shoes buying readymade shoe soles from a small scale sole manufacturer.

Purchases made by manufacturers, wholesalers, and other organizations for their use in the organization or further resale or industrial use are not part of retailing. Thus purchase of intermediate products to produce another products, for example, purchase of crane for further business use etc will not be part of retailing transactions. Retailing is the final leg in the distribution channel of goods and services.

Retailing involves:

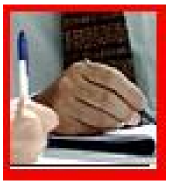
- Identifying target markets (customers)
- Interpreting needs of the targeted customers
- Developing good assortments of merchandise
- Presenting them in an effective manner so that consumers find it easy and attractive to buy.

Retailing differs from marketing in the sense that it refers to only those activities, which are related to marketing goods and/or services to final consumers for personal, family or household use. Whereas marketing, according to American Marketing Association, refers to "the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives." You must be wondering whether all retailing occur through stores or shops. You are right, not all retailing is done through stores or shops. There are numerous examples of non-store retailing, such as, sale of Aquaguard by Eureka Forbes, sale of cosmetics by Avon, catalogue sales by L.L.Bean, Spiegel and Burlington, sale of goods by TV Brands and Asian Sky Shop through television, and by Jaldi.com and Yahoo and Amazon.com through Internet etc. Also retailing does not need physical presence of retailer or his representative. For example, automatic vending machines. You will study these aspects of non-store retailing in further units.

SAQ: List ten types of retail organizations, which provide products, services and other value added benefits to the final customers.

Thus, any organization selling a product or service to final consumers whether a manufacturer, wholesaler, or a retailer, is doing retailing. It does not matter how the goods or services are sold, i.e., by person, mail, telephone, vending machine, TV, or Internet. Also, it does not matter where the goods and services are sold, i.e., in a store, on the street, or in the consumers' home, or in the virtual world (internet).

Retailing is one of the most important industries in any country employing major share of workforce. Selling, whether in a store or at the doorstep requires many people. In other words, retailing is labour intensive. Probably many more people are needed to sell most products than to manufacture them. While automation has been widely adopted in manufacturing, retailing has yet to see its presence on a large scale. Some retailers have introduced self-service. Some others have stepped into mail order. But in India, these methods are not commonplace. Only a few retailers have brought such changes. Most others stick to counter sales or personal attention.



| SAQ | | |
|---|---|---|
| a) | Sale of heavy earth moving machinery by L & T to a construction company is a retail transaction. | True/False |
| b) | Sale of Aqua guard by Eureka Forbes Representative at your home to you is a retail transaction | True/False |
| c) | Service provided by Maruti through its service stations is part of retailing | True/False |
| d) | Retailing is the final leg in the distribution channel of goods and services | True/False |
| e) | Shop/Store is a necessary condition for retailing | True/False |

*Wal-Mart (The biggest retailer in the world): How it started*

*Wal-Mart was founded by Sam Walton. Walton majored in Economics at university of Missouri, graduating in 1940. An interview with J.C Penney attracted him to retailing. He began working as management trainee in the Des Moines store for $ 85 a month. In 1942, he left to join military. At the end of the World War II, he bought a Ben Franklin variety store franchise in Newport, Arkansas. When his landlord declined to renew his lease in 1950, Walton relocated to Bentonville, Arkansas (Wal-Mart's corporate headquarters) and opened a Walton 5 & 10. By 1962, his business had grown to 15 stores (mostly Ben Franklin Franchises). After failing to get Ben Franklin's upper management to join him in opening discount stores, he opened his first discount store in Rogers, Arkansas. "Old Number 1" has now joined by 1,800 Wal-Mart Discount City stores and 200 Sam's Ware house clubs in all 50 states of USA and five countries.*

*Wal-Mart's initial strategy was to offer name -brand merchandise at discount prices to small communities. Walton felt that the key to his success was people: his customers and his employees (called associates, a term adopted from his initial job at Penny).*

*He said, " Our goal has always been in our business to be the very best. We believe completely that in order to the very best you have to make a good situation and put the interests of our associates first. If we really do that consistently, they will in turn cause our business to be successful." Sam Walton died in 1992 but his spirit and ideas remain a driving force at Wal-Mart.**

**Source:** David Hatch, "Sam Walton: Master Change Agent" Executive Excellence, June 1992, p19; and Bill Saporito, "What Sam Walton taught America," Fortune.

## 1.2 PLACE OF RETAILING IN A DISTRIBUTION CHANNEL

When you buy a product, you rarely buy it directly from the manufacturer. Most producers of goods and services do not sell their product directly to end or final users. Between you (the final user) and the manufacturers are number of intermediaries. These intermediaries constitute a distribution channel or marketing channel as shown in diagram 1.1.

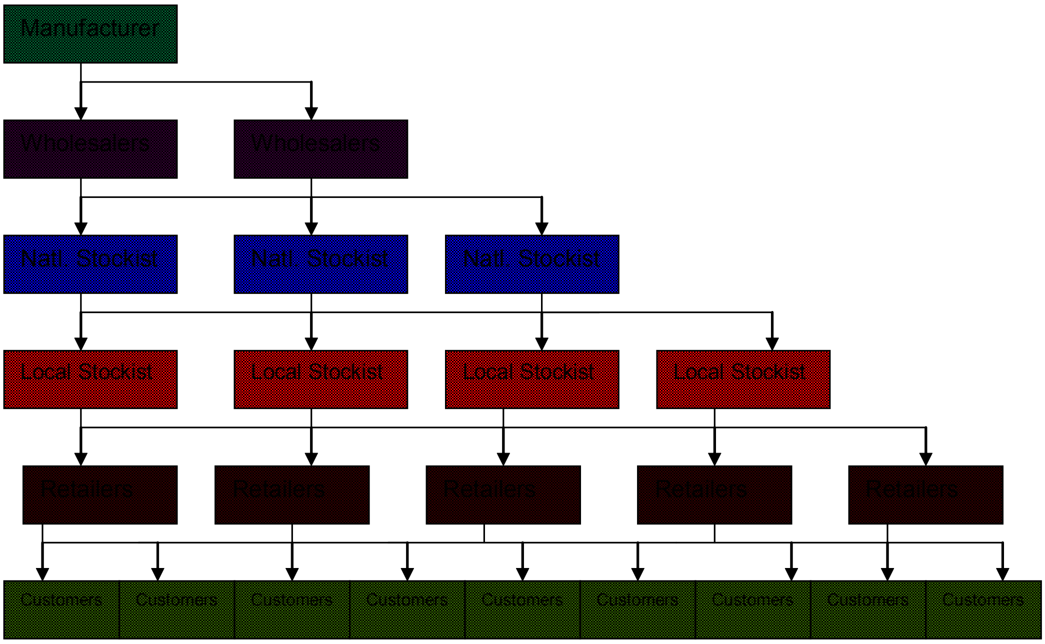



***Diagram 1.1: Channel of distribution of finished product***

A retailer is the final business in a distribution channel as shown in diagram 1.1. It is the interface between customers and the rest of the channel. Thus, retailer is a business that sells products and services to customers for their personal, family or non-business use.

## 1.3 IMPORTANCE OF RETAILING IN THE ECONOMY

The retail sector is particularly important because retailing is the final link in the chain of production which begins at the extractive stages, moves through the manufacturing processes and ends by the distribution of goods (and services) to the final consumer.

Retailing accounts for about 15-20% of the organized workforce in any developed economy. It is the second largest employer in the India after agriculture. There are about 6 million retail establishment in India. Of which, 4.1 million (70%) sell food products, and related items. An interesting research in this area has shown that grocery stores (56% of all retail outlets) and general stores (13%) dominate rural India. There are 1.8 million retail outlets in urban India. Of which more than 50% earn between Rs. 7,500.00 to Rs. 25,000.00 daily. Approximately 6.6% of urban adults in India are shop owners. There are about 21% outlets in urban area engaged in service retailing. Though no official data is available, the given above figure indicate that this sector may be employing about 15-20% of the organized work force, which is in line with global averages.

Retailing accounts for an impressive part of Gross Domestic Product (GDP). The year 1997 - 1999 has been a slow down in economic growth with the GDP growth rate pegged at 4 to 5 %. Total retail sales in India reached Rs. 5793 billion in 1996 representing around 53% of GDP and 69% of consumer expenditure. Retail sales per capita was Rs. 6297 in 1996.

In US the sales of retail sector is about US$2 trillion. In India, if private final expenditure is taken as an indicator, the total retail trade in India could be about Rs. 700,000- Rs. 800,000 crores or US$ 160-180 billion (excluding fuels). In US, the annual sales of Wal-Mart (world's largest retailer), K-mart, and Sears are much greater than the annual sales of Proctor and Gamble, PepsiCo, and RJR Nabisco- the three largest consumer products manufacturer. In India, organised retailing is a relatively new concept, still organised retailing accounts for approximately Rs. 13,300 Crores. It is expected to grow at 28% rate becoming Rs 45000 Crores by 2005. The turn over of India's biggest retailer Shoppers' Stop is about Rs 210 crores annually.

Retailing is also important, as it is an important tax collection point for the government.

*Learn more about Indian retailers. Find about at least three Indian retailers with at least one non-store retailer and their products. Discuss your findings with your peers*

Discover

*There are number of small shops and stores in a suburban location. The area is dominated by middle class and upper middle class service employees. A super market chain opened a store in that area with the supply of fast moving consumer goods (FMGCs). The resident of the area were used to shop at the local stores and were hesitant to enter the posh looking supermarket. Later on, when they realized that the same products are available in the supermarket at cheaper rate, they started visiting the supermarket. Within a year, the supermarket got good hold of the market and the sales increased by almost 200% from the initial months*

## 1.4 FUNCTIONS OF RETAILERS

Retailers have multiple functions. At one end they create market for consumption of the goods and services and on the other hand generate employment for millions of people. Broadly speaking retailers perform following functions:

- Understanding customer needs and wants
- Providing an assortment of product or services to consumers;
- Breaking bulk;
- Providing services to consumers;
- Holding inventory, and
- Providing information to suppliers.

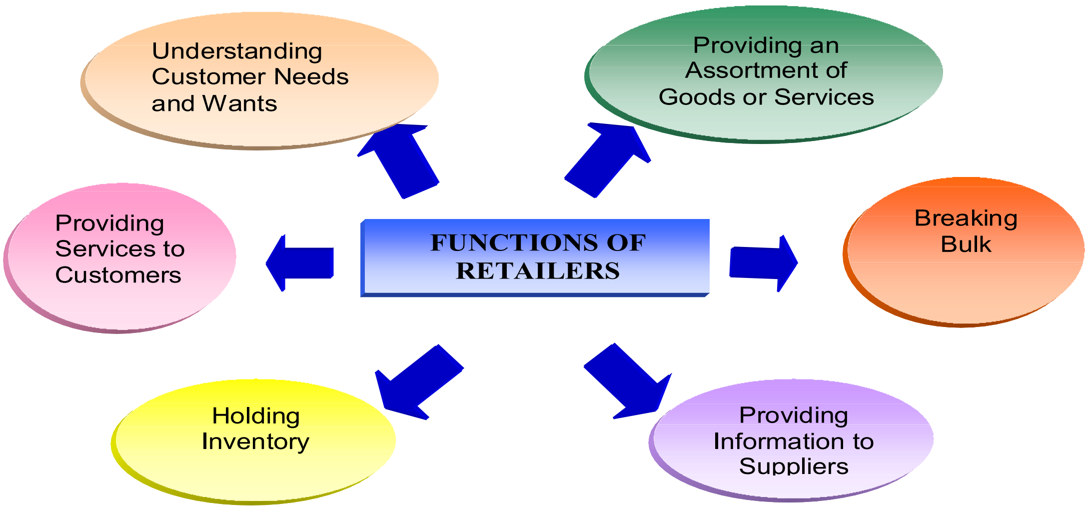



***Diagram 1.2: Functions of Retailers***

### 1.4.1 Understanding Customer's Needs and Wants

The first and foremost function of a retailer is to understand its customers; their needs and wants. It is only then other functions of retailer can be performed in a manner satisfactory to the customer such as providing an assortment of products, providing services etc. once the retailer understand what products and services are desired by customers, other things follow. You will learn more about understanding customers in further units.

### 1.4.2 Providing an Assortment of Product or Services to Consumers

Retail outlets keep large variety of products and services. You will find around 15000 different items produced by different companies in a typical super market. Even a small kirana store has number of brands of soaps, toothpastes and other goods. Provision of such large number of assortment enables consumers to choose a product based on his/ her requirements. In other words, providing assortment of products or services provides choice to consumers. While manufacturers specialise in producing special types of products, retailers provide assortment of products from different manufacturers. Diagram 1.3 shows a typical arrangement of assortment.

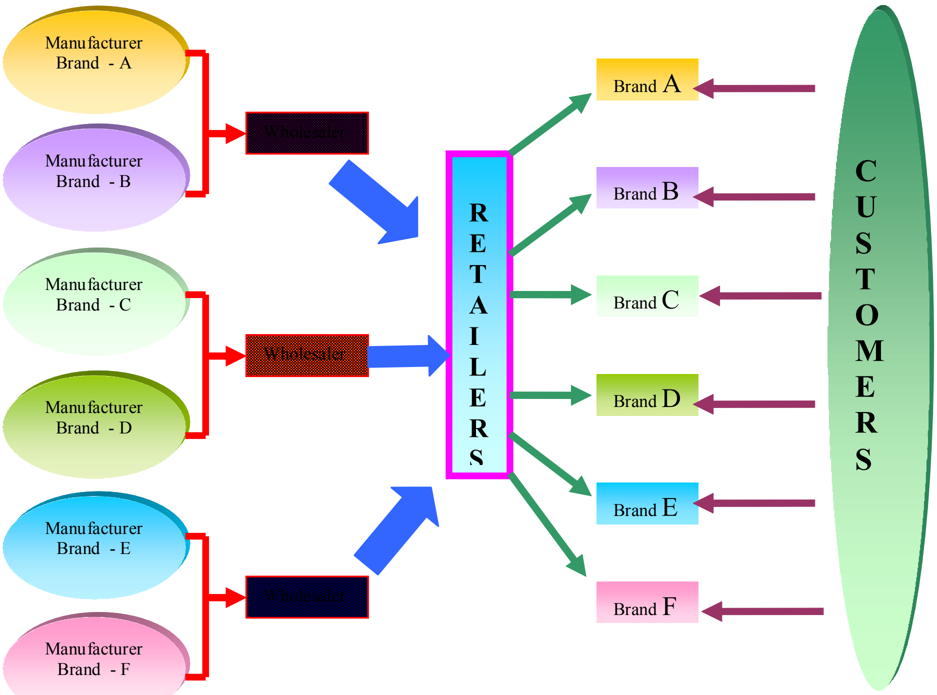



***Diagram 1.3: A Typical Example of Assortment***

### 1.4.3 Breaking Bulk

Manufacturers normally send their products in bulk (whole cases or cartons) to retailers to minimise transportation cost. The retailers offer the product in smaller quantities to suit individual consumers' requirements. Breaking large shipments into smaller quantities is called breaking bulk. Now the trend towards organized retailing is developing as a result retail chains are established in an identified geographical location. These chain stores purchase and distribute their products in such a manner that there is a minimum loss of time and money in transportation of products to various stores. They in turn provide the profits to the customers in a way by lowered minimum retail price. An example of breaking bulk is shown in diagram 1.4.

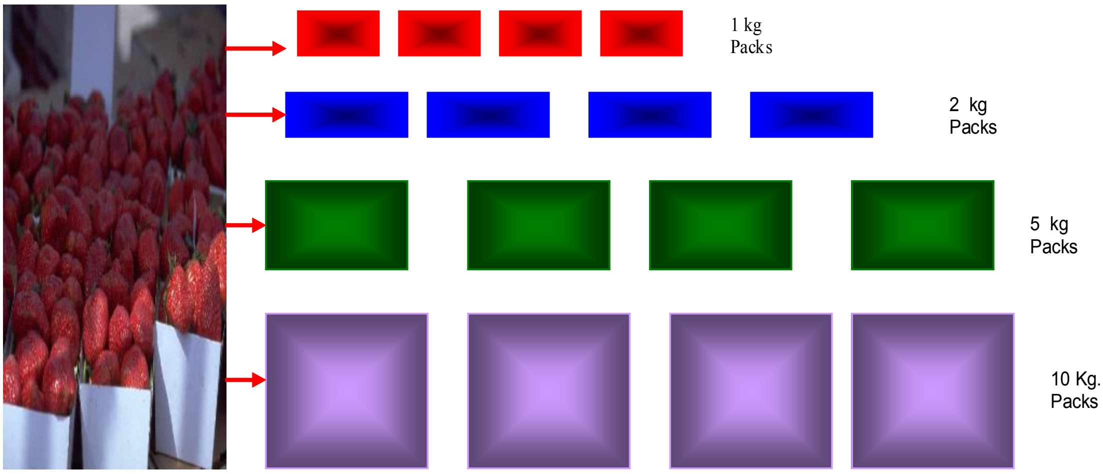



***Diagram 1.4: An Example of Breaking Bulk***

## 1.4.4 Providing Services

Retailers offer number of services to the consumers. Retail outlets may provide some or all of these services to consumers. These services could be:

- Providing credit and hire-purchase facilities (Example: - Many automobile and consumer durable retail outlets provide this facility);
- Providing facilities like home delivery. (Example:- Many super markets provide this facility).
- Providing product guarantees, after-sales service and dealing with customer complaints (Example: - Automobile dealers),
- Providing information and answering customers queries. (Example: - Sales people of retail outlet),
- Helping customer to choose a product or service, (Example, most apparel retail outlet help in selecting clothes)
- Displaying products in such a manner so that customer can see and test them before making their purchase. (Example: Many music retail outlets have facilities to play CD or cassette before customer makes his purchase can test these items).

## 1.4.5 Holding Inventory

A major function of retailers is to keep inventory, so that customers can buy the products when they want. So as customers, we do not have to keep a large inventory at home, knowing fully well that the product will be available at a relatively stable price from retailers when we want them. Thus the customers money is not blocked up in a large inventory and can be put to some other use or in bank earning interest.

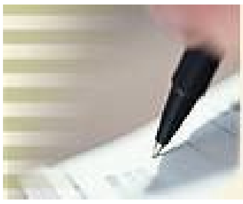
## 1.4.6 Providing Information to Suppliers

As the retailer who is the final interface to consumer, it has the benefit of direct consumer's reaction. So many manufacturers collect customers' response to their products and services from retailers.

Visit a retail store and list the activities performed by sales persons, floor manager and packing personnel in the store. Prepare a brief report of your visit.

In this unit, you have learnt the concept of retailing, difference between marketing and retailing, place of retailing in the distribution channel, importance of retailing in the economy and the functions of retailers. In the next unit we will study different types of retailers or retail organizations.

## POINTS TO REMEMBER



1. Retailing is the sale of goods and services to the ultimate consumer for personal, family or household use.
2. Retailing can be through stores or without it.
3. A retailer is the final business in a distribution channel.
4. Retail sector is major source of employment in any economy.

   Functions of retailers are:

a) Understanding customers' needs and wants;
b) Providing an assortment of product or services to consumers;
c) Breaking bulk;
d) Providing services to consumers;
e) Holding inventory, and
f) Providing information to suppliers.

## REVIEW QUESTIONS

1. Explain with the help of examples the concept of retailing. Also provide three examples of non-retail transactions.
2. Relate your experience of retailing in India
3. Describe the importance of retailing in the economy.
4. What functions does the retailer carry out? Provide examples of functions from Indian retailers.

# UNIT – 3

# RETAILING CONCEPTS

# CONTENTS



# OBJECTIVE OF THE UNIT

## General Objective:

1. To comprehend the basic concept of retailing.

## Specific Objectives:

1. Identify the core factors affecting retailing.
2. Explain retail mix and the components of retail mix.
3. Illustrate four elements by which retailers target customers.
4. Explain theories of managing change in organized retail business.

## 3.1 INTRODUCTION

The overall purpose of the retailing is to provide goods and services wanted by customers and to do so profitably so that business can be sustained. This means if a retailer is to be successful and customer satisfied the retailer must understand, the three core factors of retailing, namely, customers, their needs, wants and buying behaviour; competition, their strategies; and above all the environment of customers and competition.

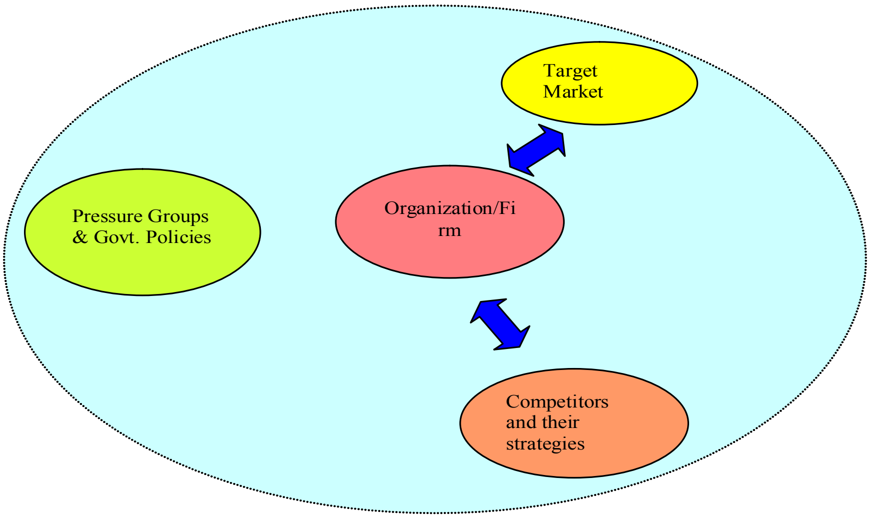



***Diagram 3.1: Factors influencing Retailing Business***

### 3.1.1 Customers

Customers are the most important element for the retailers. To be successful retailer must know its customers. Why customers shop, how they select a shop and how they select among that stores merchandise. These can be:

Convenience- of hours, of location, of shopping ease

- Assortment of merchandise- whether a wide variety or limited
- Quality and fashion level of goods
- Price - Generally important at the lower end
- Services- such as credit, delivery, courteous sales staff, assistance in selection, after sales services, return-goods privileges.
- Excitement- Such as promotional efforts

If retailer really understands their customers, they can position themselves and plan their merchandise and services accordingly. To a large extent the various combinations of merchandise and services are controllable by the retailer. Stores can stay open in the evenings and on Sundays; retailer can decide to stock low-priced or expensive goods, to offer many services or bare minimum; to have frequent sales, style, shows and other excitement-creating events or none. You will learn in a later chapter why do consumers buy, how is their buying process, and what are the factors affecting consumers buying behaviour.

### 3.1.2 Competition

A retailers competition does not only come from those competitors who are using the same retail format but also from new competitors who are coming up from new formats.

The competition between retailers using the same type of retail format is known as intra-type competition. Examples of this type of competition are: a department store competing with other department stores; a discount store competing with other discount stores; a supermarket competing with other supermarkets; etc.

Competition between retailers that have similar merchandise but are using different formats is known as inter-type competition. For example competition between department and discount stores.

To provide one stop shopping and to attract a broader group of consumers, retailers offer a broader variety of merchandise, some of it typically not associated with the store type. This is called **scrambled merchandising.** For example: grocery shops keeping clothes, sports goods in a drug store, etc

Increased inter-type competition and scrambled merchandising has made it harder to identify and monitor competition for retailers. In a way all retailers are competing against each other for the money spent by the consumer on goods and services. However, the intensity of competition is greatest among retailers when customer view them having the similar retail mix. Retail mix is explained in the next section.

The competition to the retailers may come from same retailer located within the vicinity of the target market or a similar kind of business in that locality. For example, a retailer located in a suburb selling video and music cassettes would have competition with the cable TV and the movie theatre located in that suburban area. The retailer may also face tough competition from the scrambled stores, which in addition to their merchandising products also provide videocassettes on rent. Therefore the retailer has to identify, assess the strengths and weaknesses of his /her competitor while designing the strategy for marketing its products.

**Discover**

Find out examples of scrambled merchandising in your city. Also find out what were the reasons behind introducing scrambled merchandising by the retailers?

### 3.1.3 Environmental Trends

This is the third core element of retailing. The environmental factors surrounding the customers and the competition is a major factor confronting retailers. These environmental factors are: changing customers needs, changes in demographic composition of customers, changes in technology, changes in business environment, legal framework.

We will see in next few paragraphs what environmental factors are behind the changing retail scenario in the Indian context.

**Economic factors**

The rate of growth in India has gradually picked up in last two decades. In the eighties it breached the so called 'Hindu rate of growth' and reached 5 percent levels. Through out the nineties the growth has remained above this level even crossing 7 percent levels. This has resulted in increased buying power and disposable income in the hands of Indian consumers. Apart from growth, India's large middle class has led to introduction of organized retail formats. You can see many types of retail formats in India now, for example, department stores, specialty stores, manufacturer-owned retail chains etc.

As Indian economy gets integrated in the world economy, global trends start affecting Indian economy such as global recession. This gets reflected in consumers buying patterns. Last year (2001) saw drop in sales of leading retailers in India due to the economic slow down.

**Demographic factors**

There has been significant growth in number of towns and significant increase in population of urban India due to migration from rural areas. Rising prosperity and population has driven the population of many cities over 10 lakhs. This has created interest in large retailers. Many retailers have opened their stores in number of cities now. Prominent among them are Shoppers Stop, Food World, Westside, Ebony Piramyd, Pantaloon, Lifestyle, Globus etc.

**Social factors**

Nuclear small family is becoming a norm in India with increasing number of women working outside the four walls of home. Thus, there is increase in disposable income of families, however there is paucity of time as in many families both (husband and wife) work.

**Psychological factors**

Consumerism is on increase in India. Media and cable TV proliferation has given exposure to Indian consumers to new ideas, new life style and new desires. This has fuelled consumer demand. Even in last four years when the economy was not doing as well, consumer durables sales was growing at about 20%.

Similarly, there is increased emphasis on health, personal hygiene, etc. Therefore, many retailers carry low sodium salt, cholesterol free oil, diet coke etc.

**Brand profusion**

Compared to early eighties, India has seen brand explosion in almost all goods. Earlier there was only one brand of salt, namely, Tata Salt, now there are number of brands available. Many goods were sold in loose earlier, now there exists number of established brands, Numerous brands in consumer durables, automobiles, household items, garments etc, have appeared in the Indian retail horizon.

**Psychographic change**

There has been a perceptible change in the mental attitude of the people at large. People specially in cities have become health conscious. Hygiene is a prerequisite for any investment related to consumption and food items. Due to change in earning, the concept of marketing has also changed.

**Demographic Change**

The people at large live in big apartments and isolated suburban areas. There is a growth of clusters of population in identified geographical locations. A particular geographic location is populated by people with distinct characteristics of demand and consumption. This indicate that the requirement of different clusters may be different depending upon the type of families living together.

**Political Change**

Since last two decades, India is facing severe political instability. This is causing frequent policy changes and creation of pressure groups.

**Technological changes**

Last decade saw tremendous change in technology specially information technology. Information Technology has provided ways to network and increase market share with profitability. There is a possibility of mutual growth and business with collaborations.

SAQ: What are the effects of environmental factors such as urbanization, brand profusion, changes in income levels and increased consumerism on smaller retailers?

## 3.2 RETAIL MIX

We will consider the various components of the retailing mix as subcategories of the four P's, which is a very common terminology, adopted in Marketing courses. These four 'P's are:

- Place
- Product
- Price and
- Promotion

These elements are common in all retail mix. A detailed discussion on retail mix elements is given in unit 5 'Retail Strategy'.

### 3.2.1 Place

The categories from the point of view of retailing in 'Place' are:

- Convenience of shopping
- Store's decor and interiors
- Store location

The convenience of shopping provides convenience of time, convenience of location, convenience of availability of other facility centers and convenience of shopping at one place to the customers. Convenience of shopping from a consumer's point of view involves time, place, effort and other facilities. A store which is open from 7.00 A.M to 11.00Pm is more convenient than a store that is open from 10 to 5. Many banks open evening branches to provide convenience of time to office goers. ATMs provide the same convenience of time. A store that is close to consumers offers convenience of place. Less effort needed is another aspect of convenience. In most apparel shops the sales persons help you select the proper dress or matching tie etc. to provide effort aspect of convenience. From other facilities from the customer's view point means, what other facilities are offered by the retailer such as car parking space, ATMs, credit cart acceptance, free home delivery, ordering by phone, availability of all products under one roof etc.

| CONVENIENCE OF SHOPPING | | | |
|---|---|---|---|
| **Timings** | **Location** | **Effort** | **Facilities** |
| • How long store remains open?<br>• Does it remain open Sundays and holidays? | • Is it conveniently located for the customer | • Does it offer assistance in selection and shopping to the customers | • What facilities does it offer, such as:<br>• Car parking space,<br>• ATMs,<br>• Credit cart acceptance,<br>• Free home delivery,<br>• Ordering by phone,<br>• Availability of all products under one roof etc |

Stores interior and décor also form part of retail mix. A retail store can have expensive fittings etc. (normally used for trendy products such as Titan Showrooms) or can have inexpensive interior or décor (normally used by discount stores). The two important criteria for store’s interior and décor are:

- It should be compatible with the products, for instance, for home furnishings and decorative items would require an attractive and elegant interior and décor, whereas a store selling items would require visibility and hygiene rather an elegant décor.
- It should be compatible with the target customers and retailers image, for example, target customers of a five star hotel would like to have a good interior and décor, whereas a small restaurant may not much attention to its interior and décor.

Where the retail organization chooses to locate can make the difference between success and failure. Additionally a location that is right for one type of retailer (e.g. a discount furniture warehouse) could be totally wrong for another (e.g. an exclusive high class fashion retailer). A store can be located in high rent Fashionable Avenue or in a low rent edge of town locality. Usually interior and décor have direct relationship with the store location. Elegant décor, expensive fittings are hardly compatible in a store located in low rent area. Similarly, a store that can afford high rental is most likely to provide elegant décor and interior to its customers.

Two important criteria for store’s location are:

- Target customers, and
- The type of retailer or retailers image.

## 3.2.2 Product

Following factors of ‘Product’ are useful for retail mix.

- Breadth of merchandise
- Depth of merchandise
- Quality and fashion level of goods

**Product Merchandise Assortment: Breadth**

Breadth or variety of merchandise refers to number of different merchandise categories a retailer offers. A store with many lines and departments of merchandise has breadth of assortment; a narrow line store is a specialty store.  Many stores that carried limited lines, such as groceries or drugs, are expanding their lines through scrambled merchandising and are thereby offering a broader assortment. On the other hand, specialty stores and boutiques are prospering through offering such limited assortments as wigs, pets, lamps and shades, and jeans.

**Product Merchandise Assortment: Depth**

Depth of assortment refers to number of number of different items in a merchandise category. So depth of assortment refers to the variety of colors, styles, sizes, and prices that a retailer offers in a given line. Each different item of merchandise is called an SKU (Stock Keeping Unit). An Example of SKU is ‘ Girls’ Levy jeans Size 5 stone washed, straight leg’. Specialty stores offer greater depth of merchandise and this explains the popularity of specialty stores. For example, a shopper wanting a large assortment of wigs and a salesperson with expert knowledge of them would probably go to a specialty store, not a discount or department store. Figure 3.2 (a) and (b) shows the difference between merchandise breadth and depth and how these vary for typical discount, and department store.

Merchandise depth and breadth are seldom found in one store, although the biggest department stores approach this. But even a department store faces limits of space and investment. The customer interested in one stop shopping will find the department store or discount store to be an efficient choice. But a specialty store offers customers greater variety in a specific line.

DISCOUNT STORE (Wide and Shallow)

← BREADTH →

DEPTH

| P1 | P2 | P3 | P4 | P5 |
|---|---|---|---|---|
| I1 | I1 | I1 | I1 | I1 |
| I2 | I2 | I2 | I2 | I2 |
| I3 | | I3 | | I3 |
| | | | I4 | |

**LEGEND**
**P** Product
**I** Item or Stock Keeping Unit (SKU)

***Diagram 3.2(a): Assortment in a discount store***

(B) DEPARTMENT STORE (Wide and Deep)

← BREADTH →

DEPTH

| P1 | P2 | P3 | P4 | P5 | P6 | P7 |
|---|---|---|---|---|---|---|
| I1 | I1 | I1 | I1 | I1 | I1 | I1 |
| I2 | I2 | I2 | I2 | I2 | I2 | I2 |
| I3 | I3 | I3 | I3 | I3 | | I3 |
| I4 | I4 | | | I4 | | I4 |
| I5 | | | | I5 | | |
| I6 | | | | | | |

***Diagram 3.2(b): Assortment in a Departmental store***

**Product Quality And Fashion Level Of Goods**

Quality and fashion are important attractions at the high end. High quality, newest fashions and exclusivity are major consideration for high income, fashion conscious customers. Exactly opposite is true for low end. Low price and value for money are major considerations for relatively low-income customers. Indian consumers are famous for their attitude towards value for money and low price.

Although quality in a product is often difficult for a shopper to determine, price lines and brands carried are major reflections of quality in the customer's mind. Fashion refers to a particular style that has become accepted. A high fashion store offers the newest fashions before they have become popular (that is, widely accepted). At the opposite end of the scale, discount stores and salvage stores offer distress merchandise and other low-end merchandise.

## 3.2.3 Price

In the past, price was considered a direct indicator of quality. However, this trend is changing now, as many good quality products are being priced low. Price has become a tool in the marketer's armour to increase market share without compromising quality.

Today, price is considered an indirect indicator of quality and fashion level of goods. And to an extent it is. Higher quality goods and newest fashions usually command higher prices. However, good quality may be available without the highest prices. Private brands, which are retailer's own brands usually, are priced lower than nationally advertised brands. Often the difference in price between highest and lowest price items does not accurately reflect the difference in quality. Some retailers, for example The Home Stores have even introduced their own brands in groceries at lower prices than national brands without compromising on quality.

Consumers often make judgment on products or indeed on the store as a result of his or her response to the prices of merchandise. Thus for example a retailer could adopt a strategy of offering goods at relatively high prices in order to be consistent with a general strategy of appealing to consumers who want exclusivity.

The major appeal of discount stores is their low prices. Many other stores direct the bulk of their promotional efforts, especially their newspaper advertising, to sales and particular goods offered at special low prices. Most supermarket advertising promotes low price specials or leaders, designed to attract customers to the store so that they may then buy other regular price items. Leaders are items sold at a below average mark up sometimes even near cost in order to attract customers to the store.

Despite the overwhelming commitment by many retailers to low prices as the major promotional tool for advertising and display, not all consumers appear to view price as all that important. The poor the very consumers who should be most price conscious do not always seek out the best values, because of ignorance and apathy. Other consumer tends to view convenience, merchandise quality and assortment, and friendliness of clerks as more important than price.

## 3.2.4 Promotion

The retailer has to communicate with customers, initially to make them aware of his or her offerings and then to stimulate interest and desire. This is based on the AIDA theory of promotion.

A: Awareness

I: Interest

D: Desire

A: Action

**Awareness:** The retailers first task is to make the customer aware of his offerings. It should communicate properly to its customers through advertisements, window merchandising, product display etc.

**Interest:** Next stage of promotion is 'interest', if customer shows some interest in the product retailers sales persons can help in knowing the product better.

**Desire:** The third stage is ' desire', it is in this stage the retailer can convert desire of the customer into next stage that is action or purchase.

**Action:** In this stage, customer makes purchase.

In practice, few promotions take the customer to all the way from awareness to purchase, but the AIDA framework suggests the desirable qualities of any promotion.

The techniques of promotion available to the retailer include advertising, personal selling, sales promotions and public relations. Through the use of these communication tools the retailer establishes a position in the consumer's mind, which hopefully will move the consumer to choose that store in preference to competitors.

Customer service is the best promotional tool for retailers. However, providing services is expensive and full service stores necessarily charge higher prices. As discount stores entered the market with a minimum of services and often the barest of décor, they were able to significantly undercut the prices at department stores. Department stores then were often forced to cut back on some of their services or to charge for certain ones, such as delivery and alternations. Services include friendly and well trained salespeople, credit, delivery, trading stamps, gift wrapping, bridal consulting, interior decorator consulting, return goods privileges baby sitting availability, alternations, workroom activities and handling of customer complaints and merchandise corrections. Even the store itself, its décor, pleasant surroundings, rest room facilities and air conditioning is a form of service.

Other promotional tool for retailers is to continually seek ingenious and innovative ideas to attract customers and make their shopping interesting and exciting. Some examples are: flower shows, fashion shows, import goods spectaculars, exhibitions of various kinds, use of celebrities to meet customers and sign autographs. Some stores attempt to create an urge to buy by continually holding special sales, anniversary sales, games and contests.

*SAQ:* Apply concept of retail mix to:

(a) Discount stores, (b) Department stores, (c) Service retailers

## 3.3 THEORIES OF RETAIL CHANGE

Four theories of retail institutional change have originated in North America, but they are equally applicable to the other parts of world.. These are:

- Theory of natural selection in retailing
- Theory of wheel of retailing
- General-specific-general cycle or accordion theory
- The retail life-cycle theory

### 3.3.1 Theory Of Natural Selection In Retailing

Theory of natural selection in retailing is based on the famous of theory of Charles Darwin of natural selection in "origin of species". This can be stated as 'retail types (or units), which best adjust to their environment, are most likely to survive'. In this theory environmental factors play major role in survival of retail type.

The department store is often cited as an example of a retail type failing to adapt quickly to changes in external condition like suburban growth and congestion in town centres. However these very factors have helped the growth out-of-town stores.

The major environmental factors affecting retailing are:

a) Changes in the consumer character:
   (i) Demographic, e.g. population age changes
   (iii) Social, e.g. product and service preferences
   (iii) Economic, e.g. changes in real incomes.
b) Changes in technology, e.g. greater ownership, use of motorcars, food freezers, and microwave ovens.
c) Changes in competition, i.e. changes in the levels of competitive strength within the areas of influence.

If a retail outlet or type does not address to these factors, it may have the fate of dinosaurs

### 3.3.2 Theory Of Wheel Of Retailing

This theory, first championed by Professor McNair of Harvard, postulates that an efficient innovatory form of retailing (such as discounting) enters the market and attracts the public by its new appeal. Growth and maturation occur during which market shares are increased, but trading-up occurs and finally the firms become high cost, high price retailers once again vulnerable to the next innovator. Reasons for its occurrence include:

(a) Organizational deterioration. As young innovators age they become more conservative and may seek greater social acceptableness. Again, they may be unable to recruit management capable of extending the life of the innovation.
(b) Economic factors. The popularity of non-price competition produces higher gross margin requirements as an institution matures. It suggests that non price competition is less ruinous than price competition.

For example, new type of retail firms (such as discount stores in 1950's in USA) enters the market with low status, low mark-up and low prices. Over time as they become successful, they open more stores offer more services and as a result their costs increase and they have to charge higher prices to their customers. This in turn makes them vulnerable to new entrants who will use the similar strategy, i.e., low status, low mark up and low prices. Diagram 3.3 depicts theory of wheel of retailing..

### 3.3.3 General-Specific-General Cycle Or Accordion Theory

This describes the tendency for retail business to become dominated (alternatively) by generalists, then specialists and then generalists again. The switch to the specialist store from the old time 'general' store occurred because:

(a) The greater variety of customer goods available could not be accommodated in the old general store

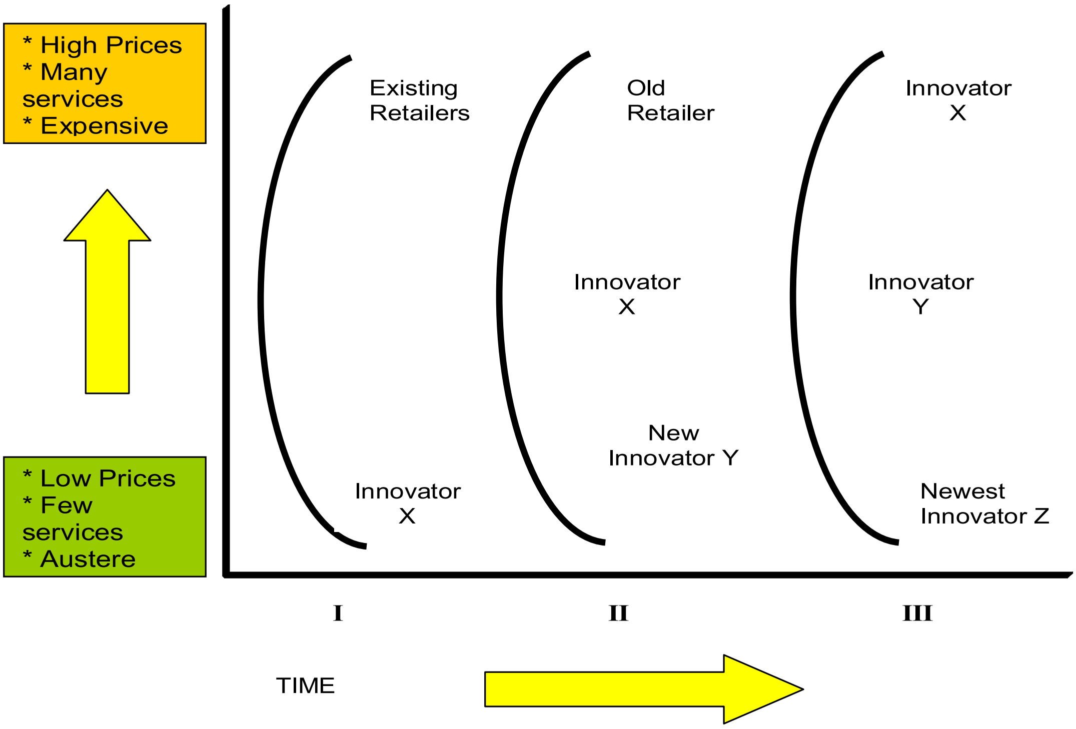



***Diagram 3.3: Wheel of Retailing***

(b) Growth of cities meant that consumer markets allowed profitable segmentation

(c) It provided a social content to the shopping trip, which was required as society became more complex and impersonal.

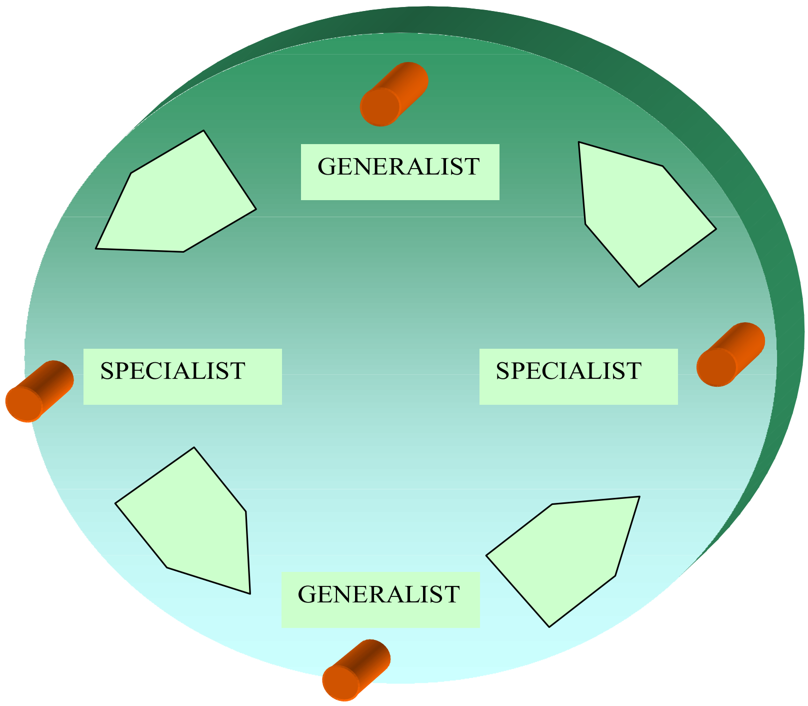



***Diagram 3.4: General - Specific - General Cycle***

The tendencies helping to create the new 'general' store (superstore or hypermarket) include:

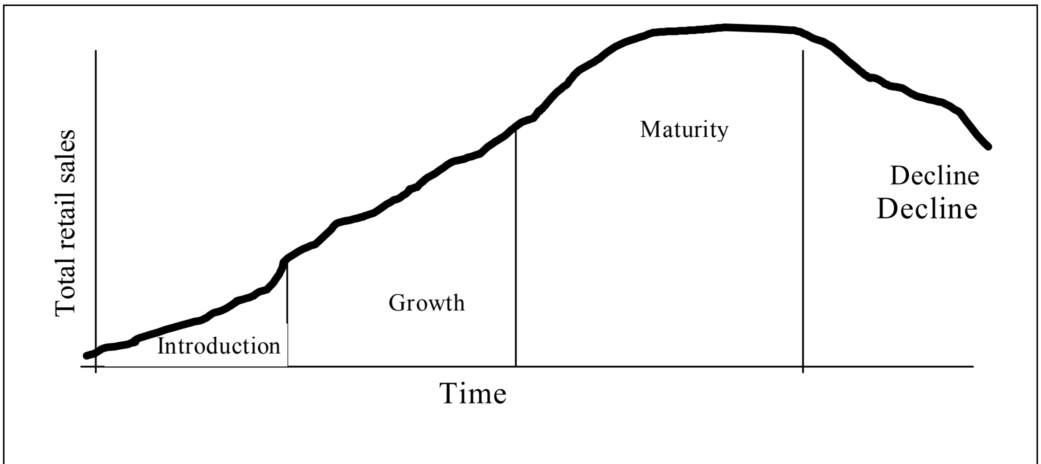
- Joining complementary lines, e.g. meat, groceries and produce
- Creaming, i.e. taking the most popular lines from other retail outlets' ranges, e.g. paperbacks, confectionery, to create small but sure profits
- Scrambling, i.e. the taking of risky merchandise from other outlets means buying high margin, lower stock-turn lines, e.g. unit audio, expensive toys
- Adding complete ranges 'borrowed' from other institutions, e.g. Marks & Spencer selling food to increase the physical density of shoppers in their stores
- The growth of shopping centres. Large modern air-conditioned centres, particularly those with a substantial food complement, are somewhat like huge general stores. Note also the return to small convenience stores which are now competing successfully primarily by staying open for long hours.

## 3.3.4 The Retail Life-Cycle Theory

The retail life-cycle theory is based on the product life-cycle theory. The retail life-cycle theory suggests that retail institutions also have a life-cycle which can be divided into four phases: innovation, growth, maturity and decline just like product life-cycle theory.

In the innovation stage, the new retailer will have few competitors, rapid growth in sales but low profitability due to start-up costs, etc. In the growth phase, sales growth is still rapid and profitability is high due to the economies of scale now possible. However competitors will spot this and begin to encroach on this market.

At the maturity stage, there are many competitors, sales growth has declined and profitability moderates. In the final decline phase, sales and profits fall and new, more innovatory retailers are developing and growing. It has also been suggested that the life cycle of retail institutions is getting shorter.




| Strategy Variable | Life Cycle Stage | | | |
|---|---|---|---|---|
| | Introduction | Growth | Maturity | Decline |
| Profit margin | Low | High | Stable | Low |
| Sales | Low | High | Stable | Declining |
| No. of Competitors | Very few | Moderate | Many Direct | Many indirect |

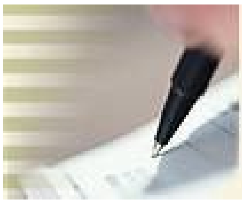
***Diagram 3.4: Retail Life Cycle Stages***


Find out examples from Indian and international scenario of theories of retailing described above.

SAQ:
1. List the four stages in retail cycle.
2. Theory of natural selection in retailing is based on which principle.
3. What is the basic postulate of Wheel of retailing theory?

This unit has provided you with an overview of retailing concept. A more technical and specific concepts, which have strengthened your fundamental knowledge gained in unit 1 and 2. This knowledge would be further strengthened in unit 4 and unit5.

## POINTS TO REMEMBER



1. The three major factors that a retailer must keep in mind are: customers, competitions and the environmental trends.
2. The major environmental trends in India are:
   - Economic Progress
   - Urbanisation
   - Small nuclear family
   - Increase in number of working women
   - Increased Consumerism
   - Brand profusion
3. The four P's of retail mix are: Place, Product, Price and Promotion.
4. From the point of view of place in retailing mix are:
   - Convenience of shopping
   - Store's decor and interiors
   - Store location
5. Following factors of 'Product' are useful for retail mix.
   - Breadth of merchandise
   - Depth of merchandise
   - Quality and fashion level of goods
6. Price is often considered an indirect indicator of quality and fashion level of goods.
7. Promotion includes customer services such as friendly and well trained salespeople, credit, delivery, trading stamps, gift wrapping, bridal consulting, interior decorator consulting, return goods privileges baby sitting availability, alternations, workroom activities and handling of customer complaints and merchandise corrections.
8. There are four major theories of retailing:

   (a) Theory of natural selection in retailing

(b) Theory of wheel of retailing

(c) General-specific-general cycle or accordion theory

(d) The retail life-cycle theory

9. Theory of natural selection in retailing states that ‘retail types (or units), which best adjust to their environment, are most likely to survive’.
10. The theory of wheel of retailing postulates that an efficient innovatory form of retailing (such as discounting) enters the market and attracts the public by its new appeal. Growth and maturation occur during which market shares are increased, but trading-up occurs and finally the firms become high cost, high price retailers once again vulnerable to the next innovator.
11. General-specific-general cycle or accordion theory states that the tendency for retail business is to become dominated (alternatively) by generalists, then specialists and then generalists again.
12. The retail life-cycle theory suggests that retail institutions also have a life cycle, which can be divided into four phases: innovation, growth, maturity and decline just like product life-cycle theory.

## REVIEW QUESTIONS

1. Discuss the concept of merchandise breadth and depth. Can a store offer both? Give examples of Indian stores with respect to merchandise breadth and depth..
2. How AIDA theory can be used in retailers’ promotion?
3. Give examples of Indian retailers using different tools.
4. Summarize three theories of retail change.

# Unit – 2

# Retailers & Retail Formats

# CONTENTS



# OBJECTIVE OF THE UNIT

## General Objective:

1. Understand the basic concept of retailing

## Specific Objectives:

1. Explain the term retailing with reference to organized retail business.
2. State the functions of retailers.
3. Describe the importance of organized retailing in the growth of economy.
4. Differentiate between organized and unorganised retailing business

## 2.1 INTRODUCTION

You know that departmental stores may be a comparatively recent phenomenon in India, with a specially created ambience making shopping an experimental affair. Indeed, we are even beginning to demand places where we can avail the luxuries of spending the whole day in one place, taking advantage of a bouquet of services in which shopping is only a part. Therefore, you can browse window shop, make purchases, break off for a meal, take in some entertainment, and listen to music.

This concept of organised retail marketing has caught on like lightning. It creates a distribution network that cuts out various intermediary costs and creates a much smoother interface between manufacturer and customer. You will study about this in detail in further units. This organized network which bridges the distance between the manufacturer and the consumer has seen many of the world's leading entrepreneurs successfully walk down a particularly profitable road.

With total sales going up to $6.6 trillion, the industry today is the world's largest private industry and accounts for over 8 per cent of the GDP in western countries.  Now, it is India's turn. Today, we stand at the crossroads of a retail revolution. After 50 years of unorganised retailing and fragmented kirana stores with very basic offerings, fixed prices, zero usage of technology and little or no ambience the industry has finally begun to move towards modernisation, systematisation and consolidation.

Retailing has now become a key growth area. There has been an attitude change in the way the Indian consumer thinks about shopping. What, where and how they buy is now the big question. Over the last decade, there has been a significant evolution in his psyche, a change that has been carefully recorded and documented by behavioural pundits.

" You must have noticed  that  retail industry is extremely diverse . There are 13 million retailers in India and now more than 250 malls  which may go up to 500 by 2010.

Retailers in India like abroad in diverse form such as street vendors to Large groups like  ABRL , Bharti , Trent , Reliance retail , Shoppers , Lifestyle, Future group , RPG  to Multiplex chains like Adlabs,Cinemax ,PVR,Inox,FR, or food courts ie Blue foods, SRS,Gigabites , spices and vices are few names in long list and different formats. Each type of retailer survives and makes profit  by satisfying their target group of customers in most convenient and efficient manner."

Retail industry is a dynamic one as it tries to satisfy changing customer profile and their needs with time. The stores change their format, style of presentation and assortment i.e. variety and depth of merchandise as per the requirements of the customers. In this unit, you will study different types of retailers, retail formats and their characteristics features with reference to Indian scenario of organized retail business.

## 2.2 CLASSIFICATION OF RETAILERS

Because there are so many different kinds of retail firms, classifying them all into one neat system becomes difficult. We can use different bases for classifying retail firms. Different types of classifications are explained here.

### 2.2.1 Legal Form

The three basic legal forms of ownership are sole proprietorship, partnership and limited liability company (private or public).

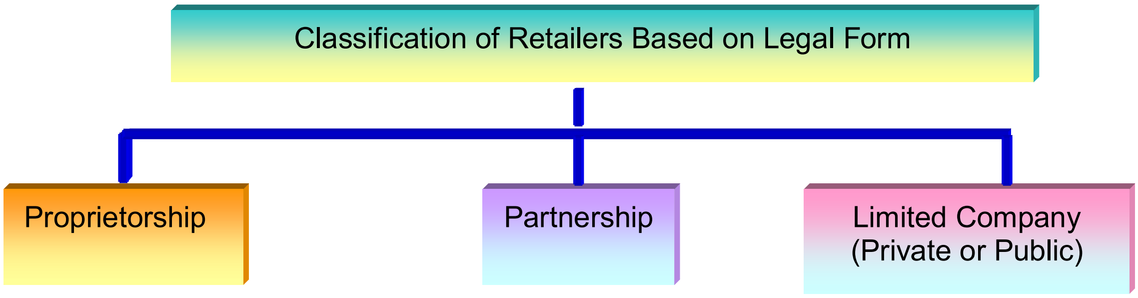



***Diagram 2.1: Classification of Retailers based on Legal Form***

## 2.2.2 Operational Structure

There are three operational structures: the independent trader (usually operating only one retail outlet, the multiple or chain store; and the co-operatives.

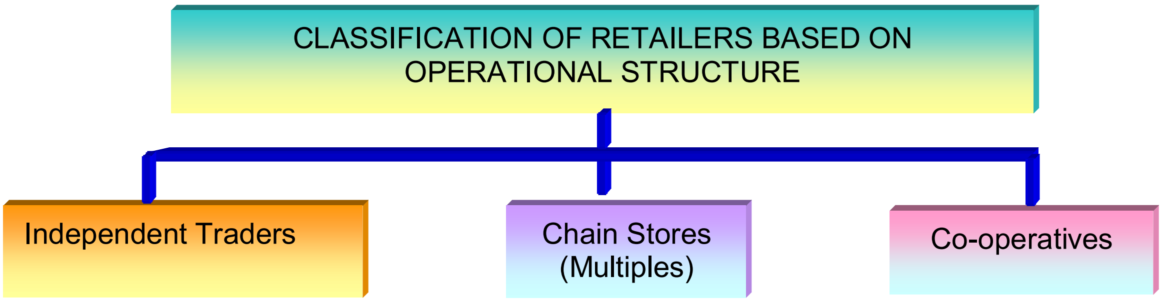



***Diagram 2.2: Classification of Retailers based on Operational Structure***

## 2.2.3 Range of Merchandise

Some retail businesses offer a wide range of goods. Examples of these include variety stores like Marks & Spencer or department stores like Harrods. Others concentrate on narrow ranges like health foods; leather goods, greetings cards and these are called specialty stores or niche retailers.

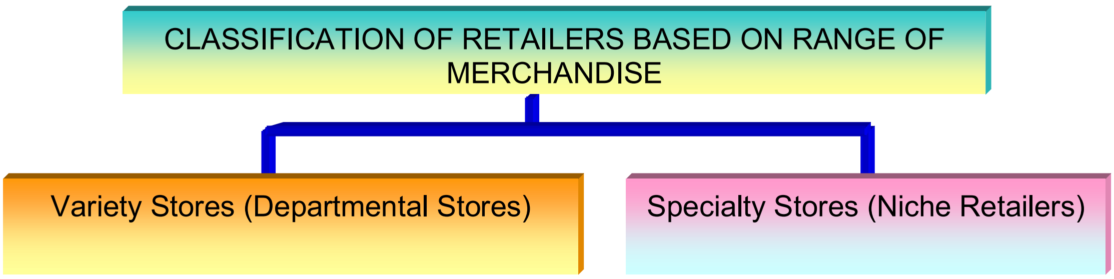



***Diagram 2.3: Classification of Retailers based on Range of merchandise***

## 2.2.4 Degree of Service

Although many retail outlets have been converted or built to self-service or self-selection standards, there are others which offer their consumers services such as delivery, credit, gift wrapping, repairs, etc. It is interesting to note that many former self-service retailers are now looking at ways of gaining competitive advantage by adding new customer services.

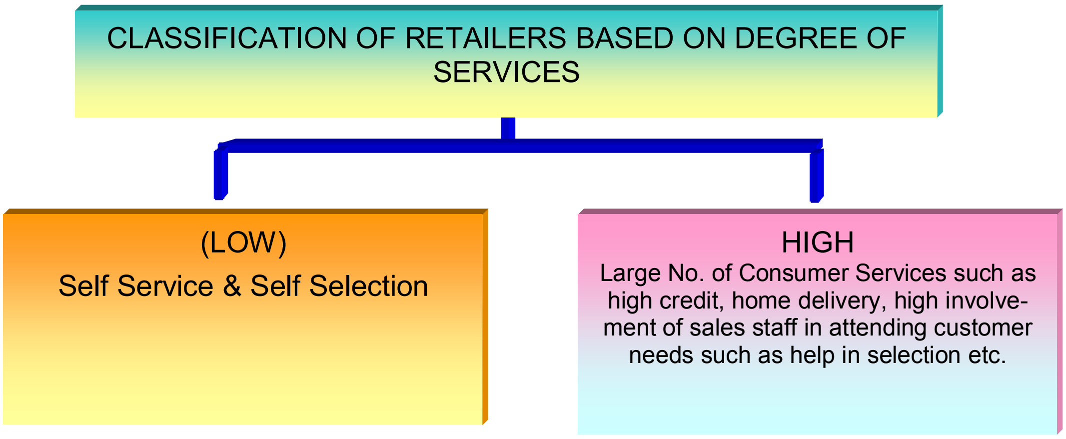



***Diagram 2.4: Classification of Retailers based on Degree of Services***

## 2.2.5 Pricing Policy

Some retailers choose to emphasize low price rather than the service element of their retailing mix. Aldi, the German food retailer, expanded very rapidly in the late 1980s by pricing below the competition. Others choose to price above the competition knowing that they will generate business on the basis of some other attribute such as convenient location or exclusive image.

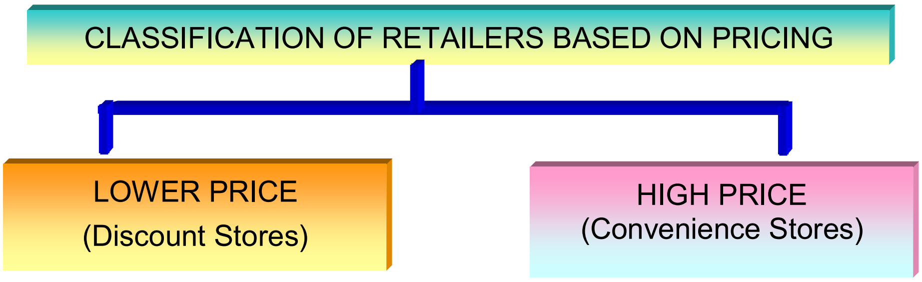



***Diagram 2.5: Classification of Retailers based on Pricing Policy***

## 2.2.6 Location

Another way to classify retailers is according to geographic location. With the increasing cost of town centre sites and traffic congestion, many retailers have sought edge-of-town locations, whilst others have preferred to stay in 'cluster' locations in town centres as shown here. Stand alone stores, Shopping Centres or Complex, Destination stores and Convenience stores are based on location.

## 2.2.7 Size of Outlet

The average size of many multiples' branches has increased quite markedly over the past few years as more and more firms become large and medium-space users. The term 'superstore' has been used to define outlets between 25,000 and 50,000 sq ft and hypermarkets are those stores over 50,000 sq ft. Many outlets are now being built in the 50,000-100,000 sq ft range. The number of superstores and hypermarkets increased from two in 1963 to 400 in 1986 and reached 1,000 in 1995.

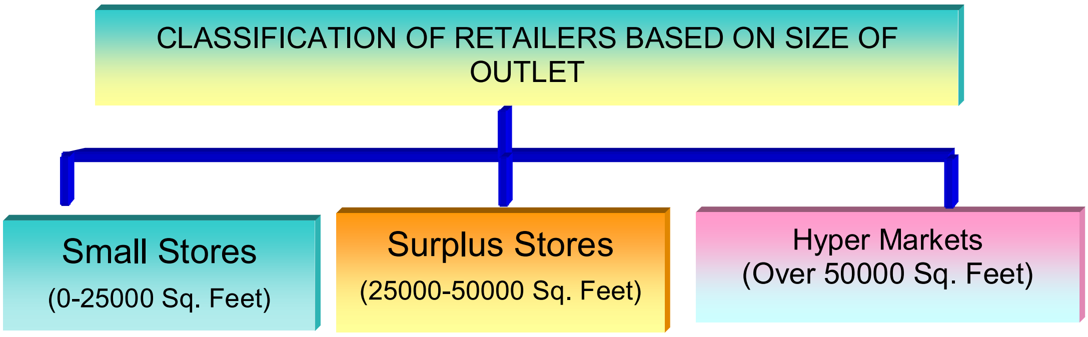



***Diagram 2.6: Classification of Retailers Based on Size of Outlet***

## 2.2.8 Based on Customer Contact

Most retail transactions are conducted by face-to-face contact in retail stores. However, a significant proportion of retail sales is generated by non-store retailing operations such as mail order catalogues, telephone selling, e-retailing, vending machines, door-to-door selling or mobile shops.

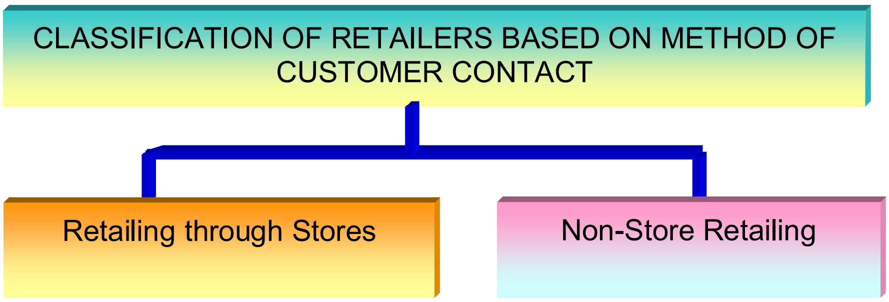



***Diagram 2.7: Classification of Retailers Based on Customer Contact***

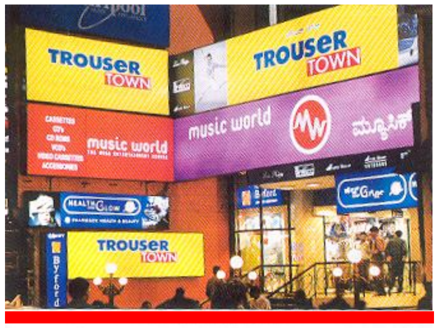
You will notice that some of these categories overlap but they are all important in specific marketing situations. The conventional and most common classification of retail organizations is based primarily on operational structure and range of merchandise.

Now we will consider the main formats of retail organization in more detail. Most retail forms discussed in the following sections have not made a big impact or even unheard of in the Indian context, as the oragnised retailing is only 2% of total retail sales (excluding fuels). However, situation has begun to change slowly since 1980s and has gathered momentum in nineties.

SAQ: What is the basis of classifying different retailers? Give suitable examples in each category.

# 2.3 TYPES OF RETAILERS BASED ON MERCHANDISE AND PRICING

As you have seen earlier that the classification was based on the range of operation, and physical characteristics of the stores. Now you will study the classification of stores based on merchandise and pricing mechanism. In Indian context, these classifications may be new or developing in the form and hence you cannot distinctly identify a store by these typical classifications. These are departmental stores, speciality stores and discount stores.




## 2.3.1 Department Stores

A department store is defined as a large store selling

- a broad variety and deep assortment (to understand breadth and depth of assortment refer unit 3)
- offer considerable customer services and organised into physically separate departments.


Large department stores have started appearing in Indian scenario like Shoppers' Stop, Vivek & Co., THS, and Globus to name a few. But they can not be compared to the departmental stores worldwide. Some of the US large department stores chains are Sears, J C Penny, etc. Some large departmental store groups own many branches and these chains are called multiple department stores.

A departmental store is organised into departments selling clothing and accessories, home furnishings and furniture, toys and games, consumer durables, and kitchenware.

*With the success of the hypermarket in Hyderabad, RPG is looking at establishing a wholesaler's chain throughout the country, "In the next five years, RPG retail is planning to set up 12 to 15 hypermarkets in India. After all Giant has been attracting retailers who prefer quality and good profit margins. According to Mohammed Afzal, a retail shop keeper from Musheerabad area, "the store offers single, multiple and annual rebate on the goods bought, which is the core attraction for us, " Adds another retailer, Mr. Raythaya, from Mehdi: "The priced of the product solely depends upon the quantity we buy. If we buy large quantity, the price is very attractive."*

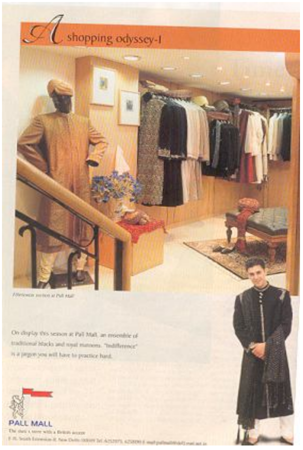
*Hypermarkets are one of the fastest formats in Asia, where a number of international chains intend to invest. For a customer, this format helps in bulk purchases of a variety of products, which is made easier with costs being less. The store also ensures maximum stock availability, enforces strict quality control measures with a replacement guarantee within a period. For a manufacturer, the store provides a showcase of brands for a wide target audience through a single point and reduced distribution costs for promoting brands. The success of ventures like Giant and Margin Free Markets has lured many into this business.*

Some of the characteristics of Department Store are:

- Located in central market area or a major shopping centre, locations supported by potentially large catchments.
- Availability of parking space.
- Freedom for the customer to move around the store and view.
- Relatively high prices with margins large enough to cover heavy staffing, the range of services offered and high accommodation costs.

- Provision of a large number of specialized goods in one location, which allows some associated sales.
- Availability of personal assistance in shopping, added customer services and amenities.
- Special staff expertise in particular products demonstration. Wide range of customer services such as delivery, credit, the making-up of soft furnishings and the provision of restaurants, cloakrooms, telephones, etc.

### 2.3.2 Specialty Stores




A Specialty Store has a narrow product line with deep assortment (i.e., has more depth in the same product category) and provides a high degree of customer service. You will notice that in complete contrast to Department stores, specialty stores have narrow product line or narrow variety but deep assortment. It means there are a few products with a wide variety of range, quality and colour for customers to choose. This offers customers a better selection along with assistance in selection by stores sales people. Examples of this kind in Indian context are: Planet M, Music World and many apparel and shoe stores. Zodiac and Park Avenue (Raymond) are men's specialty store.

A retail store selling a great variety of a particular characteristic group of merchandise is known as an Emporium (saree emporium, art emporium, etc.)

### 2.3.3 Discount Stores

A discount store is a general merchandise retailer that offers broad variety of merchandise, shallow assortment, limited service and low price. Discount stores offer lower prices due to limited service and low cost locations. Discount stores tend to have characteristics such as:

- Very low prices (value for money)
- Low gross margins
- High degree of self-service (no frills attached)
- Low-cost fittings.
- No free services, such as delivery
- Reliance on heavy advertising in nearby large population centres
- Relative isolation of locations from conventional shopping areas with consequently low rents predominantly in 'edge-of-town' sites (highways).

The dependence is therefore on shoppers requiring:

- Good communications
- Plenty of parking space
- Visibility of the site from some distance.

The examples of discount store chains are Wal-Mart and K-Mart. In India, so far discount stores have not appeared on retail scene in a big way. The reasons are three fold. Unlike most western countries, Indian manufacturers have much higher bargaining power with their retailers. As there are very large number of small retailers and no retail association with the influence to negotiate with the manufacturers. The other reason is that retailers themselves do not have economies of scale to offer discounts on their own. In general, merchandise retailing, factors like MRP – prescribed pricing and single countrywide pricing policies adopted by most organized vendors deter the growth of discount stores in the country.

Subhiksha of Chennai was the first chain to adopt discounting as a key strategy. Other food chains and super markets have started offering discounts but in a limited manner.

*What does Subhiksa in Chennai, Margin Free in Kerala, Bombay Bazaar in Mumbai, RPG's - Giant in Hyderabad, Big Bazaar in Kolkata, Hyderabad and Bangalore, and 'Sabka Bazar' in New Delhi have in common? Well, they all their products at prices way below the MRP.*

*Discount stores have arrived in India and industry insiders feel that they would spearhead a revolution in organised retailing.*

*"Modern retail formats will have 10-15 per cent of the total market in the next ten years and while all formats will co-exist, large discount stores could be front runners in this evolution," says Raghu Pillai, President and CEO, RPG Enterprises. The Rs. 6,000-crore, RPG group of Food world, Health and Glow and Music World fame, opened its first discount store by the name of Giant early this year. "The response has been fantastic and we are growing month on month." We believe that this store will generate revenues to the tune of Rs 100 crore annually in three years," he says. "If you look at the list of top retailers in the world quite a few would be discounters. Around 60 per cent of the business abroad comes from this format. Internationally, the largest retailer in the world Wal-Mart is a discounter," says Kishore Biyani, MD. Big Bazaar. A part of pantaloon group, Big Bazaar invested a total of Rs 30 crore to have a discount store each in Kolkata, Hyderabad and Bangalore.*

*"We are doing better than expected, we have around 22,000 clients each day with daily sales of Rs 25-30 lakh from all three stores," he adds. Both the firms are now on an expansion spree. RPG, for instance, plans to have 15 Giant store in the next five years, which would entail total investment of Rs 225 crore. Big Bazaar, would be opening in Gurgaon by the year-end.*

*"We would also be opening three stores in Mumbai, beginning with March'02," says Mr. Biyani. The total investment would be Rs 25-30 crore and the turnover expected from each store is around Rs 50 crore. The industry feels that discount stores, besides having advantages of price, assortment dominance and quality assurance have the ability to quickly build scale and pass on the benefits. "However the success would be for retailers who are able to build the scale fast, manage their operations and all of that while offering value to the customer consistently, says Dipankar Halder, associate director, KSA Technopak.*

**Source:** E.T 21/12/01.

Some other forms of discount formats found predominantly in west are:

- There are discount specialty formats as well when they specialize in a given type of merchandise lines.
- There are such discount stores (found in the West in large numbers) adopting an everyday low pricing strategy and they are known as an Every Day Low Price (EDLP) format.
- A category killer format is a large specialty store featuring an enormous selection of its product category at relatively lower prices.
- The factory outlet format is owned and operated by the manufacturer selling their discontinued merchandise, factory seconds, cancelled orders, etc., at very low prices located in the adjacency of the factory itself. Some of the textile mills in Mumbai like Bombay Dyeing and Morarjee have their factory outlets in the precincts of their factories.
- The warehouse format is a large sale of discounted merchandise by an individual or an organization in the free access ambience of a warehouse. This format has a large width and depth of the multi categories in retails.
- A single price denomination format store retails scrambled merchandise lines at just one price point, which is generally a low price point. Such retail outlets are famous in the US and the best example of this format is the Dollar stores spread across the country. Similar to this are some Indian stores where every item is Rs 5 or 15 mainly having plastic toys or hair clips/bands etc.

SAQ: What is the major difference among the departmental store, speciality store and a discount store? Is it possible for a particular store to change its format for gaining advantage for a limited time? Justify your answer.

### 2.3.4 Super Markets, Superstores And Hypermarkets


A super market is a self-service food store offering groceries along with other merchandise for household maintenance and laundry, etc. and size of under 25,000 square feet. They are relatively large, low-cost, low-margin, high volume, self-service stores. Number of supermarkets has come up in most cities in last few years. A typical Indian Super Market is about 3000 sq. ft.

Superstores are large supermarkets (25,000 + square feet). A superstore has space for offering known traditional goods and services like a pharmacy, a flower shop, a bookstore, a salad bar, a bakery, etc. under one roof (Nilgiris, Banglore).

A shopping mall is an arrangement of retail stores and other places for leisure time activities such as dining, entertainment, etc., selected on their contribution to an overall merchandising plan. A mall is spread over a large area of more than 2,00.000 sq. ft. and runs as an integrated business by an individual or an organization, to which independent retailers pay for opportunities to participate.

A shopping centre or a plaza is a configuration of five or more tenant spaces of approximately, 1,000 sq. ft. each used for retailing developed under one building plan in such a way to have a unified character. (Kannaiya shopping center in Linking Road, Mumbai, Fountain Plaza, Egmore, Chennai, Basant Lok in Vasant Vihar, New Delhi).

The term ‘hypermarket’ is reserved for units over 50,000 sq ft of selling area or more, retailing groceries, general merchandise goods, pharmacy, flower shop, photo shop, other concessions, etc. with a wide variety of merchandise offerings in large quantities in each category selling huge volumes at less margins (Ansal Plaza, New Delhi).

Characteristics of above type of retail formats are:

- Substantial surface car parking spaces under the control of the superstore retailer and serving the superstore largely or exclusively.
- A range of 25,000-30,000 individual items, covering most foods and many non-foods (the latter may take up 40 per cent of the total selling area).
- A broadly similar pricing, service and general marketing strategy to the discount store.
- The comprehensive in-store use of information technology such as electronic point-of-sale equipment, and advanced food preparation equipment, e.g. for in-store bakeries.

According to one study daily turnover of an Indian Supermarket averages between Rs 15,000-Rs. 42,000 per day (1998). The total turn over of 763 supermarkets in 1998 in the six cities (Mumbai, Delhi, Kolkata, Chennai, Bangalore and Hyderabad) was Rs 677 crores.

## 2.4 TYPES OF RETAILERS BASED ON OPERATIONAL STRUCTURE

These are types of retailers which include independent traders, multiple chain stores, cooperative societies, concessionaires, and franchising. They are different from the merchandise-based stores because they have independent supply mechanisms and hence price variations are high. Now you will study these formats in detail.

## 2.4.1 Independent Traders

A single individual or sole trader owns the majority of shops in India. Even in US more than 90 % of retailers own and operate single stores. Independents are defined as retail organizations (other than co-operative societies) with less than ten branches or no branches. The usual number of branches controlled by the sole trader is one or at the most two. A family mostly owns this type of retail format with high dependence on the owner. Kirana shops, drug stores, STD/PCO outlets etc. are very good examples of such retailers.

As most of retail sales come from unorganised retail (organised retail being only 2% of total retail sales), almost 98% retail sales is generated by Independents. However, in developed economies, though there are large numbers of independent traders (over 90 % in US), their market share is less than 50%.

**Advantages of the Independent Traders:**

The main advantages of Independent traders are:

- As the owner (management) has direct contact with the customers and therefore can quickly respond to their needs.
- Independent traders can be very flexible owing to their small size.
- They are not bound by any bureaucratic rules that may restrict retail chains or cooperative society managed stores. So, they can free to locate their store wherever they want and the type of merchandise they sell.

**Disadvantages of the sole trader**

These may be summarized as follows:

- Price competition from retail multiples who can reduce their costs through bulk buying and other economies of scale.
- Lack of specialist expertise in retail functions, e.g. buying, in store merchandising, accounting, or possibly lack of time to carry them out adequately. Single store retailers have to rely on owner-managers' capabilities to make broad range of retail decisions.
- The cost of advertisement and promotion is very high for a single store.
- Lack of capital to expand and improve the business. Especially in case of networking and use of IT for development of business, the expenditures are too high for a single store.
- Inertia - the small trader may not wish to expand because of the extra problems expansion brings.
- Due to high accommodation costs the independent often lacks the advantage of being in a large shopping centre with heavy pedestrian traffic generation.
- Changing shopping habits brought about by increased car usage has concentrated purchases in large well-located 'one-stop' stores in cities.

## 2.4.2 Multiple or Retail Chain Stores

The large multiple retail organization is invariably of the joint-stock company type (either private or public) and therefore in common ownership with a degree of centralized control. A large multiple is defined as an organization (other than a co-operative) with ten or more branches. This form is strongest in department stores, speciality stores, variety stores, food stores, drug stores etc. Their size allows them to buy in large quantities at lower prices, and they can afford to hire specialist to deal with pricing, promotion, merchandising, inventory control etc.

Most chains have well defined management philosophies. Consistent strategies with reference to store hours, product assortment, prices, sales personnel, promotion and other policies must be maintained throughout all branches in order to project a particular image of the chain. This calls for centralized decision making which in turn result in difficulties for individual units in adapting to local needs of the target markets. These also limit innovation of individual units.

In India many manufacturer own retail chains, which then sell their products only. Examples of this kind of are Videocon Plazas, BPL Gallery, Raymond, Titan watches, etc.

Another form of multiple chains is Voluntary Chain. A wholesaler –sponsored group of independent retailers engaged in bulk buying and common merchandising is called Voluntary chain.

### 2.4.3 Co-operative Societies

The Co-operative Movement began in Rochdale in 1844. A co-operative society is defined as a co-operative retailing organization trading on co-operative principles, affiliated to the National Co-operative Movement (through the Cooperative Union) and registered under the Cooperative Societies Acts. Because many retail co-operative societies operate branches they are in this respect similar to multiple chains, but in the form of organization and control they are in many ways quite different.

The principles of the Movement applicable to retailing are:

- Voluntary and open membership
- Democratic control; one member, one vote
- Payment of limited interest on capital

In India cooperatives aggregate at least Rs. 400 Crores annually. Sahkari Bhandar and Apna Bazar are two leading Mumbai based cooperative chains. Delhi has couple of large cooperatives. Mother D'airy of Delhi even distributes fresh vegetables from its milk distribution centres. Milk cooperatives are believed to have a substantial 10 percent share of the all India market, which is about Rs. 60,000-70,000 crores.

Another form of cooperative is a Consumer Cooperative, which is a retail firm owned by its customers. Such societies can be seen in the educational campuses etc.

In contrast to consumer cooperative, independent retailers who set up a central buying organisations is called a Retailer Cooperative.

### 2.4.4 Concessionaire

The stopover store format is one that rides piggyback on another retail outlet, say a petrol pump. This stopover format is a concession that offers instant use or ready to eat categories of merchandise.

A Kiosk is one such concessionaire format placed in a mall or a shopping centre or a bus station, airport, etc. A kiosk is a small freestanding open pavilion often open on one or more sides used for information, sales and promotion.

Partnerships and alliances for concessions offer a great deal of opportunity for increasing customer contact, share of mind and share of heart especially in large formats such as department stores, malls and hypermarkets. By striking trust, or with complementary marketers who are concessionaires, a retailer can add value and convenience, and broaden his relationship with customers.

In addition to alliances such as McDonald's with Crossroads, Qwikys with Lifestyle, Ritazza with Shoppers' stop, retail ventures are trying to link with such concessions as travel, information, entertainment, communication, etc. in order to hit upon that winning signature configuration.

*It has been a long established practice in Asian retailing, particularly among department stores, to lease space to third departments. These third parties are typically vendors, manufacturers and distributors people with brand ownership and stake in their product lines.*

*The concessionaire concept is very common in Asia. Initially, the decision to lease out departments was largely a matter of augmenting the retailer's own mix of goods and services, particularly in areas where he/she lacked expertise or technical capabilities. With the onset of Asian currency crisis, concessionaire agreements became the most viable option for Asian retailers to stay afloat.*

*Leased departments were thus mainly seen in such businesses as food and beverage, pharmaceuticals, consumer electronics, books and music and video, and the like.*

*Leased departments have grown steadily in Asian retail, and now account for 30 to 40 percent among most Asian department store retailers. This is a much higher than their US and European counterpart, whose corresponding numbers are typically less than 20 percent. In the north East Asian markets such as Japan, South Korea, Taiwan and China, the concessionaire arrangement is even more extensive. Leased departments may account for up to two thirds, or 67 percent of the total store area.*

**Source:** Retail Asia Feb 99

SAQ: What is the major difference among the departmental store, speciality store and a discount store? Is it possible for a particular store to change its format for gaining advantage for a limited time? Justify your answer.

## 2.4.5 Franchising

Franchising is the granting of sole selling rights within a given geographical area. The franchising company (the franchiser) supplies equipment and/or raw materials for a licensee who either pays a franchise fee or a percentage of turnover, or contracts to buy supplies from the franchiser (or a mixture of these methods of payment). The licensee is also helped in finding a location and is trained in all aspects of the business. Generally, franchises are distinguished by three characteristics:

- The Franchiser owns a trade or service and licenses it to franchisees in return for royalty payments.
- The franchisee pays for part of the system. This is normally in two parts, one as initial fee, which is only a small part of the total amount. Second, service fee on turnover on monthly or quarterly basis.
- The franchiser provides its franchisee with marketing and operations system for doing business.

Franchising is beneficial to both franchiser and franchisee. Benefits to franchiser are:

- Covering new territory,
- Hard work of persons who are entrepreneurs rather than employees, and
- The franchisees' familiarity with local community and conditions.

Benefits to franchisee are:

- Buying into a proven business with a well known and accepted brand name,
- Receiving support in areas of marketing, advertising, site selection, training /staffing, and
- Borrowing money from banks becomes easier.

The most common problems in franchising business are:

- Franchiser encroaching on franchisees' territory by bringing in another franchisee in the same locality,
- Exaggerated claim of support by franchiser, and
- High failure rate.

Franchising is most frequently found in service retailing such as, car maintenance (Maruti), education (NIIT, APTECH computer centres) etc; retail catering (Kentucky Fried Chicken, McDonald),etc.

## 2.5 NON-STORE RETAILING

You will study the different types and aspect of non-store retailing in a separate unit.

### 2.5.1 Mail Order

Mail order retailing - using the mail to get orders and/or facilitate delivery - takes several forms as follows:

**Mail Order Catalogues**

These are mainly of two types - the general merchandise catalogue, and the specialist catalogue. Much of the selling is done through a network of part-time agents who are paid a commission on the things they sell.

The advantages of the general merchandise mail order catalogue to the customer are:

- 'Free' credit
- Price stability over the lifetime of the catalogue
- Savings in transport fares and petrol
- Wide selection of merchandise

**Direct Response Advertising**


This is the use of advertising in newspapers or magazines to describe a product and stimulate the customer to write or telephone for it. Most national newspapers have a Saturday bargain squares section advertising all manner of postal bargains.

**Direct Mail**

This is the use of advertising literature sent directly to the potential customer for the purpose of selling goods or services. The Reader's Digest have been particularly successful in selling books in this manner and records, tapes and collectors' pieces are also sold via direct mail.

### 2.5.2 Direct Selling

Direct selling that is direct selling of the product by salesman to you  takes several forms as follows:

**Door-to-door Trading**

Selling by salespersons is being done to launch new products. A variety of foodstuffs are also regularly delivered to the doorstep, e.g. milk, bread, eggs, vegetables. Avon cosmetics are sold in this manner.

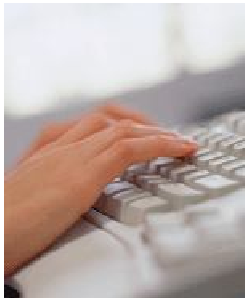
**Mobile Shops**

These are travelling shops and are distinct from vehicles from which milk, bread, news papers etc.are delivered. Vegetables, plastic toys and other small goods of house hold use are sold by hand driven carts.

**Markets (Haats)**

Haats or rural markets remain the traditional way of retailing in rural and semi-urban India. In these markets, sellers bring their merchandise on one particular day (s) to particular place. Vegetables, groceries and household items are sold in this type of markets. Names of many localities were derived because on a particular day a Haat would be organised there. For example: Itwara, Budhwara, Mangalwara, etc.

## 2.5.3 Automatic Vending



Selling out of machines has been part of the retail scene for many years (particularly for making a local telephone call) and there has been something of a recent boom in auto-vending, notably in closed, relatively vandal-proof areas such as sports centres and airports. This possible limitation reduces the main advantage of the machine in that they can be in operation for twenty-four hours a day, seven days a week. Banks are providing this type of service through ATMs.

## 2.5.4 Electronic Retailing

Electronic retailing has two formats, namely, television shopping and on-line computer shopping services.

**Retailing through Television**

In this retail format customers watch a TV programme demonstrating merchandise and then place an order over telephone. Major players in India are Asian Sky Shop, TSN, TVC, Telelebrands etc.

**Retailing through Internet**

In this retail format customers and retailer communicate through an interactive electronic system (internet). After browsing through and satisfying himself customer places an order through internet, phone or by mail. Major retailer in India using this format is Jaldi.com, Indiainfo.com, anD Rediff.com. Amazon.com has established itself as a major non-store book retailer.

***What retail might look like in India***

*Thanks to a massive population and indications of better levels of disposable incomes side by side with awareness emerging, retail is being seen as a massive emerging opportunity in India.*

*Naturally, since retail revolutions took place in the more developed markets much earlier, the feeling is that India can draw from their experiences. Although, given India's own unique characteristics, expectations are that as the retail scenario evolves (surely rapidly now), the country will emerge with its own retail models as well.*

*Yet, consultants say that there are enough models out there in the developed part of the world that will find acceptance here, even though they may find some modifications to suit local needs better. The challenge, really, is in the re-invention.*

*There are certain formats the consultants feel can work in India:*

- *small stores, with complex but efficient supply chains*
- *small supermarkets that run on brand variety and tight inventory control*
- *a mix of food and general merchandise stores*
- *out-of-town shop-entertainment complexes*
- *mid-sized retail propositions within town limits*
- *small corner outlets with integrated home delivery*

*Effectively, then, leaving out hypermalls of the US kind, other retail models are possible in India, though a model cannot really be moved across borders piecemeal. What can come in piecemeal, however, is the Supply Chain Management Model attached to a broad model that is being transferred.*

*Again, consultants say that you have to build on what is already there — you cannot just wipe the slate clean and start afresh. Therefore, the likes of catalogue or mail order buying will not necessarily lose significance.*

*Make it more efficient and it can work. However, since in many product categories, the consumer may prefer a touch-and-feel before taking a decision, these kinds of formats can be supported by display outlet, on-premise stocking. Take your pick, order and get it all delivered at home. E-retailing could also adopt something like this combination. There are no strict rules anywhere, anymore. And rural India? Maybe that's where a modified multi-product hypermart could work, is the opinion. And the best model? No, there are no ideal models - adopt/adapt/develop the best fit from what is out there in the West. And here in India.*

*The bottom line: there are basic commonalities in retail evolution in any market. As incomes rise, value additions go up. As value adds go up, retail models gain significance. And then come shakeouts and consolidations. That's the ground reality. You just can't shake that.*

**Source:** Retail Yatra

## 2.6 COMPARISON OF DIFFERENT TYPES OF GENERAL MERCHANDISE RETAILERS

Table 2.1 compares different types of retailers typically found in western markets on variety, assortment, service, price, size, SKUs, location.

**Table 2.1: Characteristics of General Merchandise Retailers**

| Type | Variety | Assortment | Service | Price | Size (sq.ft) | SKUs | Location |
|---|---|---|---|---|---|---|---|
| Department Stores | Broad | Deep to average | Average to Low | Average to high | 100,000-200,000 | 1,00000 | Regional malls |
| Traditional discount | Broad | Average to shallow | Low | Low | 60,000-80,000 | 25,000-30,000 | Stand alone power strip |
| Traditional specialty | Narrow | Deep | High | High | 4,100-12,000 | 5,00 | Regional malls |
| Category specialists | Narrow | Very deep | Low | Low | 50,000-1,20-000 | 25,000-40,00 | Stand alone, power strip |
| Warehouse clubs | Average | Shallow | Low | Very Low | 80,000-1,00,000 | 4,000-5,000 | Stand alone |
| Hypermarket | Broad | Average | Low | Low | 2,00,000 | 50,000 | Stand alone |
| Off price Stores | Average | Deep, but varying | Low | Low | 25,00-40,000 | 1,00,000 | Stand alone power strip |
| Catalog showrooms | Narrow | Average | Low | Average to low | 5,000-40,000 | 10,000-15,000 | Outlet malls |
| Direct mall catalogs | Average | To Narrow | Average to shallow | Average | - | 10,000-1,00,000 | - |
| TV Home shopping | Average | Shallow | Average | Average | - | 75,000 | - |
| Interactive Electronic Retailing | Narrow | Shallow | Average | Average | - | N.A. | - |
| Direct Selling | Narrow | Shallow | High | High | - | A,000 | - |

## 2.7 SERVICE RETAILING

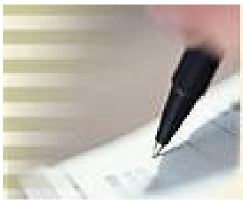
So far, you have studied retail formats (retail organizations), which engage in retailing of goods. Services retailing forms an important part of retailing. It employs even more people than retailing of goods.

Many organizations that offer services to customers such as banks, hospitals, doctors, lawyers and other consultants do not consider themselves to be retailers. Due to increased competition, these organizations are adopting retailing principles to attract customers and satisfy their needs.

Other retailers that offer services to consumers include automobile maintenance (service stations), health providers (personal point), beauty parlours, hotels, education providers, etc. Most service retailers are like specialty stores offering a limited variety, for example NIIT or APTECH will provide large number of courses in computers but little on any thing else. Many service retailer's work on franchise arrangement.

In this unit, you have learnt different type of retail formats or retail organisations or types of retailers. You also found many types of formats existing in India. In the next unit, we will learn about some concepts of retailing and theories of retailing.

## POINTS TO REMEMBER



1. Retailers can be classified on the basis of legal form, or operational structure, range of merchandise, degree of service, pricing policy, location, size of outlet and customer contacts.
2. Departmental stores are located in major shopping centers and supported by large catchment area.
3. The department store provide high breadth and depth of assortments with a provision of number of specialized goods.
4. Discounts stores are low priced stores, which provide shallow assortment, limited service and usually located at isolated market places.
5. Specialty stores provide narrow product line with deep assortment and high degree of customer service.
6. Supermarkets are self-service Fast Moving Consumer Goods (FMGCs) Stores, relatively large, low cost, low margin, high volume and located near to major catchment areas.
7. Independent traders keep direct contacts with the customers and quickly respond to their needs. The major disadvantage with the independent trading is lack of specialist expertise support in retail functions like buying, in-store merchandising and advertising.
8. The multiple of retail chains have usually more than 10 stores with state of the art supply chain management and characterised by degree of self-control.
9. Cooperatives are voluntary institutions having more than 11 members for mutual gains and networked marketing.
10. Non store retailing formats are mail order, direct selling, door trading, mobile shops and electronic retailing.
11. Service retailing is highly employment oriented industry and growing at the rate of 28% in India.

## REVIEW QUESTIONS

1. What are the main bases for classifying retail firms?
2. What problems face the independent trader and how has he tried to over come them?
3. What are the characteristics of a multiple chain stores?
4. Describe the characteristics of a department store and compare it with discount stores.
5. What are the three forms of mail order retailing?
6. Recent advances in IT have resulted in the possibility of new advances in home shopping and the delivery of services direct to the consumer on an information ‘super highway’. Do these advances spell the death knell for the traditional store-based retailer?

# RETAIL MANAGEMENT

Dr. A. Mustafa

Himalaya Publishing House

ISO 9001:2015 CERTIFIED

CHAPTER 4

# Retail Shop Management

## VISUAL MERCHANDISING MANAGEMENT (VMM)

Visual merchandising is the presentation of a store and its merchandise in ways that will attract the attention of potential customers. VMM deals with review of the fixtures and merchandise presentation techniques.

**Fixtures:** Primary purpose of fixtures is to efficiently hold and display merchandise. Fixtures help define areas of a store and encourage traffic flow. Fixtures must work in concert with other design elements, such as floor coverings and lighting, as well as the overall image of the store. Fixtures may be plastic or metal fixtures or wood mixed with metal, acrylic, or stone. Proper management of visual merchandising helps to achieve the predetermined targets/objectives. Fixtures come in an infinite variety of styles, colours, sizes, and textures, but only a few basic types are commonly used. For apparel, retailers utilize the straight rack, rounder, and four-way. The mainstay fixture for most other merchandise is the gondola. Straight racks are suitable for discount and off-price stores.

Rounder or bulk capacity fixtures are designed to hold a maximum amount of merchandise. They are suitable for apparel stores.

A four-way feature fixture holds a large amount of merchandise and allows the customer to view the entire garment. Due to their superior display properties, four-way fixtures are commonly utilized by fashion-oriented apparel retailers.

Gondolas are used in grocery and discount stores to display everything from canned foods to baseball gloves. Gondolas are also found displaying towels, sheets, and housewares in department stores. Folded apparel too can be efficiently displayed on gondolas, but because the items are folded. It is even harder for customers to view apparel on gondolas than on straight racks.

Presentation Techniques

Idea-oriented presentation

Style/Item presentation

Colour presentation

Price lining

Vertical merchandising

Tonnage merchandising

Frontal presentation

Idea-oriented presentation is a method of presenting merchandise based on a specific idea or the image of the store. Individual items are grouped to show customers how the items could be used and combined. For instance, furniture is combined in room settings to give customers an idea of how it would look in their homes.

Store or item presentation is probably the most common technique of organizing stock. Discount stores, grocery stores, hardware stores, and drug stores employ this method for nearly every category of merchandise, as do many apparel retailers. Arranging items by size is a common method of organizing many types of merchandise, from nuts and bolts to apparel.

A bold merchandising technique is by colour presentation. For example, in winter months, an apparel store may display all wool-wears together to let customer know that the store is “the place” to purchase clothing for their winter vacation.

Price lining is when retailers offer a limited number of predetermined price points and/or price categories within another classification. This approach helps customers easily find merchandise at the price they wish to pay.

In vertical merchandising, an item is presented vertically using walls and high gondolas. Customers shop much as they read a newspaper – from left to right, going down each column, top to bottom. Retailer takes advantage of this tendency in several ways. Many modern self-service grocery stores put national brands at eye level and store brands on lower shelves because customers scan from eye level down.

Tonnage merchandising is a display technique in which large quantities of merchandise are displayed together. Customers have come to equate tonnage with low price, following the retail adage “stock it high and let it fly”. This technique is used to enhance and reinforce a store’s price image. The retailer hopes customers will notice the merchandise and be drawn to it.

The frontal presentation is a method of displaying merchandise in which the retailer exposes as much of the product as possible to catch the customer’s eye. Book retailers make use of this presentation. A similar frontal presentation can be achieved on a rack of apparel by simply turning one item out to show the merchandise.

Retailers utilize various forms of atmospheric – lighting, colours, music and scent – to influence shopping behaviour. The use of these atmospherics can create a calming environment for task-oriented shoppers or an exciting environment for recreational shoppers.

The location of merchandise categories also plays a role in how customers navigate through the store. By strategically placing impulse and demand destination merchandise throughout the store, retailers can increase the chances that customers will shop the entire and that their attention will be focused on the merchandise that the retailer is most interested in selling. In locating merchandise categories, retailers need to consider typical consumer shopping patterns.

Visual merchandising is completely different from merchandising. Visual Merchandising is the *activity of promoting the sale of goods, especially by their presentation in retail outlets*. (New Oxford Dictionary of English, 1999, Oxford University Press). This includes combining products, environments, and spaces into a stimulating and engaging display to encourage the sale of a product or service. It has become such an important element in retailing that a team effort involving the senior management, architects, merchandising managers, buyers, the visual merchandising director, designers, and staff is needed.

Visual merchandising starts with the store building itself. The management then decides on the store design to reflect the products the store is going to sell and how to create a warm, friendly, and approachable atmosphere for its potential customers.

Many elements can be used by visual merchandisers in creating displays, including colour, lighting, space, product information, sensory inputs such as smell, touch, and sound as well as technologies such as digital displays and interactive installations.

Visual merchandising is not a science; there are no absolute rules. It is more like an art in the sense that there are implicit rules but that these also exist to be broken for striking effects. The main principle of visual merchandising is that it is intended to increase sales, which is not the case with a "real" art.

Visual merchandising is one of the final stages in trying to set out a store in a way that customers will find attractive and appealing and it should follow and reflect the principles that underpin the store's image. Visual merchandising is the way one displays 'goods for sale' in the most attractive manner with the end purpose of making a sale. "If it does not sell, it is not visual merchandising."

Especially in today's challenging economy, people may avoid designers/visual merchandisers because they fear unmanageable costs. But in reality, visual merchandisers can help economize by avoiding costly mistakes. With guidance of a professional, retailer can eliminate errors, saving time and money. It is important to understand that the visual merchandiser is there, not to impose ideas, but to help clients articulate their own personal style.

Visual merchandising is the art of implementing effective design ideas to increase store traffic and sales volume. VM is an art and science of displaying merchandise to enable maximum sale. VM is a tool to achieve sales and targets, a tool to enhance merchandise on the floor, and a mechanism to communicate to a customer and influence his decision to buy. VM uses season-based displays to introduce new arrivals to customers, and thus, increase conversions through a planned and systematic approach by displaying stocks available.

Recently, visual merchandising has gained in importance as a quick and cost-effective way to revamp retail stores.

A close sister to visual merchandising is "retail experience". "Customer experience" looks at the same issues around product presentation but from the customer perspective, rather than the retailer perspective. In optimal retail environments the visual merchandising, customer experience, and store design are all in synch creating amazing environments and unbelievable sales.

Visual Merchandising (VM) is the art of presentation, which puts the merchandise in focus and in perspective too. It educates the customers, creates desire and finally augments the selling process. This is a nascent area of the Indian retail industry, therefore, a professional programme on Visual Merchandising will go a long way in addressing this gap. The success of the programme will be reflected in the better presentations, displays, indoor and outdoor communication about the stores. This course would be a niche specialization in the booming retail sector. Visual Merchandising achieves the following:

- Educates the customers about the products and services offered creatively and effectively.
- Enables a successful selling process, from browsing to buying.
- Establishes a creative medium to present merchandise in a life-like 3-D environment, thus creating a strong impact and recall value.
- Sets the context of the merchandise.
- Establishes the linkage between fashions, product design and marketing by keeping the focus on the product.
- Draws the attention of the customers and helps them match their needs with the visually merchandised product.

## VISUAL MERCHANDISING IN INDIA

As the concept of large retail stores gains ground in India, the practice and concept of VM is likely to grow exponentially. In the Western countries VM receives highest priority in commercial planning of a product. As seasons change, the merchandise collections/planograms too change in a retail store. When such changes take place the store too undergoes a transformation in decor and visual presentation to appeal to the consumers while announcing new arrivals in merchandise collection. This phenomenon of transformation of visual presentations and displays of merchandise accompanied by relevant thematic props, is still very new in India. VM and Displays have a storyboard effect communicating innovatively to the customer besides being a 'Silent salesman for a retail store'.

## VISUAL MERCHANDISING AT MICA

MICA in association with RAMMS India Pvt Ltd., (link to their website www.ramms.co.in) leading consultants in the retail sector, has developed a six-months professional programme in Visual Merchandising and Creative Communications (VMCC) for the first time in India.

MICA had a very successful experience with the Retail Communications Management (link to RCM page) programme, which is in its third batch of the programme currently and also the success of the first batch of Professional Programme in Visual Merchandising and Creative Communications (VMCs). Building upon MICA's capabilities in creative communications training, a combination of retail management and creative communications learning is brought about in the form of Visual Merchandising and Creative Communications programme. The programme combines the learning of the approaches currently used in the retail industry with communication expertise of MICA. The programme consists of some core modules in Retailing and Visual Merchandising, strongly supported by consumer behaviour and shopper behaviour studies, visual literacy and retail research in addition to a large number of field projects.

Visual merchandising team – members contribute to the advertising, marketing, and sales efforts of a retail location by designing, developing and taking charge of the visual look of the store and its merchandise. As a member of the in-store merchandising team, you will be executing merchandising strategies by creating and maintaining visual displays in the store windows and on the sales floor. You will also contribute to the profitability of the store with your merchandise handling, replenishment, and inventory control efforts.

The scope of your duties and responsibilities will vary depending on the size of the retail operation and the level of the visual merchandising position you hold. In general, your key responsibilities as a visual merchandising associate will include visual display, inventory management, and merchandising training.

### Visual Display

You may be designing visual displays yourself, or executing the design decisions of another. In either case, you will be responsible for creating and maintaining a compelling presentation of merchandise that will engage customers and help stimulate sales activity. You will be the store's brand gatekeeper, ensuring that the image and style of the company is projected at all times. As you execute visual presentation changes, you will be moving merchandise, shelving, and fixtures. You will also be changing signs, and maintaining the cleanliness and functionality of fixtures, signage, lights, and equipment.

### Window Displays

A window display is also a "**visiting card**" for the store. Windows are the most important factor within the store/shop front as they can communicate style, content, and price point. They can be seductive and exciting, based on emotional stimulus, or price-based (when they clearly emphasize value for money with easy and obvious ticketing). For the retailer, the window is among the most controllable elements in relation to image and to what is happening inside the store, and there are number of decisions to be made about a how these effects are achieved.

The best store windows can generate great excitement and talking point for an entire city. They contribute to the environment by entertaining pedestrians, while simultaneously communicating the products and services on offer.

For a retailer willing to exploit the full potential that a window gives, the image-building process can be exciting and have enormous potential. A fashion retailer, for instance, will often change a window weekly to show the latest items on offer. A glance into a shop's window by a passerby establishes the time of the year and, very likely, a timely contemporary event. It might combine seasonal and festive points of the year such as Back-to-school, Spring, Summer, Easter, Christmas, New Year approaching, Diwali, Valentine's Day, Mother's Day, etc. At other times the propping may be based on colour schemes, materials or cultural themes – the possibilities for innovative ideas around such themes are endless.

### Merchandising Training

As the chief point of contact for new merchandising initiatives, you will generally be responsible for communicating key information that is vital to the success of the initiative. You will help to train the store team about design concepts, visual display standards, and the proper maintenance of the overall visual display effort. By providing on-the-job training, feedback, and recognition, you will motivate other members of the store team to actively support your visual merchandising efforts.

### Prior Visual Merchandising Experience

Most retail operations will require retailers to have either retail experience or visual merchandising formal training and most will want to see marketeer's portfolio. Some larger retail organizations will probably require both education and experience.

If you have acquired on-the-job training or expertise, you may be able to obtain an entry level visual merchandising job by demonstrating a thorough understanding of marketing principles and retail merchandising fundamentals. Supervisory experience may be necessary for a visual merchandising position in a large store.

### Qualifications for Visual Merchandisers

In smaller retail operations, you will likely be the one-person visual merchandising department and, therefore, you will need to be self-reliant, self-motivated, and have an ability to achieve goals and meet deadlines without supervision. In larger stores you may be executing the merchandising strategies of others, so the ability to follow both written and verbal instruction with great attention to detail is essential. You will also be expected to have effective communication skills, and demonstrate the highest level of professionalism and be a role model for outstanding customer service at all times.

### Skill Requirements

Visual merchandisers are expected to have excellent organizational skills, as well as planning, project management, and time management expertise. Retailers need to possess excellent communication and interpersonal skills, as well as a strong creative flair and effective problem solving abilities. Stores will be willing to train marketing personnel with their specific systems and software, but they will want marketers to bring a basic knowledge of computer functions with the sellers into the position. A working knowledge of Microsoft Office will probably be required as well.

### Physical Requirements

Because you will be responsible for creating and changing visual displays, you will need to be able to push, lift, and carry 30-50 pounds of merchandise and fixtures. The visual merchandiser position is physically demanding, and you can expect to be on your feet and walking for eight or more hours per day.

### Additional Requirements

Visual display work often occurs at times when it is the least disruptive to the sales floor and the customer experience. So, visual merchandising employees should be prepared to work from early morning to late night-hours, as well as weekends and holidays.

## Education Requirements

Most retailers will want you to have a high school diploma before you will be given full-time responsibility for visual merchandising. Entry level visual merchandising positions may not require additional education, but advancement will probably require additional formal education in visual merchandising, marketing, or both.

## Compensation

Visual merchandising jobs are generally full-time positions which are compensated with a salary between \$ 34,000 and \$ 54,000 per year. The size and geographic location of the retail operation accounts for the wide salary range. The level at which you are hired and your experience and credentials will influence your compensation as well. Those working as visual merchandisers will receive the same benefits as any other store employee. Benefit packages generally include health insurance and generous discounts on store merchandise.

## Retail Advertising and Promotion

Advertising is paid, non-personal communication transmitted through out-of-store mass media by an identified sponsor. Four aspects of this definition merit clarification:

**Paid form:** This distinguishes advertising from publicity (an element of public relations), for which no payment is made by the retailer for the time or space used to convey a message.

**Non-personal presentation:** A standard message is delivered to the entire audience, and it cannot be adapted to individual customers (except with the web).

**Out-of-store mass media:** These include newspapers, radio, TV, the web, and other channels, rather than personal contacts. In-store communications (such as display) are considered sales promotion.

**Identified sponsor:** The sponsor's name is clearly divulged, unlike publicity,

**AIDAS Model:** Implementing an advertising programme involves developing the message, choosing the specific media to convey the message, and determining the frequency and timing of the message. Ideally, the message in the ads should gain attention, hold interest, arouse desire, and elicit action and promote satisfaction. Retailer's advertising and promotional strategies are different from manufacturer's strategies. Retail promotion includes any communication by a retailer that informs, persuades, and/or reminds the target market about any aspect of that firm. Advertising, public relations, personal selling, and sales promotion are the elements of promotion. Retailers devote significant sums to promotion. For example, a typical department store spends nearly 4 per cent of their sales on ads and 8 to 10 per cent on personal selling and support services. Most department store chains invest heavily in sales promotions and use public relations to generate favourable publicity and reply to media information requests. Retailers adapt better to local needs, habits, and preferences. However, many retailers are unable to utilize national media as readily as manufacturers. Only the largest retail chains and franchises can advertise on national TV programmes. An exception is direct marketing (including the World Wide Web) because trading areas for even small firms can be geographically dispersed.

Retail ads stress immediacy. Individual items are placed for sale and advertised over short time periods. Manufacturers are often concerned with developing favourable attitudes. Many retailers stress in ads, whereas manufacturers usually emphasize key product attributes. In addition, retailers often display several different products in one ad, whereas manufacturers tend to minimize the number of products mentioned in a single ad. Media rates tend to be lower for retailers. Because of this, and the desire of many manufacturers and wholesalers for wide distribution, the costs of retail advertising are sometimes shared by manufacturers or wholesalers and their retailers. Two or more retailers may also share costs. Both of these approaches entail cooperative advertising.

Retailers get assistance in developing advertising campaigns from vendors through their coop. programmes, advertising agencies, and media companies.

**Cooperative Advertising:** It is a programme undertaken by a vendor. The vendor pays for part of the retailer's advertising but dictates some conditions. For example, Sony may have a coop. programme that pays for half of consumer electronics retailer's ads for Sony digital TVs, Coop. advertising enables a small retailer to associate its name with well known national brands and use attractive artwork created by the national brand. Coop. advertising programmes also are often used to support a vendor's effort to discourage retailers from discounting the vendor's products.

**Agencies:** Many large retailers have a department that creates advertising for sales and special events. Large retailers often use advertising agencies to develop ads for store image campaigns but develop promotional newspaper advertisements with their in-house staffs. Many small retailers use local agencies to plan and create all of their advertising. These local agencies are often more skilled in planning and executing advertising than the retailer's employees. Agencies play in other aspects of the communication programmes, such as contests, direct mail, and special promotions.

**Media Companies:** In addition to selling newspaper space and broadcast time, the advertising media offer services to local retailers, ranging from planning an advertising programme to actually designing the ads. Media companies also do market research on their audiences and can provide information about shopping patterns in the local area.

***The media used for retail advertising are:***

1. Newspapers
2. Magazines
3. Direct mail
4. Radio
5. TV
6. Outdoor billboards
7. Internet
8. Shopping guides, and
9. Yellow pages

**Newspapers:** Retailing and newspaper advertising grew up together over the past century. But the growth in retail newspaper advertising has slowed recently as retailers have begun using other media. Still, 16 of the nation's 25 largest newspaper advertisers are retailers.

In addition to displaying ads with their editorial content, newspapers distribute freestanding inserts. A freestanding insert, also called a preprint, is an advertisement printed at the retailer's expense and distributed as an insert in the newspaper. Because newspapers are distributed in a well-defined local market area, they are effective at targeting retail advertising. Often the local market covered by a newspaper is similar to the market served by the retailer. Newspapers offer opportunities for small retailers to target their advertising by developing editions for different areas of a city.

**Magazines:** Retail magazine advertising is mostly done by national retailers such as the Reliance. But magazine advertising is increasing with the growth of local magazines and regional editions of national magazines. Retailers tend to use this medium for image advertising because the reproduction quality is high.

**Direct Mail:** Retailers use data collected at point of sales terminals to target their advertising and sales promotion to specific customers using direct mail. Retailers can also purchase a wide variety of lists for targeting consumers with specific demographic profiles, interests, and lifestyles. Many retailers encourage their salespeople to maintain a preferred customer list and use it to mail personalized invitation and notes.

**Television:** TV commercials can be placed on a national network or local station. A local TV commercial is called a spot. Local retailers typically use local TV commercial which is economical.

**Radio:** Many retailers use radio advertising because messages can be targeted to a specific segment of the market. Some radio stations' audiences are highly loyal to their announcers. When these announcers promote a retailer, listeners are impressed. The cost of developing and broadcasting radio commercials is quite low.

**Internet:** Three uses of the Internet by retailers to communicate with customers are:

Banner ads and affiliate programmes to generate awareness, (These are very effective for targeting communication, but they are not cost–effective for building awareness).

Websites to provide information about merchandise and special events, and E-mail to target messages.

**Outdoor Billboards:** These are effective vehicles for creating awareness and providing a very limited amount of information to a narrow audience. Outdoor advertising is typically used to remind customers about the retailer or to inform people in cars of nearby retail outlets.

**Shopping Guides:** These are free papers delivered to all residents in a specific area. This medium is particularly useful for retailers that want to saturate a trading area. It is cost-effective and assures the local retailer of 100 per cent coverage.

**Yellow Pages:** They are useful for retailers because they have a long life. They are used as a reference by consumers who are definitely interested in making a purchase and seeking information.

**Retail Advertising:** Advertising by retailers encourage consumers to shop at a specific store, use a local service, or patronize a particular establishment. It tends to emphasize specific patronage motives such as price, hours of operation, service, atmosphere, image, or merchandise assortment. Retailers are concerned with building store traffic, so their promotions often take the form of direct action advertising designed to produce immediate store traffic and sales. Retail advertising accounts for a significant per centage of all advertising expenditures. Retailers allocate advertising expenditure to image-building campaigns designed to create and enhance favourable perceptions of their stores. Sales-oriented objectives are also used when advertising plays a dominant role in a firm's marketing programme and other factors are relatively stable.

**The Effects of Retail Advertising on Shoppers:** Movement from awareness to knowledge to liking to preference to conviction and finally to purchase.

### Objectives of Retail Advertising

A retailer would select one or more of these goals and base advertising efforts on it (them).

- Lifting short-term sales.
- Increasing customer traffic.
- Developing and/or reinforcing a retail image.
- Informing customers about goods and services and/or company attributes.
- Easing the job for sales personnel.
- Developing demand for private brands.
- Because of the many forms and uses of advertising, it is difficult to make all-embracing generalizations. Yet the following qualities can be noted.
- Public presentation confers a kind of legitimacy on the product and also suggests a standardized offering.
- Advertising permits the retailer to repeat a message many times.
- Advertising provides opportunities for dramatizing the company and its products through the artful use of print, sound, and colour.

### Advantages of Retail Advertising

- The audience is attracted.
- The cost per viewer, reader, or listener is low.
- A number of alternative media is available, so a retailer can match a medium to the target market.
- The retailer has control over message content, graphics, timing, and size (or length), so a standardized message in chosen format can be delivered to the entire audience.
- In print media, a message can be studied and restudied by the target market.
- Editorial content (a TV show, a news story, and so on) often surrounds an Ad. This may increase its credibility or the probability it will be read.
- Self-service or reduced service operations are possible since a customer becomes aware of a retailer and its offerings before shopping.

### Disadvantages of Retail Advertising

- Standardized messages lack flexibility (except for the web and its interactive nature). They do not focus on the needs of individual customers.

- Some media require large investments. This may reduce the access of small firms.
- Media may reach large geographic areas, and for retailers, this may be wasteful. A small supermarket chain might find that only 40 per cent of audience resides in its trading area.
- Some media require a long lead time for placing ads. This reduces the ability to advertise fad items or to react to some current events themes.
- Some media have a high throwaway rate. Circulars may be discarded without being read.
- A 30-second TV commercial or small newspaper ad does not have many details.
- Advertising is a monologue in front of, not a dialogue with, the audience.

Retailers can choose from the media described here: Papers (dailies, weeklies, and shoppers) represent the most preferred medium for retailers, having the advantages of market coverage, short lead time, reasonable costs, flexibility, longevity, graphics and editorial associations (ads near columns or articles). Disadvantages include the possible waste (circular to a wider area than necessary), the competition among retailers, the black-and-white format, and the appeal to fewer senses than TV. To maintain a dominant position, many papers have revamped their graphics, and some run colour ads. Free-distribution shopper papers ("penny savers"), with little news content and delivery to all households in a geographic area, are popular today.

**Retail Sales Promotion:** A variety of short-term incentives offered by the retailer to encourage trial or purchase of a product or service may be called retail sales promotion. Although sales promotion tools – coupons, premiums, and the like – are highly diverse, they offer three distinctive benefits:

**Communication:** They gain attention and usually provide information that may lead the consumer to the product.

**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. This book introduces a novel approach Visual Space Management (VSM) demonstrated with a multiple-linked view application (VisMT) that explores retail data related to space performance. VisMT 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.

For years, retailers, suppliers and distributors have turned to space management systems to solve one of the most critical questions in retailing: "How do I maximize space"? Personal computer-based space management systems like Pegman[R] began to penetrate the hardware industry in the late 1980s. Today, nearly 300 suppliers, retailers, distributors and wholesalers in the hardware industry use space management to optimize their retail space. "Space management allows us to put our best foot forward", says Steve Tota, merchandising presentation manager for TSC Stores, Nashville, Tenn.

Space management works by analyzing product performance data to create optimized planograms that meet financial objectives. Retailers use the programmes to allocate space for sections, categories and whole stores based on what is selling and what is not. "Our inventory is turning faster with Pegman[R]", says James Matsuda, merchandising financial director for Orchard Supply Hardware, San Jose, Calif. "In addition, space management has increased the in-store productivity quite a bit – there's less guesswork to setting the planograms."

While considerable academic attention has been devoted to the subject of shelf-space allocation, there is little research which specifically focuses on the influence of store brand in shelf-space management. This study is concerned with the space that national and private labels occupy in the shelves of stores. We aim at explaining this issue through a case study using a primary source of information: direct shelf-observation. This exploratory research allows us to conclude that the space allocated to private labels is clearly larger than that assigned to the whole of brands on average. Other aspects are also analyzed, such as assortment, prices and promotions, in order to establish their relationship with shelf-space management.

Once a retailer decides what to buy from vendors and how much of it to allocate to specific stores, someone needs to decide wherein the stores the products will sit. This is a very important step in retail since store layouts are crucial to the shopping experience. Products need to be easy to locate, near related products, and have the correct facings. Should this product be on the end cap? Should it be at eye level? Should it have eight facings or ten? Space management is about maximizing every inch of the selling floor.

Space management uses a cross-disciplinary approach to review theoretical approaches to creativity, and their relevance to the retail industry. It should subsequently assess types of retail spaces, and then moves on to compare the concept of retail design with product design and its implications for creativity and retailers.

It demonstrates the complexity of creativity as a concept, and the opportunities to create retail spaces through design-led approaches. It defines retail design and its engagement with stakeholders within and outside the organization and its impact on organizational creativity.

*Research limitations/implications* – Space management approach covers a number of perspectives on creativity, design and store environments. However, these are not exhaustive, and invite further discussion and scoping for future research.

*Practical implications* – Space management outlines ways to understand creativity in retailing, and provides guidance on how retailers can organize their organizations to engage with design projects.

*Originality/value* – Space management uniquely examines concepts of creativity and proposes how they might be applied to retailing. It demonstrates how creativity pervades the industry, in terms of design and the use of designed spaces. It proposes new areas for research relating to the definition of creativity in the retail industry, and the role of creativity and retailing in cultural and social contexts.

A planogram is a diagram that shows how and where specific retail products should be placed on retail shelves or displays in order to increase customer purchases. Planogramming is a skill used in merchandising and retail space planning. A person with this skill is be referred to as a planogrammer. Planograms themselves are also referred to as *PoGs*. By analyzing past and current sales patterns, a planogrammer can make successful recommendations about the number of "facings" a certain product should have on a retail display. The diagram will document how high or low on a shelf the product should display, as well as which products should surround it. The resulting planogram is printed out as a visual to be followed by the part-time help that is often hired to restock retail shelves and displays. This gives executive management of a retail store or chain more control over how products are displayed and allows them to track and improve on the success of their planograms. Planogram components are often included in large space planning and retail space management software applications. Sophisticated applications use other information about the product, such as the amount of inventory left for the product, to build the diagram.

## Dig Deeper

If you look at the retail landscape as a whole, 60 per cent of retailers are using internally developed applications.

Traditionally, headquarters create a limited number of planograms (PoG) that define where products go for a particular store format. Unfortunately, not all stores are the same. Not only do their formats vary, but there's usually a degree of localization that makes them even more unique. So often the corporate PoG is treated as advice only and compliance is low. The answer is more collaboration between headquarters and the store. An increase of 10 per cent in compliance can decrease stock-outs by 1 per cent, and that leads to higher sales.

*AVT's software* enables leading retail companies such as Tesco, SuperValu, The Container Store and The Carphone Warehouse to plan and execute their retail floor space, including collaboration between HQ, stores, and vendors as well as compliance checking.

**Incentive:** They incorporate some concession, inducement, or contribution that gives value to the consumer.

**Invitation:** They include a distinct invitation to engage in the transaction now.

Retailers use sales-promotion tools to draw a stronger and quicker buyer response. Sales promotion can be used for short run effects such as to dramatize product offers and boost sagging sales.

## Accounting

Accounting is the language of business. Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities that are intended to be useful in making economic decisions – in making reasoned choices among alternative courses of action. Accounting is the guide-post for retail management. A retail firm should know the financial implications of its operations. The financial score of the retail management is kept by the accounting system. It points out the problems faced or likely to be faced by the retail management. It also brings to its notice opportunities that are likely to arise.

It indicates possible action, when needed. The main objective of accounting is to provide information to the retail management to make relevant retail decisions and form retail judgement. The objectives of accounting are to provide information for the following purposes:

Making decisions concerning the use of limited resources, including the identification of crucial decision areas, and determination of objective and goals;

1. Effectively directing the controlling of retail management's human and material resources;
2. Maintaining and reporting on the custodianship of resources; and
3. Facilitating social functions and controls.
4. In providing information to users, accounting has to perform three functions:
   (a) Accumulation of information;
   (b) Measurement of information; and
   (c) Communication of information.

The accounting system identifies and gathers data. The process of data accumulation involves the recording and analysis of retailing events. The major job of accounting system is to collect and provide information. The accounting information is needed by a variety of persons involved in retail management. At each level of the retail organization, the business unit and its manager should be held accountable only for the revenues, expenses, and contribution to return on assets (RoA) that they can control. Thus, expenses that affect several levels of the organization (such as the labour and capital expenses associated with operating a corporate headquarters) shouldn't be arbitrarily assigned to lower levels. In the case of a store, for example, it may be appropriate to set performance objectives based on sales, sales associate productivity, store inventory shrinkage due to employee theft and shoplifting, and energy costs. If the buyer lowers prices to get rid of merchandise and therefore profits suffer, then it's not fair to assess a store manager's performance based on the resulting decline in store profit. Performance objectives and measures are used to pinpoint problem areas.

**Retail Audit:** A retail audit is one in which a retail management discovers weaknesses and undertakes a thorough study to achieve the retail target or maintain its share in the retail market. It is a comprehensive, systematic, independent, and periodic examination of a retail management's retailing environment, objectives, strategies, and activities with a view to determining problem areas and opportunities and recommending a plan of action to improve the management's retailing performance. Retail audit has the following characteristics:

**1. Comprehensive:** The retail audit covers all the major retailing activities of a retail business. A comprehensive retailing audit usually is more effective in locating the real source of retailing problems.

**2. Systematic:** The retail audit is an orderly examination of the retail management's macro and micro-retailing environment, retailing objectives and strategies, retailing systems, and specific activities. The audit indicates the most needed improvements, which are then incorporated into a corrective action plan involving both short run and long run steps to improve overall retailing effectiveness.

**3. Independent:** A retail audit can be conducted in six ways: self-audit, audit from across, audit from above, retail management auditing office, retail task force audit, and outsider audit. Self audits in which managers use a check-list to rate their own operations lack objectivity and independence. The best audits come from outside consultants who have the necessary objectivity, broad experience in a number of industries, some familiarity with the retail business being audited, and the undivided time and attention to give to the audit.

**Periodic:** Typically, retailing audits are initiated only after sales have turned down, sales force morale has fallen, and other problems have occurred. Retail management is thrown into a crisis partly because they failed to review their retailing operations during good times. A periodic retailing audit can benefit companies in good health as well as those in trouble.

A retail audit starts with a meeting between the retail management officers and the retailing auditors to workout an agreement on the audit's objectives, coverage, depth, data sources, report format, and timeframe. A detailed plan as to who is to be interviewed, the questions to be asked, the time and place of contact, and so on are prepared so that auditing time and cost are kept to a minimum. The cardinal rule in retailing auditing is: Don't rely solely on retail managers for data and opinion. Customers, dealers, and other outside groups must also be interviewed. Many retail managements do not really know-how their customers and dealers see them, nor do they fully understand customer needs and value judgements.

**Situation Audit:** The most critical aspect of the situation audit is for a retailer to determine its unique capabilities in terms of its strengths and weaknesses relative to the competition. After completing the situation audit, the next step is to identify opportunities for increasing retail sales.

The retail audit examines the following:

1. **Retail Environment Audit:** (i) Demographic Audit, (ii) Economic Audit, (iii) Environmental Audit, (iv) Technological Audit, (v) Political Audit, and (vi) Cultural Audit,
2. **Task Environment Audit:** (i) Audit about market, (ii) Audit about customers, (iii) Audit about competitors, (iv) Audit about distributors and dealers, (v) Audit about suppliers, (vi) Audit about facilitators and marketing firms, and (vii) Audit about publics
3. **Retail Strategy Audit:** (i) Business mission audit, (ii) Retailing objectives and goals audit, and iii) Strategy audit
4. **Retailing Organization Audit:** (i) Formal structure audit, (ii) Functional efficiency audit, and (iii) Interface efficiency audit
5. **Retailing System Audit:** (i) Retailing information system audit, (ii) Retailing planning systems audit, (iii) Retail control system audit, and (iv) Product development system audit
6. **Retailing Productivity Audit:** (i) Profitability analysis audit, and (ii) Cost-effectiveness analysis audit
7. **Retailing Function Audit:** (i) Product audit, (ii) Price audit, (iii) Distribution audit, (iv) Advertising, sales promotion, publicity, and direct retailing audit, and (v) Sales force audit.

## Retail Accounting Services

SUPERVALU's Retail Accounting Services is a professional, full-service accounting firm with a retail emphasis. Retail Accounting Services supports more than 900 clients from five offices located across the US with services such as financial statement preparation, payroll processing, accounts payable processing, income tax planning and return preparation, inventory scheduling, manufacturer coupon processing and industry benchmark reporting. Retail Accounting Services provides and interprets financial information to tell clients what's going on in their business, so they can work on their business.

The focus at Retail Accounting Services is on clients and their success. All efforts are aimed at providing exceptional service at a reasonable cost and fulfilling high expectations with integrity and commitment to quality. SUPERVALU ensures that your information will be treated confidentially: we value our relationships most and your trust and confidence is the true measurement of our success.

After 45 years in business, Supervalu's Retail Accounting team stands experienced and ready to serve a variety of needs.

### *The Basic Format of an Income Statement for Retail Businesses*

The income statement for a retail business differs in several ways from that of a service business and is illustrated in its simplest form here.

| **Service business** | | **Retail business** | |
|---|---|---|---|
| Revenue | xxxx | Sales revenue | xxxx |
| *Less* Expenses | xxx | *Less* Cost of sales | xxx |
| Profit | $ xxxx | Gross profit | xx |
| | | *Less* Expenses | xx |
| | | Profit | $ xx |

Accounting for sales transactions including the treatment of sales returns, cash discounts, trade discounts and freight costs.

The two major transactions related to the sale of inventory are sale of goods, and sales returns and allowances. The typical journal entry for a credit sale of goods including GST is as follows (periodic inventory system):

| | | |
|---|---|---|
| Accounts Receivable | xxx | |
| Sales | | xxx |
| GST collection | | xxx |

If the goods were sold for cash, the debit would be to the Cash at Bank account. If customers are dissatisfied with goods sold to them, they often return them (called a sales return) or negotiate a further discount (called a sales allowance). Both events are recorded in the account called Sales Returns and Allowances, which is a contra account to Sales Revenue. A return or allowance is recorded as follows (periodic inventory system):

| | | |
|---|---|---|
| Sales Returns and Allowances | xxx | |
| GST Collection | xxx | |
| Accounts receivable | | xxx |

If a cash refund is given, the credit entry is to the Cash at Bank account. To encourage prompt payment by customers **cash discounts** called discounts allowed, such as 2/10, n/30 (read 'two ten, net thirty'), are sometimes offered. If the invoice is paid within 10 days an amount equal to 2 per cent of the invoice amount may be deducted. If payment is not made within 10 days the full invoice amount must be paid within 30 days. To the seller, the cash discount, **discount allowed**, is a reduction of the sales price, and to the buyer, **discount received** is a reduction in the purchase price. Cash discounts are also known as *settlement discounts*. For GST-registered businesses, when customers take advantage of settlement discounts, the total GST on the original sales price needs to be reduced and the amount originally recorded in the GST Collections account has to be written back.

A **trade discount** is a discount quoted by a vendor to customers who are usually operators in the 'trade'; e.g., a hardware store quoting prices of building materials to a builder. Trade discounts are disclosed as reductions to the list price before cash discounts are considered. The cost of freight may be paid by the supplier or the customer. In 2000, a series of three-letter international commercial terms (Incoterms) was developed by the International Chamber of Commerce. Only two of these terms are used in this text. If goods are sold **EXW** (exworks) place of seller's business, freight costs incurred from the point of shipment are paid by the buyer. If goods are sold **DDP** (delivered duty paid) place of buyer's business, the seller undertakes to be responsible for paying all freight cost.

**Accounting for purchases of inventory and cost of sales under both the perpetual and periodic inventory systems:** A perpetual inventory system involves keeping a current and continuous record of all inventory transactions on a separate inventory card or computer record for each type of inventory held. It provides more timely information to management for use in controlling and planning for inventory. It is an expensive system because of the detailed record keeping it requires. However, computer systems have gone a long way towards overcoming the cost problems, especially through the use of optical scan cash registers which read product bar codes. Hence, it is the most common system in business use. Whenever goods are purchased, sold, returned to the supplier or returned by the customer, the inventory card or computer record is used, at the same time tracking GST collections and outlays. The cost of transporting inventory when acquiring it from a supplier is debited to a **Freight Inwards** or Transportation-in account. The purchases account is not required. Under IAS 2/AASB 102, freight inwards should be included in cost of sales and the cost of inventory. When goods are sold under the perpetual system, two entries are made — the sales entry, which records revenue at the *selling price* and GST collections, and a second entry that records the decrease in inventory (and the increase in cost of sales) at *cost*. In other words, sales of goods must be recorded at selling price and at cost price. Perpetual systems provide more timely information to management for planning and controlling inventory. However, in the absence of computer assistance they are time-consuming and costly to maintain. A perpetual inventory system must be supplemented at least once a year with a physical count to verify the accuracy of the records. Discrepancies are accounted for as

Inventory Shortage Expense. Any material discrepancies should be investigated. Businesses that sell a wide variety of items with a low cost per unit typically use the **periodic inventory system**. In this system the Inventory account is used (changed) only at the end of the accounting period when a physical count of inventory items is done. At all other times and for all transactions involving inventory during the accounting period, the Inventory account is not used. Acquisitions of inventory are recorded in a Purchases account as follows:

| | | |
|---|---|---|
| Purchases | xxx | |
| GST Outlays | xx | |
| Accounts Payable (or Cash at Bank) | | xxx |

A return of unsatisfactory goods to a supplier is recorded as:

| | | |
|---|---|---|
| Accounts Payable (or Cash at Bank) | xxx | |
| Purchases Returns and Allowances | | xxx |
| GST Outlays | | xx |

Remember that all accounts used to calculate cost of sales under the periodic system will be extended to the income statement. This is because cost of sales is an expense, and expenses are found in the income statement. The accounts involved are:

(a) Inventory (beginning balance as per adjusted trial balance)

(b) Purchases

(c) Freight Inwards

(d) Purchases Returns and Allowances

(e) Discount Received

(f) Inventory (ending balance as per physical count).

The ending inventory balance is also recorded in the balance sheet columns of the worksheet, since it is the current amount of inventory on hand. In terms of closing accounts, an entity using the periodic inventory system has extra accounts to close. Purchases, Freight Inwards, Purchases Returns and Allowances, and Discount Received must all be closed to Profit and Loss Summary. The other adjusting/closing entry that must be made is to debit Profit and Loss Summary for the cost of beginning inventory and to credit Profit and Loss Summary for the ending inventory balance (as per physical count). Familiarization with the following relationships will help you to understand the characteristics of the periodic inventory system:

1. Net sales revenue = Sales revenue – Sales returns and allowances
2. Gross profit = Net sales revenue – Cost of sales
3. Cost of sales = Cost of beginning inventory + Cost of net purchases – Cost of ending inventory
4. Cost of net purchases = Cost of purchases + Freight inwards – Purchases return and allowances.

When comparing a perpetual inventory system with a periodic inventory system, two basic differences emerge. With a perpetual system, current and continuous records of all inventory transactions are maintained for each inventory item at cost excluding GST. With the periodic system, current and continuous records of inventory transactions are *not* maintained. Accurate inventory amounts can be determined only when a physical inventory count is taken. Note the two possible accounting treatments of discount received and discount allowed. Discount received can be treated as an item of income or as a deduction from cost of purchases. Discount allowed can be treated as a financial expense or as a deduction from sales revenue.

**Preparing a worksheet and closing the accounts for both the perpetual and periodic inventory systems:** A worksheet can be used to organize all the information needed to prepare adjusting entries, closing entries and the financial statements. A worksheet prepared for a company requires some additional accounts not found for a sole trader. Principally they are Share Capital, Retained Earnings, Provision for Dividends (dividends declared), Provision for Income Tax, and Income Tax Expense. When a perpetual inventory system is used, the account balance extended as a debit (asset) to the balance sheet columns is the balance in the inventory account. When a periodic inventory system is used, the balance in the inventory account represents the beginning inventory amount, which is extended to the income statement debit column. The ending inventory amount is entered directly as a credit to the income statement columns and a debit to the balance sheet columns. There are a number of ways to record the ending inventory amount and remove the beginning inventory balance under a periodic system. Each method produces the same cost of sales amount.

**The preparation of a detailed income statement for a retail business:** A company which uses a periodic inventory system reports a detailed cost of sales section in its income statement. In a perpetual inventory system, cost of sales is shown on one line. Expenses can be classified by function into various categories. Some expense items may be allocated between two or more categories based on some logical relationship.

**How to perform a brief analysis of profitability in a retail business for decisionmaking purposes:** Relationships between factors affecting profitability can be expressed as ratios. Comparison with the ratios of similar businesses in the industry, or industry averages, can aid in assessing performance. These common ratios are:

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

$$\text{Profit Margin} = \frac{\text{Profit after tax}}{\text{Net Sales}} \times 100$$

$$\text{Expenses to Sales} = \frac{\text{Expenses}}{\text{Net Sales}} \times 100$$

$$\text{Inventory turnover} = \frac{\text{Cost of sales}}{\text{Average Inventory}}$$

| Table 29 : Registered Retailers and Shopkeepers | | | |
|---|---|---|---|
| **Registered Retailers and Shopkeepers Across India** | | | |
| **North** | **South** | **East** | **West** |
| • Delhi (812)<br>• Indore (238)<br>• Lucknow (224)<br>• Ludhiana (173) | • Bengaluru (683)<br>• Chennai (442)<br>• Coimbatore (201)<br>• Hyderabad (364) | • Kolkata (390) | • Ahmedabad (259)<br>• Mumbai (581)<br>• Nagpur (155)<br>• Pune (222) |

## INTEGRATED SYSTEM AND INFORMATION TECHNOLOGY

### Importance of Retail Information System

1. In India, the vast majority of retailers are mostly unorganized and operate only on guesswork with little knowledge of their actual inventory levels.
2. Organized retailing is fast becoming a reality in India and it is being made possible only with the adoption of the retailing technology borrowed from the West.

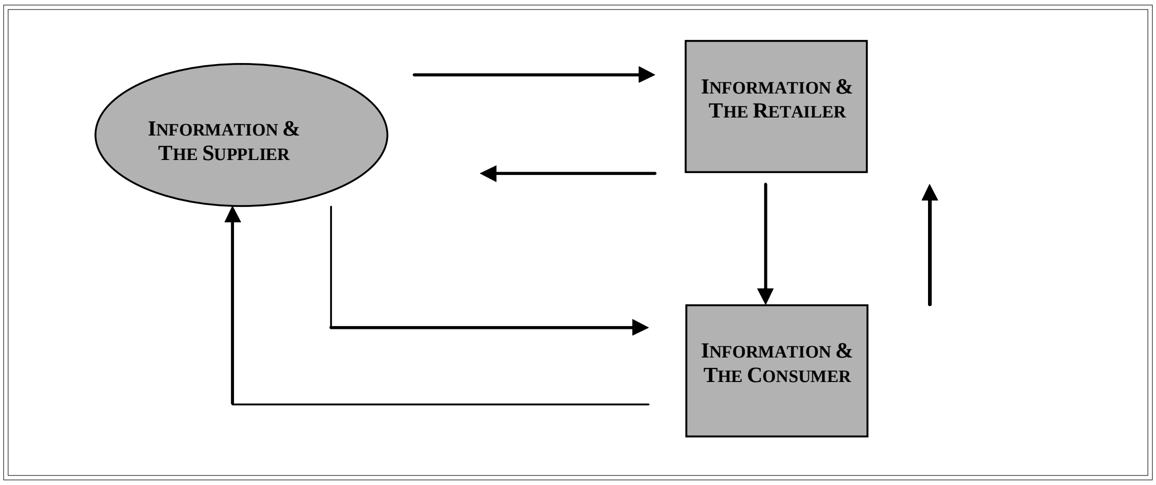



FIG. 35: INFORMATION FLOW IN RETAIL DISTRIBUTION CHANNEL

### Various Information Systems

1. Merchandising systems
2. Sales and Marketing systems
3. Point of Sale systems
4. Financial Accounting systems
5. Attendance and Payroll systems
6. Administrative systems

### Advantages of Computerization

1. Faster data accessibility
2. Better stock availability
3. Better choice of assortment
4. Timely distribution
5. Lesser mistakes
6. Tracking buying patterns of customers
7. Better financial controls
8. Better decision making
9. Reduction in manpower costs
10. Better return on investments

### Limitation of Computerization

1. The cost factor
2. Difficulty in developing and maintaining the system
3. Confusion with extension data

### Data Base Management in Retailing

1. Plan the particular data base and its component and determine the information needs.
2. Acquire the necessary information.
3. Retain the information in a usable and accessible format.
4. Update the database regularly to reflect changing demographics, recent purchases, and so forth.
5. Analyze the database to determine company strengths and weaknesses.

### Choosing the Right System

#### *Factors to Consider*

1. Decide on the magnitude of retail operations that you wish to increase over a period of time, preferably at least 4-5 years.
2. Decide on the approximate number of locations that you wish to operate in and their distances.
3. Clearly define your expectations from the system, depending on the above two factors.
4. Magnitude of operations.
5. Number of locations.
6. Expectations from the system.

### Emerging Trends in Systems and Communication

1. Electronic commerce (e-commerce)
2. Management Information System (MIS)

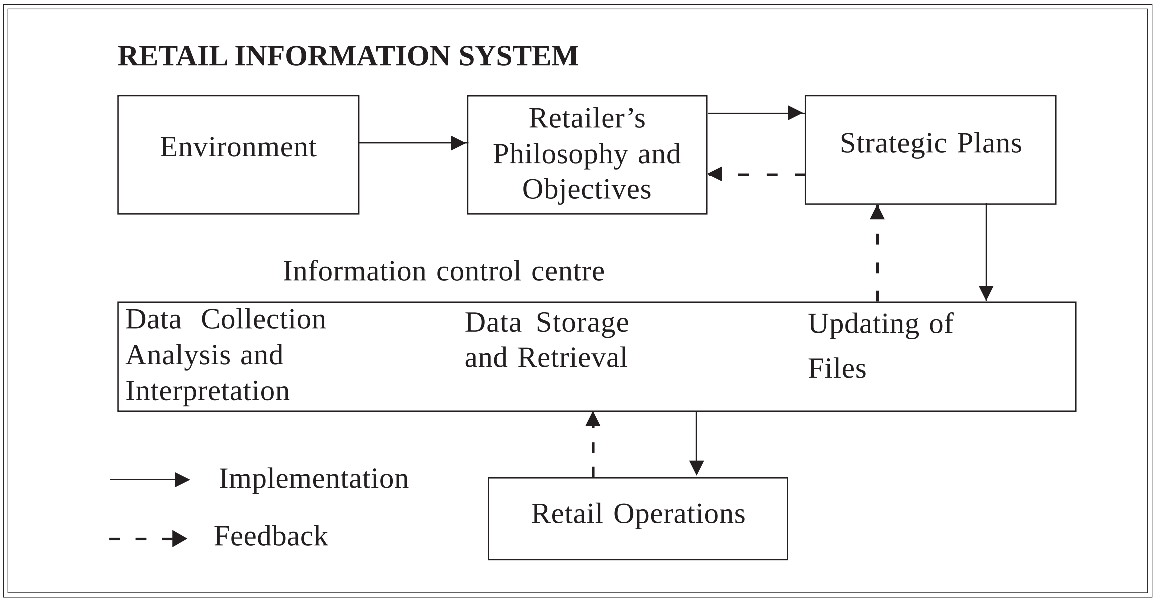



FIG. 36: RETAIL INFORMATION SYSTEM

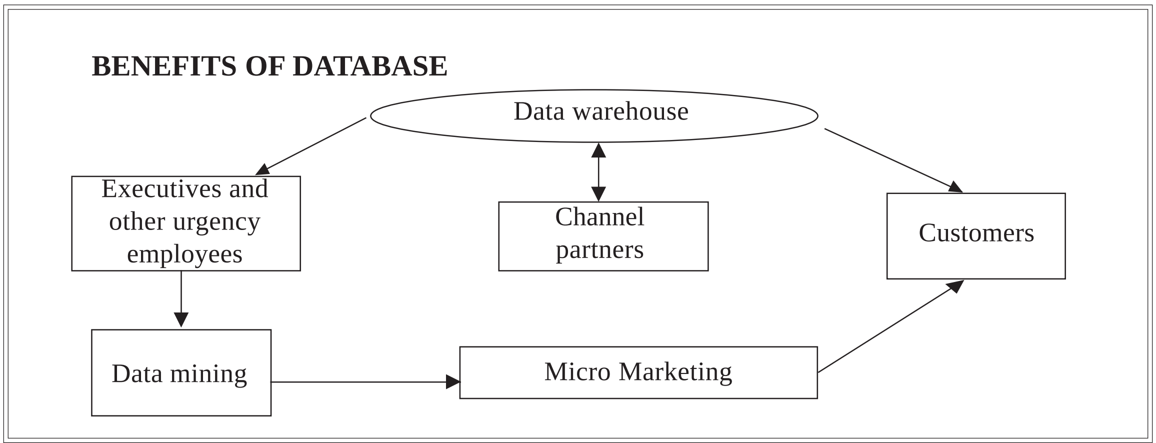



FIG. 37: BENEFITS OF DATABASE

### Retail Management Information System (RMIS)

A retailer is a business that sells products and/or service to consumers for their personal or family use. The word 'Management' is used in the sense of managing the 'group of retail personnel' in an organization. Information is a datum that has been collected and processed into an organized usable form. Organized information is accurate, relevant, complete, cost-effective, verifiable, reliable and is available when needed. Information can be presented in characters, numbers, picture, image and sound. A system is a group of interrelated parts working together towards a common goal by accepting inputs and producing output in an organized transformation process. An information system is an organized combination of people involved in gathering, transforming and dissemination of information. Retail Management Information System is an organized combination of retail personnel involved in gathering and disseminating product/

service information to the present and potential customers with the ultimate aim of presenting and promoting sale of goods and services and creating delightful customers.

Retail management is a multipurpose organ that manages a retail business, manages retail manager and manages a group of inter-connected retail, retail-workers working together in the accomplishment of predetermined objectives, goals and targets. It refers to planning, organizing, staffing, directing, coordinating and controlling the efforts of retail workforce towards a specific objective. It is an art of getting things done through and with retail personnel in formally organized group. Retail management system is the art of systematically knowing what the customers want and then seeing that the customer is delighted in the best and cheapest way possible. It is the art of securing maximum results in retail management with a minimum effort so as to secure maximum prosperity and happiness for both retailer and retailee. RMIS is the systematic process of designing and maintaining of an environment in which individuals working together in groups, efficiently accomplish selected aims based on collected information in the retail market.

## QUESTIONS

1. Define visual merchandise management.
2. Explain the significance of visual merchandise management.
3. Explain the role of visual merchandising management in India.
4. Write short notes on: (i) Visual display, (ii) Window display, (iii) Merchandising training.
5. What are the qualities for visual merchandisers?
6. Define retail advertising.
7. Define retail promotion.
8. Explain AIDAS formulae.
9. What are the merits and demerits of retail advertising?
10. Explain about the media used for retail advertising.
11. Write a note on internet/e-mail advertising.
12. What do you mean by yellow pages?
13. What do you mean by retail space management?
14. Define RMIS.
15. What are the benefits of database?
16. Explain the emerging trends in system and communication.
17. What do you mean by database management system?
18. Explain about various information systems.
19. State the importance of retail information system.
20. Prepare a model income statement for a retail business.
21. How to perform a brief analysis of profitability in a retail business?
22. Write a note on Worksheet.
23. Prepare a model purchase account record.
24. Write a note on: Trade discount, cash discount, different types of audit.

# RETAIL MARKETING MANAGEMENT

## PRINCIPLES AND PRACTICE

Helen Goworek
Peter McGoldrick

ALWAYS LEARNING

PEARSON

# CHAPTER 2

# Retail marketing strategy

## Learning objectives

The objectives of this chapter are to:

- explain the significance of strategic planning for retailers;
- explain the stages of marketing planning;
- examine how the macro-environment and micro-environment impact upon strategic decisions;
- assess how marketing strategy can help retailers to gain competitive advantage;
- explore the theory and implementation of management strategy in the retail sector.

# Introduction

This chapter focuses on how retailers' management teams can develop a marketing plan from the firm's corporate strategy, its mission, goals and objectives, as well as the benefits of this approach. Key models are covered that can be used to guide marketing strategy with the aim of creating competitive advantage. The marketing planning process is discussed, beginning with an environmental audit of internal and external factors that impact upon the retailer. Marketing strategies can then be created to anticipate and adapt to changes in the retailing environment. The implementation of marketing strategies is then covered in subsequent chapters.

## Retail marketing strategy

Academics have offered a range of different interpretations of strategy (e.g. Ansoff, 1984; Whittington, 2001). Strategies are broad, long-term decisions that are usually instigated by senior management and reviewed on a regular basis. The company's strategy is the plan specifically designed to achieve the objectives that have been set by the retailer (Lusch *et al.*, 2011). To achieve an objective to increase market share, for example, a retailer may devise a strategy to attract or retain customers. Core strategy is central to the organisation and can be translated into marketing mix decisions by the marketing team and their colleagues. As well as strategies that subsequently affect the regular, day-to-day running of the business, retailers can devise longer-term strategies that impact upon the structure of the company. Such long-term strategies include diversifying into new product areas, mergers or acquisitions of other businesses and moving into new domestic or overseas markets.

Corporate strategy is usually created at the most senior level of the company, largely relating to the selection of products and markets that the business enters or exits (Gilligan and Wilson, 2007). In a stable environment, strategy may remain the same from year to year when it is considered to be meeting objectives and working effectively, but it can still be advantageous to review strategy periodically, typically on an annual basis. According to Berman and Evans (2010: 58) strategic planning is beneficial for retailers in that it:

- provides a thorough analysis of the requirements for doing business for different types of retailers;
- outlines retailer goals;
- allows retailers to determine how to differentiate themselves from competitors;
- enables firms to develop an offering that appeals to a particular group of customers;
- creates an opportunity to study the legal, economic, and competitive environment;
- allows the firm's total efforts to be co-ordinated;
- enables crises to be anticipated and avoided.

Strategic analysis may merely confirm that the present strategy remains suitable for current market conditions, or it may suggest that amendments should be made; for example, setting a target of a 25 per cent market share rather than a 23 per cent share, as a competitor has gone out of business. Parallels can be drawn with Darwin's theory of evolution, in line with evolutionary strategy, with retailers needing to adapt to survive (Ries and Ries, 2006). In a changeable external environment, such as the economic downturn which began in the US and Europe in 2008, it is advisable to review strategy more frequently than usual, in response to frequent changes in conditions. During a recession, it may be more realistic to aim to maintain the retailer's current annual financial turnover and staffing, rather than to increase them (CIPD, 2012).

Marketing strategy is described by Ferrell and Hartline (2011: 19) as 'a plan for how the organisation will use its strengths and capabilities to match the needs and requirements of the market'. Changes to the retailer's target market may become necessary in reaction to prevailing economic trends. A shift in targeting a particular income bracket or location may be required which can impact upon the marketing mix. For example, in the wake of the financial crisis, 'Migato' is one of several Greek retailers which has expanded overseas into more financially stable markets such as the UK and Egypt (Lebessi and Giannarou, 2012). High property costs and consumers' increased ownership of computers could jointly lead to a change in a retailer's distribution channel strategy through the closure of some of its bricks-and-mortar outlets and the expansion of its online product offering. A strategy to improve customer retention could result in a decision to enhance the quality of a bestselling product range, while retaining competitive prices. This could necessitate collaboration between marketing executives and colleagues in design and quality control, as well as liaison with suppliers of the products involved. When strategies have been implemented they can be monitored and controlled to ensure that they are working effectively and to keep them on track.

## Retail marketing planning

Hollensen (2006: 4) defines marketing planning as 'the structured process of researching and analysing marketing situations, developing and documenting marketing objectives, strategies and programmes, and implementing, evaluating and controlling activities to achieve the objectives'.

The retail sector utilises the same tools and theories as conventional marketing planning, a component of strategic planning that aims to utilise an organisation's resources effectively in response to the changing market environment. Strategic planning is generally the responsibility of a company's board of directors or senior management team and marketing planning is a key responsibility for a marketing manager within the retail sector. Retail marketing planning is described by Lusch *et al*. (2011: 40) as 'the anticipation and organisation of what needs to be done to reach an objective'. The authors also state that 'a well-defined plan of action can mean the difference between success and failure' (*ibid*.). Gilbert (2003: 233) offers a more detailed description:

> Planning is the most important activity of marketing management. Retailers need to plan for merchandise, inventory control, logistics development, pricing, promotional campaigns, store location and layout, positioning of the business, branding, growth and development of the business – and other functional activities. The plan, which needs to ensure that the previous areas are considered, should provide a common structure and act as a focus for all of the company's management activities.

Gilbert (2003: 236) goes on to state that the purpose of a retailer's marketing plan is: 'to provide clear direction to the overall retailing operation based upon a systematic, written approach to planning and action'. Distributing the marketing plan to a retailer's employees within relevant departments allows them to adopt a consistent approach to implementing the company's strategy. Retailers may also consider sharing the plan with key suppliers, since they have the mutual aim of meeting customers' needs effectively. Hollensen (2006) describes the benefits of the marketing planning process as: consistency; responsibility; communication and commitment. Strategic planning can give a firm the advantage of implementing consistent strategies throughout the organisation, resulting in a more coherent brand image, thereby potentially boosting its competitive advantage and, ultimately, its profitability. However, in certain fast-moving sectors of retailing, marketing strategies may need to be implemented quickly, meaning that it may not be viable to progress through such rational and sometimes lengthy procedures.

Strategic planning of this kind is standard content in most of the key textbooks on retailing (see, for example, Gilbert, 2003; McGoldrick, 2002). However, these are not definitive rules that have to be followed and they represent a distinctly Westernised view of how management can operate (Whittington, 2001). Even in the West, many companies do not appear to follow a formal strategic planning process, since fewer than 60 per cent of businesses compile mission statements (Lusch *et al.*, 2011). In addition to this classical, Western view of strategy, which is dominant in mainstream literature, Whittington (2001) critiques three alternative perspectives: evolutionary, processual and systemic approaches to strategy. Evolutionary strategy follows the Darwinian theory of natural selection, where managers respond to changes in the market in order for the company to survive. These different types of management strategy are particularly pertinent to certain variations in the organisational cultures of retailers from different countries.

## Situation analysis

Ferrell and Hartline (2011: 18) define **situation analysis** as 'the overall process of collecting and interpreting internal, competitive, and environmental information'. An effective situation analysis investigates the retailer's current position and establishes its potential future direction, by analysing internal and external factors. Jobber (2010: 39) proposes that the following key questions should be asked in strategic planning.

1 Where are we now?
2 How did we get here?
3 Where are we heading?
4 Where would we like to be?
5 How do we get there?
6 Are we on course?

The first three questions can be answered by means of a marketing audit and a **SWOT analysis** (see below). Marketing objectives can be set in response to question 4. To establish how to get there, a core marketing strategy needs to be devised, followed by the planning of an appropriate marketing mix and the implementation of the strategy. Finally, to keep the strategy on course the control phase involves evaluating and adjusting the company's marketing approach.

## SWOT analysis

A SWOT analysis can be undertaken as part of the business situation analysis to identify the retailer's key strengths, weaknesses, opportunities and threats (see Figure 2.1). This assists in specifying the key issues for further examination. When a SWOT analysis is conducted effectively Hollensen (2006: 11) states that it can:

- match strengths to opportunities;
- convert weaknesses to strengths;
- convert threats to opportunities;
- minimise, if not avoid, weaknesses and threats.

Figure 2.2 gives an example of how a SWOT analysis could be applied to an established independent restaurant in a city centre location, thus allowing its management to anticipate threats and take advantage of new opportunities.


**Figure 2.1** The SWOT analysis matrix


**Figure 2.2** SWOT analysis for an independent small-scale restaurant

The information that contributes towards a SWOT analysis can be gleaned from both internal and external sources. Internal data are vital to establish the retailer's strengths and weaknesses and this can be found in sales figures, information from the firm's employees and market research conducted for the company. Market research can be compiled by the retailer's in-house market researchers or by engaging a specialist consultancy such as Retailmap. External information can also be gathered from market research and from the media. Market reports and the trade press are usually the most focused information sources for retailers, as they are the most suited to their needs. Major market research firms such as Mintel, Euromonitor, Datamonitor and Key Note provide reports on specific retail and product sectors. The financial press or the business and finance pages of newspapers are useful sources to enable retailers to keep up-to-date with local, national or international issues that can create opportunities or threats. The trade press offers frequent updates on the retail sector in publications including *Retail Week*, *The Grocer* and *Drapers*. Online subscriptions to the *Retail Bulletin* and *Retail Gazette* supply regularly updated information via email.

## Mission statements

Strategic planning typically begins by composing a mission statement that sums up the company's values and reflects the interests of stakeholders in the organisation. This is normally followed by setting goals or objectives at senior management level, then devising a marketing plan. In the case of retailers, stakeholders include those who own or hold shares in the company, the customers, the employees, the local communities around the location of the company's outlets or offices and the retailer's suppliers of products and services. The mission statement should summarise concisely what the retailer hopes to achieve through the operation of its business. Berman and Evans (2010: 59) define the business's mission as 'commitment to a type of business and to a distinctive role in the marketplace', whereas Hollensen (2006: 7) states 'an organisation's mission is an expression of its purpose; it states what the organisation hopes to accomplish and how it plans to achieve this goal'. The mission statement does not need to be renewed annually but it is useful to review it at regular intervals in case changes in circumstances warrant a change in direction. The examples in Table 2.1 show mission statements from retailers in different countries and product/service sectors. Consider to what extent you think these statements truly reflect the companies. It is suggested that you look at the websites of those retailers that are not familiar to you and also look for the mission statements of retailers where you regularly shop to see how appropriate you think they are. (You may wish to use Google Translate in some cases by searching for them on Google and clicking on 'translate this page' on the list of results.)

## Setting goals and objectives

Goals and objectives are the guidelines which show how the company intends to accomplish its mission. Aims or goals give an overall view of what the organisation is setting out to achieve. Objectives are more specific, detailed directives give the retailer a practical

**Table 2.1** Examples of retailers' mission statements

| Mission statement | Company/website |
|---|---|
| 'We seek to be Earth's most customer-centric company for three primary customer sets: consumer customers, seller customers and developer customers.' | Amazon<br>www.amazon.com |
| 'All of our restaurants make the food we serve by hand and use only the best quality, freshest ingredients.' | Handmade Burger Co.<br>handmadeburger.co.uk |
| 'To maintain its leading position in the market of cosmetics and fashion, and be extended to cities with a particular business interest. The main goal should be the constant satisfying of the needs of modern consumers, offering a unique experience of shopping.' | Hondos Center<br>www.hondoscenter.gr |
| 'A Great European bank acknowledged for its people, creating superior value for customers and shareholders.' | Nordea Bank<br>www.nordea.com |
| 'A Chinese brand whose mission is to take Chinese chic to the Western world.' | Shanghai Tang<br>www.shanghaitang.com |
| 'We are committed to excellence in the art of hairdressing. We are passionately dedicated to providing clients with the highest level of skills, service and products in an enjoyable, friendly salon environment.' | Toni & Guy<br>www.toniandguy.com |

framework to follow, thus enabling it to implement strategies. Objectives can be set at corporate and divisional levels. The company performance can later be reviewed in comparison to these objectives either during or at the end of the financial year. Objectives can be set either for the short term or for the longer term. It is possible for retailers to use long-range planning, setting objectives for five years or more ahead, although they may review these plans annually. Effective objectives are usually 'SMART', i.e. Specific, Measurable, Realistic and on Time. They may be measurable in different ways; for example, by the percentage of improvement in terms of market share or position in comparison to competitors, such as progressing from being fourth biggest to third biggest retailer within a specific sector. Financial performance can be calculated in terms of increased annual or quarterly turnover and profitability is frequently assessed through **net profit margin**; that is, profit after tax (Berman and Evans, 2010). Adopting a more socially responsible and environmentally sustainable approach is also becoming increasingly important for many retailers. This may involve setting targets which relate to, for example, increasing diversity in recruitment, offering a more environmentally friendly product range, improving recycling within the company and sponsoring schools for the children of those employed by suppliers in developing countries.

## Identifying consumers

The retailer needs to identify the type of consumers at which it targets its merchandise. This enables the company to establish the target customers' needs and wants and to offer merchandise at suitable prices and locations to meet these needs. Retailers can adopt a mass marketing approach, aiming at a broad range of customer categories, or target a smaller niche of customers. The main type of customer targeted by a retailer is referred to as the 'core customer' and they form the largest proportion, if not most of the company's clientele. They can be specified in market segments by demographic characteristics such as age group or by aspects of their lifestyle. The retailer will also probably attract customers in other categories, e.g. those who are older or younger than the core customer, but these additional customers are likely to identify with people of the core customer's age. After identifying the most suitable market segments to target, retailers can then decide on how they would like their market position in comparison to competitors to be perceived by consumers, a process known as Segmentation, Targeting and Positioning (STP) (see Chapter 3 Retail consumer behaviour and market segmentation).

## Developing retail strategies

In order to develop retail strategies, retailers need to take into account controllable and uncontrollable variables. Controllable variables are those factors which are managed by the retailer, whereas uncontrollable variables are those over which the retailer does not have influence. For example, the retailer can select store locations, the merchandise it stocks and the media in which it communicates with customers. However, the retailer cannot decide where consumers choose to shop or control changes in the macro-environment such as legislation and the state of the economy.

The economic crisis combined with the impact of online retailing has led certain retailers to adopt a downsizing strategy by closing less profitable stores. Multichannel retailer Argos took the decision in 2013 to close many of its branches; however, it has the advantage of having a growing online channel. Another option that can help to strengthen a business in certain circumstances is to form a merger with another company to enable cost savings and to share facilities and expertise. Alternatively, diversification is an option for a retailer that is in a position to expand its product offering.

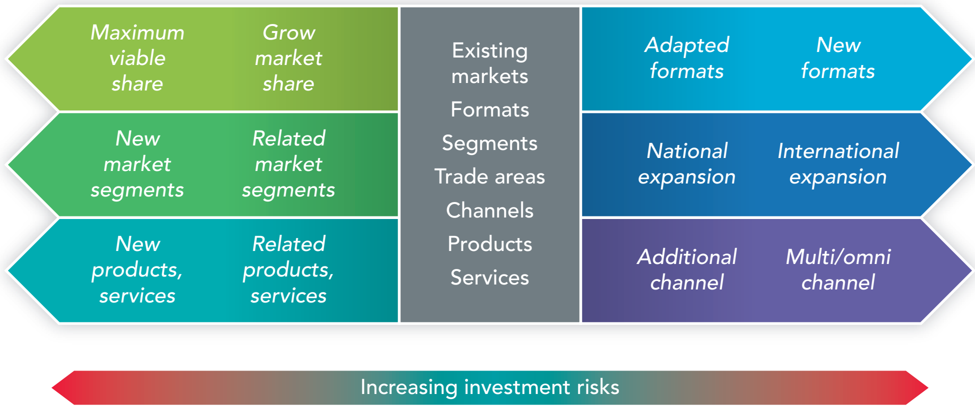



**Figure 2.3** Directions for strategic retail growth
*Source*: developed from: Ansoff, 1988; McGoldrick, 2002

McGoldrick (2002) highlights the variety of retailers' options for strategic growth in Figure 2.3, including existing markets, formats, segments, trade areas, channels, products and services. However, investment risks increase if retailers push their boundaries far from their existing markets, for example by moving beyond related market segments or products into new areas.

## Implementation of the marketing plan

Marketing plans are usually compiled in the form of a report to be shared with relevant employees (see vignette on Jonathan Solomon in this chapter). According to Hollensen (2006: 17), a marketing plan can be implemented in three main ways.

1. *Top-down planning*: top management sets both the goals and plan for lower-level management.
2. *Bottom-up planning*: organisational units create their own goals and plans, for approval by higher-level management.
3. *Goals-down-plans-up planning*: top management set the goals, but the various units create their own plans to meet these goals.

Option 1 could be considered as the traditional approach, where senior management retains the responsibility for generating ideas and making decisions about strategy. Retailers with a more contemporary and egalitarian approach allow responsibility for strategic decision-making to be shared by the units who are involved in the implementation of the strategy. Approaches 2 and 3 therefore have the advantage of team members 'buying in' to the strategic plan and potentially increasing their motivation to make it succeed, as they have been involved in its formulation. However, the involvement of various levels of staff in strategic decision-making is likely to be more time-consuming. Top-down planning by senior management is therefore likely to be quicker and more consistent, since it involves a smaller number of people, and this can be more appropriate in certain situations, particularly when problems need to be resolved urgently.

## RETAIL MARKETING CAREERS

### Jonathan Solomon, Head of CRM & Insights

*Source*: with permission from Jonathan Solomon

Jonathan Solomon is Head of CRM & Insights at the Support Office of Vision Express, a UK-based chain of opticians with 390 outlets. Jonathan studied BSc Environmental Science and MRes Marine and Coastal Ecology before embarking on a marketing career. As he needed to pay off the loan for his MRes quickly, he took an office job with an electricity company and worked his way up from there. Jonathan says 'sometimes it's just best to get your way into the company, then it's easier to prove your worth and move up. I applied for a job in market research and I didn't get it the first time but they remembered me the next time a post came up and I got it'. (Jonathan didn't mind about missing out on the initial job too much, since the person they appointed later became his wife.) Jonathan moved to Retail Strategy and then Retail Segment Manager within energy company E.ON, before working for credit card company 'Egg' as Activation and Retention Portfolio Manager. He has also gained Chartered Institute of Marketing (CIM), Strategic Decisions Group (SDG) and Market Research Society (MRS) qualifications through part-time study while working. Although his degree topics were in another discipline his transferable skills have been beneficial in his marketing work, particularly in terms of research.

Jonathan's work is split into two main areas. Firstly, he is the manager of a team of eight people, three of whom report directly to him. Jonathan has weekly one-to-one meetings with his direct reports and regularly reviews their progress, as well as helping with any requests they have. Secondly, he carries out his own tasks, which include planning ahead for his departments, developing and managing direct marketing communications, research and liaising with corporate clients. The company has over 500 corporate clients for which it runs schemes offering discounts at Vision Express to employees, including John Lewis and the NHS. Jonathan's marketing-related tasks include responsibility for all direct mail, all pure market research and all market and competitor intelligence. Jonathan's role involves dealing with people within the company and externally, such as suppliers or service providers. He deals directly with external agencies including print and postage for the creation and provision of mailshots or emails and his closest internal colleagues are the Customer Database team.

In terms of his responsibility for CRM (Customer Relationship Management), Jonathan considers it to be very important to know how often customers are going to repurchase: 'You need to look at points when you can talk to them in that repurchase cycle. It needs to be timely, personal and relevant, specific and tailored, so you need great data. I know who's coming up for an eye test, age and gender, where they live. If it's a man aged 20–50 who bought Oakley glasses before and we have some new styles in, I can ask the Database guys to provide me the data so I can contact them. You also need to know why customers purchase from you. My main advice about CRM is that if you can't measure it, don't do it. It's my responsibility to spend Vision Express's budgets of millions of pounds as efficiently as possible, so if I can't measure it I can't spend it. We use control groups, with mailshots to one group and not to another so we can compare the effect of our **direct marketing**. A lot of marketing is about understanding data and maths and **Return on Investment (ROI)**. It's quite easy to measure, if you keep on testing and alter your campaigns and check the details. If you have a good campaign you shouldn't rest on your laurels.'

Jonathan's role also involves devising strategy and implementing marketing planning. He states that 'the


*Source*: with permission from Vision Express

higher up the ladder you go the more you should be thinking about what you're doing longer-term and what you need to put in place to make it happen'. He has the authority to independently make certain strategic decisions, dependent upon the size of the decision, and he reports to the company's Marketing Director (who reports to the CEO). Jonathan uses marketing models such as SWOT analysis, PESTEL analysis and the Boston Consulting Group (BCG) matrix, to help devise marketing plans. Jonathan believes it makes good business sense to put a strategic plan in place on a three-year and annual basis, with annual targets for profit and turnover. However, he says 'you don't want to be planning so much you never get on with doing'. He says 'strategy is about what you will and won't do . . . every business is different in terms of how they set their strategies out and how prescriptive they are'. The company mainly uses a top-down approach to strategy which is imparted to staff at an annual conference attended by Vision Express's different divisions, joint venture partners and all store managers. There is also an element of input into corporate strategy from employees via the employee satisfaction survey, to be taken on board as part of the 'softer' elements of strategy relating to Human Resources and training (as opposed to products and finance).

When employing someone in his department, Jonathan looks for proof of key capabilities that he can match someone against, which doesn't necessarily have to be paid employment, such as a placement or work for an external body through a university. He says that general transferable skills, such as communication and the ability to meet deadlines, are important for marketers, as well as IT skills, particularly the use of spreadsheets and PowerPoint®. He also says it's important for marketing students to learn about financial terms such as ROI, net margin and **gross margin**. He believes that 'marketing should be the liveliest part of any business, they're the ones driving what the brand stands for, so they should have a spark and drive, not just competence, and we want someone who can fit in well with the team and challenge people'. In order to begin a career as a marketer, Jonathan states 'you've just got to stand out. If someone's thinking about hiring someone internally they need to think who'd be good for this role and look around. You should always be thinking about where is the next place I'd want to be and who would I need to impress, not necessarily about doing more hours, but making the difference you're making clear, so you should tell someone about it'.

## Internal and external marketing audits

Companies conduct marketing audits to enable them to examine the external and internal environments in which they operate, i.e. the **macro-environment** and **micro-environment**, thus enabling them to devise appropriate marketing strategies to reflect these environments (see Figure 2.4). Key components of a marketing audit are:

- establishing the market size;
- identifying target customers;
- assessing the viability of distribution channels through which their products are made available to consumers;
- examining competitors in the same market.

Retailers can compile a marketing audit checklist to establish whether they have covered sufficient information to prepare them fully before finalising and implementing strategic plans. Observing the performance of competitors is a key part of the external marketing audit, specifying direct competitors and assessing their strengths and weaknesses. The retailer needs to discover its own market share and those of its close competitors, if one of its goals is to change or maintain its ranking in this respect. To assess the external factors that impact upon a retailer's marketing strategy, the retailer requires information about the macro-environment in a process which can be known as environmental scanning.


**Figure 2.4** The macro- and micro-environments in relation to the product or service

## The macro-environment

The macro-environment can be scanned by examining relevant issues often referred to as 'PESTEL' (and sometimes adapted as 'PEST' or 'SLEPT' factors):

- Political
- Economic
- Societal
- Technological
- Ethical (or environmental)
- Legal

### Political

Political factors relate to the implementation of policies by local or national government bodies, such as the imposition of taxes. Political factors are also closely connected to legal factors (see below), as governments are responsible for changes in legislation. Retailers benefit from being aware of political parties' manifestos because a change of government can lead to a range of new policies that could affect their business. Other bodies can also impact upon retailers for political reasons, often in opposition to government plans. For example, British postal workers went on strike in 2013 in protest at the privatisation of the Post Office, echoing the Royal Mail strike of 1988 that disrupted deliveries for several weeks. This situation can have a significant effect on retailers that operate websites or catalogues and in 1988 this led to some retailers establishing their own courier systems to avoid relying on Royal Mail.

### Economic

Economic factors relate to the present and future state of the economy on a local, national and international basis. The global economic crisis that began in 2008 led to financial recessions in many countries. While this may have appeared to be bad news for all retailers, the grocery, take-away food and cinema sectors in the UK found that sales figures improved, apparently as a consequence of consumers seeking relatively inexpensive ways of treating themselves. Employment levels and interest rates are also key economic factors affecting retailers. Certain elements of the economy can have wide-ranging consequences. Increases in fuel taxes and crude oil prices led petrol prices to triple in the UK between 1991 and 2011 (BBC News, 2011). Subsequently, this has impacted upon more than just retailers that operate petrol stations, as the expense of transporting products to stores has risen, contributing to higher selling prices for products, as well as increasing costs for customers travelling to stores. Petrol prices can therefore affect all retail product sectors. However, in terms of sustainability rising fuel prices could be viewed from a positive perspective, since this may encourage retailers and consumers to adopt more environmentally friendly practices. (See Chapter 6 Retail pricing.)

### Societal

Retailers need to remain aware of societal changes that affect customers' requirements, so they need to consider overarching changes in consumers' lifestyles and values. Demographic changes such as age distribution in the population influence the sales of products and services. For example, the trend towards healthier living, improved nutrition and developments in healthcare has contributed to an ageing population in the UK, where people live to be 80 years old on average (*CIA World Factbook*, CIA, 2014). Conversely, there are also increasing levels of obesity in the Western world which present dangers to health. Such factors impact significantly upon grocery retailers (and vice versa). Lifestyle trends and cultural factors also affect customers. As well as varying from one country to another, different ethnicities and subcultures in the same country sometimes have different requirements. For example, many food retailers in the UK have responded to an increased proportion of the population originating from Eastern Europe by offering ranges of food from this region.

## Technological

Many new technological developments in products and processes, such as innovations in store design, distribution and marketing channels can affect the ways in which retailers operate. They may also sell new forms of technology that impact upon their sales figures and profitability. Some of the most recent retailing innovations include interactive in-store and online technologies (see Chapter 9 Retail design and layout) and software for retailing systems. In 2014, Asda supermarkets began to offer a technological innovation to their customers by trialling a three-dimensional (3D) printing service, a new system which had previously been confined largely to business-to-business markets (see Figure 2.5). Retailers can keep up-to-date with new technical developments that could be utilised in their businesses by attending trade fairs, reading trade and technical magazines, gathering information from suppliers and accessing websites such as retail-innovation.com.

## Ethical

Ethical factors comprise a wide variety of social and ecological issues. Environmental and social sustainability are major issues that have begun to achieve mainstream recognition, particularly in terms of climate change (see Chapter 12 Legislation and ethics in retailing). The conservation of non-renewable resources as well as flora and fauna can be impacted upon by the large-scale usage of raw materials and manufacturing for the products that they sell. Disposal of products can also create pollution. While laws can intervene to


**Figure 2.5** The Asda 3D printing service uses scanning equipment to produce scale models

*Source*: with permission from Asda Photo improve these problematic areas, retailers' voluntary ethical behaviour can go beyond legislative requirements to benefit society in many ways, such as charitable donations and community support. A key method of behaving ethically is for retailers to compile and implement a Corporate Social Responsibility (CSR) policy.

### Legal

Legal factors include the introduction of laws that either affect retailers indirectly or that regulate the retail environment directly. For example, planning regulations can have a direct impact on a retailer's ability to build new outlets (see Chapter 12 Legislation and ethics in retailing). Regulations also impact upon pricing and promotion to ensure that they are fair and retailers' products need to comply with safety regulations and the Trade Descriptions Act. Additionally, retail staff have employment rights and their customers have consumer protection rights (see www.gov.uk).

## The micro-environment

The micro-environment covers factors which are more directly connected to the company, particularly internal issues within the retailer, its customers and direct competitors. Internally, the key areas that the retailer needs to assess are its existing strategies, objectives, resources and performance. Externally, the company is directly connected to its customers through transactions, and with its competitors through being part of the same market sector. Marketing intermediaries such as advertising agencies can also be considered to be part of the micro-environment owing to their close connection, carrying out activities on behalf of the retailer.

The retailer's marketing division operates within the larger environment of the company and its other divisions, as indicated in the example shown in Figure 2.6. In a small retailer, various responsibilities may fall to one person whereas in a large retailer the


**Figure 2.6** The retail internal environment

responsibilities can be divided between numerous employees with specialist skills in their areas. Sole traders with independent stores are therefore likely to find themselves in charge of all aspects of retailing, from product buying and promotion through to managing staff and compiling financial information, thus requiring a versatile set of skills (see case study on Bead Boutique in Chapter 11). In order to examine the micro-environment fully and to embed strategy within the firm, strengths and weaknesses of the departments, assets and processes within the company need to be assessed.

## Market attractiveness

When analysing the retailer's micro-environment, market attractiveness can be assessed by using Porter's (1980) Five Forces model, which analyses the competitive industry structure in which businesses operate. An industry consists of companies that offer products of a similar type. At the centre of this model, the firms within an industry are viewed as competing for position, governed by the impact of four external forces: the threat of potential market entrants and substitute products and the bargaining power of buyers and suppliers.

When the forces in the four outer boxes are strong, then industry performance is liable to be weak, whereas if the forces are milder, this can lead to above-average industry performance (Jobber, 2010). The model can therefore enable a retailer to assess the attractiveness of entering a new market or staying in an existing one. Some industries have high entry barriers but as part of a service industry, retailers often have low barriers to market entry, in comparison to heavy manufacturing industries for example. Financial investment and economies of scale are key entry barriers which would make it much more viable to set up a small greengrocer than a computer brand. Potential new entrants to a market therefore need to recognise their capacities in terms of scale and finance before entering this market. Barriers to entry are also high in a market where there is a unique element of design or manufacture that is protected by intellectual property law or in which research and development are particularly expensive.

When suppliers have high bargaining power, perhaps because their products are in scarce supply, their prices are liable to be high. Conversely, when there are many suppliers of the same type of product, buyers usually have the stronger bargaining power. The availability of substitute products can affect a market's attractiveness. Therefore a competitor offering a different item that serves the same purpose in order to meet consumer needs, such as keeping warm or quenching their thirst, can pose a threat to the retailer. Central to Porter's Five Forces is the intensity of rivalry between competitors. This has been demonstrated in the UK grocery industry with Asda and Sainsbury's vying for second place in this highly competitive marketplace. Sainsbury's returned to achieving the second largest market share in 2012 with 35 consecutive quarters of sales growth, overtaking Asda which had taken this position for several years (Withnall, 2013), despite Sainsbury's selling higher-priced merchandise than Asda on average. Sainsbury's success in this respect may have been attributable, at least in part, to its differentiation strategy and stronger brand image, whereas rival Asda could be said to have adopted a cost leadership strategy, in line with its parent company Walmart (see 'Sources of competitive advantage' below).

## Value chain

Another concept initiated by Porter (1985) is value chain analysis, which breaks down the major activities of a company into stages and assesses how costs and differentiation can affect value at each stage.

Porter (1985) suggests that a company could be viewed as a collection of primary and support activities. Porter's model represents the contribution of central functions of the organisation horizontally and operational components vertically, acknowledging that each area can add value to the company by being run more cost-effectively or being differentiated from its competitors. McGoldrick (2002: 147) states that '(a) particular merit of the value chain concept is in helping to highlight the specific components, their relative contributions to the value creation process, and their relative costs'. It is important to view added value from the target customer's viewpoint, rather than solely from the retailer's perspective, since perceptions of the value offered by retailers can affect their purchase decisions. Commissioning market research that measures levels of customer satisfaction can therefore assist in analysing the value chain.

## Sources of competitive advantage

Successful retailers need to gain a competitive advantage over rival companies. This can be achieved by adopting one of three generic strategies: differentiation, cost leadership or focus (Porter, 1980). Retailers aiming to differentiate themselves from the competition can offer an emphasis on one or more elements of the marketing mix which appeal strongly to the target customer and exceed those of their rivals, such as high quality or unique design in their products or services. Those aiming for cost leadership adopt a low-price, no frills approach. For example, the economy airlines benefit from the economies of scale achieved through selling to the mass market. A focused product or service offering targets a specific market segment or a niche product area, e.g. lingerie chain Victoria's Secret. However, there is a danger in limiting the market and product type as competitors can target the same types of consumer and product trends can change.

## Market penetration and diversification

Ansoff's product–market matrix is a model that maps opportunities for companies to stay in existing markets or move into new ones. It offers four strategic options from which retailers can select.

1. **Market penetration** (for an existing product in an existing market) – retailers aim to achieve a larger share of an existing market by gaining sales from competitors, for example through a targeted communications campaign (Dibb and Simkin, 2008).
2. **Product development** (for a new product for an existing market) – retailers can expand upon existing product ranges by updating the previous range or introducing a new product line. This has become standard practice for most brands and retailers of electronics and fashion products.
3. **Market development** (for a new market for an existing product) – retailers maintain the same types of product but aim them at new markets, by promoting a different function or targeting different locations or market segments.
4. **Diversification** (for a new product in a new market)– retailers can seek new markets by expanding into new products or services, either through design and development within the company or acquisition.

The selection of which of these options to follow should be influenced by the marketing audit. For example, if the retailer finds that an existing market is already saturated with established retailers in this field then it may be preferable to adopt a diversification strategy.

# Portfolio analysis

An analysis of the portfolio of a retailer's strategic business units (SBUs) can be conducted using the market growth–market share matrix originally developed by the Boston Consulting Group (BCG). SBUs can be positioned on the matrix with one axis denoting market share in relation to competitors and the other axis representing annual market growth in the industry (see Figure 2.7). Stars are those products which are gaining a high percentage of growth to reach a high market share. Question marks are SBUs which are in a high growth market but have not yet achieved a high market share. The company can investigate question marks' potential to become stars, for example through increased investment in promotion, or to leave them to decline into a low market share when they become dogs. Cash cows are those products or brands which have attained high market share but which have low growth, possibly owing to market saturation and maturity. Products are likely to move from one section of the grid to another over time and retailers need to introduce new merchandise regularly to become tomorrow's stars and cash cows. Marketing strategies can be adopted to divest dogs or question marks and to put the company's finances to better use for products which can potentially achieve better performance.

# Competitive marketing objectives

After a situation analysis has been conducted, **strategic objectives** can be set, for the retailer to build, hold, harvest or divest of SBUs, product ranges or individual products or subbrands within the organisation (Dibb and Simkin, 2008). This is particularly pertinent to the retail sector, where each of these four alternatives can be applied to the volume of products that are stocked within a certain timescale. For example, when products are new to the company the objective could be to build up investment in this type of merchandise. In 2010 retailers selling electronic products began to build up stocks of tablet computers that were new innovations at that time, in anticipation of increasing demand from consumers. However, for more established products, it can sometimes be advisable to maintain the same sales figures as the previous year by using a 'hold' strategy. There are parallels between 'build' objectives and the 'growth' stage of the Product Lifecycle (see Chapter 4 Retail product and brand management). Similarly, the 'hold' objective is defensive to maintain market share. It can relate to products that have reached the 'maturity' stage and therefore sales figures have reached a plateau.

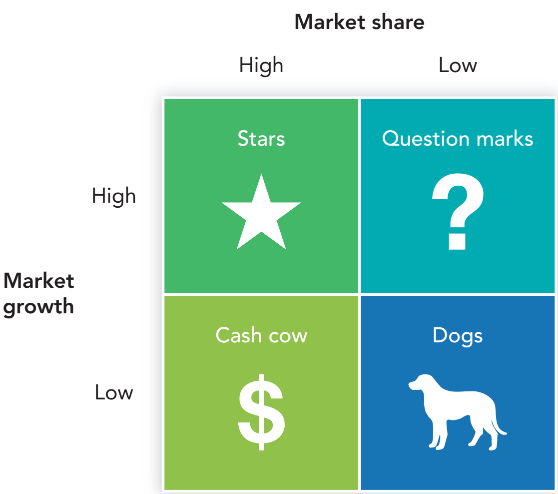



**Figure 2.7** The BCG Portfolio Analysis matrix

Implementing a build objective for such a product could result in surplus stock that needs to be marked down. Maximising profit margins in the short-term while sales of a product are declining and thus losing market share, is known as 'harvesting'. When products move towards the end of the decline phase it is time for divestment, allowing stocks to dwindle gradually or to dispose of them more quickly with **markdowns**, to retract from this market and make way for products which are in higher demand.

## Marketing strategy in relation to HRM and finance strategy

All divisions of the company must carry out the corporate strategy effectively if the retailer is to achieve the optimum level of success. As well as marketing strategies, retailers need to develop compatible Human Resources Management (HRM) and finance strategies, for example, that are consistent with the retailer's overall strategy. People are central to the **services marketing mix** and HRM can support them by recruiting, training and helping to keep suitable employees within the business. Retailers' HRM policies need to cater for an industry that is characterised by high numbers of part-time staff, who are relatively young on average and many of whom work temporarily over the Christmas season.

Finance is also clearly required to implement the marketing plan and to pay staff's wages, one of the retailer's major outgoings. It should be borne in mind that marketing strategies have financial implications that can impact upon other areas of the business, so marketing objectives need to be in keeping with an organisation's financial objectives. Marketing and finance departments need to maintain clear lines of communication to achieve this aim. It is usual for retailers to set objectives to achieve a certain level of profitability or financial turnover and these can be used as measures of success for the marketing department or the retailer in general. However, during challenging economic times, or in not-for-profit retail organisations such as charity stores and museum shops, aiming to reach break-even point may be a satisfactory target. Goals measured in sales volume (rather than turnover) or customer satisfaction can apply equally well to the for-profit or not-for-profit sectors.

## CHAPTER SUMMARY

This chapter focused on the development of retailers' marketing strategies, comprising the following key areas.

- The firm's corporate strategy is devised via the compilation of a mission statement, goals and objectives.
- A situation analysis specifies the strengths and weaknesses of the company and its external opportunities and threats.
- Audits of the micro-environment (political, economic, societal, technological, ethical and legal factors) and macro-environment within which the retailer operates enable it to tailor its strategy accordingly.
- Various key theories can be used to guide marketing strategy, including Porter's Five Forces, the BCG matrix, Ansoff's product–market matrix and the value chain.
- Competitive advantage over rival companies can be achieved by adopting one of three generic strategies: differentiation, cost leadership or focus (Porter, 1980).
- Retail marketing strategy needs to be compatible with strategy in other areas of the business including HRM and finance.

## EXERCISES AND QUESTIONS

1. Select a retail sector for a particular product type (e.g. electronics or toys) and conduct a PESTEL analysis to assess the macro-environment that affects this sector. Which are the main issues that you believe would impact upon a small independent store selling this product type?
2. Find the mission statements for three retailers. Which one of the three do you think is most in line with your own perceptions of the retailer? How could the other two be amended, if at all, to make them more suited to the retailers concerned?
3. Watch the following video featuring Michael Porter explaining the importance of strategy to an organisation. Make a note of the key points he mentions and discuss why they are relevant to retailers. http://www.youtube.com/watch?v=DViVtgD0xwE
4. Select ten retailers that are located in your nearest town or city. Assess which one of the following generic strategies each of these retailers are following: cost leadership, differentiation or focus.
5. Research Ansoff's product–market matrix online and apply it to a selection of different retailers or brands in a particular product sector, placing them in the appropriate sections.
6. Why is it important to align marketing strategy with the strategies used in other areas of the company, such as HRM and finance?

## REFERENCES

Ansoff, H.I. (1984) *Implementing Strategic Management,* Harlow: Prentice-Hall.

Ansoff, H.I. (1988) *Corporate Strategy,* Harmondsworth: Penguin.

BBC News (2011) *MPs urge ministers to scrap a planned rise in fuel duty,* BBC News, 15 November (available online at: http://www.bbc.co.uk/news/uk-politics-15730087).

Berman, B. and Evans, J.R. (2010) *Retailing Management: A Strategic Approach*, 11th edn, Upper Saddle River, NJ: Pearson.

CIA (2014) *CIA World Factbook: United Kingdom* (available online at: www.cia.gov/library/publications/the-world-factbook/geos/uk.html).

CIPD (2012) *Human Resources in the Recession: Managing and Representing People at Work in Ireland. Executive Summary,* Dublin: Chartered Institute for Personnel and Development (available online at: http://www.cipd.co.uk/global/europe/ireland/resources/useful-publications/human-resources-recession.aspx).

Dibb, S. and Simkin, R. (2008) *Marketing Planning: A Workbook for Marketing Managers,* London: South-Western Cengage Learning.

Ferrell, O.C. and Hartline, M.D. (2011) *Marketing Management Strategies,* International/5th edn, South-Western Cengage Learning.

Gilbert, D. (2003) *Retail Marketing Management,* Harlow: Financial Times/Prentice Hall.

Gilligan, C. and Wilson, M.S. (2007) *Strategic Marketing Planning,* 2nd edn, Oxford: Butterworth Heinemann.

Hollensen, S. (2006) *Marketing Planning: A Global Perspective,* Maidenhead: McGraw-Hill.

Jobber, D. (2010) *Principles and Practice of Marketing,* 6th edn, Maidenhead: McGraw-Hill.

Lebessi, M. and Giannarou, L. (2012) Greek retail firms try their luck abroad, *Ekathimerini*, 30 January (available online at: http://www.ekathimerini.com/4dcgi/_w_articles_wsite2_1_30/01/2012_425143).

Lusch, R.F., Dunne, P.M. and Carver, J.R. (2011) *Introduction to Retailing*, International/7th edn, Stamford, CT: South-Western Cengage Learning.

McGoldrick, P. (2002) *Retail Marketing*, 2nd edn, Maidenhead: McGraw-Hill.

Porter, M.E. (1980) *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, New York: Free Press.

Porter, M.E. (1985) *Competitive Advantage*, New York: Free Press.

Ries, A. and Ries, L. (2006) *The Origin of Brands*, New York: Harper Collins.

Whittington, R. (2001) *What is Strategy – and Does it Matter?* 2nd edn, London: Thomson.

Withnall, A. (2013) Sainsbury's overtakes Asda to become second-largest UK supermarket as profits soar 9%, *The Independent*, 13 November (available online at: http://www.independent.co.uk/news/business/news/sainsburys-overtakes-asda-to-become-secondlargest-uk-supermarket-as-profits-soar-9–8936616.html).

## FURTHER READING

Cuthbertson, C. and Reynolds, J. (2004) *Retail Strategy: The View From the Bridge*, Oxford: Elsevier.

Gauri, D.K., Trivedi, M. and Grewal, D. (2008) Understanding the determinants of retail strategy: an empirical analysis, *Journal of Retailing*, 84, 256–267.

Levy, M., Grewal, D., Peterson, R.A. and Connolly, B. (2005) 'The concept of the big middle', *Journal of Retailing*, 8(2), 83–88.

Porter, M.E. (1996) What is strategy? *Harvard Business Review*, 74(6), 61–78.

Warnaby, G. and Woodruffe, H. (1995) Cost effective differentiation: an application of strategic concepts to retailing, *International Review of Retail, Distribution and Consumer Research*, 5(13), 253–269.

# Case study

## WH Smith upbeat despite sales doldrums

**By Duncan Robinson and Andy Sharman**

Shares in [stationery and book retailer] WH Smith hit an all-time high in January 2014, despite a slump in sales as the retailer showcased its ability to maintain profits in spite of a falling top-line.

The rally, which sent shares up 3 per cent to £10.43, came in spite of a 4 per cent drop in total sales for the 20 weeks to January 18.

Sales on the High Street continued to decline sharply, with like-for-like sales down 6 per cent in the division, but an improved performance in its travel unit helped pep up the group's shares.

The performance highlights the strategy that has helped WH Smith increase underlying earnings every year, despite falling sales, for almost a decade.

Kate Swann, the newsagent's formidable former chief executive, cut costs relentlessly to maintain profitability. She also shifted the group's estate so that it had less exposure to the high street and far more to railways and airports.

Her successor Steve Clarke, who used to run WH Smith's High Street division, has been clear that he is following the same strategy. This year WH Smith will add about 60 stores to its travel division – half in the UK, and half internationally.

Airports, both in the UK and increasingly abroad, have proved particularly profitable for the group.

"When you have proved yourself in Heathrow, which is one of the most expensive in the world, you have a lot of


*Source*: WHSmith plc

experience," said Kate Calvert, analyst at Investec, "From an airport perspective, the retailer that gets the contract is the one that gets the most revenue for the landlord."

Sales in the retailer's travel division benefited from a recovery in airport passenger numbers for the 20 weeks to January 18th, with like-for-like growth in the latter half of the period.

"The trend [in passenger numbers] is definitely improving," said Mr Clarke, "we are still a long way below 2008 levels."

The focus on transport hubs was a return to the newsagent's origins. William Henry Smith launched the first WH Smith store in Euston station in 1848.

. . . Mr Clarke has won round investors by outlining plans to strip even more costs from the group. Some retail observers question whether the group's estate can handle more cuts.

[WH Smith sales stem mainly from its bricks-and-mortar outlets, as it derives only a tiny fraction of its sales from the web.]

A Twitter account dedicated to retweeting pictures of threadbare carpets in WH Smith stores has nearly 4,000 followers.

But Mr Clarke hopes that installing more self-service checkouts, and making warehouse staff wear hands-free headsets to help them pick items quicker, will further reduce costs. The continued emphasis on boosting margin has convinced some previously sceptical financial analysts.

The shares have rallied 60 per cent [in the year to January 2014].

. . . "Consistency is what we love about it," said Ms Calvert of Investec. WH Smith has not had a major profit warning in the best part of a decade.

But not all are won over. While the strategy works in the short term, it is not a model that can work forever without top-line growth, said John Stevenson, an analyst at Peel Hunt, "WH Smith is about cost saving and margin growth, but that can't continue in perpetuity."

FT *Source*: Robinson, D. and Sharman, A. (2014) *Financial Times*, 23 January.


## DISCUSSION QUESTIONS

1. Which strategies has WH Smith used that have resulted in a substantial rise in share prices without increasing sales?
2. Why does the analyst suggest that some of these strategies are not financially sustainable in the future?
3. What are the main PESTEL factors that currently affect the stationery and books retail sector?
4. After visiting the company's website www.whsmith.co.uk or one of its branches to examine the retail layout and range of merchandise WH Smith offers, propose two key potential strategies that you would recommend them to implement during the next three years.

# CHAPTER 3

# Retail consumer behaviour and market segmentation

## Learning objectives

The objectives of this chapter are to:

- evaluate explanations for consumer motives for shopping;
- apply consumer behaviour theory to retailing;
- evaluate market segmentation theory and techniques;
- demonstrate how market research enables retailers to understand consumer behaviour;
- explain how consumer behaviour impacts upon retail marketing decisions.

# Introduction

As satisfying customers' needs and wants is central to the marketing concept, it is important for retailers to understand the behaviour and attitudes of their customers in order to make effective marketing decisions. To enable them to satisfy their customers' needs, first retailers need to identify them. This can be achieved by categorising customers into groups with similar characteristics using market segmentation. To be able to understand their customers' behaviour and to categorise them, retailers can utilise a variety of marketing research techniques. Understanding the process of consumer decision-making and the various factors that influence consumption decisions are key aspects of Consumer Behaviour (CB) theory. This chapter refers to the behaviour of private consumers who purchase for personal or household use (organisational retail buying is covered in Chapter 5).

## Retail consumer behaviour and attitudes

Retailers can aim to understand their customers more effectively by researching into CB, investigating who buys products or services and how, when, where and why they buy them (Jobber, 2010). Increasing freedom of choice in product consumption for the general public since the 1950s has made it appropriate for firms to study the behaviour of consumers in order to explain consumer preferences (Antonides and van Raaij, 1998). CB, defined by Solomon *et al.* (2006: 6) as 'the study of the processes involved when individuals or groups select, purchase, use or dispose of products, services, ideas or experiences to satisfy needs and desires' and its theories have evolved largely from the fields of psychology and sociology, as it involves the study of human behaviour. Sociologists understandably view CB from more of a social than a business perspective and they use the term 'consumer culture', described by Lury (1996: 4) as 'a specific form of material culture in contemporary Euro-American societies'. A more recent development in the study of CB from a psychology viewpoint is the introduction of neuro-marketing, the application of neuroscience to provide a deeper understanding of the physiological aspects of consumer decision-making, thus allowing marketers to intervene more effectively in the decision-making process (Yoon *et al.*, 2012). Jobber and Fahy (2009: 56) state that **consumer neuroscience** 'allows us to examine precisely which part of the brain responds to stimuli, and from this we can infer how the consumer is likely to react . . . it can get beyond the expressed behaviour of consumers to reveal their true emotions'. Consumer neuroscience uses fMRI (functional magnetic resonance imaging) and electroencephalograph (EEG) technology to track brain responses alongside other neurophysiological techniques (see Retail Marketing career vignette, below).

Consumers' attitudes relate to their opinions regarding products and brands. According to the Theory of Planned Behaviour (Ajzen, 2005), beliefs, attitudes, social pressures and ability to act combine to shape consumers' intentions to purchase and ultimately affect their consumer behaviour. It is useful for retailers to know whether consumers' attitudes are positive, negative or neutral towards them and their merchandise, so that they can address any issues accordingly. Consumers hold attitudes towards their enjoyment of shopping in itself and retailers can respond to this by offering an environment which will be enjoyed by their core customers. Consumers' opinions, preferences and behaviour are constantly changing in response to the economy, politics, the environment and societal issues, among other factors. Consumers' perceptions can vary and this can lead to differing interpretations of the information delivered by and about retailers; for example, through their store environments, marketing communications or media coverage. The same message can therefore be interpreted differently by separate market segments or individual consumers, dependent upon their beliefs and feelings. Consumers' perceptions can influence to what extent they pay attention to the information to which they are exposed, leading them to filter out messages which do not resonate with their own opinions and beliefs. The perceptual process starts with stimuli that are sensed by the consumer via sight, hearing, touch, smell and taste. People consequently interpret these sensations as having particular meanings, resulting in perceptions (Solomon *et al.*, 2006). This perceptual process enables consumers to perceive attributes of specific products or services in relation to each other, which can then be positioned on a perceptual map (see Chapter 4).

Monitoring consumer preferences for products and services is no easy task, but it is facilitated by acquiring and analysing market research and relevant internal company data. Information about CB can be useful to all of the departments within retailers; for example, visual merchandisers responsible for in-store displays can use data on customers' behaviour within the store to display products more effectively, with the intention of increasing sales volume. CB theory recognises that purchase choices are often not made by individuals in isolation and that more than one person can influence the purchase decision. Blackwell *et al.* (2000) suggest that consumers can adopt one or more of the following five roles when purchasing products or services:

- *initiator:* begins the purchase decision-making process;
- *influencer:* persuades others to make a certain product or service choice;
- *decider:* has the power or money to select a product or service;
- *buyer:* makes the retail transaction;
- *user:* the person who uses or consumes the product or service.

This theory is exemplified by family members acting as initiators and influencers in the purchase of a holiday, with one or both of the parents being likely to take the role of the final decision-maker and buyer and the whole family going on the holiday. The knowledge that younger family members participate in the decision can impact upon the choice of holidays offered by a travel agency or tour operator and the way in which they are promoted via advertisements, brochures and websites. The influence of peer group pressure when consumers select products or services also needs to be taken into account by marketers, with teenagers being particularly prone to influence by their peers when making purchase decisions. Equally, consumers can choose to reject particular products or retailers to dissociate themselves from certain peer groups (Bannister and Hogg, 2001).

## Consumer motivation and needs

Since meeting consumer needs is a key tenet of the marketing concept, it is important to have an understanding of the needs that provide consumers with the motivation to purchase goods and services. Maslow's hierarchy states that there are five stages of need, starting with basic survival needs and progressing to security and safety, then social needs and self-esteem. The fifth stage is self-actualisation, which it can be argued that very few, if any, actually reach, leaving people constantly striving to achieve it. According to Maslow's theory, when a person satisfies one of the five levels, the next level of the hierarchy is in sight and becomes a key source of motivation. For example, consumers who earn enough to have a reasonable standard of living and social life may seek ways in which to heighten their self-esteem, through acquiring prestige brands. Many may feel that to reach the self-actualisation level they need to achieve a certain level of consumption, although for others this state may be attained through more philanthropic or spiritual means.

Consumption needs can be split into two main areas: utilitarian and hedonic (Blythe, 2013). Utilitarian needs are more functional and work-based, tending to correspond with the lower levels of Maslow's hierarchy, whereas hedonic needs are centred more on enjoyment and relate to the higher two levels. Most retailers aim to attain a balance between consumers' utilitarian and hedonic needs, e.g. by offering both a low-priced generic product range and a selection of more luxurious ready meals. Alternatively, hedonic needs may be met by offering a stimulating store environment, particularly appealing to a range of senses (see Chapter 9 Retail design and layout). Retailers can also display products prominently in stores or online to act as a stimulus for customers to recognise needs; for example, by locating complementary products together to encourage multiple purchases to be made.

## Consumer decision-making

Understanding how consumers arrive at purchase decisions is central to CB theory and it aims to explain why and how customers buy products and services. The consumer decision process (CDP) model, shown in Figure 3.1 (Blackwell *et al.*, 2000) is a widely used academic model regarding consumer behaviour in relation to purchasing. This model was originally developed with five stages and was referred to as the 'EKB model', named after its initial authors: Engel, Kollat and Blackwell. It has since been expanded to the seven-stage model shown here with the addition of stages 5 and 7. These additional stages reflect a growing awareness in society of the environmental and social impacts of the consumption and disposal of products.

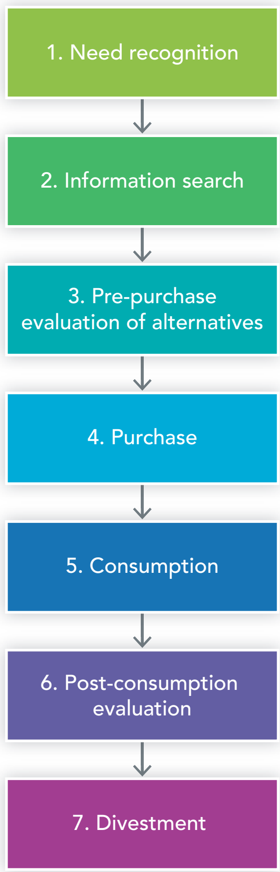



**Figure 3.1** The consumer decision process model
*Source*: adapted from Blackwell *et al.*, 2000

## Need recognition

The model starts with the recognition of a consumer's need or problem, which may be due to a replacement product being required or the desire for a new product or service, often driven by a stimulus from promotional activity or seeing new products belonging to members of the consumer's peer group. Retailers can provide this stimulus through advertising or other forms of promotion to set in motion the chain of events leading to the purchase. When customers are already in stores or looking at etailers' websites, point-of-sale material or online promotion can provide the stimulus for customers to make unplanned purchases. According to Neff (2008), 29 per cent of consumers buy products in categories they hadn't initially intended to buy, so retailers can take advantage of this opportunity to increase sales. Having anticipated consumers' needs, retailers can identify ways in which their products and distribution channels can meet them. Key methods for established retailers to identify their customers' needs are to conduct market research with customers and to evaluate sales data to assess which products have been successful. Retailers can then aim to fulfil the same needs which those products met with updated merchandise.

## Information search

Having recognised a need, the consumer is likely to seek information about products or services that could satisfy that need. Some may rely on memories of past purchases and promotions by recalling an 'evoked set' of alternative items (Blythe, 2013). Consumers have the options of looking for products in stores or online and seeking information in magazines, newspapers and other media. **Word-of-mouth (WoM)** recommendations from friends can be particularly influential, as they are often viewed as more authentic and reliable than paid-for promotion, and user reviews online ('eWoM') can also be persuasive. Retailers can facilitate the information search by providing help from sales staff as well as written details, photographs and user reviews online, even if the retailer's website is non-transactional.

Shopping trips may not always entail making purchases and can sometimes be used by consumers simply to search for information instead ('window shopping') in order to minimise the risk involved in making a purchase. Expensive products such as cars and electronic equipment are therefore likely to involve a lengthy information search, which could be spread over a period of weeks or months, as there is a high perceived risk with such purchases. This longer-than-average decision-making process for buying high risk, relatively expensive goods, is known as extended problem-solving. More straightforward decisions with less risk attached involve a limited problem-solving approach. Even more basic is the habitual or routine decision, which requires little thought on the part of the customer and is therefore swift and repetitive. For example, regularly buying the same brand of cereal is so habitual that it can be hard to alter and retailers may therefore need a strong stimulus to prompt customers to consider changing brands, e.g. via prominent point-of-purchase promotions or substantially lower prices. The information search usually results in a range of alternative solutions to meet the consumer's need. This can be facilitated by the use of price comparison websites such as comparethemarket.com, reading consumer magazines such as *Which?* or by using a product comparison facility on a retailer's website. Consumer product reviews on websites can be a powerful influence, since customers may consider them to be independent because their authors are not paid for writing them. However, such reviews' objectivity and provenance can sometimes be questionable.

## Pre-purchase evaluation of alternatives

Choice criteria are those attributes used by consumers to enable them to make decisions on purchasing particular products or brands. Consumers' choice criteria can change depending on their position within the family lifecycle. Whereas low price and a fashionable make could possibly be the most significant criteria for car-buyers in their early 20s, when they reach their late 30s their priorities may have changed to make safety and space to accommodate children the key choice criteria, the car's price being less of an issue. When choosing a retailer, consumers may evaluate the group of attributes that the retailer possesses (Lutz and Bettman, 1977); for example, the convenience of buying online may be outweighed by the time taken for product delivery.

For low-price products a purchase decision generally requires low involvement and may consist of a very swift review of the alternative brands and variations of a product on a supermarket's shelves before a decision is reached. If the consumer has decided to buy a branded product the decision can involve consideration of which retailer and from which of their branches to make the purchase. Increasingly, a further decision may need to be made: whether to buy the product in a shop to receive it quickly or to purchase it online, delaying delivery but saving a trip to the store. In stores, sales staff can help customers with the information search, although it has become rarer nowadays for sales staff to be available for advice. Exceptions are upmarket stores or those which sell products with detailed technical features. For example, PC World offers customers a 'Knowhow' service for advice during the purchase and post-purchase stages. Websites have the advantage of being able to provide detailed written information about their products. Bricks-and-mortar shops are beginning to harness technology to help bridge this gap. Mobile technology is now allowing stores to utilise the internet via the use of quick response (QR) codes on products which can be scanned with smartphones to provide detailed information to assist in purchase decisions.

## Purchase

The purchase stage involves the consumer deciding whether or not to buy the product or service, when to purchase it, in which location and by which payment method. The selling environment and service can have a significant influence at the purchase decision stage and factors such as store or web design and service quality must be considered carefully by retailers (see Chapter 9 Retail design and layout). Retailers can influence the timing of a consumer's purchase with the use of promotions such as a discount or free gift within a limited timescale (see Chapter 7 Retail marketing communications).

## Post-consumption evaluation

During consumption of the product or service, the consumer forms a view of its performance, which is likely to influence the choice of making a repeat purchase of the product or brand. Retailers can help to overcome consumers' dissatisfaction with a purchase decision (cognitive dissonance) by offering money back or an exchange for products. Although this may look as if it would have a potentially negative effect on the store's turnover, it can reduce risk for consumers and make them more inclined to shop with the retailer again. Also, customers who are dissatisfied with purchases are more likely to tell their friends than the retailer, so minimising negative WoM through good service recovery is worthwhile. A positive post-consumption evaluation can benefit retailers not only through store loyalty, but also through word-of-mouth, so that customers have opportunities to post positive online reviews.

### Divestment

Finally, when a product is worn out or is no longer required, the consumer has to select a method of discarding or recycling it. This may be affected by laws or regulations to which consumers and retailers must adhere. For example, there are regulations in the European Union (EU) for disposing of items such as batteries and electrical goods, as these items can harm the environment (see Chapter 12 for further discussion on this topic). Consumers are not expected to be consciously aware of having gone through all of the stages in the CDP model and when making routine purchases or impulse buying, the first three stages can be bypassed. Customers who purchase groceries online have the opportunity to skip the decision-making process on a regular basis, owing to the facility to store lists of favourite products and select a whole shopping list with one click. Although this model is widely used, it has been criticised for its assumption that consumers always make rational decisions (Solomon *et al.,* 2006).

## Experiential consumer behaviour

The CDP model presumes a negative situation at the outset of the buying process: in contrast to this, **experiential consumer behaviour** views purchasing as more of an enjoyable experience, based on hedonistic, emotional values rather than rational thinking. Instead of viewing the consumer in a problem-solving scenario, experiential CB takes into account the holistic shopping experience, relating to the enjoyment of the purchasing process and the surroundings in which it occurs (Holbrook and Hirschman, 1982). More recently, Chang *et al.* (2011) investigated the impact of the store environment on customers' emotions and found that hedonic motivation affected the respondents' subsequent purchasing behaviour by increasing their impulse purchases. They therefore recommend that retailers with a high number of hedonically motivated customers should provide store layout and customer service to provide an enhanced social experience (Chang *et al.,* 2011). As a shopping experience can be more difficult to achieve via the internet than in a store, bricks-and-mortar retailers have a distinct advantage in this respect. Online retailers can ensure that they address the experiential perspective of CB, to minimise this potential disadvantage.

## Influences on consumer purchasing behaviour

CB is influenced by a combination of consumers' personal characteristics and social factors. Consumers' personalities incorporate the values that motivate their purchases (Blackwell *et al.,* 2006) and it is therefore useful for retailers to understand more about their customers through market research techniques such as **focus groups** and **ethnography** (see Market Research below). Social influences are culture, subcultures and reference groups, whose traditions or trends consumers follow to conform to group norms, thereby engendering a sense of belonging. Culture is defined by Blythe (2013: 189–190) as 'the set of shared beliefs, attitudes and behaviours associated with a large and distinct group of people . . . culture is one of the main drives of behaviour and influences almost everything we do, including (of course) our consumption behaviour'. Culture can be associated with particular geographic locations, religion and language and has its own overarching set of norms and conventional behaviour. Understanding culture is especially significant for retailers seeking to expand overseas or to appeal to market segments from different cultures. For example, Bicester Village's outlets provide advice and signage in Chinese to accommodate a growing number of visitors from China (see Chapter 6 Retail pricing).

Consumers can be influenced by different reference groups depending on the purchasing situation; for example, when shopping for work clothes they are usually influenced by the way their colleagues dress and the social norms which prevail in the workplace. However, friends and peer groups' styles are likely to be more influential when purchasing casual clothing. Reference groups can often include people whom consumers have never met, but whose lifestyle or image they aspire to, such as pop stars or members of fashionable subcultures. Clothing retailers can identify those reference groups which are influential to their customers and thus predict clothing trends which will be acceptable to their target market. For example, Swedish fashion retailer H&M has sold clothing ranges modelled by Lana del Rey or endorsed by Madonna, and River Island has developed a Rihanna fashion range, to profit from their aspirational influence on customers.

Gender is another demographic factor which can affect CB. Research by Bakewell and Mitchell (2004) investigated men's reputation as reluctant shoppers, since they exhibit different approaches to shopping than women (as you may also have found from your own experience). Because men are now generally more involved in shopping than they have been traditionally, their decision-making styles are of particular interest to the retailers which serve them. Men were found on the whole to prefer to conserve time and energy when shopping, usually making purchase decisions quickly (Bakewell and Mitchell, 2004). In contrast, women have been found to view shopping as an enjoyable activity, although this does not apply in all cases of course. To a certain extent, it may depend on what type of products they are buying or where they are shopping. Despite changes in legislation and society regarding equality, 82 per cent of grocery shoppers are women, according to the CEO of Waitrose (quoted in Grainger, 2014). Even if this figure is limited to this relatively expensive supermarket, it is a figure which has implications for other grocery retailers in terms of appealing to female consumers and understanding their shopping habits. This statistic also suggests that, despite societal and legal changes in relation to equality, shopping duties can still conform to traditional gender roles.

The complexity of shopping behaviour in relation to gender is illustrated by Tai (2005) who investigated the purchasing behaviour of female Chinese consumers. Her research resulted in the compilation of 15 shopping style dimensions including brand consciousness and green consciousness. An alternative method of learning about female shopping habits is suggested by Brown (1995: 770), who asserts that 'it is arguable that much the most interesting – or contemporary if nothing else – depictions of consumer behaviour are to be found in works of romantic fiction', a theory which he supports with an analysis of two popular 'sex and shopping' novels about a fictional retailing dynasty. Retail research firm Shoppercentric also found differences between male and female shopping behaviour, concluding that men 'love having bought something. They just don't like the process. It's a subtle difference, but an important one' (Hardie, 2012: 32). In their survey, Shoppercentric discovered that 31 per cent of men often bought from the first shop they visited, in comparison to 23 per cent of women, suggesting that women shop around more before making purchase decisions (*ibid*.).

## Opinion leaders and the diffusion of innovation

Opinion leaders are those who influence others to purchase through WoM recommendations or more tacit behaviour. Opinion leaders actively seek out new innovations and are willing to go out of their way and spend more than most to acquire them. Influential opinion leaders include journalists and bloggers who review products or retailers and are usually perceived by consumers as being independent, objective authorities on particular market sectors, who can also be referred to as 'mavens'. The term 'market maven' is used for a consumer who is influential in setting trends in terms of purchasing products and enjoys shopping (Solomon *et al.*, 2006). Clothing companies such as Puma employ

# RETAIL MARKETING CAREERS

## Dr Cristina de Balanzó, Consumer Neuroscience Consultant, Walnut Unlimited

*Source*: with permission from Dr Cristina de Balanzó

Cristina de Balanzó is the founder and director of Walnut Unlimited, a consumer neuroscience consultancy founded in London in 2013 and which since 2014 has belonged to the market research company Marketing Sciences Unlimited, part of Creston group. The name Walnut was chosen because it's a memorable word that can be used as a metaphor for the brain. Cristina describes her job title and role as 'the main nut'. Walnut Unlimited uses the latest research techniques, especially advances in neuroscience, to understand consumers and shoppers.

Walnut Unlimited remit comprises communications and product testing, in-store and shopper marketing, brand identity development and workshops that link different areas of brand interaction. The company's clients include retailers and brands such as KFC and Heineken. Cristina is involved in all aspects of the company, from arranging consumer neuroscience workshops and delivering outcomes to clients, to organising the website. She liaises with each client to obtain the brief to be fulfilled, and then briefs this to the delivery team. Cristina then manages the project and acts as the main consultant, ensuring that she and her colleagues follow the ethics codes of the NMSBA and ESOMAR. She plans to hire more project managers as the company expands.

Cristina's previous roles include being Global Head of Neuroscience for the research company Taylor Nelson Sofres (TNS) and working as a Strategic Planner then as an Account Manager at advertising agency McCann Erickson for nine years. Cristina is well qualified to work in this field, having gained a first degree in Sociology and a PhD with a thesis investigating how to improve advertising effectiveness and consumer insight using a cognitive neuroscience approach. She manages to achieve a balance between working as both a consultant and academic, as she is also a visiting speaker at Ramon Llull University in Spain and Renmin University in China, where she lectures in neuroscience to postgraduate students. A recent paper that she co-wrote was based on research that evaluated the ability of EEG and eye-tracking to predict the effect of advertising on consumers (Calvert *et al.*, 2012). Cristina has written several publications about consumer neuroscience and she has been a speaker on this topic at conferences throughout the world (see https://app.box.com/shared/y8md1r64c8). She also combines her academic and industrial knowledge by running consumer neuroscience training workshops in various countries (see http://walnutunlimited.com/web/live/neurosciencemasterclass/).

Cristina states that neuroscience is needed to help understand consumer behaviour, rather than just using traditional consumer research techniques because 'consumers can't always articulate why they buy something, they just do it'. Her research has demonstrated retail customers' attachment to brands, revealing that price is not the only filter that they use when making purchase decisions, as demonstrated by the activation of neural networks during brain tracking. The Walnut Unlimited team combine neuroscience with behavioural tasks and qualitative research such as in-depth interviews to produce their final recommendations and to tailor the research design to the client's brief. Cristina explains the significance of consumer neuroscience further in this extract from her PhD thesis:

> The marketing community, market researchers, advertisers and, especially, those who are dedicated to brand creation, need the tools that provide them with a deep knowledge of consumers to ensure the success of their communication. This success must be achieved in the context of a complex market, where there has been a massive increase in products and brands, saturation advertising, and where the customers have taken control. This is why, now more than ever, attaining a privileged position in consumers' minds represents a huge challenge for brands. It also obliges the sector to redefine its working methods in order to discover new paradigms of knowledge that deepen understanding of how decisions about purchases are made. Consumer insights are the answer about how a brand can attain a privileged position in the mind of the consumer. This concept covers all the wisdom of this universal truth of human nature which can lead the brand and/or product to connect with the consumer and exert influence on their behaviour. In other words, it succeeds in persuading them. Advances in cognitive neuroscience bring new knowledge to the emerging area of neuromarketing.

*Source*: with permission from SensoMotoric Instruments GmbH

The use of consumer neuroscience is not widespread at the time of writing. However, Cristina predicts that it 'will probably be implemented more widely in a couple of years', as mobile EEG technology has become available and technological improvements are leading to the generation of 'cleaner' data from the equipment which can prevent the required information from being contaminated by other activity in the brain. Another contributing factor is the formation of the Neuromarketing Science and Business Association, which helps to spread awareness of this field, having launched the

'Neurotalent' award for students in 2013. Cristina contends that consumer neuroscience offers a valuable alternative and an additional insight into traditional market research techniques as 'it gives insights into behavioural patterns' and 'it will give clues about how to optimise web design and targeting'. Cristina considers having her ideas commissioned to be the best aspect of her job, as she says she 'enjoys translating insights into action'. In order to become a consumer neuroscientist Cristina believes 'you have to be really passionate about it, you need to read a lot of scientific papers without needing a specific science background and you need to have a general interest in how the brain works . . . you need to be brave and to be able to break the rules'.

For case studies on Walnut Unlimited's work with clients see: http://walnutunlimited.com/web/case-studies/

### Selected publications by Dr Cristina de Balanzó

Calvert, G., de Balanzó, C. and Watkins, S. (2012) 'Opening the black box: an academic evaluation of the ability of electroencephalography (EEG) and Eye Tracking (ET) to predict advertising effectiveness', ESOMAR (available online at: http://www.esomar.org/web/research_papers/Advertising-Research_2397_Opening-the-Black-Box.php).

De Balanzó, C., Serrano, N. and Scamell-Katz, S. (2010) 'Damasio: a starting point for integrating neuroscience findings into retail research', ESOMAR World Research Conference, *Odyssey 2010: The Changing Face of Market Research: Congress Papers*. Amsterdam: ESOMAR, pp. 465–483.

De Balanzó, C. (2011) *Consumer Insights and Neuroscience. The Relationship Between Neurobiological Measures and Advertising Effectiveness*, PhD thesis.

Serrano, N. and de Balanzó, C. (2011) 'Neuroscience and communication strategy: redefining the role of the unconscious', *Trípodos*.

Serrano, N. and de Balanzó, C. (2012) 'Neuromarketing y memoria: implicaciones para la comunicación publicitaria', *Pensar la Publicidad*, 6(2), 297–313.

professional opinion leaders to seek out trends which are likely to appeal to their customers. This is a process known as 'coolhunting', which involves observing and talking to consumers who are perceived as being influential to their peers.

The 'diffusion of innovations' theory categorises consumers into groups of people who influence others to buy new products and services, resulting in trends for these innovations diffusing throughout the population (Rogers, 1962). This model was originally developed in the context of a study of agricultural markets in the US over 50 years ago, so the percentages may not relate directly to the contemporary retailing. However, the terms used are still applicable today, so retailers can assess where their customers fit into this model and who will influence them. The opinion leaders who set new trends are referred to within the model as 'innovators'. Although they are estimated to form only a small proportion of the population they are socially active, and in some cases may be famous, and therefore have the opportunity to influence large numbers of people. Increasingly, ordinary members of the public are able to have a wider impact via social media and blogs. Retailers may therefore be persuaded to pay them to review or promote merchandise online. For example, bloggers such as Susie Lau are invited to fashion designers' catwalk shows in London and Paris to encourage them to write online reviews of the shows (BBC, 2012; Style Bubble, 2012).

'Early adopters' are influential at more of a local level, buying innovations when they are still relatively new, often under the influence of innovators. The 'early majority' adopt innovations a little later than early adopters, but before the late majority, who wait until new products or services are widely socially accepted before investing in them. Laggards are those who take a very long time to adopt innovations, if at all, with a tendency to be in older age brackets and lower-income groups than people in the previous categories. This can therefore restrict their ability to invest in new products. Consumers may not consistently fit into the same category; for example, they may behave as early adopters in relation to one product type, but be in the late majority with regard to another. Rogers estimated the percentages of types of adopter that existed as 2.5 per cent innovators, 13.5 per cent early adopters, 34 per cent each for early and late majority and 16 per cent laggards. However, bear in mind that this model was developed in the 1960s. The proportions of each category may vary today owing to changes in society and they may also vary dependent upon the market sector. However, defining customers within these five categories can allow retailers to identify more easily which products are likely to appeal to their target market.

## Customer loyalty

Retail customers can be segmented by behavioural characteristics, especially in their level of usage of a product or brand. Consumers can be loyal to certain retail brands because they relate closely to a brand's values, to the extent that they form a personal attachment that becomes part of their own identity. De Chernatony and McDonald (2003: 439) describe brand loyalty as 'a measure of a consumer's attachment to a specific brand and (this) is a function of several factors such as the perceived quality of the brand, its perceived value, its image, the trust placed in the brand, and the commitment the consumer feels towards it'. In the retail domain, this can be referred to as store loyalty (Gilbert, 2003). Loyal consumers may have a set of brands to which they are attached. They may feel discomfort in selecting other brands which are less familiar to them, or which they feel are not compatible with the image they wish to project. Gilbert (2003: 309) proposes the following method of segmenting consumers who exhibit brand loyalty or store loyalty:

- hard-core loyals have undivided loyalty to one brand;
- soft-core loyals are loyal to two or three competing brands;
- shifting loyals are loyal to one brand for a time before moving their loyalty to another brand;
- switchers do not show loyalty to any particular brand and can often be tempted to switch by promotions and discounts.

Brand loyalty can be a result of various factors, including: force of habit; lower risk in switching brands; convenience; lack of choice; and the influence of the media and reference groups (*ibid*.; McGoldrick, 2002). Information about brand-loyal customers is of interest to retailers owing to these customers' high spend with the company and positive WoM recommendations about the brand to other consumers. When writing **customer profiles**, retailers usually describe their 'core' or 'target' customers who exhibit strong loyalty towards the brand. Loyal customers' spending patterns and demographics can be identified via loyalty card or store card usage, providing valuable information for retailers. Loyalty may be engendered by the availability of loyalty cards to a certain extent, e.g. by a smartcard or more basic stamp per purchase format. However, consumers are likely to obtain cards for several stores in practice, making the cards potentially more useful for data gathering by retailers than for encouraging genuine loyalty. Vlachos and Vrechopoulos (2012) even go so far as to propose that a state of consumer–retailer love and attachment exists, which they claim can be positively linked to store image, perceived value and Corporate Social Responsibility (CSR).

Retailers can aim to build relationships with customers via Relationship Marketing (RM) with the aim of reinforcing or increasing their customers' loyalty by sending them preview information, offers and other communications. For example, retailers can send preview catalogues or emails to loyal customers so that they have the advantage of seeing new products prior to their launch. Feedback from customers on these previews can benefit the company by offering advance information on the popularity of the new products, helping them to anticipate sales figures and thereby allowing them to order appropriate quantities to satisfy demand. The term Customer Relationship Management (CRM) can also be used to describe retailers' direct communications with consumers to encourage repeat purchasing. A method of gauging the level of customers' loyalty to a retailer is to assess its 'net promoter score'. This loyalty metric uses responses about customers' willingness to recommend a brand to others on a scale of 1–10, with those rating it 9–10 being termed promoters and those selecting 1–6 being detractors, the rest being passive. To calculate a net promoter score, the total percentage of detractors is subtracted from the total percentage of promoters (Satmetrix, 2014). Although the net promoter score is claimed to be a predictor of a company's growth potential, it has been criticised by academics for not being tested rigorously (Keiningham *et al.*, 2007).

## Negative consumer behaviour

Much of the research into CB in the retailing and marketing literature focuses on fulfilment of customer needs, with sparse coverage of consumption's more negative aspects. For example, widely accessible consumer credit encourages people to buy goods that they cannot afford and is likely to have contributed to the global economic downturn in 2008, leading to criticism of the banks which offer it. Negative CB, including compulsive and compensatory consumption, can also be referred to as 'consumer misbehaviour' (Tonglet, 2002). (The same term is used by McGoldrick and André [1997] to describe supermarket customers who defect to competitors.) Impulse buying takes place when customers cannot resist the urge to buy goods or services that they did not initially plan to buy. A study of 4,200 consumers found that 68 per cent made unplanned purchases during major shopping trips (Inman and Winer, 1998), thus offering retailers a broad scope to persuade consumers to buy at the point-of-sale. Retailers exploit the tendency for customers to buy on impulse by locating products in tempting positions, such as in the payment area where customers have to wait for a short time and where it is easier to get their attention. However, compulsive buyers behave addictively, rather than just making the occasional impulse buy. Research has shown that compulsive shopping is more likely to be a female trait (Dittmar and Drury, 2000). Another study found that compulsive buyers were more price-conscious and brand-aware than non-compulsive shoppers (Kukar-Kinney *et al.*, 2012).

Another form of consumer misbehaviour is shoplifting, which is clearly a significant issue within the retail sector. Retail crime cost UK retailers an estimated £511 million in 2012–2013, with theft by customers accounting for 82 per cent and theft by employees 5.3 per cent (BRC, 2014). Retailers benefit from being familiar with criminal behaviour in order to install suitable security measures to avoid thefts. The fact that the number of burglaries in UK stores between 2012–2013 declined by 49 per cent is positive news, probably helped by retailers' expenditure on security. Goods displayed near the entrances of stores to attract customers are obviously at risk and retailers need to take this into account when devising store layout. Although it is not quite as extreme as consumer crime, a study on 'consumer rage' identified different forms of reaction to customer service encounters such as 'retaliatory rage' (McColl-Kennedy *et al.*, 2009). This is also useful for retailers to be aware of, both to protect their customer staff and to prevent customers from being antagonised by staff's behaviour.

### Retail market segmentation

Market segmentation is defined as 'the process of identifying groups of people who behave in similar ways to each other, but somewhat differently than other groups' by Blackwell *et al.* (2006: 41), with the purpose of improving customers' satisfaction and retailers' profitability. This enables retailers to aim their products more effectively towards the target market in terms of matching product or service design, quality, price, promotion and distribution channel to consumers' different needs and preferences. The four main methods used to segment markets are: **demographic**, **geographic**, **psychographic** and **behavioural segmentation**. Additionally, geo-demographic methods can be used, that merge two of these main methods, to provide a broad range of consumer categories (see below). After deciding on their market segmentation strategy, retailers can assess how to target those segments and to establish its position in relation to competitors in the market, a process known as Segmentation, Targeting and Positioning (STP) (see Chapter 2 Retail marketing strategy). It is not always essential to segment markets, as products or services with a broad appeal across many segments of the population can use mass marketing, but this has become somewhat rare (Blythe, 2013).

## Demographic and geographic segmentation

Demographic factors are described by Solomon *et al*. (2006: 9) as 'statistics that measure observable aspects of a population', including: age; gender; occupation; income; marital status; ethnic group and religion. Knowing the demographic characteristics of a given population can be beneficial to retailers in various situations, e.g. for defining target segments or selecting appropriate store locations. Family lifecycle (FLC) stages were devised by Wells and Gubar (1966) to sum up consumers' demographic characteristics. FLC categories provide a range of descriptive groups in which consumers can be placed. These groups vary from bachelors through to newly married couples, full nesters, empty nesters and 'solitary survivors', based on the notion that needs change along with family situation. Although the FLC stages are still mostly relevant, they are not entirely consistent with societal changes which have occurred since the 1960s, since they are based on age, marital status and number of children. When describing ages for target customers it is best to define specific age groups (such as 35–44) rather than using relative terms such as 'younger' or 'older' which can be vague and misinterpreted. For example, students might perceive people in their 30s as being older, whereas tutors may view them as still being young!

It is important to keep up-to-date with demographic trends, as they are constantly in a state of change. Societal changes have led to 35 per cent of the adult population of England and Wales in 2011 never having been married, up from 30 per cent of the population in 2001. The introduction of UK legislation permitting same-sex marriage in 2014 could be likely to affect this statistic in future years. There has been an increase in the average age of the UK population in recent years, due to a combination of the birth rate and longer life expectancy. It has been projected that around a third of babies born in 2013 could live to be 100 years old (ONS, 2013a). Retailers therefore have an opportunity to cater more effectively for a market that is characterised by an ageing population. The lowest ever infant mortality rate was achieved in 2012, yet fewer children are being born, so the birth rate is slowing down. The average age of a woman having a first child is now 28, which has generally increased since the 1970s, due in part to increased participation in education and employment (ONS, 2013b). Young adults are tending to wait longer to move away from the parental home, with 26 per cent of 20–34-year-olds in the UK, mostly males, still living with their parents (ONS, 2014). This is consistent with the increase in the average age at which people in the UK first marry, which was 30 years old for women and 32 for men in 2011 (ONS, 2013c). Key demographic statistics about the UK population are featured in Table 3.1.

Geographic segmentation groups consumers by country or region, e.g. the UK can be split into counties or larger regions. This is particularly apt for retailers since their outlets are based in specific locations; hence this information is significant for site selection of stores. Geodemographic segmentation places people into groups according to the type of

**Table 3.1** UK population statistics (based on figures from ONS, 2014)

| Demographic aspect | Statistics |
|---|---|
| UK population | 63.2 million (2011 census) |
| Gender | Female 51%; Male 49% (2011) |
| Life expectancy at birth | Female 82.6 years; Male 78.7 years (2010/12) |
| Average number of children per family | 1.7 |
| Ethnicity | White British 80.6%; the rest of the population being mainly of 'Asian/Asian British', 'Other White' or 'Black/African/Caribbean/Black British' origin |

neighbourhood in which they live, in the expectation that consumers who live there have similar traits. There are various systems for classifying consumers geodemographically. For example, ACORN (A Classification of Residential Neighbourhoods) categorises the whole of the UK into six main categories.

1. Affluent achievers
2. Rising prosperity
3. Comfortable communities
4. Financially stretched
5. Urban adversity
6. Not private households

These six types of household are categorised into 17 groups, including 'lavish life-styles', 'steady neighbourhoods' and 'struggling estates', which are further subdivided into 59 specific types of consumer based mainly on accommodation (CACI, 2014). The full ACORN 2014 classifications can be downloaded from: acorn.caci.co.uk/downloads/Acorn-User-guide.pdf. Note that student accommodation is classified as type 34. 'Mosaic' is an alternative geodemographic method of classifying consumers (Experian, 2012).

**Socio-economic groups** are used to categorise customers into six key groups, based around their income bracket and occupation (see Table 3.2). Although they are not much more detailed than the vague and dated notions of working, middle and upper classes, they give marketers more specific options to define their customers and are widely used in the industry and media. Initially developed in the 1960s, the groups attempt to merge social and economic factors to group together various occupations. The ranking of the socio-economic groups works more effectively in social than in economic terms in the present day, as income levels have changed in comparison to each other in the decades since the system was introduced. For example, in some cases skilled tradesmen (in the C2 category) have the capacity to earn more than their C1, or even group B counterparts. Socio-economic groups are used by the National Readership Survey (NRS) for print media to specify their typical readership, alongside the volume of readers, with the aim of attracting advertisers who target these groups (NRS, 2014a). The groups are often merged, e.g. ABC1, to show that a publication appeals to the most affluent population segments. Information compiled by the NRS shows the increasing affluence in the UK, with C2DE consumers reducing from 65 per cent of the population in 1968 to 45 per cent in 2008, with a corresponding rise in ABC1 groups (Ipsos Mori, 2009).

Household members, including students living at home, are usually classified based on the income of the household's main earner. University students are often surprised to find that technically they fall into the C1 category if they are living away from home, even though they don't have a full-time income, as they are generally preparing for a

Table 3.2 Social grading system using socio-economic groups

| Socio-economic group | Description and examples of occupations | Percentage of population 2012–2013* |
|---|---|---|
| A | Higher managerial and professional, e.g. managing director, surgeon, barrister | 4 |
| B | Managerial or professional, e.g. accountant, lecturer, departmental manager | 22 |
| C1 | Supervisory or clerical, junior managerial, e.g. retail supervisor, office administrator, foreman | 27 |
| C2 | Skilled manual workers, e.g. plumber, hairdresser, builder | 22 |
| D | Semi-skilled and unskilled manual workers, e.g. driver, cleaner, shop assistant | 16 |
| E | No income or subsistence level, e.g. state pensioner, casual labourer, unemployed | 9 |

(*Source of population percentages: NRS, 2014b)

management-level career. Another method of segmenting the population in a socio-economic framework is the National Statistics Socio-Economic Classification (NS-SEC). This system was developed by the UK government to classify the population in the 2001 census into 17 employment categories which can be grouped into three main classifications:

- higher managerial, administrative and professional
- intermediate
- routine and manual.

## Psychographic segmentation

Although demographic and geographic categorisations can be useful for segmenting retailers' customers in many cases, they are not always the best ways of defining customers. Consumers' lifestyle characteristics, personality and attitudes (i.e. psychographics) can be used to describe them in detail and can be more appropriate than segmentation by demographic factors, as consumers in the same age groups and regions can often have different lifestyles and values. Psychographic segmentation is a particularly apt method for retailers to use since consumers will purchase items to enable them to pursue their chosen lifestyles. Being aware of customers' typical holiday destinations, the type of cars they drive and where they spend their leisure time can enable retailers to build up a much clearer picture of whom they intend to target with their products. Certain retailers post collages to illustrate their typical customers' lifestyles on the wall of the buying office as a permanent reminder to their buyers of who will be buying and using their products. Being aware of which magazines and newspapers customers read, their favourite TV channels, radio stations, social media and websites, will allow retailers to select appropriate media in which to advertise or gain PR exposure (see Chapter 7 Retail marketing communications). Identifying their customers' favourite musical genres, films and TV programmes can enable retailers to assess the most suitable types of music to play in stores and which celebrities, songs and cultural references to feature in promotional campaigns. To help target specific groups of consumers, advertising agencies sometimes devise their own market segments based largely on psychographic traits, for clients such as retailers and brands. Becoming familiar with consumers' personalities through finding out about their attitudes, interests and opinions, can also assist retailers in selecting appropriate products and advertising techniques which will appeal to their customers. Retailers can conduct qualitative research such as focus groups with customers in order to discover their psychographic characteristics. However, there is still a risk of stereotyping consumers through the use of psychographics, since they are clearly all different individuals who are similar in some attitudinal respects and different in others.

## Behavioural segmentation

Behavioural segmentation relates to customers' usage of a product, e.g. if they are highly loyal, regular or infrequent users of a product or service. A loyal customer may buy most of a certain type of product at a particular retailer, whereas others may only shop there occasionally, thus affecting their patterns of behaviour. Another form of behavioural segmentation is when a product is used by customers for different purposes; for example, a group may buy musical instruments to use for their work, whereas consumers will play them in their own leisure time. Different customers can also derive different benefits from the same product, such as buying a DVD either for entertainment or for educational purposes. The purchase occasion can also differ, so a consumer might visit a florist to buy a gift or for him/herself, in which case the presentation requirements and choice of flowers can vary.

Arnold and Reynolds (2003) investigated shopping behaviour from the perspective of consumers' motives and revealed six key motivations for shopping:

- seeking adventure
- socialising
- seeking gratification
- searching for ideas
- buying for others
- searching for value.

These dimensions were assessed in relation to different clusters of shoppers who were categorised into a taxonomy summarised in Table 3.3. These five segments can prove particularly useful to retailers as an alternative to demographic segmentation, by identifying the shopper types in their target market and designing stores to fit their behavioural patterns.

**Table 3.3** Shopping motivation groups

| Shopper segments | Shopper characteristics |
|---|---|
| **Minimalists** | Mainly male, high proportion over 25 years and over, lacking hedonic motivation |
| **Gatherers** | Mainly male, high proportion under 25 years old, looking for ideas and buying for others |
| **Providers** | Mainly female, high proportion over 25 years and over, looking for value and buying for others |
| **Enthusiasts** | Mainly female, high proportion under 25 years old, with high level of hedonic motivation |
| **Traditionalists** | Slightly more females than males, fairly even spread between age groups, with moderate hedonic motivation |

*Source*: categories from Arnold and Reynolds, 2003

**The seven population segments**

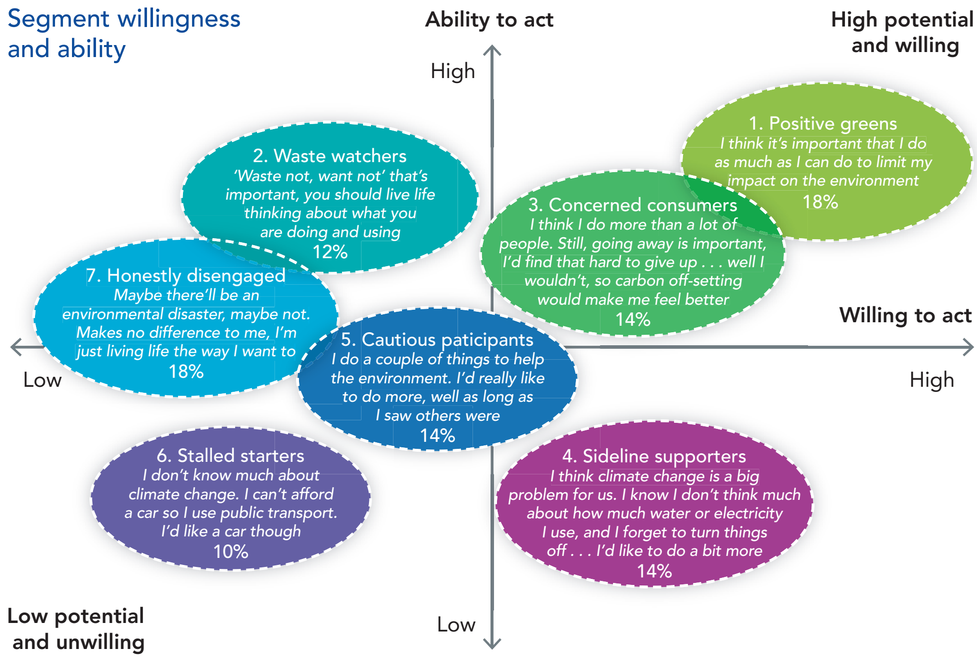



**Figure 3.2** A framework for pro-environmental behaviours

*Source*: Defra, 2008 (available online at: http://archive.defra.gov.uk/evidence/social/behaviour/documents/behaviours-jan08-report.pdf, with permission from Defra)

Another example of a classification for behavioural segmentation is the Framework for Environmental Behaviours developed for Defra (see Figure 3.2), which categorises consumers based on the impact of their consumption on the environment. The categories range from 'Positive greens' to 'Honestly disengaged', each of these polarised groups being estimated to cover 18 per cent of the population (see also Chapter 12 Legislation and ethics in retailing).

Displayed within a positioning map comparing willingness and ability to act, categories 1–5 exhibit differing levels of engagement with sustainable behaviour. Group 6 'stalled starters' may behave in environmentally ways unintentionally, being driven more by economy, e.g. using public transport because it is cheaper, and group 7 express no interest in behaving sustainably. Retailers can use market research to identify the proportions of their customers that fall into these categories and offer them appropriate sustainable products to respond to or even influence their preferences.

# Customer profiles

Details of the lifestyle of a retailer's typical 'target customer' can be compiled to provide a customer profile or 'pen portrait' of the people at whom the retailer's products or services are aimed. The customer profile could cover a range of different target customers or be narrowed down to a description of a single individual, viewed as a typical (although fictitious) customer, who may be given a name and a detailed lifestyle. Customer profiles can be either written or visual, typically containing descriptions or a collage of target customers' choices of accommodation, workplace, holiday destinations, media preferences and leisure pursuits etc., often incorporating both psychographic and demographic factors.

They can be shared with the retailer's staff, thereby enabling buyers who are selecting merchandise, marketers who are choosing suitable promotional material and designers who are developing store interiors to build up a realistic picture of the target market (Arnold and Reynolds, 2003). For example, fashion retailer Miss Selfridge aims to target 'stylish and self-assured customers aged 18 to 24' (Arcadia, 2011). Below is an example of a customer profile from another company in the Arcadia group, menswear retailer Burton. Since it is from the retailer's website (Burton, 2014) and therefore available to the public, it is written using informal terms to communicate directly with consumers or job applicants:

> Next time you're down the pub, have a look round at any groups of guys drinking together. For every ten guys in a round, if most of them are dressed pretty conservatively while two or three are slightly more fashion conscious than the others, you've found the perfect Burton customer profile. There are two core Burton customers: Mainstream quiet – the guy who wants nice, better quality but safe and accessible pieces. Mainstream loud – a fashion follower, who is willing to take a few more risks than his quiet counterpart. Burton's product reflects the type of clothes these blokes want to buy. The product is of good quality, safe styles, and has a few hints towards trends. Our customer wants to feel comfortable in the clothes he wears. He wants to be the average guy down the pub and not stand out too much, unless he is trying to impress on a night out.

Here is an example of a more formal, albeit brief, demographic customer profile aimed at a business audience in a report by Mintel (2012):

> Relative to the average department store shopper, House of Fraser customers show a bias to the under 45s shopper. They are also especially well represented among the AB socio-economic group. Regionally its relative strength lies with consumers in Yorkshire/North East and London. The company now also attracts an above-average number of C1 shoppers, which it didn't a few years ago.

## Retail marketing research

Marketing research is defined by Zikmund and Babin (2010: 5) as 'the application of the scientific method in searching for the truth about marketing phenomena', so that objective conclusions can be reached. Retailers have a variety of marketing research methods at their disposal to investigate CB or to assess other aspects of the market, such as their competitors. There are two main options available: **primary research**, which is conducted for a specific organisation, and **secondary research**, which has already been compiled. It is advisable to conduct secondary research first, because the information that the company is seeking may have already been published, thus saving the company the time and expense of investing in their own exclusive research.

### Secondary research

Secondary research is also known as 'desk research' and this refers to information that has previously been published, usually in print or digital form. Most of the sources that will prove useful have a cost attached but this would normally be far cheaper than the cost of an individual retailer carrying out the research themselves. There are also numerous useful sources that are available free, particularly from government or industry bodies. It is obviously advisable to check the reliability of secondary sources though, particularly online, and it is essential to ensure that information is from a trusted and valid organisation, as opposed to online encyclopaedias using wikis, for example, since anyone would be free to insert incorrect information. Publications that are relevant to retailing include market reports, academic journals, trade journals, textbooks and government reports. University and college students often have the advantage of gaining free access to market reports, academic journals and trade journals via their institution's library resources or through requesting an inter-library loan. Retailers can subscribe to relevant journals or purchase individual articles online and brief abstracts outlining the main research findings are freely available on journals' websites. Academic assignments about retailing (and consequently marks) can be enhanced by referring knowledgeably and accurately to previous studies published in journals such as: *Journal of Retailing*; *International Journal of Retail and Distribution Management*; *International Review of Retail, Distribution and Consumer Research*; and *Journal of Services Marketing*.

There are also many articles that are pertinent to retailing found in more generic marketing or business journals and some have 'special issues' on retailing. These are collections of articles on a particular theme, or in commemoration of an event, such as an academic conference. For example, there is a special issue on etailing and e-shopping in the *European Journal of Marketing* (2009, edition 43, 9/10). Marketing databases such as Mintel, Key Note and Datamonitor can be useful sources to supplement journal articles by providing market reports with background information on the retailing industry. Datamonitor produces a Global Retailing Industry Profile that gives an overview of leading companies and market forecasts. Datamonitor also produce Retail Industry Profiles on specific product sectors in particular locations, e.g. food retailing in Denmark and apparel retailing in China.

Articles from high-quality newspapers can also be useful and reliable sources to be used to supplement journal articles, since they provide information about very current developments in retailing. Many newspapers have business sections which refer to retailing news in brief, as well as in-depth articles on certain companies, usually providing a more independent viewpoint than the company's own publicity. For example, *The Times* has a section on retailing in the business pages of each edition and other useful sources to access online are *The Independent, The Telegraph, The Guardian, Financial Times*, the *Wall Street Journal* and *China Daily*. Trade journals are particularly relevant for retailers, providing timely and concise retail news, in-depth industry insights and advertising for services and recruitment, through hard copies or online subscriptions. The *Retail Bulletin* and *Retail Gazette* provide free regular retail industry updates online. Additionally, *Marketing Magazine, Marketing Week* and *Retail Week* are very useful trade magazines available in hard copies and online, as well as those for specific retail sectors including *The Grocer* and *Drapers*.

## Primary research

Primary research can be conducted by a retailer's own marketing team or a specialist market research agency can be commissioned to produce it on behalf of the retailer, such as JRA Research and QRS Research. There are two key types of market research: quantitative and qualitative. Figure 3.3 outlines some of the options for market research techniques. Quantitative research is usually carried out in the form of a survey with a questionnaire as the research tool, resulting in statistical outcomes. Qualitative research deals with verbal or written outputs from respondents and is usually more suited to investigating people's opinions and attitudes. This can take the form of discussions such as interviews or focus groups. For example, clothing retailers can bring together a panel of typical customers for a focus group to discover their views on a new range of garments. Primary research studies can also use mixed methods by combining both quantitative and qualitative techniques. There are many similarities between the methods and terminology used in market research and academic research.

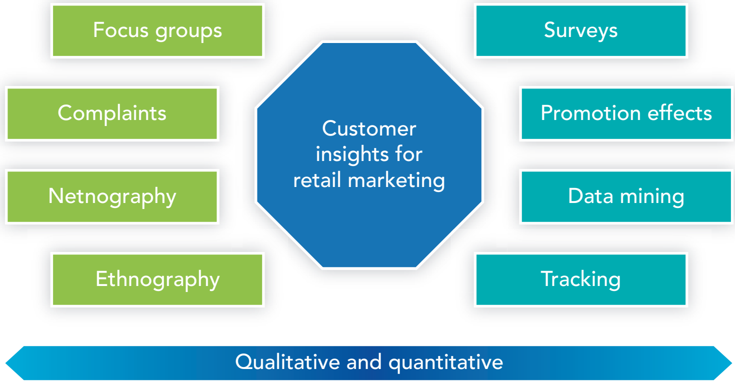



**Figure 3.3** Examples of retail insight research
*Source*: Peter McGoldrick

Retailers can also use data mining techniques by analysing existing information about their customers, such as their purchase patterns which have been recorded via the use of customers' loyalty cards. Observational research is a technique which can be used by retailers such as supermarkets, enabling them to observe the ways in which consumers navigate stores and select products. Specialist companies such as Envirosell, who operate in the US, Thailand, Japan, India, Mexico and Brazil, can be commissioned by retailers to conduct research on their behalf. Details of Envirosell's projects can be viewed at www.envirosell.com. Envirosell has found that the longer shoppers spend in stores, predictably the more they will buy and the time they spend there depends on the quality of the retail experience (Underhill, 2009). Envirosell's founder, Paco Underhill (2009: 40) states: 'the overarching lesson we've learnt from the science of shopping is this: amenability and profitability are inextricably linked. Take care of the former, in all of its guises, and the latter is assured'. Therefore, retailers can encourage customers to stay in the store through providing a positive experience and this can have positive effect on profitability. Observation can be conducted by retailers to view patterns of CB so that store design and service can be optimised to meet consumer needs. TNS Magasin (a division of the global market research company Taylor Nelson Sofres) uses eye-tracking technology, where an infra-red light is used to track the wearer's eye movements, as another method to observe consumers, providing detailed data (see Chapter 9 Retail design and layout).

Ethnography is another, more in-depth, observation-based form of research which was originally developed for use by sociologists and anthropologists. Ethnography is defined by Bryman and Bell (2011) as: 'a research method in which the researcher immerses him- or herself in a social setting for an extended period of time, observing behaviour, listening to what is said in conversations between others and with the fieldworker, and asking questions'. Retailers can employ ethnographers to reveal detailed aspects of consumers' shopping behaviour and usage of products. Kozinets *et al*. (2010) also introduced the term 'netnography' to describe marketing research which involves observations of online communications to reveal consumers' views of products and services. Netnography is facilitated by the increased use of social media. Information which consumers post on social media websites, such as Facebook, can be viewed freely by retailers, giving a personal and comprehensive view of customers' activities and interests. Social media website Pinterest was launched in 2010, allowing users to share favourite images by 'pinning' them to virtual notice boards (Thompson, 2012). Pinterest offers retailers the opportunity to observe consumers' visual interests, in the form of both visual and virtual ethnography (Bryman and Bell, 2011).

## CHAPTER SUMMARY

Understanding the behaviour and attitudes of their customers can enable retailers to make more effective marketing decisions. This understanding of behaviour patterns and the roles that consumers play can be gained through implementing marketing research and market segmentation.

- Consumers can play various roles in purchase decision-making: initiator; influencer; decider; buyer or user; and sometimes a combination of these roles.
- Consumers are motivated to purchase by the five levels in Maslow's Hierarchy of Needs: from basic survival to security and safety, social needs, self-esteem and self-actualisation. Alternatively, needs can be categorised into two groups: utilitarian (based around functionality) and hedonic (centred on enjoyment).
- The CDP presumes that consumers make rational decisions, proceeding through seven stages: need recognition; information search; pre-purchase evaluation of alternatives; purchase; consumption; post-consumption evaluation; divestment. However, experiential CB proposes an alternative view, that shopping is motivated by hedonistic values rather than rational thinking.
- Consumer neuroscience is a recent innovation in marketing research that uses fMRI and EEG technology to track customers' brain responses to shopping.
- Consumers' cultures, subcultures, personalities and reference groups affect their beliefs, attitudes and values and therefore impact upon their purchasing behaviour.
- Research findings indicate differences in patterns of male and female purchasing behaviour, suggesting that women engage in shopping more enthusiastically than men.
- Store loyalty can be encouraged via the use of loyalty cards and Relationship Marketing. Loyalty can be quantified using a net promoter score.
- Negative aspects of CB include compulsive shopping and shoplifting.

## EXERCISES AND QUESTIONS

1. Apply the first four stages of the CDP model to two purchases you have made within the last month, one for a high-cost and the other for a low-cost product or service. Compare the total time you spent making decisions about purchasing these items. Secondly, apply stages 5, 6 and 7 of the CDP model to a high cost item you bought last year. Consider whether or not you would buy this product or brand again or recommend it to a friend.
2. Describe occasions where you have acted in the following roles, but you were not the person who paid for the purchase: (a) initiator, (b) influencer, (c) decider, (d) user.
3. Watch the following video, then discuss the reasons why a knowledge of consumer neuroscience can be useful to retail marketers: vimeo.com/64050513.
4. What are the advantages to retailers of developing customer profiles? This blog from industry experts The Whole Brain Group and this information from Mintel may give you some ideas and help you to specify the demographic details of your customers: blog.thewholebraingroup.com/steps-to-creating-an-ideal-customer-profile; oxygen.mintel.com/methodology/1/
5. Devise a 300–500 word customer profile for a retailer of your choice using the technique of describing a hypothetical typical customer, featuring both demographic and

psychographic characteristics. You may wish to base this on someone you know who is a loyal customer of the retailer. You can compile the customer profile in either a visual or written format, or a combination of both.

6 Read the article by Arnold and Reynolds (2003) on 'hedonic shopping motivations'. Note the categories in which they place consumers – Minimalists, Gatherers, Providers, Enthusiasts and Traditionalists – and consider people you know who may fit into some of these groups. You should also decide which category best describes your own shopping behaviour.

7 Look at the websites for two market research agencies, e.g. qrs-research.co.uk/ and www.jraresearch.com, and compare the companies' services for quantitative and qualitative research. Based on the information available on their websites, assess which of the two companies you would recommend a supermarket chain with 30 outlets to use for primary research into its customers' requirements for:
   - a quantitative study
   - a qualitative study.

   Explain your reasoning for each choice.

8 The stages of the Family Lifecycle were compiled by Wells and Gubar (1966) and were re-addressed by Gilly and Enis (1982) (see http://www.acrwebsite.org/search/view-conference-proceedings.aspx?Id=6007). The FLC classification can be criticised for its lack of relevance to contemporary society, since lifestyles and values in many countries have changed in the intervening decades. How would you revise and rename the categories to make them more relevant for market segmentation by contemporary retailers?

9 Firstly, you should download and read this brief guide to social grades A-E published by Ipsos MORI: www.ipsos-mori.com/DownloadPublication/1285_MediaCT_thought-piece_Social_Grade_July09_V3_WEB.pdf

   Now select three retailers in your nearest town or city and for each store assess which are the main socio-economic groups that shop there. Explain the reasoning behind your choices.

## REFERENCES

Ajzen, I. (2005) *Attitudes, Personality and Behaviour*, 2nd edn, Milton Keynes: Open University Press.

Antonides, G. and van Raaij, W. (1998) *Consumer Behaviour: a European Perspective*, Chichester: John Wiley and Sons.

Arcadia (2011) *Arcadia Responsibility Report: Fashioning a Brighter Future* (available online at: http://www.arcadiagroup.co.uk/fashionfootprint/responsibilty-report-2011)

Arnold, M.J. and Reynolds, K.E. (2003) Hedonic shopping motivations, *Journal of Retailing*, 79, 77–95.

Bakewell, C. and Mitchell, V.W. (2004) Male consumer decision-making styles, *International Review of Retail, Distribution and Consumer Research*, 14(2), 223–240.

Bannister, E. and Hogg, M. (2001) Consumers and their negative selves, and the implications for fashion marketing, in Hines, T. and Bruce, M. (eds), *Fashion Marketing: Contemporary Issues*, London: Butterworth Heinemann, pp. 190–202.

BBC (2012) *Women's Hour: London Fashion Week*, BBC Radio 4, 20 February (available online at: http://www.bbc.co.uk/programmes/b01c7lk2).

Blackwell, R.D., Miniard, P.W. and Engel, J.F. (2006) *Consumer Behavior,* 10th edn, Mason: South-Western.

Blythe, J. (2013) *Consumer Behaviour*, 2nd edn, London: Sage.

British Retail Consortium (2014) *Retail Crime Survey 2013* (available online at: http://www.brc.org.uk/brc_policy_content.asp?iCat=48&iSubCat=646&sPolicy=Retail+Crime).

Brown, S. (1995) Sex and shopping: a 'novel' approach to consumer research, *Journal of Marketing Management*, 11, 769–783.

Bryman, A. and Bell, E. (2011) *Business Research Methods*, 3rd edn, Oxford: Oxford University Press.

Burton (2014) *The Customer* (available online at: www.burton.co.uk/careers/thecustomer.html).

CACI (2014) *A Classification of Residential Neighbourhoods* (available online at: http://acorn.caci.co.uk/downloads/Acorn-User-guide.pdf).

Calvert, G., de Balanzó, C. and Watkins, S. (2012) Opening the black box: an academic evaluation of the ability of electroencephalography (EEG) and Eye Tracking (ET) to predict advertising effectiveness, ESOMAR (available online at: http://www.esomar.org/web/research_papers/Advertising-Research_2397_Opening-the-Black-Box.php).

Chang, H.J., Eckman, M. and Yan, R.N. (2011) Application of the Stimulus-Organism-Response model to the retail environment: the role of hedonic motivation in impulse buying behavior, *International Review of Retail, Distribution and Consumer Research*, 21(3), 233–249.

De Chernatony, L. and McDonald, M. (2003) *Creating Powerful Brands*, 3rd edn, Oxford: Elsevier/Butterworth Heinemann.

Dittmar, H. and Drury, J. (2000) Self-image – is it in the bag? A qualitative comparison between 'ordinary' and 'excessive' consumers, *Journal of Economic Psychology*, 21(2), 109–142.

Experian (2012) *Mosaic Classifications* (available online at: http://www.experian.co.uk/business-strategies/mosaic-uk-2009.html).

Gilbert, D. (2003) *Retail Marketing Management*, 2nd edn, Harlow: Financial Times/Prentice Hall.

Gilly, M.C. and Enis, B.M. (1982) Recycling the family life cycle: a proposal for redefinition, *Advances in Consumer Research*, 9, 271–276.

Grainger, L. (2014) Food issue: what supermarket bosses buy, in *The Times Magazine*, 24 May (available online at: http://www.thetimes.co.uk/tto/magazine/article4094940.ece).

Hardie, C. (2012) How men shop, *Retail Week*, 17 February, pp. 32–33.

Holbrook, M. and Hirschman, E. (1982) The experiential aspects of consumption: consumer fantasies, feelings and fun, *Journal of Consumer Research*, 9(2), 132–140.

Inman, J.J. and Winer, R.S. (1998) Where the rubber meets the road: a model of in-store consumer decision making, *Marketing Science Institute*, 98–122 (available online at: http://www.msi.org/reports/where-the-rubber-meets-the-road-a-model-of-in-store-consumer-decision-makin/).

Ipsos Mori (2009) *Social Grade: A Classification Tool* (available online at: www.ipsos-mori.com/DownloadPublication/1285_MediaCT_thoughtpiece_Social_Grade_July09_V3_WEB.pdf).

Jobber, D. and Fahy, J. (2009) *Foundations of Marketing*, Maidenhead: McGraw-Hill.

Jobber, D. (2010) *Principles and Practice of Marketing*, 6th edn, Maidenhead: McGraw-Hill.

Keiningham, T.L., Cooil, B., Andreassen, T.W. and Aksoy, L. (2007) A longitudinal examination of net promoter and firm revenue growth, *Journal of Marketing*, 71(3), 39–51.

Kozinets, R.V., de Valck, K., Wojnicki, A.C. and Wilner, S.J.S. (2010) Networked narratives: understanding word-of-mouth marketing in online communities, *Journal of Marketing*, 74(2), 71–89.

Kukar-Kinney, M., Ridgway, N.M. and Monroe, K.B. (2012) The role of price in the behavior and purchase decisions of compulsive buyers, *Journal of Retailing*, 88(1), 63–71.

Lury, C. (1996) *Consumer Culture*, Oxford: Polity Press.

Lutz, R.J. and Bettman, J.R. (1977) Multi-attribute models in marketing: a Bicentennial review, in Woodside, A.G., Sheth, J.N. and Bennett, P.D. (eds), *Consumer and Industrial Buying Behavior*, New York: Elsevier/North-Holland.

McColl-Kennedy, J.R., Patterson, P.G., Smith, A.K. and Brady, M.K. (2009) Customer rage episodes: emotions, expressions and behaviors, *Journal of Retailing*, 85(2), 222–237.

McGoldrick, P. (2002) *Retail Marketing*, 2nd edn, Maidenhead: McGraw-Hill.

McGoldrick, P.J. and Andre, E. (1997) Consumer misbehaviour: promiscuity or loyalty in grocery retailing, *Journal of Retailing and Consumer Services*, 4(2), 73–81.

Mintel (2012) *Department Store Retailing – UK* (available online at: store.mintel.com/department-store-retailing-uk-march-2012.html).

Neff, J. (2008) Pick a product: 40% of public decide in store, *Advertising Age*, 28 July, pp. 1, 31.

NRS (2014a) *What We Do* (available online at: www.nrs.co.uk/what-we-do/).

NRS (2014b) *Social Grade – Definitions and Discriminatory Power* (available online at: www.nrs.co.uk/lifestyle-data/).

ONS (2013a) *One Third of Babies Born in 2013 are Expected to Live to 100*, Fareham: Office for National Statistics (available online at: http://www.ons.gov.uk/ons/rel/lifetables/historic-and-projected-data-from-the-period-and-cohort-life-tables/2012-based/sty-babies-living-to-100.html).

ONS (2013b) *Live Births in England and Wales by Characteristics of Mother 1 2012*, Fareham: Office for National Statistics (available online at: www.ons.gov.uk/ons/dcp171778_330664.pdf).

ONS (2013c) *Marriages in England and Wales (provisional) 2011*, Fareham: Office for National Statistics (available online at: http://www.ons.gov.uk/ons/dcp171778_315549.pdf).

ONS (2014) *Large Increase in 20- to 34-year-olds Living with Parents since 1996*, Fareham: Office for National Statistics (available online at: http://www.ons.gov.uk/ons/rel/family-demography/young-adults-living-with-parents/2013/sty-young-adults.html).

Rogers, E.M. (1962) *Diffusion of Innovations*, New York: Free Press.

Satmetrix (2014) *The Net Promoter Score and System* (available online at: www.netpromoter.com/Home).

Solomon, M., Bamossy, G., Askegaard, S. and Hogg, M.K. (2006) *Consumer Behaviour: A European Perspective*, 3rd edn, Harlow: Financial Times/Prentice Hall.

Style Bubble (2012) *About Me* (available online at: http://www.stylebubble.co.uk/style_bubble/about-me.html).

Tai, S.H.C. (2005) Shopping styles of working Chinese females, *Journal of Retailing and Consumer Services*, 12, 191–203.

Thompson, V. (2012) Need to know: Pinterest, *Retail Week*, 9 March, p. 25.

Tonglet, M. (2002) Consumer misbehaviour: an exploratory study of shoplifting, *Journal of Consumer Behaviour*, 1(4), 336–354.

Underhill, P. (2009) *Why We Buy: The Science of Shopping*, London: Simon and Schuster Paperbacks.

Vlachos, P.A. and Vrechopoulos, A.P. (2012) Consumer-retailer love and attachment: antecedents and personality moderators, *Journal of Retailing and Consumer Services*, 19, 218–228.

Wells, W. and Gubar, G. (1966) Life cycle concepts in marketing research, *Journal of Marketing Research*, November, 355–363.

Yoon, C., Gonzalez, R., Bechara, A., Berns, G.S., Dagher, A.A., Dubé, L., Huettel, S.A., Kable, J.W., Liberzon, I., Plassmann, H., Smidts, A. and Spence, C. (2012) Decision neuroscience and consumer decision making, *Marketing Letters*, 23, 473–485.

Zikmund, W.G. and Babin, B.J. (2010) *Exploring Marketing Research*, International/10th edn, Mason, Ohio: South-Western Cengage.

## FURTHER READING

Arnold, M.J. and Reynolds, K.E. (2003) Hedonic shopping motivations, *Journal of Retailing*, 79, 77–95.

Kobrak, H. (2012) How to avoid five common mistakes in market segmentation, *Advertising Age*, 20 February (available online at: adage.com/article/cmo-strategy/avoid-common-mistakes-market-segmentation/232796/).

Puccinelli, N.M., Goodstein, R.C., Grewal, D., Price, R., Raghubir, P. and Stewart, D. (2009) Customer experience management in retailing: understanding the buying process, *Journal of Retailing*, 85(1), 15–30.

Robinson, D. (2014) Web shopping – online stores think local to grow global, *Financial Times*, 25 January 2014 (available online at: http://www.ft.com/cms/s/0/6d338714–84f0–11e3–8968–00144feab7de.html#axzz2ufYYSfur).

Shukla, P., Banerjee, M. and Adidam, P. T. (2013) The moderating influence of socio-demographic factors on the relationship between consumer psychographics and the attitude towards private label brands, *Journal of Consumer Behaviour*, 12(6), 423–435.

Yoon, C., Gonzalez, R., Bechara, A., Berns, G.S., Dagher, A.A., Dubé, L., Huettel, S.A., Kable, J.W., Liberzon, I., Plassmann, H., Smidts, A. and Spence, C. (2012) Decision neuroscience and consumer decision making, *Marketing Letters*, 23, 473–485.

# Case study

## Targeting the female consumer

*Source*: with permission from Shutterstock.com/© Art Allianz

For brands seeking to engage with women, the secret is that there really is no secret; the key is simply to know your audience and what it wants. Given that good marketing involves segmentation and targeting, at its worst, it sometimes also becomes about caricature and stereotyping. Nowhere is that more evident than when brands try to engage with women. A lot of this marketing is about pigeonholing: the housewife (recently referred to as 'chief household officers') or 'soccer mom', the urban professional and so on. But more than ever, women don't fit into those neat little niches. Just look at technology. For years it was assumed that being a tech geek was a guy thing, but 65 per cent of women now buy online, and women like Meg Whitman lead huge tech companies such as HP and eBay. Women are becoming what Carol Bekkedahl, senior vice-president, digital sales, at Meredith National Media, calls 'the biggest tech geeks out there'.

In an interview with WARC, Bekkedahl – who publishes the titles *Better Homes & Gardens* and *Ladies' Home Journal* – noted: 'All of the new innovation happening in technology today is supercharged by women's activity. Look at the rise of Pinterest, Instagram, Vine, Snapchat: all fuelled predominantly by women's activity.' So what are the lessons marketers need to learn about female consumers?

### Don't fall for the caricature

See them as a whole person. Avoid the tendency in female targeting to pigeonhole people – 'young professional', 'beauty-obsessed' – as people rarely fit neat labels. As with any marketing, you need to have a deep understanding of your audience; spend quality time with them and understand their lives. Don't assume you can target women with a tablet computer or car just by making it pink – the same applies to pens, as Bic discovered when its launch of the 'Cristal for Her' line was met with outrage from Amazon reviewers.

## Be honest

In the past, a lot of marketing to women has been about painting a glossed-over picture. Now, however, we are seeing how insight allows marketers to know when and how to be confident and honest in their communication, leading to some great results. Just look at Dove, for one. Similarly, John Frieda blazed a trail by talking openly about hair 'frizz' and Olay no longer avoids the word 'wrinkles'.

## Women are social creatures

Whether in online or offline social networks, they both influence and are influenced in turn. Know the neuroscience behind how women think and what drives their behaviour, and understand how to get into those networks of influence. For example, research shows that women remember more than, and in different ways from, men; marketers need to connect to both women's emotional and rational sides, and be very aware of their strong attention to detail.

## You don't need to be radical

It's about the right creative and media choices. Fiat's 'Motherhood rap' spread virally online and seems to have rung true with many.

## Inform, don't patronise

There are products and services that women undoubtedly will need – for example, a garage or car-dealership network could target single and newly divorced women with a free vehicle-maintenance service – but don't be sexist or patronising.

Women have a lot of money to spend and can be a brand's most loyal and engaged customers, if they are targeted appropriately and relevantly. As with any audience, the key is to know who they really are and what they really want.

*Source*: Mhairi McEwan, chief executive and co-founder of brand learning, first published in Marketing magazine, 1 March, 2014 (article can be found at: http://www.marketingmagazine.co.uk/article/1283341/secret-engaging-women-theres-no-secret). Reproduced from Marketing magazine with the permission of the copyright owner, Haymarket Media Group limited.

## DISCUSSION QUESTIONS

1 Based on reading the article and from examples that you have seen, what problems are created when marketers use stereotyped perceptions of women?

2 Advertisers can also be considered guilty of stereotyping male consumers. What lessons do marketers need to learn about male consumers to avoid this happening? How do these lessons differ from those mentioned in this article about female consumers?

3 What would be your advice for advertisers to enable them to target female consumers effectively, based on the information in this article?

4 Which of the market research methods discussed in this chapter could be used to investigate the shopping behaviour of supermarket customers? From these, select the most suitable market research method for investigating the behaviour of female consumers in a supermarket of your choice.

# CHAPTER 5

# Retail buying and merchandising

## Learning objectives

The objectives of this chapter are to:

- assess the scope of buying and merchandising;
- explain the different stages of the buying cycle;
- outline the processes involved in the selection, development, ordering and monitoring of retail merchandise;
- discuss the issues involved in supply chain management for retailing.

# Introduction

This chapter explains how buying and merchandising work together to acquire the merchandise which is so fundamental to the performance of the retail organisation. Retail buyers are responsible for overseeing the selection of merchandise of appropriate quality and style, aimed at specific types of customer and price brackets and they therefore perform a central role in retail product management and pricing. McGoldrick (2002: 279) stresses the importance of buying in the retail organisation when he states: 'Buying represents the translation of a retailer's strategic positioning statement into the overall assortment and the specific products to support that statement. The retail buyer therefore holds a pivotal role in the implementation of retail strategy . . . '. Retail merchandisers play an equally significant part in the retailer's performance, as they are responsible for managing the processes that enable the products selected by the buying team to arrive on time in the right quantities in the correct locations. **Retail buying** is a form of **organisational buyer behaviour (OBB)**, as distinct from consumer buyer behaviour. However, it differs from OBB in that retailing operates in a business-to-consumer (B2C) capacity, rather than being a solely **business-to-business (B2B)** operation. As retailing is a service industry, retailers purchase completed products to sell to consumers, rather than buying components for use in production (Johansson, 2001).

While OBB is covered in depth in academic literature, there are far fewer studies about retail buying and merchandising, despite the significance of this function to the retail sector (McGoldrick, 2002). Kline and Wagner (1994) point out that retail buyers are located in a different position within the distribution channel to industrial buyers, between suppliers and consumers, rather than between component suppliers and manufacturers or retailers. Therefore, the retail buyer often requires awareness of consumer demand more than technical knowledge. Overall, the aim of buying and merchandising (B&M) teams is to maximise the profitability of retailers, by collaborating with their colleagues and suppliers to meet customers' needs.

# Buying and merchandising roles

The retail buying and merchandising literature is somewhat fragmented and with a lack of contemporary research in this field it can therefore be difficult to build up a picture of the diverse responsibilities of these roles. Most journal articles on retail buying either focus on small components of the job, such as decision-making variables (Kline and Wagner, 1994) or explore associated topics, e.g. the recruitment of buying staff (Draper, 1994; Faes *et al*., 2001). Studies by Fairhurst and Fiorito (1990) and Swindley (1992) provide holistic views of the buyer's role in the US and UK respectively, but there is currently a gap in the literature for an overview of how retail buying operates contemporarily. Recent books on retail buying mainly adopt a US perspective of this function (e.g. Clodfelter, 2008; Diamond and Pintel, 2005) which is useful to know, but which may not apply to every part of the world. Some of the books on retail marketing omit to mention retail buying and merchandising (e.g. Gilbert, 2003) but others include chapters which give valuable insights into this function by making connections between various academic studies (e.g. Dawson *et al*., 2008; McGoldrick, 2002; Levy and Weitz, 2012).

Methods of buying and merchandising products for retailers can vary between different companies and market sectors. Buyers of branded products select from finalised ranges of merchandise whereas buyers of own-label ranges develop products in collaboration with their suppliers (see Chapter 4 Retail product and brand management). In a small company buyers and merchandisers may be responsible for selecting a wide range of product types and these functions may be combined with a sales role. Large retailers usually have separate

B&M departments for different product types, such as homeware or fashion. The terminology used for the buying role can vary. For example, in the UK, buyers may be known as selectors or product developers in certain companies (Goworek, 2007), whereas they are called merchandise buyers in the US, according to the National Retail Federation (Berman and Evans, 2010). Retail buying requires a blend of creative and commercial knowledge and Jane Shepherdson, CEO of womenswear retailer Whistles and former Brand Director of Topshop, describes the buyer's role as 'a combination of being creative and taking big risks with sometimes huge amounts of money involved' (Goworek, 2007), whereas River Island buyer Helen Fahy describes retail buying as 'developing a well-balanced and profitable range . . . ensuring that developments are right for the customer' (Goworek, 2006).

B&M departments plan, select, order and monitor the progress along the supply chain of the ranges of products sold by the retailer. To achieve this, they frequently work together, as well as liaising with colleagues internally and suppliers externally. In the case of own-label ranges, buyers may also participate in product development alongside suppliers (see below). Selecting and negotiating with suppliers are core responsibilities in retail buying and management of the supply chain and product distribution are central to the merchandising role. It is important for buyers and merchandisers to collaborate with their suppliers for their mutual benefit. Consequently, buying and merchandising often involve more travel than most other retailing jobs, mainly to visit suppliers. Additionally, market awareness and commercial/financial awareness were found to be among the most important characteristics of retail buyers in a survey by Swindley (1992). Retail B&M teams may collaborate with various internal departments internally, to facilitate the purchase, development and sales of product ranges, which may include in-house design; quality; marketing; store management; visual merchandising; finance; imports/exports; publications and legal departments. This may depend to some extent on the size of the company, as larger retailers tend to have a broader range of specialist departments.

## Centralised and decentralised buying

In larger retail chains it is standard practice for B&M teams to be centralised in a department based at the retailer's Head Office, with responsibility for buying subdivided into sections by product type. Fenwick, a UK chain of 11 department stores, is an exception to this in that it operates decentralised buying, thus enabling buyers in each branch to make merchandise selections tailored to the needs of customers in their particular city (see Figure 5.1). However, as a chain store, Fenwick can still benefit from the economies of scale offered by purchasing certain products in bulk for all of its stores. Certain retailers have centralised B&M that is located on a different site from the Head Office, with the advantages of proximity to the distribution centre, usually based in the Midlands, and to take advantage of cheaper office space away from major cities. For example, some of the major supermarkets locate their clothing B&M divisions separately from Head Office, such as 'George Clothing' for Asda and 'Nutmeg' childrenswear for Morrisons, both of which are based in Leicestershire whereas their Head Offices are in Yorkshire. Another way to take advantage of **centralised buying** is through selecting goods from retail buying groups known as 'symbol groups' as they incorporate the group's symbol on the store fascia. While retaining their independence, small retailers can benefit from the bulk buying power of symbol groups that have international recognition, offering own-label products and support such as management training, in exchange for an agreed payment. For example, both Spar (groceries) and Euronics (electronics) are available in 30 countries, giving them very effective economies of scale and UK-based symbol groups Numark chemists, Londis and Mace can also offer competitively priced products to independent stores. Associated Independent Stores (AIS) is another UK organisation that offers its members the opportunity to purchase its own-label fashion and homewares, as well as branded products.


**Figure 5.1** Fenwick department store in Newcastle
*Source*: Nick Bagnall

## Organisational buying theories

Models of organisational buyer decision-making (OBDM) are relevant to the retail buying decision process, even though they are largely based on research in B2B markets, rather than retailing, and were written quite some time ago. Webster and Wind (1972: 31) researched into various aspects of OBB and consequently devised the organisational decision process, which comprises the following stages:

1. identification of need;
2. establishing objectives and specifications;
3. identifying buying alternatives;
4. evaluating alternative buying actions;
5. selecting the supplier.

These five stages can be applied to buying in almost any industry and this model is therefore still in use today. It is possible to apply this decision-making framework in many situations but some of the stages may be left out for routine purchases such as rebuying basic products that do not require new specifications. However, Webster and Wind's model finishes without referring to crucial decisions made by retail buyers after the supplier selection stage, which can impact upon product quality and design. Additionally, retailing has been affected substantially by changes in society and technology in recent decades and the model therefore has the potential to be expanded upon and adapted, to be applied more directly to contemporary retail scenarios. Webster and Wind (1972: 12) proposed that their model could 'help the marketer to analyse available information about the market and to identify the need for additional information' as well as 'aid in the design of marketing strategy'. Similarly, the **buying cycle** model (see later in Figure 5.4) can be used to assist in designing buying strategy in the context of a retailer's marketing strategy.

Organisational buying decisions are frequently joint decisions, influenced by people playing various roles, a concept which has also been applied to consumer decision-making (see Chapter 3 Retail consumer behaviour and market segmentation). However, since organisational buying decisions are generally more complex and time-consuming, they are more likely to be influenced by a larger group of people than consumer decisions. The group of people influencing the organisational buying decision is referred to as the Decision Making Unit (DMU) and the group members were allocated the following roles by Webster and Wind (1972):

- Influencers
- Gatekeepers
- Deciders
- Buyers
- Users.

The role of initiator was later added for those who take the lead in the purchasing process (Bonoma, 1982). (You will notice that most of these terms have also been applied to consumer buying behaviour – see Chapter 3 Retail consumer behaviour and market segmentation.) In a retailing context, merchandisers usually initiate buying for a large retailer by making an initial plan to specify the products that need to be bought, in addition to acting as influencers of the buying decision. Suppliers can also act as influencers, as they can offer the retailer a variety of products from which to select. Gatekeepers, such as administrators within the buying team, are those who have the authority to grant suppliers access to buyers. Retail buyers take the central role of deciders in the DMU, typically at an experienced buyer or senior buyer level, with buyers at a junior level more likely to be influencers. In large retailers buyers and merchandisers may engage in the preparatory work in selecting products, but the final purchase decision is often taken by a committee that also includes technologists and senior managers or directors. The DMU buyer role is normally taken by retail buyers and/or merchandisers, with buyers deciding on the design and specification of products and either buyers or merchandisers being responsible for completing orders and contracts for suppliers.

In B2B markets the 'user' role applies to people within the organisation who use the products within the business as part of their role. However, when products are bought for resale the users, i.e. consumers, are outside the organisation, so only the initiator; influencer; gatekeeper; decider and buyer roles are relevant to retailers in this context. Nevertheless, retailers act in the same way as B2B purchasers to a certain extent, when they buy items that are solely for use in the business, rather than for resale. This can include items such as uniforms and card payment machines where the users are the retailers' employees. Products to be used within the company are usually selected by a department known as 'purchasing' or 'procurement', rather than being the responsibility of the retailers' buying teams (Buchanan, 2008). The procurement department is able to contribute to the retailer's profitability by selecting products of the right price and quality to enable the company to function efficiently and effectively.

## Buying branded and 'designer' merchandise

Retailers that sell products from branded or designer ranges (see Chapter 4 Retail product and brand management) are often independent retailers or department stores, e.g. Debenhams in the UK and Åhléns in Sweden and Norway. Buyers for small independent retailers often have the opportunity to meet their customers directly by spending some of their work schedule selling in the store, thus giving the retail buyers an advantage when selecting merchandise for their market segment. Independent chains with two or more outlets may employ specialist buyers to cater for the company's different branches, e.g. the owner of footwear retailer Tin Fish acts as buyer for the company's two stores and its website (Goworek, 2007). Retail buyers of branded ranges can select their merchandise from representatives of the brand through various methods of interaction, such as visiting showrooms or exhibitions (see Figure 5.2), or meetings at the retailer's premises. At the luxury end of fashion retailing, buyers can sometimes be invited to select products at


**Figure 5.2** The Premium and Green Showroom womenswear trade fairs take place during Berlin Fashion Week

*Source*: authors' own photographs of Berlin Fashion Week and designer Katharina Kaiser fashion shows, followed up by meetings to view the products more closely and to specify quantities. Luxury brands often limit the number of retailers that are permitted to stock their ranges to maintain an exclusive brand image.

Trade exhibitions for specific product types often take place either annually or twice per year, allowing buyers to select new suppliers and products from a wide range of brands in their product sector. These exhibitions or trade fairs are often listed in trade journals, trade websites or the venues' websites and they are not usually open to the general public. Entry to the exhibitions is often for a nominal charge on production of a business card or free if booked in advance, as they are funded by the exhibitors who wish to promote their products to buyers. Sometimes trade fairs featuring major brands will even be selective about which retailers they permit to enter, with the aim of preventing new product concepts being leaked or copied. UK trade fairs take place at locations such as Olympia in London and the National Exhibition Centre (NEC) in Birmingham, enabling buyers to select products from international brands without the expense of travelling overseas. Trade shows often take place for more than one day and directories of the show are good sources of new suppliers to follow up afterwards. Examples of trade fairs are given in Table 5.1.

## Buying own-label merchandise

Many multiple retailers sell own-label merchandise and their buying teams participate in the development of these ranges. The role of the own-label buyer has many similarities with that of the buyer for branded products. However, buying own-label merchandise involves collaboration in the product development process, making decisions about the form and content of the products prior to manufacture, whereas for branded products, the brand makes these decisions (Goworek, 2010). Own-label buyers are therefore involved in making decisions about the merchandise they buy at an earlier stage than their counterparts for branded products. Furthermore, own-label buyers usually have little involvement, if any, in monitoring deliveries and **stock control** of their products. Thus they tend to relinquish responsibility for decision-making about the range once production has been completed and quality approved, handing over control of the products to their merchandising colleagues during the trading period. The typical differences between own-label and branded product buying roles are shown on either side of Figure 5.3, with the commonalities between them being listed in the central area, based on research into buyers of clothing and accessories in various price brackets.

An experienced own-label buyer conducts a wide variety of tasks in conjunction with internal colleagues and external suppliers. Department stores and various other retail chains may have a team of buyers who purchase own-label merchandise and another group to buy branded goods. Occasionally a buyer could be responsible for buying a mix of branded and own-label products. Retail buyers' involvement in product development for

**Table 5.1** A selection of European trade fairs for branded merchandise

| Trade fair | Product types | Location | Timing |
|---|---|---|---|
| Spring Fair | Gifts and homeware | Birmingham | February |
| Maison & Objet | Interiors and homeware | Paris | January and September |
| Pure Womenswear | Contemporary womenswear, accessories and footwear | London | February and August |
| Pitti Immagine Uomo | Menswear | Florence | January and June |
| Pitti Immagine Bimbo | Childrenswear | Florence | January and July |

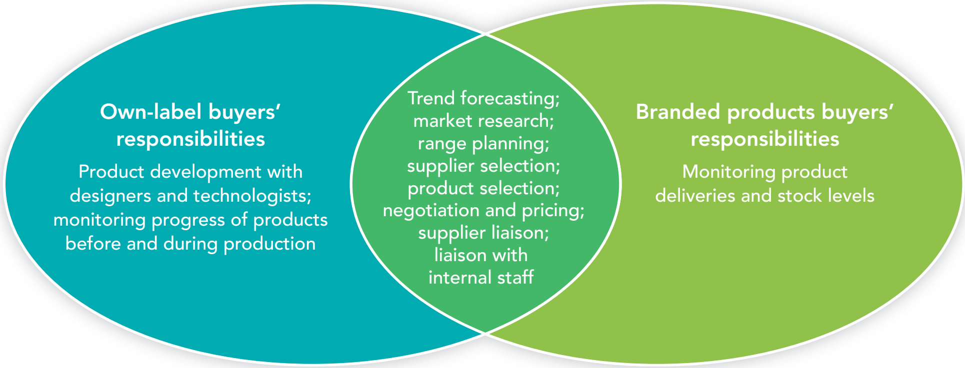



**Figure 5.3** A comparison between own-label buyers' and branded product buyers' responsibilities
*Source*: adapted from Goworek, 2014

own-label products can vary, depending on the retailer's buying policy, the buyer's level of seniority and the buyer's experience, e.g. a design-related qualification may enable the buyer to have a strong influence on the design of the merchandise. A study by Johansson and Burt (2004: 801) compared buying for own-label and manufacturer brands in the UK, Sweden and Italy, finding that 'private brands must engage in activities which are traditionally the domain of the manufacturer' and that '. . . involvement in private brands will mean that the buying process will be more extended, in terms of the tasks and activities performed and managed, and therefore more complex than that for manufacturer brands'.

Suppliers frequently employ their own product developers or designers and they may therefore have a lot of input into the design of own-label products. A designer employed by a supplier may work on only one or two retailers' accounts and therefore behave virtually as though they work for the retailer, despite the salary and design studio being paid for by the supplier. Since a supplier would very rarely be owned by the retailer it supplies, as it is usually a separate firm, it is important to build a level of trust between the two companies, since the supplier is also likely to be providing design ideas for competitors. Alternatively, retailers can employ their own in-house design teams, who may design some or all of the retailer's own-label products, though this is not always necessary for own-label retailers, as they can rely on this facility from their suppliers. It is not essential for own-label retail buyers to have design training, but they need to be creative and gain some awareness of the technical aspects of their products to know the scope for design. Retail buyers are likely to be involved in making decisions about features of the products such as styling, colour, materials and proportions, in collaboration with designers and technologists who specialise either in fabrics or garments. Buyers may go on directional shopping visits for inspiration when developing new ranges, sometimes alongside designers from the retailer or its suppliers (see Chapter 4 Retail product and brand management).

# The retail buying cycle

The buying cycle is the term used by many UK retailers for the key events and processes that the buyers carry out in order to select a product range (Goworek, 2007). Figure 5.4 summarises the main events in the buying cycle chronologically. Not every retailer uses the buying cycle in exactly this format but it is intended to be applicable to many different retail companies and it is likely that in even the smallest retailer many of the stages will be relevant. The length of the buying cycle differs between companies and product types, but it could vary from a matter of days to more than a year from reviewing current

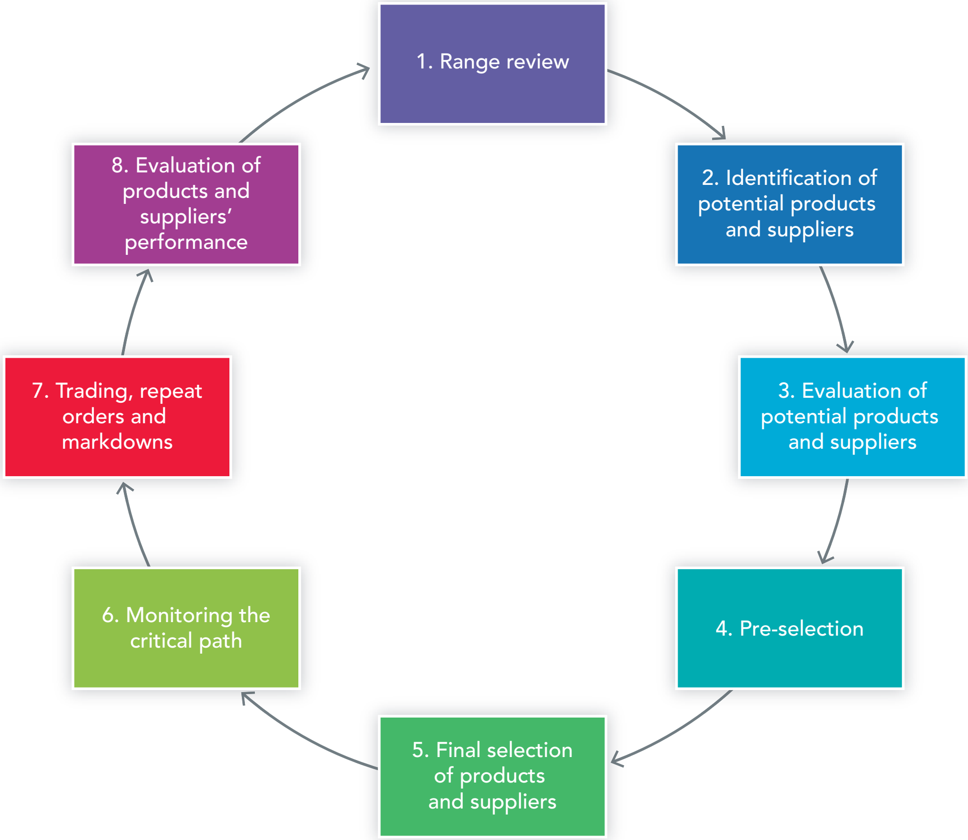



**Figure 5.4** The retail buying cycle

sales up to the delivery of new products into stores. The buying cycle relates to products being sold within a specific trading period, within a particular season (of three or six months) which can be subdivided into phases when the products are delivered and sold. For example, fashion-led retailers such as H&M or Zara can have more than one delivery of new products per week, compared to a more classic clothing retailer which would be more likely to keep most of the same merchandise in stock for two to three months.

In many retailers, a range of goods usually progresses through various stages of selection, managed by buyers and, in larger companies, with the support of merchandise teams. Buying cycle stages can exchange places or be eliminated under certain circumstances, e.g. where a product is considered to meet current trends, it may be signed off by management without featuring in the 'pre-selection' meeting. The terms used for the stages or meetings can also differ between companies and it is therefore difficult to compose a model that applies precisely to all retail organisations. The retail buying cycle is a team effort, with employees in differing roles agreeing on the selection of products to be sold. The schedule is usually planned in reverse chronological order, beginning with the launch date of the range and working back to the deadlines necessary to achieve delivery on time. It is crucial that all deadlines are met, as consistent lateness by a buyer would result in merchandise not being available to customers at the required time, resulting in reduced profits for the company. Typical stages within the retail buying cycle, featured in Figure 5.4, are explained below. Buyers and merchandisers work on ranges for different seasons or phases simultaneously, since the timescale of the buying cycles overlap, so within the same day they could be working on monitoring the **critical path** for one phase, whilst selecting the products for the following phase and identifying potential suppliers for another phase.

## Range review

The buying cycle begins with a review of the performance of a product range in a previous season, for example the same time in the previous year. The range's performance in terms of sales volume, quality and delivery will come under scrutiny from the B&M team. The **range review** serves the purpose of learning lessons from a prior trading period to enable realistic sales and budget forecasts to be made for a future seasons. Weak sellers can be dropped, allowing room for the introduction of new items with more sales potential, whereas bestselling products can be repurchased or updated. A brief for buying the new season's range can therefore be produced, incorporating a budget plan, essentially acting as a large-scale shopping list for the buyer. Buyers and merchandisers collaborate with the staff in the organisation who are responsible for finance in order to establish a viable budget for a trading period, forecasting key financial elements such as sales turnover and target profit margins. In certain retailers, a formal range review meeting is held where merchandisers present the key findings about a previous season to their colleagues in buying, design and technology, with a report being produced for reference.

## Identification of potential products and suppliers

Sourcing is the activity whereby retailers seek new suppliers and products by investigating appropriate companies that could potentially provide items to meet their customers' needs and wants. Retail buyers are heavily involved in sourcing, which takes place before orders for products are placed. In medium to large companies sourcing is often conducted by buyers with the support of colleagues such as merchandisers and garment technologists. An own-label retailer can either give the supplier specifications of the products they wish to have manufactured or alternatively they can develop ideas for products in collaboration with the supplier. A buyer of branded merchandise can select products from suppliers' ranges.

## Evaluation of potential products and suppliers (range planning)

Selecting products for the retailer requires painstaking planning and organisation of the product range by the buying team. **Range planning** involves compiling a collection of products within financial and design parameters, suitable for the target customer's taste and lifestyle (Goworek, 2007). This usually occurs several months before delivery of the products to the stores, to allow time for production and distribution to take place. The initial steps in range planning can begin more than a year ahead of the selling season, depending upon the complexity of the product design and manufacture, as well as the delivery timescale. Retailers need to plan the balance of different types of product effectively, so that consumers are offered sufficient variety in terms of price and style. For own-label products, retail buyers meet designers and sales personnel from suppliers to view design ideas for product ranges or to request samples of the retailer's own designs. At this stage it is only a plan in that orders have not yet been placed, but the retail buyer and/or merchandiser checks in advance that the suppliers are able to provide the items which they are considering including in the range. The range plan itself is usually a table or spreadsheet that shows descriptive and numerical details of the products, e.g. product description, reference number, colour, material and order quantity (see Table 5.2).

## Pre-selection

Once range planning has been carried out, retail buyers and merchandisers evaluate the product prototypes they have selected to date, in the form of samples or photographs. Retailers may hold a meeting at the pre-selection stage when they can assess how all the products work together as a whole, to check that they have a workable price architecture (see Chapter 6 Retail

**Table 5.2** An example range plan

| Men's T-shirts range plan 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Reference number | Product description | Supplier | Material | Colourways | Size | Quantity | Cost price | Selling price |
| BZ201 | Basic round-neck T-shirt | Raven, China | 100% cotton jersey | White<br>Burgundy<br>Grey Black | XS-XL | 5000<br>3000<br>3000<br>5000 | £2.40 | £6.99 |
| BZ202 | V-neck T-shirt | VSJ Garments, China | 98% cotton 2% elastane | White<br>Grey<br>Black | XS-XL | 2000<br>1500<br>2500 | £1.96 | £6.99 |
| BZ203 | T-shirt with headphones print | Raven, China | 100% cotton jersey | White<br>Burgundy | SML | 2500 | £3.45 | £10.99 |
| BZ204 | T-shirt with moustache print | Olympic, Greece | 100% cotton jersey | White | SML | 4000 | £3.88 | £10.99 |
| BZ205 | Long-sleeve round-neck T-shirt | Raven, China | 100% cotton jersey | Burgundy<br>Grey Black | XS-XL | 4000<br>3000<br>5000 | £2.84 | £7.99 |
| BZ206 | Long-sleeve tie-dye T-shirt | Olympic, Greece | 100% cotton jersey | Blue | SML | 3000 | £4.52 | £12.99 |
| BZ207 | Long-sleeve music print T-shirt | BC Garments, Turkey | 100% cotton jersey | Red | SML | 3000 | £4.28 | £12.99 |

pricing) and offer sufficient variety to customers. Buyers may then review and renegotiate the cost prices of the products to ensure that they can meet the target profit margin whilst selling for a suitable retail price. They also need to ensure that each product order can be placed with an appropriate supplier/manufacturer with a viable delivery date. Retailers can negotiate with suppliers on price as well as other factors (Lusch *et al*., 2011).

After evaluating the range of merchandise and deciding which products to present at the **final selection** meeting, buyers can calculate figures such as the average selling price, average cost price and average profit margin for the range. This can be a time-consuming activity that involves the compilation of a great deal of data, which need to be collected and inputted accurately. The average selling price can be calculated fairly simply by adding together the selling price of each product in the range and dividing it by the total number of options (a mean average). However, a weighted average would be more useful, that also takes into account the quantity that has been ordered of every individual item, so if the cheaper options have been bought in higher quantities, the average selling price would be lower when using a weighted average, rather than the mean average.

## Final selection

The final range selection is the key meeting for the buying function, attended by senior management such as buying and merchandising managers, when decisions are made about which products are to be sold by the retailer. The buyer is responsible for presenting the range to colleagues, usually in the form of product samples, and occasionally as drawings or computer-generated images. The merchandiser supports the buyer in this meeting with financial information about the range. Buyers at a final range selection meeting may also be asked how the average selling price compares with that of previous seasons, and a distinct increase in average selling price would need to be justified. By calculating the average margin of the range the buyer may be able to include garments which do not appear to be sufficiently profitable but are compensated for by higher margins from other garments.

Senior managers usually need to approve and sign off the range of products presented at the final range selection. After the product range has been selected, buyers and merchandisers place orders with the suppliers of the products. Amendments to products in the range may be requested by senior managers, based on their experience and knowledge of the market sector. Senior managers also have the advantage of being present at final selection meetings for ranges presented by several buyers, which can give them more insight into overall trends that affect the retailer. Following final selection, buyers continue working with suppliers to ensure that deliveries arrive at the specified time and to approve product details such as colour and size to prepare for bulk production.

## Monitoring the critical path

Buyers need to work back from the delivery date to construct a critical path, which consists of the key dates in the production and delivery processes that need to be adhered to in order to meet the deadline. This allows them to check whether everything is on track to be in stores for the planned **trading** period. The retailer liaises with the suppliers on an ongoing basis to check that key deadlines are met for product manufacture and distribution to enable the merchandise to be delivered to stores on the agreed dates. For an own-label retailer the critical path is generally more complex than for a retailer that sells branded merchandise. For example, a buyer for an own-label range will usually need to approve some of the design aspects of each product in the range, such as the colour of fabrics when they are ready for bulk production, comparing them to the agreed shade that had been requested in the order. Own-label fashion buyers also need to make sure that garments fit accurately to the retailer's specifications, so they may request samples from suppliers to try on models or mannequins before the whole quantity is manufactured. If buyers are not satisfied with any of these features the manufacturer will be asked to make amendments and resubmit samples until each aspect is authorised. These monitoring procedures should ensure that the retailer's customers will be able to rely on purchasing products of the expected quality and dimensions. Colleagues in **Quality Control (QC)**/technology consequently play a key role at this stage.

## Trading, repeat orders and markdowns

Managing the distribution and delivery of stock during the selling period is often referred to within the retail sector as trading. During the trading period, while products are available for sale to consumers, buyers and merchandisers monitor sales figures on a regular basis. The retailer's branches can distribute sales data via Electronic Point-of-Sale (EPOS) systems for buyers and merchandisers to analyse sales patterns. The first week's sales are particularly significant, to enable potential best-sellers to be identified. Repeat orders may be placed for products which sell more quickly than anticipated. Conversely, products with low sales volume may be reduced in price (marked down) to improve the selling rate. Buyers can arrange store visits to hear feedback from sales staff about customers' responses to the products in the range.

## Evaluation of products' and suppliers' performance

Retailers assess the total sales figures of products during a specified time period. Detailed data about the sales figures and profit margins of products sold by the retailer in the past are usually compiled by merchandisers in a large retailer, or by the buyer in an independent retailer. They can also evaluate the performance of suppliers in terms of non-financial aspects such as product development, quality, delivery times and

# RETAIL MARKETING CAREERS

## Sarah Deacon, Junior Buyer

Sarah is a Junior Buyer at Millers, a division of Specialty Fashion Group in Sydney, Australia. Sarah gained a BA (Hons) Fashion, Marketing and Communication degree in 2007 from Nottingham Trent University and during her studies she learned about the industry through live projects, including being a finalist in the L'Oreal Branding competition. She also completed work experience as a Buyer's Administration Assistant (BAA) at Shop Direct Group and as a PR assistant with Kilpatrick PR and Apples and Pears Marketing. After graduating Sarah worked at M&S Head Office in London for six years, initially as a Production and Manufacturing Assistant, before a sideways move to become a Senior BAA for women's holiday wear.

Sarah Deacon – Junior Buyer

*Source*: with permission from Sarah Deacon

Millers is Australia's largest women's apparel retailer with over 350 stores nationally, a further 28 stores in New Zealand and a growing online store. The company targets a 'more mature customer who still has an interest in current fashion trends' but wants a comfortable style. Sarah describes her role at Millers as developing and delivering her own product range, while supporting her Senior Buyer to range and buy two other larger product categories. In order to achieve this she works on ranges of four new stories (garment collections) per month with the Head of Buying, ensuring trends, colours and products are being adhered to, influenced by her inspiration trips and catwalk trends. Sarah describes her main responsibilities as follows.

- Working through brand handover sheets and packages of technical information about products following range planning and selection meetings, ensuring colleagues in planning, Quality Control and design are kept informed about which items have been selected for the range.
- Working with the design team to ensure colour palettes and range plans are up-to-date with products launching by month.
- Maintaining the department's critical path by ensuring all processes within this run smoothly, allowing stock to be delivered at the right time. Sarah follows this process through from initial booking to launching the product in stores.
- Presenting best and worst sellers in Monday trade meetings and reacting to these findings by repeating and re-colouring best-selling styles within the season, or cancelling styles which become a concern.
- Liaising with suppliers on a daily basis, maintaining a close working relationship via emails and video conferences with vendors.
- Working with the marketing and visual merchandising teams to ensure product launches as planned, so that cohesive stories in stores and promotions can achieve their full potential.
- Maintaining commitment to production with manufacturers, ensuring there is enough stock in stores and open-to-buy (OTB) is filled with the correct number of options/buys per month.
- Fitting all garments on models with the garment technician, ensuring the fit of sample and production garments are right.
- Managing BAA and Assistant Buyer to ensure purchase orders are raised and samples are maintained for various events.

- Looking after all department approvals including fabric (lab dips/trim/print strike-offs), yarn approvals and production samples.
- Cross-costing and negotiating cost prices with suppliers to ensure departmental margin is achieved.
- Monitoring market activity through comparative shopping to identify trading opportunities.

Sarah reports directly to her Senior Buyer to sign off her product range before presenting it to the Head of Buying and GM. She works frequently with her Garment Technologist, fitting garment samples to check that they are the right shape and size for their customer, ensuring all comments are communicated clearly to the supplier to achieve the best possible fit. She liaises with the planning team (known as merchandisers in the UK) to ensure all product options are filled and OTB is achieved to maintain and grow the sales plan on her area, whilst ensuring she has the right stock at the right time in stores to deliver the sales plan that has been forecast. Sarah also works closely with the company's Visual Merchandising (VM) and Marketing teams to build outfits for roadshows (presentations to sales staff), window displays and point-of-sale, as well as ensuring there is enough product and stock available to drive promotional sales. She liaises with the ecommerce manager to ensure that online sales are growing for the department.

Dealing with the people who supply her product range is also a major part of Sarah's job: 'I liaise with about 25 different suppliers on a daily basis – with prices, delivery issues, booking confirmations, cross-costings, developments, approvals etc.' Sarah sources products for her range from New Zealand; China; Bangladesh; India and Cambodia. Her Senior Buyer travels on costing trips to meet the suppliers in person in China and Bangladesh or on directional shopping trips to New York, LA and London every eight weeks. Sarah has the opportunity to travel to different states in Australia twice a year to help outfit-build and run roadshows to promote Millers' fashion ranges to the company's sales staff.

Compared to buying in the UK, Sarah says that the job differs in Australia in terms of lead times and supply base, with none of the product being sourced from Europe. The Australian weather is so different from the UK that this has to be taken into consideration when buying ranges, as Sarah explains:

> Australian states have hugely different weather patterns so you need to be more savvy when building your range, ensuring there is the correct product in store at the correct time for both cold climates (Melbourne/New Zealand) and hot climates (Northern Territory/Western Australia). Trends in the UK are six months to a year ahead of Australia so certain trends will always take longer to grasp here. Millers has a separate team for Buying, Planning and Allocation, but that is very rare in Australia so you are expected to be very adaptable and be able to apply your skills to each of these areas. In the UK most Full-Service Vendor (FSV) suppliers have a UK-based office where an account manager will attend all initial product design meetings and present trend ideas before ranging. In Australia this process is very different – inspiration is taken directly from product bought by the retailer on buying trips and you have much less direction from your supply base. All product is ranged in-house, which is then fed to suppliers for sampling. I am working with many more FOB suppliers than FSV suppliers.

Sarah considers the following to be the key skills required to perform well as a retail buyer: teamwork; time management; prioritisation; communication; self-motivation; creativity; computer skills (Excel, Powerpoint and Word); technical skills; numeracy; planning and organisation. When employing buying staff the company looks for people who are motivated, professional, highly organised and creative. Sarah says:

> To work in buying you need to have a broad commercial awareness and the ability to learn quickly in challenging surroundings. They look for people who are strong team players, good at communicating and can react and adapt quickly to trends and a fast-paced working environment. To be a Junior Buyer you need to have worked your way up the buying ladder from a BAA to Assistant Buyer. Working across a variety of product areas is also a strong quality as you will have experience working with a variety of fabrics (e.g. Jersey and Wovens) and different suppliers (long and short lead-time). You need to have a strong commercial awareness of the ladies' wear market and keep up-to-date with the key fashion trends from the catwalk down to street level . . . You must be driven to deliver the very best product for the customers and the business.

Sarah's own performance is assessed through Key Performance Indicators (KPI's) set by the company. She describes her favourite part of the job as: 'building my own range from trends and inspiration I have seen on the catwalk or during inspirational shopping trips and implementing these trends/ideas in the product I buy. Successful sales and great feedback from store colleagues and customers is also a great part of the job!'. However, Sarah considers the more difficult aspects of her job to be price negotiations, dealing with late deliveries and difficult suppliers. Sarah offers the following advice to those contemplating a future career in buying:

> The best advice I could give someone is to not rush into accepting the first job that is offered to you after university if it is not the area of retail you want to build a career in. I was lucky as I managed to use my work experience in Merchandising as a positive and cross over into buying. However, it is very difficult to make this change once you have begun your career in one or the other. Make sure you do as much work experience as possible before graduating, as there will be hundreds of people going for the same job and you need to stand out from the crowd. Be prepared to start at the bottom with admin-based, less creative roles, as this is the start of a long ladder, but you will get there eventually!

www.specialtyfashiongroup.com.au/; www.millers.com.au/

communication. This information is invaluable to retail buyers as it is highly influential in the development and selection of the new range. To evaluate whether or not the range performed well the sales figures for a range can be compared to the forecast that had been predicted at the outset and also against the sales volume of the range in the same period during the previous year, known as 'This Year/Last Year' trading figures (TYLY). All of these data can be used to inform stage 1 of the buying cycle 'range review' for a subsequent trading period.

## Retail buying for online and mail order (home shopping) companies

Retailers that sell products online or via mail order catalogues, known as the 'home shopping' sector, can require differences in their buying processes in comparison to bricks-and-mortar retailers. Therefore multichannel retailers (who sell through more than one distribution method, e.g. stores and a website) may need to operate slightly different buying systems for each of these channels (see also Chapter 11 Multichannel retailing). Etailers or mail order companies employ buyers and merchandisers in the same way that bricks-and-mortar retail multiples do (Goworek, 2007). Although mail order companies were significant retailers during the 19th and 20th centuries, online retailing (etailing) has clearly become prevalent in the home shopping market in the 21st century. Even former traditional mail order companies such as Grattan, which was established over 100 years ago, has now become primarily an etailer (www.grattan.co.uk). Large etailers of this kind, which sell numerous product types, act in a similar way to department stores by employing buyers who select branded merchandise or exclusive own-label ranges. As home shopping relies on selling its products via photographs, rather than physical merchandise in shops, items can look very different in an image rather than on a shelf or hanger, particularly if highly regarded photographers, stylists and models are involved. The quality of photography can therefore affect consumer demand, which buyers and merchandisers need to anticipate when specifying order quantities. Buyers for multichannel retailers may find distinct variations in the popularity of products depending on whether they are sold online or in-store.

Another difference with buying for the home shopping sector is that accurate product samples need to be available to be photographed in advance of the trading period. This can be achieved in a relatively short timescale if the product is shot in a studio but can take a lot longer if a professional photo shoot is arranged with models and stylists, taking place in an outdoor location in a different country to take advantage of the climate overseas. Buyers are then under pressure to ensure that the products that are manufactured in bulk are identical in style and colour to the sample that has been photographed, and are delivered on time in order to satisfy customers, which are issues that would be slightly less significant in a store environment.

## CATEGORY MANAGEMENT

By Rosemary Varley, Subject Director, Fashion Retail and Marketing, University of the Arts (London College of Fashion), London

The process of range planning in fashion retailing is fundamentally different to that in fast-moving consumer goods (FMCG) retailing because of the need for change in the product range. Fashion assortments intrinsically vary from season to season and often change frequently during each one. It is therefore difficult to apply **category management** in fashion in its pure form. In their paper, Dewsnap and Hart (2004) advise that fashion brands should be flexible and pragmatic when applying category management as the process can be viewed as inflexible. Nevertheless, the concept of a product category playing a particular role within the overall assortment in order to make a contribution to the strategic positioning of a retail brand identity is certainly of interest to fashion retail brands.

Van der Vorst (2004, cited in Kapferer, 2008) suggests that the relationship between brands and products can be analysed using the concepts of distinctive and generic in terms of product facets, and core and peripheral in terms of brand facets. The distinctive product facets are those that strongly communicate a brand's identity, whereas the generic product facets are those features that are easily and often replicated by alternative or competitive brands; core brand facets can be considered to be those aspects of a brand that are found in all product category embodiments of a brand, while peripheral facets are those only relevant to a specific category. Combining these concepts with those of the established category management roles outlined in Table 5.3, four fashion category roles are proposed.

The iconic category maintains all major brand facets in every product and the identity of the brand is distinctive through the category, providing a strong coherence between product and brand, and consumers consider the brand to be a destination for the purchase of this product type. In order to satisfy customers a deep product assortment is recommended to ensure that most customer needs can be met, for example a variation in sizes, lengths, fabrication weight, colour and textures. Product detailing can change to ensure updated styling is incorporated, but the essential product type should be recognisable and reassuring. In the case of Burberry for example the iconic category would be trench-coats.

The aspirational or occasional category is one where particular brand facets may be included in the product design in order to maintain coherence between the brand and the products, however there is more freedom here to blend other facets that are more relevant to the specific product category rather than the brand. These facets may be innovative product features, or new styling ideas which add excitement and interest to the product ranges and the brand in general. As the relationship to the brand is apparent and shows the brand/product manifestation moving in a new and modernising direction, it is suggested that there needs to be a deep assortment in these categories to demonstrate confidence and commitment to new reincarnations of the brand. For Burberry, handbags could be the aspirational category.

An extension category would be one that is well established for the brand, and represents it in an easily understood way for the consumer, but there is no really strong coherence between the brand and the product. It is a category that existing customers will be aware of but customers new to the brand may not be. Other brands are seen to have competence and be competitive in the category. However, this type of category provides a brand with the opportunity to include products within the assortment that are on trend, or in growing

**Table 5.3** Proposed category role matrix for fashion brands

| | | Brand | |
|---|---|---|---|
| | | Core | Peripheral |
| Product | Distinctive | Iconic<br>Maintains all major brand facets in every product within the category.<br>The identity of the brand is distinctive through the product category. Product and brand coherence is strong.<br>Category acts as a destination for consumer purchase of brand.<br>A deep assortment is recommended.<br>Strategic brand communications should feature products from this category.<br>Visual merchandising should feature products from this category, but they should not dominate all displays. | Aspirational/Occasional<br>Only some brand facets may be included, and may be blended with other facets which are more related to specific product categories.<br>Coherence between brand and product is apparent.<br>Category acts as excitement creator; the brand embodiment may be new, innovative and/or adds interest.<br>A deep assortment is recommended.<br>Strategic brand communications should feature products from this category.<br>Visual merchandising should emphasise the category. |
| | Generic | Extension<br>All major brand facets are present, but the product category does not have strong coherence with the brand; many other brands are competitive in this category.<br>The category is established and may be growing in the market and/or be on trend.<br>A shallow assortment is recommended, with the potential to deepen.<br>Products from these categories can appear in brand communications and visual merchandising, but they should not be dominant. | Convenience/Staple<br>The category may or may not have strong coherence with the brand; other brands may have stronger product coherence, or product coherence has been strong in the past.<br>The brand offers the category as way of delivering service to the consumer.<br>Well-established category, possibly with stagnant or declining demand.<br>A shallow assortment is recommended.<br>These categories should not usually feature prominently in strategic brand communications or visual merchandising although they may be used in targeted promotional activity. |

*Source*: adapted from R. van der Vorst (2004), cited in Kapferer (2008: 285) and Varley (2006: 49)

markets to capitalise on brand loyalty and/or impulse purchasing. Some of these categories could be considered 'outfit completers' or complementary products. A shallow assortment is therefore recommended, with the potential to deepen maintained should demand grow. Continuing the example, Burberry offer jeans but only in a small number of alternatives.

Convenience or staple products are those that take the outfit completing idea further, simply being offered to prevent a customer having to go to an alternative brand to satisfy this need as other brands offer this product category, some perhaps consider them as iconic products of their own. The convenience/staple category may have been one that had stronger brand coherence and therefore offered in more depth in the past, but is now a stagnant or declining category for the brand and so a shallow assortment is recommended. For Burberry, the small accessories category has become a staple.

This interpretation of category management seems to be a logical and appropriate way to underpin the management of increasingly dynamic fashion assortments. More retail brands are now faced with international merchandise planning and it is suggested that strategic category roles based on product/brand coherence could play an important role in this.

This interpretation of category roles puts less emphasis on them as drivers of sales and profits than previous iterations in the FMCG context, and more on the appropriate management of clothing categories to bring good financial performance in the long term.

# RETAIL MARKETING CAREERS

## Lito Giourouki, Global Category Manager

Sparkling, exotic, international – a few words to describe the career so far of Lito Giourouki! After graduating with an MSc in Marketing from Manchester Business School, Lito joined the marketing team at Vimto, before moving on to Reckitt Benckiser. She worked on the Scholl and Durex brands for nearly three years, prior to becoming Category Marketing Manager for the Napolina brand, then International Marketing Manager for Italian Foods.

These varied supply-side responsibilities provided Lito with an excellent commercial background for her latest role as Global Category Manager with Tesco plc. While researching her excellent Masters dissertation, Lito worked with the Retail Research Forum, including Tesco; this group of senior industry executives guided and reviewed her work. Following her graduate studies and subsequent marketing roles, Lito now benefits from an excellent management development programme, including the Tesco Academy. She has exceptional flair and understanding of the critical interface between suppliers and retailers, the essence of the category manager role.

Recently travelling to Thailand and neighbouring countries sourcing exotic food and drinks, Lito loves her role at Tesco. As a 'people person', she enjoys the constant interactions, including working with top international suppliers to identify profitable opportunities across categories. 'On a daily basis my time is spent conducting analyses, generating and managing insight and meeting with internal and external stakeholders to develop global category plans'. Lito's work is not office-bound, with travel most weeks including Tesco's markets in East Europe and East Asia, sharing best practice and building relationships with local teams:

> To establish areas of future growth we take into account a variety of factors and metrics: internal sales, total market sales, consumer trends, and changes in the macro environment. We then overlay key customer metrics, such as penetration, frequency of purchase, etc. to determine where each country sits in the category development cycle.

Lito Giourouki – Global Category Manager
*Source*: Lito Giourouki

Data from Kantar, dunnhumby, AC Nielsen, etc. inform these decisions. Lito enjoys analysing consumer trends and understanding factors that shape customers' everyday purchasing decisions. 'This role is particularly interesting because we conduct the same analyses in all the different countries we operate and can compare shoppers' attitudes and behaviours around the world'. Cross-cultural communication and harmonisation of terminology/data across markets may sometimes be difficult, but Lito thrives on such challenges!

Interview by Peter McGoldrick

## Supply chain management and stock control by retailers

As retailers do not usually manufacture the products they sell, retailers need to buy their merchandise from suppliers (or 'vendors' in the US). The retailer therefore needs to manage the suppliers to ensure that they deliver suitable products by the agreed delivery date. Most suppliers also deal with other companies that supply their materials and product components, hence the term **supply chain management** is used. The supply chain can consist of several suppliers in various countries, starting with suppliers of raw materials and ending with the retailer. Each company is therefore reliant on the previous links in the chain to be able to supply the retailer effectively.

The terms 'merchandising' and 'stock control' can sometimes be used synonymously in retailing. Merchandisers (also referred to as stock controllers or optimisers) arrange for the products selected by the buying team to be produced by suppliers and distributed via the retailer's distribution channels. However, merchandising can also be considered to be a broader role that is not limited to stock control, particularly in the larger own-label retailers, where merchandisers can be highly influential in the selection of products and suppliers (see 'Retail marketing careers' section in Chapter 6 Retail pricing). Berman and Evans (2010) describe merchandising as: 'Activities involved in acquiring particular goods/services and making them available at the places, times, prices, and quantities that enable a retailer to reach its goals'. This is relevant to the US market but it is not always the case in other countries. For example, in the UK the buying component, i.e. 'acquiring goods/services' is generally a separate function from merchandising, undertaken by specialist buyers, as explained above.

Retailers and suppliers need to communicate effectively with each other as they liaise on a regular basis and have the same common aim: to sell commercial products that appeal to their customers. The balance in the relationship between retailers and suppliers has shifted over time, so that retailers are often viewed as being the more powerful side (Fernie and Sparks, 2009). However, the reverse may be true of small independent retailers, where brands have the upper hand and can select whom they will permit to stock their merchandise. Whatever the size of the retailer or supplier, it is to the advantage of both sides to work together for mutual benefit. Traditionally, in retailer-supplier liaison, buyers often occupied a central role for the retailer, dealing directly with account managers or sales agents representing suppliers to develop a product range. Whilst this still usually occurs, it has also become common practice for other roles within retailers and suppliers to liaise with their counterparts in the other organisation, so that buyers are not the only point of contact. For example, to enable effective category management for a specific product type, the retailer's QC's may communicate directly with a manufacturer's production team.

Retailers can deal directly with manufacturers, but they are more likely to deal with an intermediary such as an overseas sourcing office or a UK-based sales and design office with offshore manufacture, since the majority of products sold by most retailers in the UK are imported, with the Far East being a particularly popular source of merchandise. For European retailers, it is rare to buy products from the domestic market as this is rarely cost-effective. However, a move back towards buying in the UK has begun in recent years, with trade exhibitions such as Pure London actively promoting the idea of buying garments that are Made In Britain and supermarkets aiming to source a higher number of locally sourced products (Lucas, 2012) (see case study at the end of this chapter). Buyers are normally responsible for selecting the countries and suppliers where the products in the range will be produced, usually from the retailer's existing supplier base, with advice from colleagues in QC and Merchandising. QC's (also known as garment technologists) ensure that the merchandise meets the standards expected by the retailer, by specifying the required quality levels for manufacturing, sometimes in the form of a written guide, and checking that samples of merchandise meet these levels specified. Products that fail to meet the required standards are likely to be rejected, thus affecting the availability of merchandise in stores in the short term and potentially impacting on the decision to use the supplier again in the longer term.

After products have been delivered by suppliers, retail merchandisers (or buyers in small retailers) often use a Weekly Sales, Stock and Intake Plan (WSSI, commonly known as 'Wizzy'), which is a computer spreadsheet or document to monitor levels of sales and stock. The WSSI allows merchandisers to monitor product sales in terms of value, units, cost and margin terms. Each product has a unique reference number known as an **SKU (stock-keeping unit)**. Merchandisers often assess the availability and performance of their stock by calculating the quantity of stock available at the beginning-of-the-month (BOM) and at the end-of-month (EOM). Specialist merchandising software is available from various companies and can be tailored to the retailer's needs. When products selling less than planned and best-sellers are identified, action can be taken to control the amount of stock. Merchandisers plan despatch from the retailer's Distribution Centre (DC), transport and arrival of the merchandise at the company's stores. For international retailers this can be on a large scale, with DC's in numerous countries.

The delivery of merchandise to stores to replace goods which have been sold during the trading period is known as replenishment. Retailers usually aim to replenish stock at the rate at which it is sold, either with repeat orders of existing items or with new products. When a product has sold out it is referred to as a **stockout**. Too little stock makes stores look sparse and limits the amount of products available for customers to buy. Too much stock causes a different problem: removing the excess products to make way for more profitable stock through promotional tactics or price reductions. Both of these problems result in reduced profitability. Allocating stock to stores can be a separate function from planning and analysis so it is carried out by allocators (or 'branch merchandisers') rather than merchandisers. Spanish fashion retailer Zara delegates some of the responsibility for allocating merchandise to store managers, who order quantities of styles from the retailer's range from Head Office, operating in a similar way to a buyer for an independent store (BBC, 2004).

## Retail space planning and allocation

Retailers need to plan the space allocated to products in stores. For UK retailers, this is often the responsibility of the merchandising department. Sales and profitability vary according to the positioning of the product in store and where the space is allocated, e.g. ground floor space is more valuable than upper floors as it has higher footfall. Space allocation depends on the relationship between retail space, sales turnover and profitability. This is normally expressed in value per square metre and is referred to as the sales density. According to Varley (2006: 144), some of the main objectives of retail space management are 'to optimise both short-term and long-term returns on the investment cost of retail space' and to 'provide a logical, convenient and inspiring interface between the product range and the customer'. Retailers plan by dividing retail space into areas where specific product types will be sold and measuring it. This therefore impacts upon other aspects of retailing such as store design and profitability. It can also be worthwhile to allocate space for stock with low sales volume or margins to ensure that the customer is presented with a full array of merchandise in a product category, particularly if the store is a specialist in a product sector, rather than being a general retailer. Specific locations for products are decided on by using 2D visual representations of the store space called **planograms** or software which can recreate a realistic 3D view of the store (see Chapter 9 Retail design and layout).

## Retail sales forecasting and budget planning

Retailers' sales forecasts are frequently based on sales figures for a product range at the same time in the previous year, with a percentage increase for expected growth (or decrease if necessary), taking into account predicted trends. Current sales figures are often compared to the same date/s last year, to judge relative performance, i.e. TYLY. Sales figures can be affected by various factors including time of year, retail price, celebrity endorsement and other promotional activity. The weather can be one of the most significant factors impacting upon product sales, affecting not only which products consumers decide to purchase (e.g. ice cream, umbrellas, coats etc.) but also influencing whether or not they are inclined to go shopping. Budgets are planned for product areas, deciding the amount of money which will be available to buyers and merchandisers for a range for a particular season/year. A budget is a projection of the amount of money the retailer will spend on merchandise from suppliers for the season and the expected sales turnover. Budgets are usually based on a combination of historical sales figures, mainly from the previous year and forecasts for future sales, influenced broadly by the financial performance and expansion plans of the retailer and general trend forecasting (Varley, 2006). **Open-to-buy** is a portion of the budget retained for selecting products shortly before or during the trading season, to respond more quickly to constantly changing product trends and customer needs, which is becoming an increasingly important factor in catering for today's educated consumers who have increased their expectations of retailers.

# CHAPTER SUMMARY

Buying and merchandising are the functions which allow retailers to offer a suitable range of merchandise at appropriate prices to meet their customers' needs, delivered at the right time in the right quantities. Buyers may fulfil both of these functions in small independent stores and in larger retail chains the responsibilities are likely to be split into separate buyer and merchandiser roles. Retail buyers are largely responsible for selecting products, amongst many other duties, whereas merchandisers deal with more numerical and logistical tasks. Buyers and merchandisers therefore require diverse skills, blending business acumen with creative thinking. Retail buying is a form of organisational buying and it may be centralised, decentralised or performed by a retail buying group. The stages involved in retail buying take the form of a buying cycle, so called because of its cyclical nature, which follows these eight steps, with the information from the final stage feeding into the first stage of the next cycle.

- Range review.
- Identification of potential products and suppliers.
- Evaluation of potential products and suppliers.
- Pre-selection.
- Final selection of products and suppliers.
- Monitoring the critical path.
- Trading, report orders and markdowns.
- Evaluation of products' and suppliers' performance.

Buyers who work for retailers that sell own-label merchandise are likely to be involved in product development for the items that they buy, whereas buyers of branded products select items that have already been finalised by the supplier. Some of the key responsibilities in retail buying and merchandising for retailers of either own-label or branded products are:

- liaising with internal staff and external suppliers or agencies;
- sales forecasting and budget planning;
- range planning;
- negotiating prices, product features, quantities and deliveries;
- managing product distribution and retail demand;
- building effective relationships with suppliers for mutual benefit.

## EXERCISES AND QUESTIONS

1 Discuss the skills and personal characteristics required to work effectively in buying and merchandising, then assess which are the three most important of these points for each job in the following types of retailer:
   a chain of ten hardware stores that only sells branded merchandise;
   b large fashion retailer that sells own-label menswear.

2 Based on the content in the chapter, name some of the other retail job roles with which buyers work internally and describe which tasks they collaborate on.

3 Assess the main differences in the buying cycle between buying branded and own-label ranges of the following product types:
   - tinned vegetables
   - men's jeans
   - bath towels.

4 What are the advantages and disadvantages of centralised buying and decentralised buying, e.g. John Lewis versus Fenwick?

5 Review the information on products for two symbol groups in the same product sector, based on the information on the companies' websites, e.g. Spar, Mace and Nisa. If you were setting up your own grocery store, which of these symbol groups would you choose to buy from and why?

6 Which ethical issues are involved in retail buying and merchandising? (See also Chapter 12 Legislation and ethics in retailing.)

## REFERENCES

BBC (2004) *Store Wars: Fast Fashion*, BBC News, 9 June (available online at: http://news.bbc.co.uk/1/hi/business/3086669.stm).

Berman, B. and Evans, J.R. (2010) *Retailing Management: A Strategic Approach*, 11th edn, Upper Saddle River, NJ: Pearson.

Bonoma, T.V. (1982) Major sales: Who really does the buying?, *Harvard Business Review*, May–June, 111–119.

Buchanan, M. (2008) *Profitable Buying Strategies: How to Cut Procurement Costs and Buy Your Way to Higher Profits*, London: Kogan Page.

Clodfelter, R. (2008) *Retail Buying: From Basics to Fashion*, 3rd edn, New York: Fairchild Books.

Dawson, J., Findlay, A. and Sparks, L. (2008) Chapter 3 'Merchandising and Buying', *The Retailing Reader*, Abingdon: Routledge, pp. 311–331.

Dewsnap, B. and Hart, C.A. (2004) Category management: a new approach for fashion marketing?, *European Journal of Marketing*, 38(7), 809–834.

Diamond, J. and Pintel, G. (2005) *Retail Buying*, 7th edn, Upper Saddle River, NJ: Pearson Prentice Hall.

Draper, A. (1994) Organizational buyers as workers: the key to their behaviour, *European Journal of Marketing*, 28(11), 50–62.

Faes, W., Knight, L. and Matthysens, P. (2001) Buyer profiles: an empirical investigation of changing organizational requirements, *European Journal of Purchasing & Supply Management*, 7, 197–208.

Fairhurst, A.E. and Fiorito, S.S. (1990) Retail buyers' decision-making process: an investigation of contributing variables, *International Review of Retail, Distribution and Consumer Research*, 1(1), 87–100.

Fernie, J. and Sparks, L. (2009) *Logistics and Retail Management*, London: Kogan Page.

Gilbert, D. (2003) *Retail Marketing Management*, 2nd edn, Harlow: FT Prentice Hall.

Goworek, H. (2006) *Careers in Fashion and Textiles*, Oxford: Blackwell Publishing.

Goworek, H. (2007) *Fashion Buying*, 2nd edn, Oxford: Blackwell Publishing.

Goworek, H. (2010) A Model of the Decision-Making Process for Retail Buying, Academy of Marketing Conference, Coventry University.

Goworek, H. (2014) An investigation into retail buying roles and responsibilities for own-label clothing: a multiple case-study, *Journal of the Textile Institute*, 105(7), 760–769.

Johansson, J. and Burt, S. (2004) Buying of private brands and manufacturer brands in grocery retailing: a comparative study of buying processes in the UK, Sweden and Italy, *Journal of Marketing Management*, 20, 799–824.

Johansson, U. (2001) Retail buying: Process, information and IT use: a conceptual framework, *International Review of Retail, Distribution and Consumer Research*, 11, 329–357.

Kapferer, J.N. (2008) *The New Strategic Brand Management*, 4th edn, London: Kogan Page.

Kline, B. and Wagner, J. (1994) Information sources and retail buyer decision-making: the effect of product-specific buying experience, *Journal of Retailing*, 70(1) 75–88.

Levy, M. and Weitz, B.A. (2012) *Retailing Management*, 8th edn, New York: McGraw-Hill Irwin.

Lucas, L. (2012) Buying British Campaign – shoppers prefer to save pennies over jobs, *Financial Times*, 2 June.

Lusch, R.F., Dunne, P.M. and Carver, J.R. (2011) *Introduction to Retailing*, International/7th edn, Stamford, CT: South-Western Cengage Learning.

McGoldrick, P. (2002) *Retail Marketing*, Maidenhead: McGraw-Hill.

Swindley, D.G. (1992) The role of the buyer in UK multiple retailing, *International Journal of Retail and Distribution Management*, 20, 3–15.

Van der Vorst, J. (2004) *Branding: A Systems Theoretic Perspective*, Nijmegen University, Netherlands.

Varley, R. (2006) *Retail Product Management*, 2nd edn, London: Routledge.

Webster, F. E. and Wind, Y. (1972) A general model for understanding organizational buying behaviour, *Journal of Marketing,* 36, 12–19.

## FURTHER READING

Aastrup, J., Grant, D.B. and Bjerre, M. (2007) Value creation and category management through retailer–supplier relationship, *International Review of Retail, Distribution and Consumer Research,* 17(5), 523–541.

Ailawadi, K.L., Bradlow, E.T., Draganska, M., Nijs, V., Rookerkerk, R.P., Sudhir, K., Wilbur, K.C. and Zhang, J. (2010) Empirical models of manufacturer–retailer interaction: a review and agenda for future research, *Marketing Letters,* 21(3), 273–285.

Anselmsson, J. and Johansson, U. (2014) Manufacturer brands versus private brands: Hoch's strategic framework and the Swedish food retail sector, *International Review of Retail, Distribution and Consumer Research,* 24(2), 186–212.

Bruce, M. and Daly, L. (2007) Challenges of fashion buying and merchandising, in Hines, T. and Bruce, M. (eds), *Fashion Marketing: Contemporary Issues,* Oxford: Butterworth-Heinemann, pp. 54–71.

Chung, J.E., Sternquist, B. and Cheng, Z. (2006) Retailer–buyer supplier relationships: the Japanese difference, *Journal of Retailing,* 82(4), 349–355.

National Careers Service (2014) *Job Profiles: Retail Merchandiser* (available online at: https://nationalcareersservice.direct.gov.uk/advice/planning/jobprofiles/Pages/retailmerchandiser.aspx).

Tims, A. (2014) How do I become . . . a fashion buyer?, *The Guardian,* 27 February (available online at: http://www.theguardian.com/money/2014/feb/27/how-become-fashion-buyer).

# Case study

## Supply chain – back to the source

There is much talk about the potential for greater UK sourcing, but is it feasible and what would it mean for retailers' supply chain teams? Sarah Butler examines the pros and cons. Shop Direct, Arcadia and N Brown are all examining sourcing more goods in the UK. Food retailers, meanwhile, are boosting local sourcing in response to consumer interest in British produce and a desire to support local farmers. For clothing and general merchandise retailers, there may be some marketing mileage about flying the flag, but rising transport and labour costs mean that switching out of the Far East is becoming a genuine option. Shoppers' increasingly unpredictable behaviour is a further incentive. Some retailers emerged from the Christmas trading season with hefty stock overhangs that were difficult to clear as long lead times led to wrong buying decisions. Alan Braithwaite, chairman of supply chain consultancy LCP Consulting, says increasing market volatility means that finding sources with shorter lead times has become an imperative. Buying and merchandise director Paul Short of mail order company N Brown says that even in the home shopping specialist markets, where keeping up with fashion trends hasn't traditionally been a priority, shoppers are demanding the latest looks: 'We can see the market getting faster and faster and that's changing the business dramatically.'

### Fast and loose

Deeper analysis about how fast categories sell through and how to respond to demand will become an important part of a supply chain team's work. It may mean a complete switch in strategy for retailers that have relied on selling high volumes to underpin large orders of low-cost goods from the Far East. Braithwaite says: 'If they can't predict stable demand for product then companies are prepared to accept higher costs for cutting down lead times and fulfilment in a matter of weeks.' He adds that even after transport costs there is a net margin gain of between 15 and 20 per cent on producing in Asia for high volume lines, but that doesn't take into account the risk of discounting stock if those volumes cannot be sold. After taking markdowns into account, the difference can slim down to between 5 and 10 per cent. Ongoing inflation in China, meanwhile, means that the gap continues to close.

Shop Direct chief executive Mark Newton-Jones says it has found that UK sourcing – with its shorter lead times – delivers better sell-throughs (i.e. selling items at full-price). As a result, the margin is only 5–6 per cent less than clothing sourced from the Far East and he says 'We couldn't turn this product around in any other way and so we see it as incremental sales despite the lower margin. As labour rates keep going up in the booming economies of the Far East and Near East, we can see that in a couple of years there won't be any margin degradation.' Meanwhile UK or European sourcing can mean lower inventory levels as the company doesn't need to order the same volume of goods required by Far Eastern manufacturers. This in turn means the cost of warehousing and shipping can be reduced, while expensive buying trips to the Far East can be cut back. Short says shortage of capacity in the Far East has been another issue, driving up prices and hitting reliability: 'Last year was probably the most difficult year we have experienced for many years in dealing in the Far East.'

In an attempt to find an alternative, N Brown held an away-day in Leicester for more than 50 UK-based suppliers and is in talks with 30 of those, examining the quality and quantity of what they might be able to produce. Some of those also have facilities in near-Europe countries such as Morocco and Turkey, which might offer an alternative to the Far East.

### Playing catch up

N Brown's need to investigate suppliers based less than 100 miles from its head office highlights the problem for a new generation of supply chain managers in finding suitable sources of production in a much depleted UK manufacturing industry. Companies will need to build new relationships as well as expertise in sourcing components and fabrics because the back-up infrastructure ubiquitous in countries such as China now barely exists in the UK. Supply chain managers will also have to examine product ranges carefully to identify how to divide up sourcing to get the most benefit.

Certain categories, such as high fashion, knitwear or hosiery are much more suited to UK production than technical, labour-intensive items such as bras or jackets.

Fashion retailers from River Island to New Look have been making high fashion ranges and repeat orders in the UK and relatively nearby countries such as Turkey for some time because of the benefits of quick response. DIY retailers, meanwhile, source heavy goods such as plasterboard locally because of the inhibitive transport costs. Fragile, short-lived product such as plants are also likely to be bought in the UK. As margin differences narrow, analysis may reveal new product areas that make sense. Braithwaite says: 'Retailers will need to go through a structured review process and identify where they can reach out and find local capacity. Then there will be a challenge to negotiate the right sort of deals.'

Supply chain managers will have to support that with better analytical and negotiation skills, while supply chain teams will need to work closely with sales and operations teams to ensure the implications of buying closer to home and from a broader array of sources are fully understood throughout the business. 'This is a new game and buying and merchandising teams haven't had to play it before', Braithwaite says. Short agrees. N Brown has teamed up with Manchester University to study the total cost implications of sourcing in the UK or Europe and surrounding countries for a selection of products against buying in the Far East. 'I can see us increasingly having dual and triple sourcing for products and we will have to do analysis to make sure we are making the right decision. We will need a lot more information than we have had in the past. Buyers have been too easily swayed by the cost price but we have to look at net margin rather than intake margin.'

Nevertheless, he admits opportunities are limited. N Brown currently makes less than 5 per cent of its clothing in the UK and Short makes clear any expansion could only work for certain categories such as knitwear, simple jersey tops and high fashion garments. Shop Direct, meanwhile, only sources about 1 per cent of its clothing in the UK at present. It is planning a significant increase for autumn/winter but even then it will still only amount to about 6 per cent. M&S has been touted as a potential returnee to UK sourcing. Its head of UK sourcing for clothing and home Garry Gordon says it is open to opportunities. It does source some clothing here, particularly in hosiery, and has a significant UK homeware sourcing operation including an eco-furniture factory in Wales. However, he sums up the view of many high street retailers: 'We are not seeing a shift in production back to the UK in any significant numbers. The clothing industry is a global industry with a global supply base.'

For most product, the margin gains still make sourcing abroad worthwhile and a greater swing towards the UK is likely to face significant capacity issues. Braithwaite says: 'There isn't the local capacity and finding suppliers or distributors who are prepared to take a risk is a challenge.' What's more, those manufacturers that have capacity will need reassurance of an ongoing relationship if they are to be persuaded to increase volume and lower prices, particularly at a time when the weak pound is driving demand from Europe. Short says N Brown might consider helping to finance the development of a supplier if it found the right partner with which it could build a long-term relationship. 'I think there will need to be Government support to get the skill set in place in the UK', he notes.

## Sourcing in the UK

### Benefits

- Shorter lead times allow quick response to unpredictable markets.
- Easier to meet demand for newness and high fashion and so achieve additional sales.
- Closer monitoring of factories for better quality.
- Lower inventory levels required as product can be topped up relatively quickly.
- Reduction in discounting with right product at right time.
- Avoids expensive long-distance transport costs.
- Can cut back on expensive, time-consuming buying trips.
- Supporting British industry.

### Difficulties

- Manufacturing capacity in the UK is low and suppliers may require financial support to meet demand.
- Existing manufacturers want to focus on higher value items rather than volume.
- Potential competition for capacity could drive up prices.
- Even with reduction in discounting, margins are lower.

*Source*: Butler, S. (2011) Supply chain – back to the source, *Retail Week*, May.

## DISCUSSION QUESTIONS

1 According to this article, what are the key reasons why retailers are reconsidering sourcing more merchandise in the UK?

2 What are the main potential problems for buyers and merchandisers involved with sourcing in the UK from the viewpoint of:

   a grocery retailers
   b electronics retailers
   c clothing retailers

3 What impact would sourcing more products from the domestic market (rather than overseas) have on the responsibilities of a retail buyer?

4 What can European retail buyers do in terms of sourcing to achieve a compromise between the low prices but long-lead times of the Far East and the higher prices but shorter lead times of European suppliers?

# CASE STUDY

## Introduction

A retail chain differs from other industries by nature of its number of locations. A conventional manufacturing industry has a production at a limited number of locations and sales being handled from a few more. However, a retail industry has sales from a large number of locations. If it is in the food and beverage business, you could say that its production is also being done at all locations. This means that material handling, production, sales and distribution as well as finance transactions are being conducted at all their stores. Each store requires an inventory control system, a point of sales system and an accounting system (may be also a production system).

Major procurement is conducted at the HO, material receipt is done at the stores and bill passing and bank payments conducted at the HO, Some extent of local procurement is also sometimes being done at the stores, sales is an activity which is being done completely at the stores. Most of these activities are handled through a PoS system. However, while a PoS system handles sales satisfactorily, it is generally not geared up to manage inventory, consumption or requisitions for material.

Contrary to popular belief (even within the organisation), the problem for a retail organisation is not the PoS system. The problem is integration and accurate information flow and the issue goes beyond just the consolidation of sales figures, A PoS was meant for entering sales tickets and printing them, which it does without too many problems. It was then extended to contain some inventory information at each location. It is not capable of becoming an inventory, sales and procurement management solution, which is what a lot of PoS solutions attempted to do.

## Retail Client

The client is a food and beverage retail chain. Beverages are made at each store using a combination of ingredients while the food items are traded items, which are procured from a third party. The client is a very fast expanding chain with over 100 stores. The stores are spread over a vast geographical location. Four regional offices manage stores within their area and four warehouses manage supplies of consumables and capital items to the stores. All of these report to one centralised HO. For every region there is a regional office which manages the stores within its territory and one warehouse to supply consumables (non perishables or raw material) to the stores within a territory.

## Problems

1. Procurement is a centralised activity at the HO. Prices are negotiated with vendors for consumables and perishables, which are meant to be directly delivered to the stores. On confirmation from the stores the vendor bills are cleared. The confirmation of items and their quantity received at the stores was a very irregular activity. The HO did not want to depend only on the receipt document given by the vendor, HO also wanted details of items rejected due to quality problems. Often the vendor would deliver items to the stores, which were not ordered for and in quantities greater or lesser than specified. For Bill passing, the vendor would submit his delivery notes, which could be different than the original purchase order. Stores normally sent their MRN by normal Post or informally communicated through e-mail. If all the stores did not send the MRN, vendor payment would get delayed.
2. Changes in confirmed purchase orders was a regular activity. At the time of Bill passing finding the reference of the purchase order was very difficult, since PQ's were primarily a manual process.
3. Requisition of material from stores was done through verbal communication or through e-mail. There was really no proper procedure of either estimating requirements or of raising the requisitions. As a result, stores would get stocked out of key ingredients.
4. Daily sales figures from the stores were received through SMS or by verbal communication or by e-mail. Without a proper procedure, the sales figures were being received in a random manner. HO was unable to receive the sales figures from all stores in any single day. Some stores would send their figures twice. Some stores would send it after two days and some would not send the sales figures at all HO was never able to get proper and timely sales figures which was a major constraint in planning and MIS. Also only the consolidated sales figures were being received, so there was no way to do a timely sales break-up by products.
5. Stores would deposit the daily sales collections in a local branch of the organisation's main bank. They would then inform the HO of the deposited amount again through verbal communication or by e-mail. The HO could view details of the amount deposited by each store through the Bank's EDI interface. The problem was that the amount deposited and the collection figures of the store would rarely, if ever, match. There were valid reasons for this. The stores would require to pay cash for local expenses which they would pay from the daily sales collections. However, there was no way of informing the HO on a daily basis of these expenses.
6. Recording of consumption in each store was simply not feasible. The PoS would be able to keep details of opening stock of material. At the end of the day, a physical check of the material would be done and the closing stock entered. For the kind of raw material that the organisation used, the inaccuracy of this physical verification was high since the UOM of the material could be a bottle while the consumption was a few millilitres. They were unable to track the amount of raw material consumed against each sales product sold in the case of beverages. The discrepancies in the stock consumption between the stores were substantial even if their daily sales figures were roughly the same.

7. Price changes and promotional schemes were decided by the HO and the information was sent to the Stores. However, some stores would incorporate these changes immediately, some would do it a day later and some would end up not having received this information at all. Some stores would also express helplessness at being able to reprogram the PoS system. In addition, the HO would sometimes send a revised price list with only product codes marked. However, the same item in one store would have a different code from another store. A related problem to this was also that if the items had different codes for the same products, they could never be automatically consolidated in a single report as was required by the HO.

## SOLUTION

### Overview

Reckoner ERP, eReckoner retail was provided to the client. Reckoner would be used by the HO while eReckoner retail was to be used by the stores, warehouses and the regional offices. We would like to mention that there is a fundamental difference between the eReckoner retail as compared to other eReckoner modules. A local database at any of the remote locations is never provided for any other eReckoner module. The kiosks and the application were meant to use the internet for all transactions so that the information viewed by everybody would be online and no consolidation would be required. However, with eReckoner retail, a local database was provided to each location. The reason for this was that the internet connections at all the locations was not always reliable. If the connection went down, the eReckoner retail would not be able to connect to the main server, which would stop all local invoicing. This would simply not be acceptable. Also, even if the connection was reliable, the cost of remaining connected to the internet for 18 hours a day did not appear justifiable. For eReckoner, which is used by the regional offices, a local database was not required.

### Operations

The stores would conduct daily transaction in eReckoner retail using the in built PoS system. (Initially, we used their existing PoS systems and built an interface with Reckoner to upload the sales data from the PoS. However, it was not Possible to remotely program the PoS for any price change or addition of new products,) The Reckoner PoS system was an easy to use simple interface, At the end of the shift, the stores would connect to the internet and subsequently to the main server at the HO. The data from the local database would be automatically uploaded to the main server. The server would have checks built in to prevent the same data from being uploaded twice. A consolidated sales invoice would be generated for each store. Using the BOM definition in the system, eReckoner would also generate the consumption vouchers, and would also calculate the consumption of raw material at each store. This would also automatically update the stock at the stores for them “to know their current stock availability”. The total sales figure would be available and could be reconciled with the amount deposited in the bank. HO would also now receive sales details break-up for each product.

To enter material receipt notes, the stores would require to connect to the main server, select the vendor or the PO and enter details of their receipt. Vendor deliveries were now automatically available to the HO for bill passing.

The same process would be used by the stores to enter requisition for material. The requisition would be authorised by the regional offices or HO, which would allow the warehouses to despatch the items requested for.

Any price changes or promotional schemes decided by the HO would be entered in eReckoner. Whenever the stores connected to the HO server, the database at the stores would be automatically updated.

The stores could enter all expense and other financial transactions online in eReckoner. These transactions would be available to the HO so that they could reconcile the cash collection and expense figures for each store.

Regional office used eReckoner for financial entries and Purchase orders. There were a lot of local purchases being done for the stores for perishable items. The regional offices would enter the PO in eReckoner, HO would authorise them and transfer the required amount to the regional offices for payment to the vendors.

***Note:***

This case study is meant to given an overview of the main problems for the organisation and how the implementation of Reckoner and eReckoner solved them. We have not mentioned the detailed analysis of each problem in this document.

## CASE STUDY-1

### Akashganga

This case study is about a product and service named Akashganga sold by a small, entrepreneurial business named Shree Kamadhenu Electronics Private Ltd., [SKEPL]. Akashganga is for dairy farmers and it is intended to enable to them to increase their efficiency and productivity. The Indian dairy industry is plagued by several problems, the major ones being low quality caused by manual handling, corruption and mismanagement, and, of course, endemic dilution of milk with water. Akashganga attempts to alleviate some of these issues. Akashganga is a computerized system. When a farmer gets milk into the collection point, it's weighed and the amount of fat measured and immediately an entry is made on the farmer's swipe card. The money can be collected immediately. This is marked contrast to the previous system where the financial calculation was done later to avoid holding up the queue of farmers ready for milking; the calculation was done by hand and was some what complicated. With the new system, calculation is done automatically which makes it possible to pay the farmer on the spot rather than having him wait for a couple of days. Also the potential for cheating is reduced. An entry is made electronically on the farmer's swipe card.

When SKEPL wanted to market this service, it ran up against the skepticism of the Indian rural people against unproven technology. This is the classic catch-22 situation as the farmer does not trust the tool till he tries it, and is reluctant to try it till he trusts it. SKEPL got around this problem by offering free trials and delayed payment schemes stretching up to several months. The company also provided responsive and efficient after-sales service. It established a service network covering the rural areas, and typically would attend to a compliant within a few hours of receiving it.

It's important to note that the company's local presence whether for marketing, sales or service helped tremendously, since the villagers would not be disposed to make a journey to a town or city to learn about their products. The company also used a name Akashganga a that Indian villagers can relate to. This was a very important factor that helped the farmers relate to and trust the company.

Of course, the company had a solution that was superior in terms of time, transparency, fairness, etc., and that played a big role in their success.

As a result of these factors, SKEPL gained a threshold in this large market and earned respect among farmers.

## CASE STUDY-2

### ITC e-Choupal

#### *About ITC- IBD*

ITC is one of India's foremost private sector companies with a market capitalization of over US $ 14 billion and a turnover of US $ 3 billion. ITC has a diversified presence in Cigarettes, Hotels, Paper Boards and Specialty Papers, Packaging, Agri-Business, Packaged Foods and Confectionery, Branded Apparel, Greeting Cards and other FMCG products. Its International Business Division [ITC IBD] was created in 1990 as an agriculture trading company; it now generates US $ 150 million in revenues annually.

Initially, the agricultural commodity trading business was small compared to international players. By 1996, the opening up of the Indian market had brought in international competition. Large international companies had better margin-to-risk ratios because of wider options for risk management and arbitrage. For an Indian company to replicate the operating model of such multinational corporations would have required a massive horizontal and vertical expansion. In 1998, after competition forced ITC to explore the options of sale, merger, and closure of IBD, ITC to retain the business. The ITC-IBD taken the challengers to use information technology to change the rules of the game and create a competitive business that did not need a large asset base. Today, IBD is a US $ 150 million company that trades in commodities such as feed ingredients, food-grains, coffee, black pepper, edible nuts, marine products, and processed fruits.

### ITC e-Choupal and the Strategy

ITC followed a different media/communication strategy which is more elaborate and extensive in rural marketing so far, which benefits both the farmers and the organization. The strategy is to use the information technology and bridge the information and service gap in rural INDIA which gives an edge to market its production like seeds, fertiliser, and pesticides and other products like consumer goods. With this strategy it can also enhance its competitiveness in global market for agri-exports.

A pure trading modal does not require much capital investment. The e-Choupal model, in contrast, has required that ITC make significant investments to create and maintains its own IT network in rural India and to identify and train a local farmer to manage each e-Choupal.

The company has initiated an e-Choupal efforts that place computers with Internet access in rural farming villages; the e-Choupals serve as both a social gathering place for exchange of information [Choupal means gathering place in Hindi] and an e-commerce hub. The computer, typically housed in the farmer's house, is linked to the Internet via phone lines or, increasingly, by a VSAT connection, and serves an average of 600 farmers in ten surrounding villages within about a five kilometre radius. Each e-Choupal costs between US $ 3,000 and $ 6,000 to set-up and about US $ 100 per year to maintain. Using the system costs farmers nothing, but the host farmer, called a sanchalak, incurs some operating costs and is obligated by a public oath to serve the entire community; the sanchalak benefits from increased prestige and a commission paid him for all e-Choupal transactions. The farmers can use the computer to access daily closing prices on local mandis [government-mandated markets], as well as to track global price or find information about new farming techniques either directly or, because many farmers are illiterate, via the sandialah (the village farmer who runs the e-Choupal and acts as ITC's representative in the village). In addition they can also know about weather forecast [local] and best practices in the world from e-Choupal website. They also use the e-Choupal to order seed, fertiliser, and other products such as consumer good from ITC or its partners, at prices lower than those available from village traders; the sanchalak typically aggregates the village demand for these products and transmits the order to an ITC representative. At harvest time, ITC offers to buy the crop directly from any farmer at the previous days closing price; the farmer then transports his crop to an ITC processing centre, where the crop is weighed electronically and assessed for quality. The farmer is then paid for the crop and a transport fee.

Launched in June 2000, 'e-Choupal', has already become the largest initiative among all internet-based interventions in rural India. 'e-Choupal' services today reach out to more than 3.5 million farmers growing a range of crops – soyabean, coffee, wheat, rice, pulses, shrimp – in over 31,000 villages through 5,200 kiosks across six states (Madhya Pradesh, Karnataka, Andhra Pradesh, Uttar Pradesh, Maharashtra and Rajasthan).

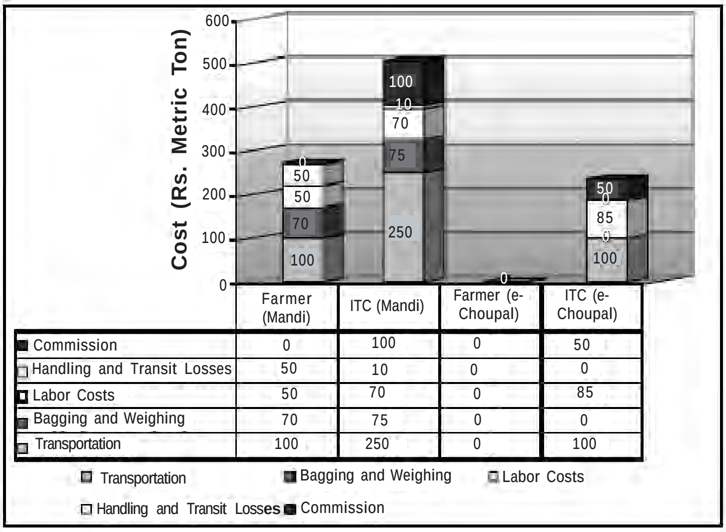



**FIG. 40: TRANSACTIONAL COST UNDER MANDI AND E-CHOUPAL SYSTEM**

| **Table 34 : Operational Cost and Comparison with Mandis** | | | | | |
|---|---|---|---|---|---|
| **Fixed Cost of Equipment at e-Choupal (in ₹)** | | | | | |
| | **Printer** | **Power related** | **VSAT** | **PC** | **Total** |
| 2001-02 | 7,000 | 19,000 | 90,000 | 39,000 | 1,55,000 |
| 2002-03 | 7,000 | 15,000 | 70,000 | 30,000 | 1,22,000 |
| 2003-04 | 7,000 | 15,000 | 70,000 | 30,000 | 1,22,000 |
| 2004-05 | 6,000 | 14,000 | 60,000 | 27,000 | 1,07,000 |
| 2005-06 | 6,000 | 12,000 | 50,000 | 24,000 | 92,000 |

## Vision and Planning e-Choupal

Implementing and managing e-Choupals is a significant departure from commodities trading. Through its tobacco business, ITC has worked in Indian agriculture for decades, from research to procurement to distribution. ITCs translation of the tactical and strategic challenges it faced and its social commitment into a business model demonstrates a deep understanding of both agrarian systems and modern management. The principles followed in implementing the e-Choupals are:

1. **Re-engineer, Not Reconstruct:**

   Present mandi system have some success factors in it. ITC decided to build e-Choupal on existing system. Already ITC has trading agents in local mandis for its tobocco business. It retained the efficient providers and created roles for inefficient people. It recruites and engages members of landscape thereby making their expertise available to ITC. With this principle ITC can avoid the reinventing the system in areas where it can add no value with its presence, i.e., in areas where efficient agents are there.

2. **Address the Whole, Not Just One Part:**

   The farmers various activities range from procuring inputs to selling produce. Currently, the village trader service the spectrum of farmers needs. He is a centralized provider of cash, seed, fertiliser, pesticides, and also the only marketing channel. As a result, the trader enjoys two competitive benefits. First, his intimate knowledge of the farmer and village dynamics allow him to accurately assess and manage risk. Second, he reduces overall cost by aggregating services. The linked transactions reduce the farmers overall cost in the short term, but create a cycle of exploitative dependency in the long-term.

   Rural development efforts thus far have focused only on individual pieces rather than what the entire community needs. Cooperatives have tried to provide agriculture inputs, rural banks have tried to provide credit, and mandis have tried to create a better marketing channel. These efforts cannot compete against the traders bundled offer. Functioning as a viable procurement alternative, therefore, must eventually address a range of needs, not just the marketing channel.

   ITC e-Choupal provide service as a bundle what the entire agricultural community needs.

**3. An IT-Driven Solution:**

Delivery of real-time information independent of the transaction. In the mandi system, delivery, pricing, and sales happen simultaneously, thus binding the farmer to an agent. E-Choupal was seen as a medium of delivery critical market information of the mandi, thus allowing the farmer an empowered choice of where and when to sell his crop.

**4. Risk Analysis and Challenges**

- Radical shifts in computing access will break community-based business models.
- The sanchalaks are ITCs partners in the community, and as their power and numbers increase, there is a threat of unionization and rent extraction.
- The scope of the operation; the diversity of activities required of every operative and the speed of expansion create real threats to efficient management.
- If ITC fails to fulfil the aspiration of farmers, they will look elsewhere for satisfaction.

### Strategies to be Followed

1. Adopt the ability to determine the grades of the crop (grains) in the field which commands the price premium for the crop. e.g., wheat.
2. Build the concept of traceability into the supply chain which will allow to address the food safely concerns, e.g., for perishables such as shrimps, which decays quickly within short period of time, it need to define standards of production and product quality.
3. Provide the service as marketplace for commodities where ITC is not a sole buyer. It will reduce the operational cost of e-Choupal such as IT infrastructure and transaction costs, e.g., coffee grains.
4. Marketing value added products and services to rural India , in addition to marketing agri inputs, though e-Choupal system.
5. Source IT-enabled services from rural India. Telemedicine, ecotourism, traditional medicine and traditional crafts are some of the service that can be sourced from rural INDIA.

### Conclusion

ITC e-Choupal, an innovative strategy which is elaborative and extensive in rural markets so far. Critical factors in the apparent success of the venture are ITCs extensive knowledge of agriculture, the effort ITC has made to retain many aspects of the existing production system, including retaining the integral importance of local partners, the company's commitment to transparency, and the respect and fairness with which both farmers and local partners are treated.

## CASE STUDY- 3 : WAL-MART

Wal-Mart training programmes teach new (and existing) personnel how best to perform their jobs or how to improve themselves. Training can range from one-day sessions on operating a computerized cash register, personal selling techniques, or compliance with affirmative action programs to two-year programs for executive trainees on all aspects of the retailer and its operations:

- A Wal-Mart (www.walmart.com) assistant store manager trainee gets 20 weeks of instruction in merchandising, people development, and operations. Part of the training is computerized and part is with a management sponsor. After completing the program, the trainee becomes an assistant store manager and oversees a section of a store, known as a “store-within-a-store” – with fiscal, merchandising, and human resource responsibility for it.
- Sears University (www.sears.com) offers retail education courses plus self-study options. Annually, several thousand managers enroll in hands-on programs ranging from one day to one week. Some programs involve buying, merchandising, and human resource management. Others involve strategic leadership. Courses are taught by seasoned managers, training and development experts, and university faculty consultants.

## CASE STUDY- 4: CUSTOMER PSYCHOLOGY

### Economic, H1N1 Worries will Impact Holiday Shopping Behaviour

The H1N1 flu virus is expected to impact retail sales on Black Friday and throughout thanksgiving weekend, but perhaps the bigger concern for retailers is that most consumers likely will spend less money this holiday shopping season.

According to the most recent Morpace Omnibus study, nearly half of all consumers are expecting to spend less money during this holiday shopping season than they did last year. Forty-six per cent of all respondents anticipated spending less on gifts than they did 12 months ago. Those groups who are even more likely to spend less include women (50 per cent), consumers aged 35-54 (53 per cent), and individuals earning less than $ 50,000 per year (52 per cent).

Just 5 per cent of all respondents indicated that are expecting to spend more this holiday shopping season than in 2008.

These results suggest that retailers should consider ways to specifically attract consumers to their stores and websites, said Morpace vice-president of retail services Kirsten Denyes.

“Retailers may be competing for a smaller piece of the holiday spending pie”, Denyes said. “It will be more important than ever for retailers to draw the attention of consumers once they walk in a store or logon to their website because the competition will be extremely fierce for disposable income.”

During this highly competitive holiday shopping season consumers may respond favourably to promotions focusing on value and the practical utility of the items being marketed, Denyes said. This is a difficult environment for products that appear to be frivolous and/or expensive, she added.

The H1N1 flu virus remains a concern for retailers as well given that women and individuals aged 55 and over are more likely than other consumers to avoid retail stores during busy days like Black Friday, according to the Morpace Omnibus Study.

Overall 15 per cent of all respondents said that they will avoid busy holiday shopping days and large crowds because of the flu virus. Additionally, 19 per cent of all women and 26 per cent of respondents aged 55 and over plan to avoid the busiest shopping days such as Black Friday.

"These results are very consistent with what we saw from respondents who answered a similar question about H1N1 last month", said Morpace vice-president of retail services Tom McGoldrick. "The main trend we see is that the economy and H1N1 could both adversely impact retail sales this holiday season".

## CASE STUDY- 5: " MILKMAN OF INDIA " IS NO MORE

Verghese Kurien, father of "White Revolution" and founder of the cooperative dairy movement in India, died at the age of 90 in a hospital at Nadiad early on Sunday the 9$^{th}$ September 2012. He made Anand, the small town in central Gujarat as "the milk capital of India." Born in Kozhikode, Kerala, on November 26, 1921, Dr. Kurien, a mechanical engineer with dairy engineering as a minor subject, came to Anand in 1949 at the behest of the then Union Home Minister, Sardar Vallabhbhai Patel, to solve some problems of the local farmers. The problems were resolved, but he could not leave Anand. From one milk project to a larger one, Mr.Kurien saw India emerge from a milk-deficient country into the largest milk producer in the world, overtaking even the once milk-abundant Netherlands. It is because of Dr. Kurien that India today contributes about 17 per cent of the total milk production in the world. Amul, with a turnover of over ₹ 13,000 crore, is Asia's top milk producing brand and is counted, with one of the best recall values, among the world's leading brands in any sector. He transformed a small-scale household activity into the world's largest milk producing enterprise. First, soon after his return from Michigan State University, he rightly concentrated on the processing, pricing and marketing aspects of milk production. He knew that if dairying became profitable, farm women and men would automatically care for the animals and look after breeding and nutrition. He also knew that in our country, only a decentralised production of milk, done by women, supported by key centralised services in the fields of animal nutrition, health care and processing would help to ensure both the income security of rural families and the production of the necessary quantities of milk for the country. He developed a 'one stop' method of meeting the needs of over 75 million women engaged in milk production. Thus, the Amul cooperative units not only purchased milk but also provided breeding health care and nutrition support for the animals, to the great benefit of the milk suppliers. He introduced Amul Products and milk products for babies.

**Table 35 : Honours, Awards and International Recognition for "MILKMAN OF INDIA"**

| Year | Name of Award or Honor | Awarding Organization |
|---|---|---|
| 1999 | Padma Vibhushan | Government of India |
| 1993 | International Person of the Year Award | World Dairy Expo |
| 1989 | World Food Prize | World Food Prize, USA |
| 1986 | Wateler Peace Prize Award | Carnegie Foundation, The Netherlands |
| 1986 | Krushi Ratna Award | Government of India |
| 1966 | Padma Bhushan | Government of India. |
| 1965 | Padma Shri | Government of India. |
| 1963 | Ramon Magsaysay Award | Ramon Magsaysay Award Foundation |