Introduction to RETAILING

Only study guide for

MNM1504



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Note: This is an online module; therefore, your module is available on myUnisa. However, to support you with your studies, you will also receive certain learning material in printed format.

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PREFACE

1 WELCOME

Welcome to this module, Introduction to retailing (MNM1504). We would like you to share our enthusiasm for this field of study, and as a first step we urge you to look at the preface. Refer to it as you need to, as it will definitely assist you in your studies for this module.

2 APPROACH TO LEARNING THIS MODULE

Tutorial Letter 101 and this study guide will direct you in how to approach your studies in this module. As a distance education student, you need to know who to contact for academic and administrative assistance, and how to manage your time. In the study guide, we make a definite distinction between the parts you simply have to read through, and those that you need to study carefully.

The sections that you have to study are clearly indicated and form the basis of assignments and your examination preparation. To be able to complete the activities and two assignments for this module, to achieve the learning outcomes and to be successful in the examination, you will need a thorough understanding of the content of these sections in the study guide. To gain a proper understanding of the study material, you need to accept responsibility for your own studies and realise that learning involves far more than just memorising content. You will be expected to apply your knowledge, not just remember it.

Some sections of the study guide will tell you to read through websites. This means that you should take note of the content of the website, as it usually provides useful background information or offers another perspective or further examples. Doing so will give you some context, improve your ability to take notes and enhance your understanding.

You will come across various types of activities in the study guide. These will require you to reflect on the work covered, complete activities and engage in self-assessments. We consider your completion of the activities in the study guide and the assignments as crucial to your successful completion of this module.

3 USE OF ICONS

The icons that will be used in this study guide are listed below, together with an explanation of what each means.

Icon	Description
	**Learning objectives**. The learning outcomes icon indicates which aspects of the particular learning unit you have to master. You need to demonstrate that you have mastered these aspects.
	**Key concepts**. The key concepts icons draw your attention to certain keywords or concepts in the learning units.
	**URL link**. The URL link icons require you to go the website to gain background knowledge of the study material.
	**Activities**. The activity icons refer to activities that you must complete in order to develop a deeper understanding of study material.
	**Feedback**. The feedback icons indicate that you will receive feedback on your answers on the activities.
	**Reflection**. The reflection icons require you to reflect on the important issues or problems dealt with in the learning units.
	**Self-assessment**. The self-assessment icons require you to test your knowledge, understanding and application of the material you have just studied.

TOPIC 1

THE BASICS OF RETAILING

AIM

The aim is to demonstrate your knowledge and understanding of the basic concepts in retail management in the South African business environment. You should be able to describe the retail environment in which a retailer operates and the specific influences of the different environments on a retailer's operation.

LEARNING OUTCOMES

After studying this topic, you should know, understand and be able to do the following:

- The meaning of retailing and its role within the distribution channel.
- The classification of the different types of retailers is explained in accordance with relevant literature using relevant practical examples.
- The seven rights of retailing or retail mix are explained with specific reference to their implications for the retailer in the South African retailing environment.
- The nature of the macro-environment is described and its influence on retailers' operations explained with the aid of relevant practical examples.
- The role of technology in retailing is described and highlighted using relevant practical examples.
- The influence of the various market factors affecting the retailer are explained in accordance with relevant literature and appropriate practical examples.
- The nature of the internal environmental factors that affect the retailer are described and their implications for the retailer highlighted with relevant examples.

TOPIC CONTENT

Learning unit 1:	An introduction to retailing
Learning unit 2:	The retail environment

Learning unit 1

What does retailing entail?

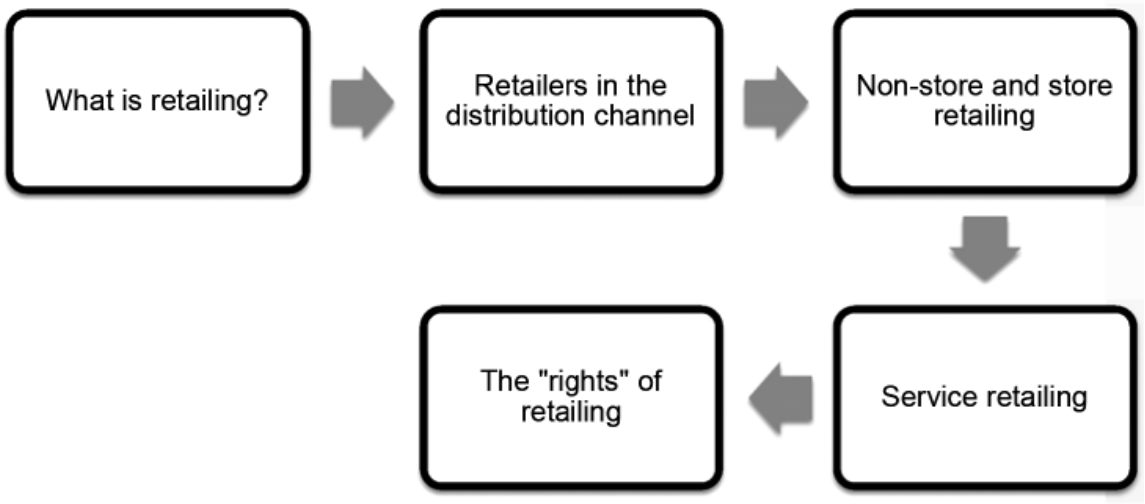
Content

Overview of this learning unit
Learning outcomes
Key concepts
Introduction
1.1 What is retailing?
1.2 Retailers in the distribution channel
1.2.1 Value-creating activities
1.3 Non-store and store retailing
1.3.1 Non-store retailing
1.3.2 Store retailing
1.3.2.1 Speciality retailers
1.3.2.2 General merchandise retailers
1.4 Service retailing
1.5 The "rights" of retailing
1.6 Summary
1.7 Self-assessment
1.8 Reflection

OVERVIEW OF THIS LEARNING UNIT

In this learning unit, we will discuss and explain what retailing is, its role within the distribution channel, the different types of retailer, and the evolution and rights of retailing. Ultimately, this unit is to help you understand what retailing is and to provide an outline of the remainder of this study guide.

This learning unit unfolds as follows:





LEARNING OUTCOMES

After completing this learning unit, you should be able to do the following:

- Explain the term "retailing"
- Explain the different value-creating activities that retailers perform
- Identify and explain the different types of non-store retailers
- Discuss the various types of store retailers
- Identify the different types of service retailers
- Identify and understand the rights of retailing



KEY CONCEPTS

- Retailing
- Distribution channel
- Store retailing
- Non-store retailing
- Direct mail
- Direct sales
- Vending machine
- Television shopping
- Online shopping
- Mobile shopping
- Assortment
- Speciality store
- Category killer
- Pharmacy store
- Outlet factory store
- Pop-up store
- Convenience store
- Discount store
- Department store
- Supermarket
- Hypermarket
- Service retailer
- Pure service retailer
- Owned-goods service retailer
- Rented-goods service retailer
- Supplier
- Store location
- Store image
- Merchandise
- Price
- Service
- Retail promotion

INTRODUCTION

Retailing refers to companies selling goods and services to individuals and can be seen as one of the most visible activities taking place within an economy (Reynolds & Cuthbertson, 2014:11).

In South Africa, the retail and wholesale sector is estimated to employ roughly 22% of the population and retail sales amount to roughly R654 billion (Veneto Promozione S.c.p.A, 2013:2). Even though South Africa faced various macro-environmental factors that could influence the retail market, the retail value growth rate continued to be positive in 2016 (Euromonitor, 2017). The various factors influencing retailing are discussed in more detail in learning unit 2. Learning unit 1 begins by explaining what retailing is.



Before we begin with the subject of what retailing is, please follow the link provided and read the latest articles on the retail sector.

– http://www.fin24.com/Companies/Retail/

1.1 WHAT IS RETAILING?

Retailing is defined as the set of business activities that enhances the value of goods and services that consumers purchase for their personal, family or household use (Levy & Weitz, 2012:6). Retailing in essence includes all activities involved in the selling of goods or services to consumers for their personal use (Armstrong, Adam, Denize & Kotler, 2015:334). Think of the goods and services that you purchase that contribute towards you participating in retailing. For example, purchasing groceries, buying clothing for work, getting a haircut, or even eating at your favourite restaurant – these are just a few examples of what retailing is. It is important to note that retailing transactions include only purchases made for personal use. If an individual or organisation purchases something with the intention to resell it or to make another product, then it is considered to be a transaction within business or reseller markets (Elliot, Rundle-Thiele & Waller, 2014:373).

Now that we have an understanding of what retailing is, let us have a look at retailers within the distribution channel (see learning unit overview diagram).



1.2 RETAILERS IN THE DISTRIBUTION CHANNEL

In your other marketing modules, you would have learnt what distribution is as it forms part of one of the 4Ps of the marketing mix. Place or distribution refers to making the products and services available to the customer, when and where the customer wants them (Rabie, 2017:7). A ***distribution channel*** consists of a group of people or organisations that moves products or services from the producer or manufacturer to the end-user (Elliot et al., 2014:355). There are various different types of channels that can be used; however, a commonly used example is

illustrated in figure 1.1 below. Other members in the distribution channel, namely the producer, manufacturer and wholesaler, will be discussed in learning units 2 and 3 of this study guide.



Figure 1.1: Distribution channel example

Adapted from theory (Elliot et al., 2014:355)

It should be evident that retailers play an important role in getting products and services to the consumer and creating value for consumers. The following section will discuss the various value creating activities that retailers perform.

1.2.1 Value creating activities (Levy & Weitz, 2012:7–8)

As illustrated in figure 1.2, retailers perform the following value creating activities, namely assortment, bulk-breaking, inventory and services. Each will be discussed in the following section.

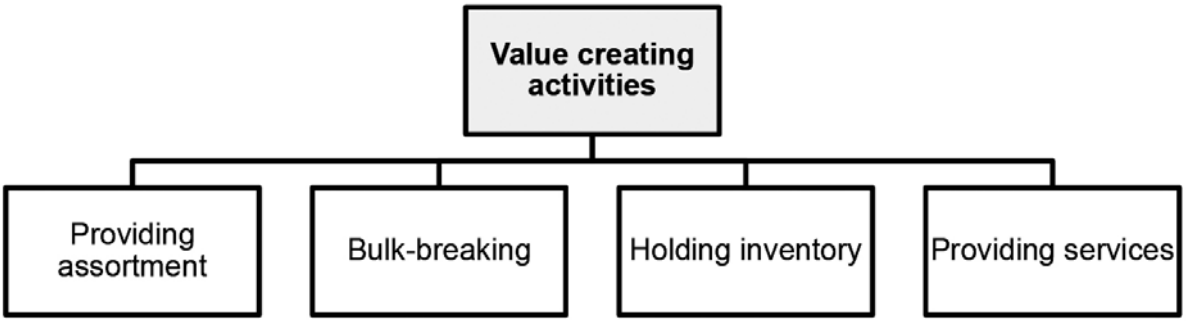


Figure 1.2: Value creating activities

Adapted from theory (Levy & Weitz, 2012:7–8)

- Providing assortment in one location. For example, if you go to a retail store to purchase your monthly groceries, you are able to purchase a variety of merchandise ranging from foods and beverages, to healthcare and beauty products, household cleaning products and clothing, just to name a few. Product assortment is discussed in more detail in learning unit 5 of this study guide.
- Bulk-breaking to offer products in smaller quantities. In order for retailers to sell products at a competitive price, they generally buy products in bulk and break the bulk in order to sell a single unit to a consumer (Price, 2014).
- Holding inventory for consumers so that they can buy a product when they need it. For instance, retailers will stock different merchandise in their store. However, it is important to acknowledge the costs involved for retailers when holding inventory. This is discussed in more detail in learning unit 6 of this study guide.
- Providing services in order to assist consumers and make it easier for them to purchase goods and services. For example, in a retail store there will be a cashier to enable you to pay for the goods or a shelf packer to direct you to the item that you are looking for. This is discussed in more detail in learning unit 8 of this study guide.

Note: You should be able to discuss the value creating activities performed by a retailer.



Activity 1.1

Define retailing and discuss the important role that retailers play in ensuring that you, as a consumer, are able to purchase your monthly groceries.



Feedback

Retailing refers to the set of business activities that increases the value of goods and services that consumers purchase for their own use. In order to purchase monthly groceries, retailers assist in the following activities:

Providing assortment in one location *– generally the retailer that I shop at provides a variety of goods that I can purchase. For example, I can buy white, brown, whole-wheat or low GI bread, or whole, skim, fat free or low fat milk. Retailers have a wide selection of goods in different product lines that I can buy.*

Bulk breaking to offer products in smaller quantities *– when I go to a retailer I can generally buy one or a few loose items, for example, buying a bag of chips or three slabs of chocolate. In order for goods to be easily transported, it would make sense that they are bought in bulk and packaged in boxes. Therefore, in order to allow me to buy loose items, the retailer opens the boxes and packs the loose items on the shelves so that I can easily grab what I want.*

Holding inventory for consumers so that they can buy products when they need them *– generally when I go to a retailer, they have stock of what I usually purchase for my monthly groceries such as bread, milk and snacks. If they do not have something on the shelves, I might ask one of the sales assistants to please check at the back if they might have stock.*

Providing services in order to assist consumers and make it easier for them to purchase *– sometimes when I go to a different retailer to the one I usually go to, I may struggle to find products because I am unfamiliar with the store layout; however, there are usually sales assistants who direct me to the right isle.*

As shown in the learning unit overview diagram, now that we have an understanding of what retailing is and how it creates value for consumers, let us differentiate between non-store and store retailing.

1.3 NON-STORE AND STORE RETAILING

The difference between non-store and store retailing is self-explanatory. ***Non-store retailing*** does not have a physical store where consumers can go and purchase goods and services. ***Store retailing*** occurs when consumers are able to go to an actual store to purchase goods and services. The following sections will first discuss the different types of non-store retailing.

1.3.1 Non-store retailing (Peter & Donnelly, 2013:165–166)

As illustrated in figure 1.3, there are a number of non-store retailing types, which will now be discussed.

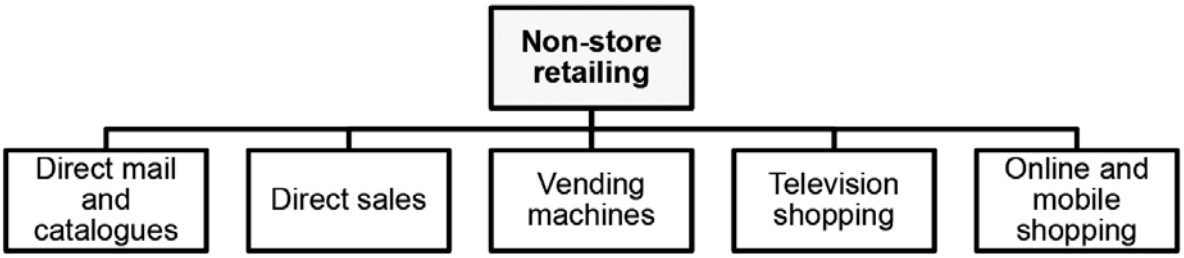


Figure 1.3: Types of non-store retailing

Adapted from theory (Peter & Donnelly, 2013:165–166)

- As illustrated in figure 1.3, the first type of non-store retailing is direct mail and catalogues. Direct mail and catalogues forms part of direct marketing (MNM1507 study guide, 2016:14). ***Direct mail*** refers to a retailer carefully targeting potential consumers with tailored offers of goods and services via mail or e-mail (Business Dictionary, 2017a). Retailers in this situation could send out a catalogue, which is a list of goods and services that can be purchased from them. An example would be when a consumer receives mail or a catalogue addressed to them personally, which has a list of products and services being sold. For instance, you may receive a catalogue at your workplace of office furniture with images and descriptions of the various tables and chairs that are offered by the company.



- As indicated in figure 1.3, the second type of non-store retailing is direct sales. ***Direct sales*** are when salespeople contact consumers face-to-face or via the telephone. When it is face-to-face, salespeople are able to demonstrate the goods to the consumer and provide detailed information. An example would be a salesperson calling a consumer and arranging a meeting at their house so that they can illustrate how effectively their vacuum machine works. Another example would be a salesperson calling a consumer who recently purchased a house regarding household insurance.



Please follow the link provided to find out about the Direct Selling Association of South Africa.

– http://www.dsasa.co.za/modules_fe/layout2/default.asp

- The third type of non-store retailing is vending machines, as illustrated in figure 1.3. ***Vending machines*** are electronic machines that dispense goods to consumers once money has been paid (Business Dictionary, 2017b). They can be located in various locations such as public places, workplaces and restaurants or bars (Canadean, 2013:17). Vending machines are commonly used for snacks and beverages; however, some retailers have used them for grocery items, beauty and health products and even footwear. With the new innovative uses of vending machines, there could be growth in the use of vending machines in the retailing market (Weinswig, 2015:2).



Please follow the link provided to look at a few examples of innovative uses for vending machines.

– https://www.fbicgroup.com/sites/default/files/The%20Makeover%20of%20Vending%20Machines%20in%20the%20US%20by%20FBIC%20Global%20Retail%20Tech.pdf



- The fourth type of non-store retailing is television shopping as shown in figure 1.3. ***Television shopping*** refers to home shopping where there are dedicated channels to selling goods or infomercials that are extended adverts that discuss or demonstrate the goods (Merriam-Webster, 2017a). An example would be a consumer watching a channel where the television host is illustrating a new non-stick frying pan. There is usually a number that the consumer can phone in order to purchase the goods being demonstrated.



Note: You should be able to discuss the different types of non-store retailing.

- As shown in figure 1.3, the final non-store retailing type is online shopping. ***Online shopping*** is searching for and buying products or services from internet retailers (Rabie, 2017:iv). Online shopping is one of the fastest growing methods of retailing as more consumers are becoming accustomed to shopping using the web. This form of shopping allows consumers to shop via a retailer's website from the comfort of their own homes, and the goods get delivered to the consumer. A global example of online shopping is Amazon, and in South Africa we have Takealot.

  With technological advancements, consumers are now able to shop using their smartphones or tablets, which is considered to be mobile shopping. ***Mobile shopping*** refers to shopping using mobile devices over the web (McDaniel, Lamb & Hair, 2013:549). Retailers are now developing mobile shopping applications, which are programs that can be downloaded and installed onto a consumer's smartphone or tablet to enable them to shop online (Unitag, 2016). Retailers that do not have shopping apps should ensure that their shopping site is mobile friendly and able to adapt to the screen size of whichever device the consumer is making use of.





Activity 1.2

Identify the different types of non-store retailing and provide a practical example of each.



Feedback

Direct mail or catalogues *– receiving a letter in the post requesting that you purchase a raffle ticket in order to win a prize. These generally come with a paid-for envelope.*

Direct sales *– financial brokers usually arrange a meeting in order to discuss, face-to-face, the best way to invest and save your money.*

Vending machines *– at SupaQuick in Menlyn Retail, they have a vending machine that stocks some cool drinks and snacks.*

Television shopping *– Verimark and Glomail infomercials.*

Online shopping *– Zando and YuppieChef.*

Can you think of any other examples for each type of non-store retailing besides the ones listed above? If so, share your examples on the myUnisa discussion forum.

1.3.2 Store retailing

Most retailing purchases are made through stores (Peter & Donnelly, 2013:164). Even with the growth of online and mobile shopping, South Africans generally still prefer to shop at a store (PwC, 2015:1). The following section discusses the different types of store retailing. As illustrated in figure 1.4, store retailing is divided into two main categories, namely speciality retailers and general merchandise retailers. The different types of retailers within each category will now be discussed.

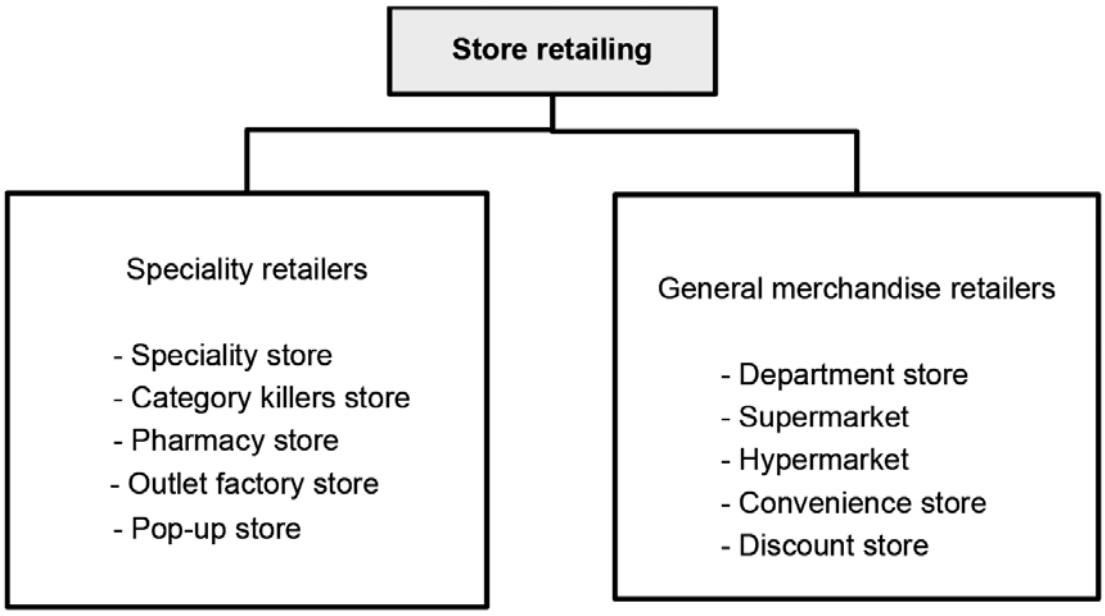


Figure 1.4: Types of store retailing

Adapted from theory (Elliot et al., 2014:376–377; Kotler & Armstrong, 2013:399; Grewal & Levy, 2016:528)

1.3.2.1 Speciality retailers

As indicated in figure 1.4, one of the main categories of store retailing is speciality retailers. Speciality retailers generally carry only a small number of product lines, which can either be narrow or wide in assortment (Elliot et al., 2014:376). ***Assortments,*** which refers to the collection of goods and services that an organisation offers, are discussed in more detail in learning unit 5 of this study guide. For now, the different types of speciality retailers will now be discussed.

- ***Speciality stores*** carry a narrow product line, but with a deep assortment, such as a florist or bookstore (Kotler & Armstrong, 2013:399). Due to the fact that these types of stores specialise in specific product lines, they have the advantage of having expertise within the product line and employees are therefore well-equipped to provide good service and are very knowledgeable about the products (Hartman, 2017). However, the disadvantages of these stores are that they tend to have a limited variety of products available, and may find it difficult to change their product offerings according to consumer trends (Hartman, 2017). For instance, with a bookstore – if consumers begin to prefer buying e-books and reading them on their e-reader or tablets, then bookstores may find it difficult to adapt what the store is offering.
- ***Category killers*** are stores that are generally dominant in their category, offer a wide assortment of products, and attract consumers with low prices (Elliot et al., 2014:376; Hudson, 2016). These stores are referred to as "killers" as they make it difficult for other retailers to sell the same category of products (Grewal & Levy, 2016:528). Category killers may take years to obtain their status, and minimise the choice for consumers on where to shop and also minimise competition from other stores (wiseGEEK, 2017).
- ***Pharmacy stores*** focus on pharmaceutical, health and personal grooming products (Grewal & Levy, 2016:528). Well-known examples in South Africa include Dischem and Clicks, which stock products such as medication, multivitamins and skin creams, among other products. In order to remain competitive, drug stores have expanded to also offer healthcare assistance, and also carry products that are generally found in convenience stores, such as beverages and snacks which may be available in front of the tills (Levy & Weitz, 2012:45).



- ***Outlet factory stores*** sell manufacturers' goods at a discounted price because they either have an excess of merchandise, have cancelled orders, or have merchandise with minor faults (Levy & Weitz, 2012:46; Elliot et al., 2014:376). For example, Atterbury Value Mart, located in Pretoria, has a number of outlet stores that stock a variety of goods of certain

brands, which may be more affordable than at other stores. Consumers are therefore able to buy authentic brands at a more affordable price. However, one has to bear in mind that the merchandise may be slightly outdated or have minor imperfections as the brand has very strict quality assurance criteria (HugeOutletStores.com, 2011).

- ***Pop-up stores*** appear in a short period of time in a temporary location (Elliot et al., 2014:377). Pop-up stores allow brands to illustrate their merchandise in a different way in order to get the consumers' attention for a short period of time – ranging from four days to five months (Haas & Schmidt, 2016:90). Pop-up stores also allow brands to test products, generate buzz, build brand awareness and drive sales (Cradlepoint, 2015:1). According to Nilsson (2015) in Holmgren & Olofsson (2015:7) pop-up stores are gaining more attention and retailers are increasingly making use of them as consumers are looking for different and more interactive experiences with the brand.

1.3.2.2 General merchandise retailers

As indicated in figure 1.4, the second main category of store retailing is general merchandise retailers. General merchandise retailers offer a number of assortments in a wide variety of product lines (Elliot et al., 2014:377). Let us now look at the different types of general merchandise retailers.

- ***Convenience stores*** generally provide a small variety and assortment of merchandise; however, they are situated at a convenient location and allow consumers to quickly purchase products (Levy & Weitz, 2012:40). Convenience stores are usually located in residential areas and have extended trading hours (Elliot et al., 2014:377). An example would be the stores operated by various petrol stations where consumers are able to get 24-hours a day service. Usually the majority of convenience stores' sales will be fuel and cigarettes. However, in order to remain competitive, many have started offering fresh and healthy food options, freshly brewed coffee and hot beverages, and car washing services just to name a few (Grewal & Levy, 2016:527).



- ***Discount stores*** generally offer lower prices and have high turnover and sales volume (McDaniel et al., 2013:540). The demand for discount stores has increased as there are more price-conscious consumers with less disposable income (Mazzone & Associates, 2015:12). These stores are able to sell products at a lower price because they offer fewer services, and operate in a warehouse-like location with low rent costs (Kotler & Armstrong, 2012:402).



- ***Department stores*** generally carry a variety of product lines and are generally organised into distinct departments when displaying merchandise such as clothing, homeware, cosmetics and kitchenware (Levy & Weitz, 2012:41). Generally, each department has its own specialist salespeople who can ensure high levels of customer service (Elliot et al., 2014:378). However, all the separate departments are ultimately united under one management (Agarwal, 2016). Department stores provide shopping convenience by allowing consumers to shop for different products at one central location and provide a wide selection to choose from (Agarwal, 2016). However, the prices of the products may be a bit more expensive relatively speaking, because of the high operating costs (Agarwal, 2016).



- ***Supermarkets*** carry a wide assortment of food and non-food grocery items such as meat, fresh produce, frozen foods, health and beauty products, and cleaning products just to name a few (Levy & Weitz, 2012:35). In order to remain competitive, a number of supermarkets have implemented loyalty programmes that are tailored for specific consumer segments (McDaniel et al., 2013:539). In addition, some supermarkets have also added complementary

business services such as ticketing and financial services, and by introducing liquor and pharmacy branches (PwC, 2012:20).



- A ***Hypermarket*** is the combination of a department store and supermarket that carries a wide variety of product lines as well as grocery items (Investopedia, 2017). These stores allow consumers to shop conveniently at one location for most of their shopping needs (International Comparison Program, 2011:2).

Note: You should be able to discuss the different types of store retailing.



Activity 1.3

Tumelo and Thandi have stated a small business making cruelty-free hair products such as shampoos, conditioners, scalp and hair treatments that are made with natural and organic ingredients. Currently in South Africa, there are strong brands competing in this market. Which store retailing option would you suggest Tumelo and Thandi make use of?



Feedback

Due to the fact that their product is cruelty-free and uses natural and organic ingredients, it would be recommended that they start off with speciality retailers such as a speciality shop that sells only organic merchandise. Once their brand name has grown and there is a demand for this type of hair product, Tumelo and Thandi could consider expanding to general merchandise retailers in order to expand their reach.

Do you feel that Tumelo and Thandi should use a different option from what was highlighted above? If so, share your opinion on the myUnisa discussion forum.

Even though the purpose of this module is to focus on the selling of merchandise (goods), it is important to briefly acknowledge services. As shown in the learning unit overview diagram, the following section will discuss service retailing.

1.4 SERVICE RETAILING

Service retailers primarily sell services rather than merchandise as discussed in the previous section (Levy & Weitz, 2012:48). A number of these service providers do not consider themselves to be retailers, however, in order to remain competitive, many have adopted retailing principles (Levy & Weitz, 2012:49). Imagine that you have a job interview scheduled for tomorrow about 40 minutes' drive from your house. To make sure that you do not run into any car problems, and that you look and feel confident for the interview, you decide to take your car in for a service, to go for a back and neck massage to de-stress, go to the hairdresser to get your hair done, drop off your suit at the dry-cleaners to be cleaned, and eat at your favourite restaurant in between. These are all examples of service retailers. There are three types of service retailers, which will now be discussed (Poloian, 2013:13):

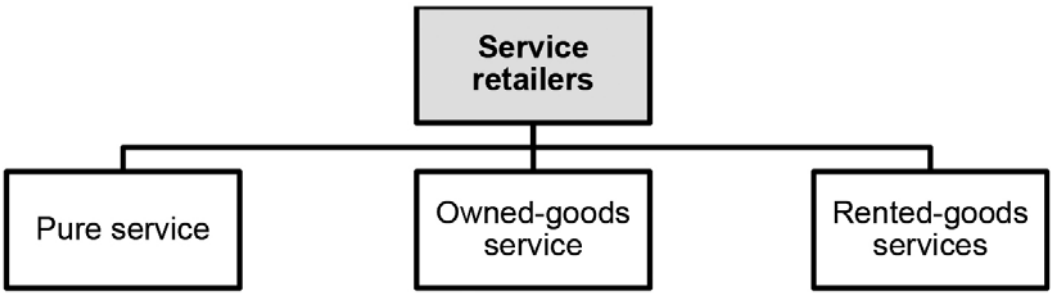


Figure 1.5: Types of service retailing

Adapted from theory (Poloian, 2013:13)

- ***Pure service retailers*** conduct business where there is no merchandise involved (Poloian, 2013:13). Some examples include banking institutions, hotels and restaurants, beauty and wellness spas, and entertainment facilities (Levy & Weitz, 2012:49). In the above-mentioned scenario, the masseuse, hairdresser and restaurant are examples of pure service retailers.
- ***Owned-goods service retailers*** work on products that you own, such as appliances and car repair services (Poloian, 2013:13). In the above-mentioned scenario, the company that you take your car to for a service and the dry cleaners are examples of owned-goods services.
- ***Rented-goods service retailers*** own merchandise that they rent out, such as dining items, cars and any other equipment (Poloian, 2013:13). For example, if you did not own a car, you could possibly rent a car in order to get to the interview. Another example would be that if you got the job and wanted to host a dinner party to celebrate, you could rent a tent, tables and chairs, table cloths, plates and cutlery, and drinkware rather than having to buy the items.

Note: You should be able to discuss the different types of service retailer.



Activity 1.4

Asha has decided to start a recycling business where she collects recyclable goods such as paper, glass, plastic and metal from consumers. Which of the following types of service retailer would she be?



Feedback

*Asha would be a **pure service retailer** if she picked up the recyclable rubbish from the consumers' homes and took it to her shop to sort it accordingly for it to be recycled. Asha is providing the service of rubbish removal.*

*If some of the consumers she collects rubbish from have bins that she also repairs – such as replacing the wheels on the bins or sealing up a hole – then Asha would also be an **owned-goods service retailer** because she is taking something that they own and fixing it.*

*If some of the consumers that she collects from do not have space to keep the recyclable rubbish separately from their other trash, Asha could also rent smaller bins to them and this would be an example of a **rented-goods service provider**.*

As shown in the learning unit overview diagram, now that we have an understanding of the different types of retailers, let us look at the rights of retailing, which also provides an outline for the remained of the study guide.

1.5 THE "RIGHTS" OF RETAILING

According to Hastings (n.d.) and Erdis & Cant (2015:8–9), in order for retailers to be successful they need to focus on the following important aspects, which are referred to as the "rights" of retailing:

- Choosing the right suppliers. A ***supplier*** is defined as an individual or organisation that provides something needed (Cambridge University Press, 2017). In this instance, a supplier would be anyone who provides goods or services to the retailer in order for them to conduct their retailing business. For example, Juices Co. provides retailers with different types of juices to sell to the consumer. It is important that retailers choose the right suppliers to work with so that they are able to ensure that goods are available to the consumer when needed. This is discussed in more detail in learning unit 3 of this study guide.
- Selecting the right store location and image. The ***store location*** refers to the space that a retailer owns or leases in order to sell goods or services to the consumer (Entrepreneur, 2017). The ***store image*** refers to the features of a store that influence the impression that consumers may have of the retailer (Poloian, 2013:312). In this instance, the retailer needs to ensure that they are located where the consumers can easily access their store, and present an image that encourages consumers to shop at their store. For example, if you went to a store that was did not have sufficient parking and was dirty, what impression would you have of the store? Would you shop there again? This is discussed in more detail in learning unit 4 of this study guide.
- Choosing the right merchandise to sell. ***Merchandise*** refers to the goods that are bought and sold in a business (Merriam-Webster, 2017b). In this instance, merchandise is what a retailer decides to sell in their store and it is important that a retailer has merchandise that consumers want to buy. Therefore, retailers need to have an understanding of consumers' needs and wants in order to be successful. Imagine if you went to a store and wanted to purchase something that allows you to store files such as Word documents and the store did not have flash drives, hard drives or even CDs, but had only floppy disks – do you think that this retailer understands current consumer needs and wants? This is discussed in more detail in learning unit 5 of this study guide.
- Deciding what is the right amount to sell and when. Once the retailer has decided what merchandise to sell, it is important to determine what the right amount is to have in stock

and when to sell it. For example, a retailer should sell heaters during the cold seasons and fans during the warm seasons. Imagine that your city experiences a heat wave and you go to the shop to buy a fan. They do not have any in stock, but have a lot of heaters available. Would you be upset with the retail store? The retail store should have planned in advance with the summer approaching and should have had fans available in the store. This is discussed in more retail in learning unit 6 of this study guide.

- Determining the right price to sell at. ***Price*** refers to the monetary value that will allow for the purchase of something (Business Dictionary, 2017c). The price of merchandise should be a reflection of the value to the consumer and the quality of the merchandise (Rabie, 2017:7). The average price of a loaf of plain bread in South Africa is between R10 and R15. If a retailer sold the same brands for R30, would you buy the bread? Some people would perhaps be willing to pay R30 for a loaf of bread if they felt it was of better quality, for example, if they used organic ingredients and had some added ingredients such as cheese and ham. It is important that retailers set the right price for their merchandise and this is discussed in more detail in learning unit 7 of this study guide.
- Providing the right service. ***Service*** refers to being helpful and providing assistance (Dictionary.com, 2017). In retailing, some examples of service would be the tellers who ring up the goods purchased and receive payment, it could be the staff packing merchandise, or it could be staff informing you in which isle the merchandise is placed. Imagine you are waiting in a long line on a Saturday morning because there is only one teller available to assist, or if you ask a staff member which aisle the tomato sauce is at and they point you to the wrong aisle – what would you think of this retail store? This is discussed in more detail in learning unit 8 of the study guide.
- Implementing the right promotion. Having the right product at the right price means nothing if the benefits of the product are not communicated to the consumer (Rabie, 2017:7). ***Retail promotion*** refers to the retailer informing, persuading and/or reminding the consumer about certain aspects regarding the retailer through advertising, public relations, person selling or sales promotions (BMS.co.in, 2017). Think about how you know about a certain retail store? Do you choose certain retail stores over others because they have promotions on items that saves you money? This is discussed in more detail in learning unit 9 of this study guide.

Note: You should be able to identify and discuss the "rights" of retailing.



Activity 1.5

Zoya designs and makes clothing for her customers. Her business has become very successful and she decided to open a store where she can neatly show her clothes instead of in her living room – what are the seven "rights" of retailing that she need to take into consideration?



Feedback

Choosing the right suppliers*. After working for quite some time, Zoya should be able to identify which of her suppliers are reliable and which are not. If Zoya is making a custom-made piece for a client who is attending a matric dance ball, Zoya needs to make sure that her suppliers deliver the materials in time so that she can make the piece and make alterations before the event.*

Selecting the right store location and image*. Zoya needs to select a location and look for a store that represents her image and what she wants consumers to think of her clothing.*

***Choosing the right merchandise to sell**. Having worked for a while, Zoya would have an idea based on previous sales of what consumers like, for instance skirts, pants and throws. She would therefore always have a few of these available in store. Zoya would also need to keep an eye out on the current fashion trends to ensure that what she designs is what consumers want.*

***Deciding what is the right amount to sell and when**. Based on previous sales, Zoya would have an idea of how many items per piece to have available in store. She would also need to have to the skirts and short pants available in summer, and the long pants and throws available in winter.*

***Determining the right price to sell at**. Zoya needs to keep in mind how much the materials cost and also how much rent she will pay at her new store, and incorporate this into the pricing of her items. She could either slightly increase prices to make up for the increases in costs, or keep prices the same and try to sell more items.*

***Providing the right service**. Zoya has been doing well and she prides herself in providing excellent service. Moving to a store could possibly increase the number of customers she has and she needs to ensure that she is able to provide the same level of service.*

***Implementing the right promotion**. Having changed location and opened a new store, Zoya needs to ensure that her customers and consumers are aware of the new store and what she offers. She can therefore post on her social media account and run specials where people who share or retweet her post gets a 5% discount in the store.*

1.6 SUMMARY

In this learning unit, we defined and explained what retailing is before discussing the different types of retailers. The learning unit concluded by highlighting the "rights" of retailing, which provides a framework for the rest of this study guide. Before going into detail for each retailing "right", it is important to have a thorough understanding of the retail environment, which is discussed in learning unit 2. Before continuing to the following unit, please complete the assessment questions and reflect on what you have learned in this unit.

1.7 SELF-ASSESSMENT



Please note that these self-assessment questions will be available on myUnisa on the self-assessment tool, and you are encouraged to complete them online. The answers will be provided to you upon submission.

Question 1

If a retailer ensures that consumers can buy a wide variety of products from his store, then he is adding value by …

1 providing assortment.
2 bulk-breaking.
3 holding inventory.
4 providing services.

Question 2

Chrissy owns a small ladies' clothing store in town. She purchases boxes of clothing from her supplier in China Town in order to stock her store. She places each item of clothing on a separate hanger for display. Chrissy is adding value by …

1 providing assortment.
2 bulk-breaking.
3 holding inventory.
4 providing services.

Question 3

Tumelo owns a small hardware store and ensures that he always has stock of all the different screws, nuts and bolts, as well as drill bits for his customers. Tumelo is adding value by …

1 providing assortment.
2 bulk-breaking.
3 holding inventory.
4 providing services.

Question 4

Tim owns a small paint shop and he provides advice for his customers on what type of paint is best suited to different surfaces, as well as the type of paint brush to use. Tim is adding value by …

1 providing assortment.
2 bulk-breaking.
3 holding inventory.
4 providing services.

Question 5

Which **ONE** of the following examples is **NOT** an example of non-store retailing?

1 Mohamed placing vending machines in restaurants where consumers can purchase cigarettes.
2 Fatima sending pamphlets via e-mail to potential buyers on the different pre-made home-cooked meals that she sells.
3 Precious displays her clothing at different locations every month to test the market for her products and to create awareness of the brand.
4 Mateo posts images and sells his custom-made leather bags on his Facebook page.

Question 6

A store that has different sections for clothing, homeware and kitchenware is an example of a …

1 supermarket.
2 department store.
3 category killer.
4 speciality store.

Question 7

A store that carries a small variety of goods and is open 24 hours a day is an example of a …

1 vending machine.
2 convenience store.
3 category killer.
4 speciality store.

Question 8

Manuel owns an event service company where he assists with the planning of corporate functions and has décor that customers can hire. Which **ONE** of the options **BEST** represents the type of service retailer Manuel is?

a. Pure service retailer
b. Owned-goods service retailer
c. Rented-goods service retailer

1 a
2 ab
3 ac
4 abc

Question 9

Which **ONE** of the following options is **NOT** considered to be a "right" of retailing?

1 Understanding the strengths of the retail store.
2 Developing an effective retail marketing strategy.
3 Setting the right prices for the products.
4 Identifying reliable suppliers to work with.

Question 10

Deciding to have concrete floors and walls, and to use steel pipes to display hip and edgy type of merchandise, deals with which **ONE** of the following "rights" of retailing?

1 Selecting the right store location and image
2 Choosing the right merchandise to sell
3 Deciding what is the right amount to sell and when
4 Implementing the right promotion

1.8 REFLECTION



Before you continue to the next learning unit, please reflect on the following questions:

1 How do you think you will be able to use the skills you learned in this learning unit in your professional life?
2 What did you find difficult about this learning unit? Why do you think you found it difficult? Do you understand the concept you were struggling with now or do you need help? What are you going to do about getting help if you need it?
3 What did you find interesting in this learning unit? Why?
4 How long did it take you to work through this learning unit? Are you still on schedule or do you need to adjust your study programme?

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Learning unit 2

The retail environment

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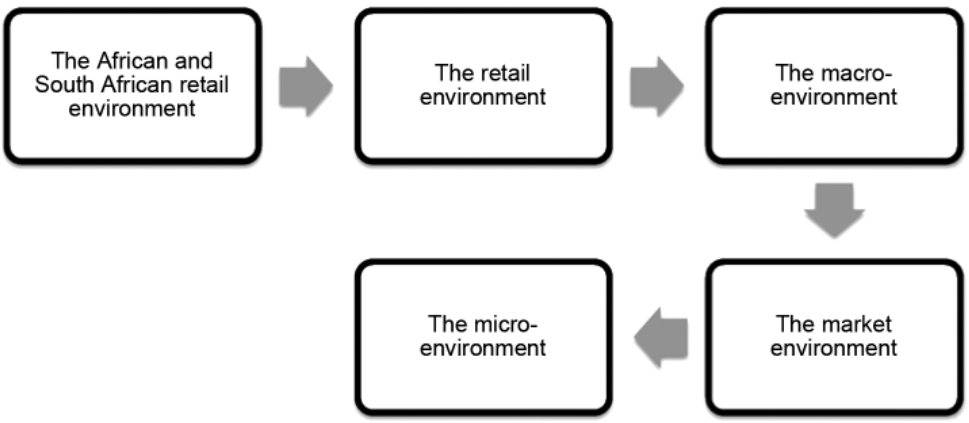
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OVERVIEW OF THIS LEARNING UNIT

This learning unit deals with the retail environment. We will first look at the environmental changes that are happening in and around Africa and South Africa. Next we will discuss the concept of the retail environment, followed by a detailed look into each layer, namely the macro-, market and micro-environment and their respective variables. The learning unit will then conclude with reflective questions, a summary, as well as self-assessment questions.

This learning unit unfolds as follows:





LEARNING OUTCOMES

After completing this learning unit, you should be able to:

- understand the environmental changes that are happening in and around Africa and South Africa and their impact on retailing.
- discuss the concept of the retail environment.
- explain the macro-environment and how the variables within this environment could influence retailing activities.
- discuss the market environment and how the variables within this environment could influence retailing activities.
- explain the micro-environment and how the variables within this environment could influence retailing activities.



KEY CONCEPTS

You will need to master the following key concepts in order to meet the learning outcomes for this learning unit:

- Retail environment
- Omni-channel retailing
- Macro-environment
- Political and legal environment
- Economic environment
- Exchange rates
- Interest rates
- Inflation
- Unemployment
- Monetary policy
- Fiscal policy
- The business cycle
- Technological environment
- Barcodes
- Radio-frequency identification device
- Point of sale
- Social showrooming
- Smart shelves
- Beacons
- Digital mirrors
- Interactive hangers
- Sociocultural environment
- The silent generation
- The baby boomer
- Generation X
- Generation Y
- Generation Z
- Natural and physical environment
- International environment
- Market environment
- Customers
- Competition
- Intra-type competition
- Inter-type competition

- Divertive competition
- Vertical competition
- Corporate systems competition
- Competitive market structure
- Pure monopoly
- Oligopoly
- Monopolistic competition
- Pure competition
- Suppliers
- Intermediaries
- Micro-environment
- Strategic plan
- Mission statement
- Vision statement
- Strategic goals and objectives
- Target market
- Retailing mix

INTRODUCTION

Retailers do not operate in a vacuum; they form part of a larger environment in which numerous forces and variables affect their operations both directly and indirectly. This environment is in a constant state of change and therefore needs to be monitored regularly by retailers in order for them to make the best possible decisions so as to remain sustainable and competitive. An example of how these variables could affect a retailer would be if the South African rand were to devalue against foreign currencies – imported stock would become more expensive for a retailer, while changes in income taxes could mean that consumers would have less disposable income to spend. Technology might also make some products redundant while creating new markets and opportunities for others.

This learning unit first discusses the current African and South African retail environment; thereafter the unit goes on to highlight the influence that the macro-environment and market environment have on retailers, as well as the micro-environmental variables that a retailer has control of. The following section discusses the African and South African retail environment.

2.1 THE AFRICAN AND SOUTH AFRICAN RETAIL ENVIRONMENT

As shown in the learning unit overview diagram, the first section will discuss the African and South Africa retail environment. The African continent comprises over a billion people, it is diverse, interesting and complex, and represents a huge potential consumer market (KPMG, 2016:1; Dennis & Piatti, 2015:30). Characteristics making up the African retail market are as follows (Deloitte South Africa, 2016):

- The majority of transactions are conducted through informal trade – This represents an opportunity for the establishment of formal retailers in order to capture larger market share.
- Grocery retailing can be seen to be driving the retail sector – In 2013, 64.8% of retail sales across Africa were derived from food retail sales.
- There is an increase in forecourt retailing – Forecourt retailing is a major trend, especially in South Africa, and is described as express stores that operate 24/7, and which offer roughly

1500–2500 product lines and cater to the convenience market. Examples would include the pairing of Engen and Woolworths Food, BP with Pick n Pay, and Caltex and Fruit and Veg.
- Internet retailing is growing – increase in Omni-channel strategy adoption – Due to the shortage of retail space, the increasing need for convenience and the explosion of mobile phones' usage, many retailers are adopting mobile and e-commerce strategies.
- Despite the challenges, international retailers are entering the African market. Examples would include Walmart, Zara, Cotton on, Forever 21, Hugo Boss and Prada to name a few.
- South African retailers are expanding outside of the continent – The Foschini Group, the Spar group and Shoprite holdings are expanding beyond South Africa and as far as Europe and Asia.

While it is important for retailers to understand the characteristics that make up the African retail environment, it is also important for retailers to understand the environmental changes that are occurring. One of the environmental changes that is important for retailers to bear in mind when considering operating in the African retail environment is that African consumers are increasingly moving into cities (urbanisation), which is making it easier for companies to target consumer groups (KPMG, 2016). Other changes are that there is a rise in the middle class, exponential growth in the population, dominance in youth and rapid adoption of technology by consumers (Dennis & Piatti, 2015:1). E-commerce is said to be worth US$80 billion in Africa and is seen as a huge opportunity for entrepreneurs (Dennis & Piatti, 2015). While changes in the environment are opening doors for retailers into African markets, the African retail sector still remains quite under-developed (KPMG, 2016). Some of the challenges in the development of the African retail sector are that there is insufficient infrastructure – a shortage of retail space and poor transport infrastructure, high import tariffs, political instability, currency challenges, land issues and governmental problems (KPMG, 2016; Dennis & Piatti, 2015). While challenges do exist that can prevent development of the sector, a KPMG report conducted in 2016 highlights five trends that are expected to enhance the African retail sector over the long term, namely (KPMG, 2016:16):

- Africa's potential economic growth is considered to be greater than other regions around the world.
- There is low penetration of most consumer goods.
- Saturation levels and lack of further growth in markets that are already mature.
- General improvement in infrastructure allowing for the expansion of modern retail outlets.
- Consumers are moving away from traditional informal stores to a more modern style of retailing (Western style).

While conditions in the African market appear to be favourable, it is important that organisations realise there are vast differences across countries and that Africa cannot be seen as a whole, but must be evaluated separately due to differences in culture, income, consumer tastes and other demographic aspects (KPMG, 2016). Let's take a brief look now at the South African retail environment:

The retailing industry in South Africa has changed significantly over the past 10 years, whereby improvement in infrastructure can be seen. An improved network of roads has benefited the retail industry as townships and rural areas can now benefit from efficient distribution (Chibaya, 2016). South Africa has seen an increase in mall development in the inner-cities, suburbs, as well as township areas. An environmental change within South Africa is that more consumers are moving to the cities – much like in the rest of Africa. The rapid increase in urban living has therefore led to the development of high-density living, which has resulted in an increase in developments of malls in residential areas (Chibaya, 2016).

Today's South African consumer can be seen to be much more informed and less predictable than in the past. Consumers are looking for convenience, variety and shopping experience. A few other trends that are emerging are that the youth of today have more spending power, there is a need for longer shopping hours, there are more woman in the workforce, and there is a stronger tendency to have fewer children (Prinsloo, 2016). Major retailers in South Africa are also looking to Omni-channel development to supplement traditional store sales (Dennis & Piatti, 2015:5). ***Omni-channel retailing*** refers to "the ability to deliver a seamless and consistent experience across channels, while factoring in the different devices that consumers are using to interact with your business" (Hubspot in: Big Commerce, 2016). In other words, retailers are combining their marketing efforts in technology, mobile devices, physical experience, as well as in the digital shopping environment in order to reach their multi-faceted audiences. With all the changes that are occurring within the environment, retailers constantly have to find or develop new strategies in order to compete effectively in the marketplace. Therefore, it is important that retailers monitor the retail environment when developing operational strategies.

As shown in the learning unit overview diagram, let us now look at the components that make up the retail environment.

2.2 THE RETAIL ENVIRONMENT

In order to understand what forces and variables can affect a retailer, it is pivotal to understand the concept of the retail environment. Therefore, the ***retail environment*** can be defined according to Fourie (2014:33) as "the sum total of the variables and forces inside and outside the organisation that influence retail decision-making". Figure 2.1 below is indicative as to the components that make up the retail environment, namely the micro-, market- and macro environments, each of which will be discussed in the subsequent sections:

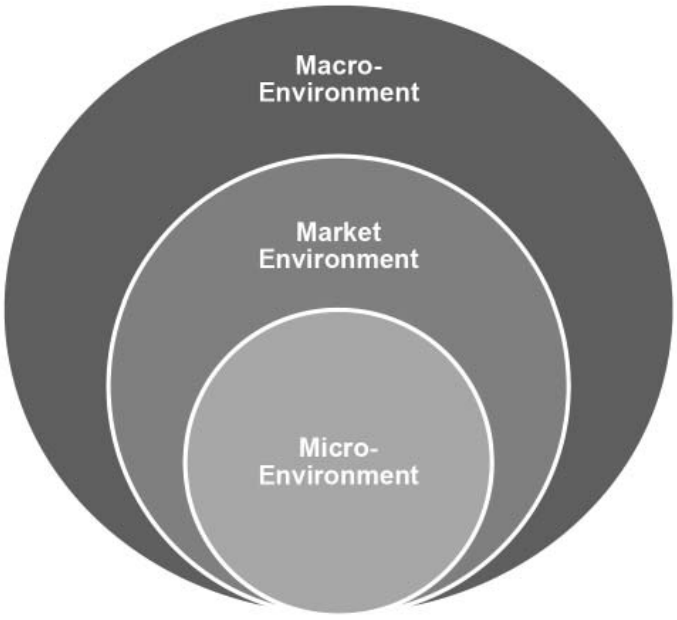


Figure 2.1: Components of the retail environment

The three components that make up the retail environment as highlighted above will now be discussed in greater detail in the sections that follow.

Note: You should be able to identify and explain each level within the retail environment that affects a retailer and should be able to provide practical examples of each.

In the next section we will look at the macro-environment, as shown in the learning unit overview diagram.

2.3 THE MACRO-ENVIRONMENT

As shown in figure 2.1, one of the components that make up the retail environment is that of the macro-environment. The ***macro-environment,*** otherwise referred to as the external environment, consists of all the variables and factors on a national and international level that can be seen to affect retailers and to which a retailer has little effect on and no control over (Kiley in: Strydom, 2016:36; Avon College Press, 2015:34 & Cant, 2016:37). The macro-environment is forever changing and can be seen to affect retailers' decision-making, their strategies and their performance, and it is therefore an incredibly important environment for retailers to monitor (Cant, 2016:37; Business Dictionary, 2017a). Figure 2.2 below indicates the variables that make up the macro-environment:

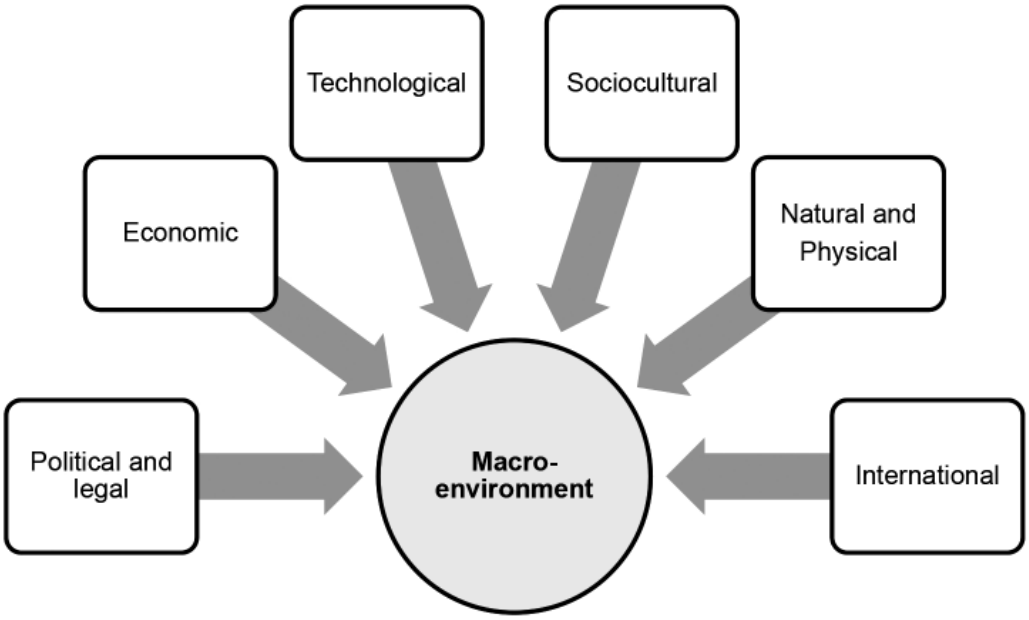


Figure 2.2: Variables of the macro-environment

Adapted from theory (Kiley in: Strydom, 2016:36; Avon College Press, 2015:34 & Cant, 2016:37)

Let us now start with a discussion on the political and legal environment and how this variable can affect a retailer.

2.3.1 The political and legal environment

As shown in figure 2.2, the first variable in the macro-environment is that of the political and legal environment. The ***political and legal environment*** comprises government agencies, political parties, laws and legislation – all of which can be seen to have an impact on individuals and organisations within a country (Armstrong & Kotler, 2015:112; Grewal & Levy, 2014:165). Government agencies, both local and national, play an import part in the political and legal environment as

they are accountable for the change and implementation of legislation. Governments can further be seen to also influence or control government-owned businesses and even economic and international policies (Goworek & McGoldrick, 2015:44; Venter & Jansen van Rensburg, 2014:69).



With regard to government agencies and political parties, a key aspect of discussion is always political stability and whether there is infighting, corruption, or any other form of unrest within the ruling government. Political stability is also influenced by the decisions made by governing agencies and political parties around aspects such as import/export tariffs, taxes, or the allocation of the national budget, as these affect the stability and equality of a country's business environment. Retailers need to be aware of the status and perception of the political and legal environment as instability may drive off or discourage foreign investment (Cant, Van Heerden & Ngambi, 2013:44). Another important factor to consider is that of the status of the political and legal environment often translating into certain laws and regulations being passed by the ruling government (Hult, Pride & Ferrell, 2013:67).

An example of how the political/legal environment has affected South African retailers and their businesses could be seen when the President Jacob Zuma of South Africa, fired the finance minister, Pravin Gordhan, in 2017 in a cabinet reshuffle. The reshuffle of five cabinet ministers caused the South African rand to plummet, reportedly losing 4% to the US dollar overnight (Mullen & Petroff, 2017). So what did this mean for retailers and their businesses? The CEO Initiative (in: Mullen & Petroff, 2017) indicated that foreign investors could lose trust in our economy, which affects not only big businesses, but all citizens in that there will be higher inflation and a decrease in buying behaviour to name a few aspects.

Even with stability, a country's laws and regulations tend to change and evolve over time, which puts retailers under continuous pressure to pay close attention to the legal environment. Recent years have seen an increase in the number of laws that govern the way in which businesses deal with customer information, how they advertise or label their products, how they compete with their competition, and even laws that relate to the impact companies have on the environment (Armstrong & Kotler, 2015:112). Wiid (2014:24) identifies some specific examples of laws that govern the behaviour of businesses that are currently implemented in South Africa.



The following examples relate to employment laws, international trade regulations and restrictions. Please follow the links below for more information relating to the Acts:

- Companies Act 71 of 2008
  https://www.acts.co.za/companies-act-2008/index.html
- Close Corporation Act 69 of 1984
  http://www.cipc.co.za/files/9713/9452/7966/CLOSE_CORPORATIONS_ACT_69_OF_1984.pdf

  Competition Act 89 of 1998
  http://www.saflii.org/za/legis/num_act/ca1998149.pdf

  Consumer Protection Act 68 of 2008
  https://www.acts.co.za/consumer-protection-act-2008/index.html

From the above examples it can be said that there are a couple of common reasons for laws and policies to govern business activities. These laws and policies are aimed at protecting innovators, companies from their competition, consumers from unfair practices, and society from irresponsible business behaviour (Lamb, Hair & McDaniel, 2012: 127; Armstrong & Kotler, 2015:112).

One example of how laws are attempting to protect society is the proposed sugar tax on sugar sweetened drinks; the motive behind the proposed tax is to fight obesity in South Africa by upping the price of sugar laden/unhealthy beverages. A second advantage of this tax would be the increase of state funds (Business Tech, 2016a). Pravin Gordhan in his February 2017 budget speech indicated that the tax was to be implemented later in 2017 after details were finalised and legislation concerning the tax was passed (Heraldlive, 2017).

Retailers need to be aware that countries may vary with regard to their legal environments and that what is acceptable in one country may be restricted or banned in another (Blythe, 2012:33). For example: If Sipho decides he wants to export biltong from South Africa to Canada to cater for all the expats who live there, he will need to check the Canadian food regulations and trade policies on food products to ensure he meets the requirements in order to conduct trade. If he does not meet the requirements, Sipho could be heavily fined or prosecuted. As shown in the example provided, businesses that choose to ignore or that fail to comply with any of the laws applicable to them may face detrimental consequences (Armstrong & Kotler, 2015:112).

From a retailers' perspective, the political and legal environment is mainly uncontrollable; however, a retailer still has the choice of how to respond to these factors and may even be able to influence them to a certain extent. A retailer could choose to be either proactive or reactive to the political and legal environment. By being proactive a large retailer/company could become involved in political campaigns where they feel the election or appointment of a certain party or individual may be beneficial to them. Retailers may show their support for political parties who share their views by lobbying for them, or they may do the opposite and protest publicly against those parties that they identify as being detrimental to their business if the party were to come to power. Reactive retailers are those that choose not to be involved in trying to influence this environment, but rather choose to conform to and adopt new policies and legislation (Hult et al., 2013:68).

The next section will discuss the economic environment and the variables that can have an impact on retailers.

2.3.2 The economic environment



As shown in figure 2.2, the second variable in the macro-environment is that of the economic environment. The ***economic environment*** is one of the most important variables within the macro-environment for a retailer to consider, as it is in a state of constant change and comprises factors that will have an effect on how much the consumer spends and what they buy (Armstrong & Kotler 2015:107; Boone & Kurtz, 2014:74; Terblanche, Beneke, Bruwer, Corbishley, Frazer, Nel, Penz & Venter, 2016:37–38). This will in turn directly affect a retailer's profit and ultimately their survival (Kiley in: Strydom, 2014:40). Some of the economic factors that can be seen to impact retailers are the exchange rate, interest rate, inflation, unemployment, consumer income, the monetary and fiscal policy, and the business cycle (Terblanche et al., 2016:38; Cant et al., 2013:47; Kiley, in: Strydom, 2014:41–42). Let us take a look at these variables in a bit more detail and see how they can impact a retailer.

2.3.2.1 Exchange rates

Exchange rate refers to "the price for which the currency of a country can be exchanged for another country's currency" (Business Dictionary, 2017b). The exchange rate will affect a retailer in that if the rand loses value against the US dollar, exports do not earn as much money as they would have if the US dollar was worth less, and imports will become more expensive. Let's look at an example: Annabelle, the producer and retailer of Annabelle Clothing, has now delved into exporting her clothing to the USA. She sells R450 000 worth of merchandise to a store in the USA at an exchange rate of R14.20 to $1.00. Annabelle would then charge the importing company $31 690.14. If the South African rand worsens to R15.50 for $1.00, Annabelle would receive only $29 032.26, so while she would be supplying the same amount of stock she would be paid less for it. A few factors that can be seen to influence the exchange rate are the political stability of a country, interest rates, inflation rates, trade balance, and the quality of the governance within a country, to name but a few (Business Dictionary, 2017b).

Another example of how the exchange rate can be affected, was the firing of the finance minister, Pravin Gordhan, and the cabinet reshuffle, where the rand plummeted 4% overnight in 2017 (Mullen & Petroff, 2017) moving the rand/ dollar exchange from R12.81 to R13.35 (Georgiannis, 2017). Such a decrease in the rand's value will definitely have an impact on South African businesses and their retail stores as prices will need to go up, therefore consumers will have less disposable income to spend.

2.3.2.2 Interest rates

Interest rates are the costs associated with the borrowing of money and are stated as a percentage of the total amount borrowed (Pettinger, 2016). Interest rates affect retailers in that if there is an increase in interest, it will cost the retailer more to borrow money, which will have an effect on the amount of profit the retailer will make off the loaned amount. For example: Dumasani, the owner of Trend, takes out a loan of R250 000 to purchase more stock for his store at an interest rate of 8.2%. That means that Dumasani will have to repay R20 500 in interest per year. If the interest rate increases to 10.2% per annum, Dumasani will have to repay R30 000 in interest, which essentially means he will have less profit at the end of the day.

2.3.2.3 Inflation

Inflation can be defined as the rate at which the level of prices for products and services is rising or alternatively the rate at which the buying power of a country's currency is falling (Investopedia, 2017a). What this ultimately means is that the higher the inflation rate the less money consumers have to spend, whereas the lower the inflation rate the more money people have to spend (Kiley in: Strydom, 2014:41). South Africa's inflation rate as of December 2016 was 6.8% (Omarjee, 2017), so essentially what this means is that a bag of rice that used to cost a retailer R25 will now cost R26.70. This additional cost will have to be passed on to the consumer, which means the consumer will have less money to spend on goods and services.

2.3.2.4 Unemployment

The term ***unemployment*** can be defined as "the proportion of people in the economy who are actively seeking work, but do not have jobs" (Boone & Kurtz, 2014:74). Unemployment can be seen to rise during recessions and tends to decline in the more prosperous stages or even recovery stages of the business cycle – similar to inflation, where unemployment will affect consumer buying behaviour (Boone & Kurtz, 2014:75). South Africa's unemployment rate for the third quarter of 2016 was said to be 27.1% (Business Tech, 2016b). So how exactly does unemployment affect retailers? Well, let's take for example the layoffs that occurred at mines near Burgersfort, Limpopo where 2 000 miners lost their jobs (The Sunday Independent, 2016). These miners all had families that needed their support. After their retrenchment miners had to be extra conscious of their spending; retailers in surrounding areas would feel this as the miners would spend less as they would have to prioritise where their funds were being allocated until they could find another job. Such layoffs have seen many mining towns' livelihoods disappear as consumers will spend less due to unemployment, thus forcing retailers to close.

2.3.2.5 Consumer income

Consumer income is yet another important determinant of the economic environment as it can be seen to influence a consumer's buying power. Income statistics are important for retailers as they can plan to target specific segments and estimate where market potential will be at its highest (Boone & Kurtz, 2014:75). During economic downturns consumers will have less money to spend as they would rather pay off their debts before purchasing more on credit; therefore, they have less disposable income (Cant, 2016: 41). Retailers tend to be interested in the discretionary income of consumers, which is disposable income (personal income minus taxes) minus the money needed for necessities in order to sustain life, for example food, shelter and clothing (Boone & Kurtz, 2014:75; Dunne, Lusch & Carver, 2014:113). According to BankservAfrica (2016), the average disposable income in October 2016 for South African inhabitants was R13 413 per month.

2.3.2.6 Monetary and fiscal policy

The ***monetary policy*** is seen as a macroeconomic policy that is enforced by the central bank of a country (The Economic Times, 2017). In South Africa the monetary policy is managed by the South African Reserve Bank (SARB) and is set by the bank's monetary policy committee (MPC) (South African Reserve Bank, not dated (a)). The monetary policy of a country is mostly concerned with the availability of money in circulation and the management of interest rates. The ***fiscal policy*** is managed by the National Treasury and refers to the spending and taxing actions of the governing party (Investopedia, 2014). The fiscal policy is communicated through the annual budget presented by the minister of finance and explains how government will spend the money levied by taxes. The size of government expenditure and how it is levied through taxes can impact production, distribution of income, employment and price levels to name a few aspects, therefore both the monetary policy and fiscal policy are coordinated together to ensure there is no contradiction between policies (South African Reserve Bank, not dated (b)). So how does this affect a retailer? Well, if interest rates go up, loans become more expensive and if consumers have less money to spend or are unemployed they will be buying less from your stores.

2.3.2.7 The business cycle

The business cycle refers to the levels of employment and productivity over periods of time (Kiley in: Strydom, 2014:41) and consists for four stages, namely prosperity, recession, depression and recovery (Hult et al., 2013:65). Each of these stages will have an impact on the consumer and their purchasing behaviour, for example, during the prosperity stage, there will be less unemployment and income levels will be relatively high. Retailers at this point should expand their product offering to take advantage of the income consumers have. If we look at the recession period, unemployment can be seen to rise and consumer spending will decrease. Should a recession decline even further, it is then categorised as a depression, which essentially means wages are even less and unemployment even higher; the effect on retailers is that even less will be spent. During these two phases retailers should review what products are being bought and cater to just those needs while also indicating to consumers the value and utility of their products. However, the economy will not remain in a constant state of depression and that is where the recovery period comes in – moving the economy from depression through to recession and back to prosperity again. In recovery consumer incomes will increase and there will be less unemployment, which essentially means consumers will have more money to spend again, therefore retailers need to constantly review the business cycle in order to adapt their product offering and promotions (Hult et al., 2013:65).

SELF-ASSESSMENT



It is important for retailers to be aware of the economic environment in which they operate as variables within this environment can affect consumer buying power, which will affect retail strategy. Explain the variables that make up the economic environment and provide practical examples for each. Share your answer on the myUnisa discussion forum.

The next section discusses the technological environment and the variables that can have an impact on retailers.

2.3.3 The technological environment



As shown in figure 2.2, the third variable in the macro-environment is the technological environment. The ***technological environment*** is perhaps the most intense and exciting environment shaping the retail industry today and is based on discoveries, innovation and inventions. Advances in technology lead to the development of new products and services, improved production and distribution methods, and enhanced customer service. Essentially, advances in technology are apparent in all business activities (Boone & Kurtz, 2014:76–77; Cant, 2016: 39–40). In the retail industry specifically it means better and new ways of performing standard retail functions (Dunne et al., 2014:72) and the creation of new retail markets such as online stores and home shopping networks, which offer retail customers other platforms to shop at (Treadwell, 2017).

While technology can create new opportunities, it can also make existing products and processes obsolete (Armstrong & Kotler, 2015:110–111; Lamb, Hair & McDaniel, 2017:60). Take, for example, the advent of the Kindle and digital books, which has put a strain on the traditional bookstore. Advances in technology can also affect other variables in the macro-environment, for example, how social networks have influenced society and the way consumers interact with each other and businesses (Wiid, 2014:19). Businesses can furthermore now use social networks to gain insights into customers' interests and can use this data to create better sales' strategies and even personalise sales' experiences (Accenture, 2014). The technological environment is ever changing and it is therefore important for marketers and retailers alike to monitor the environment in order to remain competitive and lower operating costs (Boone & Kurtz, 2014:76–77 & Dunne et al., 2014. 72). Let's take a look now at some of the technology being used by retailers today:

2.3.3.1 Barcodes

Barcodes are referred to as a two-dimensional pattern of black and white stripes that contains product information. Barcodes allow retailers to track inventory when linked to a database, which can then in turn allow organisations to track consumer purchasing trends, adjust prices, and track and order inventory. Barcodes are on almost every product in stores and are read by optical scanners usually at a cash register. The most commonly used form of barcode is known as the Universal Product Code (UPC) (Investopedia, 2017b). A UPC barcode consists of two parts, namely a 12-digit number and a machine readable barcode on top of it. The main purpose of a UPC, much like any barcode, is to identify a product's details such as item, colour, size and brand name, speed up the checkout process, as well as assist with inventory ordering and tracking (Shopify, Not dated). Figure 2.3 below is illustrative of a UPC barcode:



Figure 2.3: UPC barcode

2.3.3.2 Radio-frequency identification device (RFID)

A ***Radio-frequency identification device (RFID)*** is a device that uniquely identifies a product and allows a firm to monitor the movement of a product through the value chain in real time; this means that items are tracked from production, through all intermediaries and distributors, all the way to the final consumer. The device allows a retailer to know the exact inventory levels of the product at any given point within their supply chain and allows retailers to integrate their stock plans with suppliers, thereby insuring optimum stock levels throughout (Grewal & Levy, 2014:163 & Goller, 2016). RFID tags offer the advantage of holding more data than the standard barcodes, plus they have the added benefit of being able to transfer data over a small distance as opposed to the direct contact requirement of barcodes. However, the downside of this technology is that all the benefits come at a greater cost, which results in many retailers sticking to the more traditional low cost barcode (Investopedia, 2017c). Figure 2.4 is illustrative of an RFID tag.

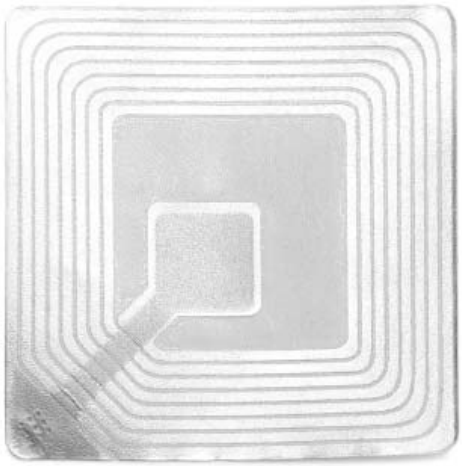


Figure 2.4: RFID tag

2.3.3.3 Point of sale (POS)/ point of purchase (POP) systems

A point of sale, alternatively referred to as a point of purchase, can be described as the point at which the sale is made – such as a checkout counter. Tools used for point of sale could be cash registers, electronic card readers or barcode scanners. Technological advancements have

created software that can assist in capturing point of sales and streamlining retailer operations. POS systems can keep track of sales, prices, sales patterns and gross revenue. The advantages of the POS system or integrated technology is that it helps the retailer pick up discrepancies in prices, and allows retailers to avoid out-of-stock issues and tailor marketing and purchasing to consumer behaviour (Investopedia, 2017d).

2.3.3.4 Social showrooming

Social showrooming refers to retailers integrating social media into their traditional brick and mortar stores (physical store) by encouraging customers to follow the store on social media and even to then pin their favourite products on Pinterest. Retailers make use of these platforms to gain insights into the popularity of items and then retailers will showcase these popular items on fun and interactive displays in their store. Another way social showrooming is used is by having an in-store application that helps retail staff observe the most popular products so that they can adjust inventory levels based on consumer demand (Business Insider, 2015).

2.3.3.5 Smart shelves

Smart shelves monitor inventory in real time. Manufacturers and retailers can scan the products on their shelves with embedded sensors and inform employees when stock is low or alternatively when theft is detected. This technology also allows retailers to adjust prices of products instantaneously or in real time, thereby ensuring accurate pricing and saving store staff time in monitoring those shelves. Smart shelf technology is seeking to advance into even automatically sending stock to retailers when stock levels are low in order to reduce out-of-stock costs and ensure customers are satisfied (Business Insider, 2015).



Follow the links below to see more on smart shelve technology.

- https://www.youtube.com/watch?v=W6UnahO_zXs
- https://www.youtube.com/watch?v=lB4QHXfDhN8

2.3.3.6 Beacons

A ***beacon*** is a piece of hardware that communicates with a consumer's smartphone using Bluetooth and has been preliminary used to alert customers to coupons and discounts, and are starting to transform the shopping experience. With beacon technology a shopper who has never been in your store will now be able to navigate with ease; a shopper can download a retailer's app, opt into the beacon and easily become orientated as to where the merchandise is they are in search of (Goller, 2016, Business Insider, 2015).



Follow the link below to get a more detailed explanation as to what retail beacons can do for the retailer and the consumer.

- https://www.youtube.com/watch?v=ZGL0HpNm5BY

2.3.3.7 Retail apps

There are many benefits to using a retailer's app beyond just scrolling through a list of products that a store offers. One of the benefits offered by certain apps allows the user to check stock

availability and if the user's preferred store is out of stock, the app will recommend an alternative location. Another benefit of an app is that a user can pay for items in store without the presence of their wallet (Business Insider, 2015). Other retailing apps work on the click and collect principle where customers can buy products on an app and then just collect their order at a physical store after receiving a message from the app that their order is ready (VendHQ, 2016).

2.3.3.8 Digital mirrors

Digital mirrors are mirrors that transform the traditional changing room by applying technology to an otherwise simple activity. They are large screens that show customers a live video of themselves as they try on selected items. These screens then further allow customers to review how they looked in various outfits, side by side (Goller, 2016).

Follow the link below to see how these digital mirrors operate in apparel stores.



– https://www.youtube.com/watch?v=Xp7s_kCHJS0

2.3.3.9 Interactive hanger

When a hanger is picked up in the store by a customer, this motion will set off pre-programmed visual media that is then played on a screen close to where the consumer is standing; this is referred to as an ***interactive hanger***. Interactive hangers can also be seen to change store atmospheric stimuli such as music and lighting (Ring, 2016).

It is clear that technology is the facilitator of endless opportunities in the retail industry, allowing retailers to complete basic tasks such as stock-taking, checking stock at another store, and central warehousing to name but a few of its applications. Retailers are furthermore beginning to adopt different technology in an attempt to set themselves apart from others. These technologically enriched stores may just provide the competitive advantage that retailers are looking for as they provide a high tech way of connecting to today's digitally inclined consumers (Accenture, 2014). Even though retailers are connecting better with customers, this is not their only objective as retailers are seeking to expand further by trying to build an ecosystem for their brands. The idea of an ecosystem is where retailers are integrated across different channels of buyers, sellers and intermediaries, all with the objective of being able to provide customers with a flawless purchasing experience; this idea can better be phrased as Omni-channel integration (CSC, 2016).

We now turn to the sociocultural environment and discuss the variables that make up this environment.

2.3.4 The sociocultural environment

As shown in figure 2.2, the fourth variable in the macro-environment is the sociocultural environment. The ***sociocultural environment*** is another important element of the macro-environment, and comprises influencing variables in a society and its culture that bring about changes in norms, attitudes, customs, lifestyles and beliefs (Hult et al., 2013:79). Variables in this environment include demographic changes, changes in ethnic make-up or culture, and even attitudinal changes (Cant et al., 2013:48; Hult et al., 2013:79; Kiley in: Strydom, 2014:39; Eagle, Dahl, Czarnecka & Lloyd, 2015:76). Retailers need to keep track of the changes in this environment as having this information will enable them to forecast changes in consumer's needs and desires

for products (Boone & Kurtz, 2014:77; Hult et al., 2013:79–80). Knowledge of these changes will also have an impact on marketing techniques and strategies, media type employed to advertise products, products designed, and products offered for sale (Hult et al., 2013:79 & Cant, 2016:41). Let us take a more detailed look now at how some of these variables can impact retailers.



2.3.4.1 Population growth

Population growth is an important aspect of the sociocultural environment for retailers to consider when devising strategies, as an expanding population means an increase in demand for products and services and thus growth and opportunities for retailers (Dunne et al., 2014: 92–93). In South Africa the population size in 2006 was 47.4 million individuals; 10 years later the size of the population is estimated to be 55.9 million (StatsSA, 2016), therefore retailers in South Africa now have a further 8.5 million consumers to accommodate.

2.3.4.2 Age distribution of consumers

As consumers age their needs and desires change, therefore it is incredibly important for retailers to be cognisant of these changes in order to best cater for the various requirements of different age groups (Erdis & Cant, 2015:15; Terblanche et al., 2016:40). Today's consumers can be seen to be divided into five age groups, namely:

- ***The silent generation*** (Individuals born between the years of 1930 and 1945). These consumers are between the ages of 72 and 87 years old as of the year 2017. The silent generation is also sometimes referred to as the traditionalists or senior citizens. Such individuals can be seen to have grown up suffocated by war and depression. Swanepoel, Erasmus and Schenk (2008:29) describe the silent generation as being the most traditional group – with working fathers, being family people, and having strong work ethics. Individuals from the silent generation base their behaviour on experiences from the difficult times of apartheid; they want to feel needed and strive for financial security. Because they grew up amid a major financial crisis, they employ the notion of "waste not, want not", making them less willing to spend and more likely to save (Bovino, 2015). The silent generation dislikes change, technology and wasting money.
- ***The baby boomer*** (Individuals born between the years of 1946 and 1964). These consumers are between the ages of 53 and 71 years old as of the year 2017 and are quite diverse, as some have entered retirement while others are at their peak of earning and spending years (Armstrong & Kotler, 2015:101). With a longer life expectancy than previous generations, baby boomers are entering retirement later and have actually developed a different view

on retirement altogether. Retailers need to be aware of these changes and the associated buying behaviour of this generation. Many baby boomers are said to feel young at heart, which translates into spending large amounts of time browsing the internet, connecting with family and friends on social media, and being more involved in the lives of their grandchildren (Kurtz & Boone, 2014:77). Furthermore, baby boomers are living life to its fullest; this generation spends its hard earned money on spoiling its families, going on holidays and even attending the occasional rock concert (Armstrong & Kotler, 2015:101).

- ***Generation X*** (Individuals born between the years of 1965 and 1976). Sometimes referred to as the baby busters, these consumers are between the ages of 41 and 54 years old as of 2017 (Dunne et al., 2014:94). For this group of consumers, family comes first and careers second. They can also be seen to value experiences over material possessions and are quite sceptical when making purchases. Generation X consumers can be seen to be more educated than the previous generation; they tend to embrace new technology, they are generally quite internet savvy, and will almost always do some research before making any purchasing decision. Even though consumers in this age group are moving up in their careers with increasing amounts of disposable income, they still tend to favour quality over quantity (Armstrong & Kotler, 2015:101).
- ***Generation Y*** (Individuals born between the years of 1977 and 2000). Often referred to as the Millennials, Net generation, iGeneration, Google Generation or Echo Boomers, these consumers are between the ages of 17 and 40 years old as of 2017 (Armstrong & Kolter, 2015:101; Dunne et al., 2014:94). These consumers are comfortable with technology and consider smartphones, internet and other forms of technology an integral part of life (Armstrong & Kolter, 2015:102). This generation applies a unique set of criteria when making purchasing decisions compared to the previous generations as these consumers are more aware and primarily interested in the way a product makes them feel (Dunne et al., 2014: 99).
- ***Generation Z*** (Individuals born between the years of 2000 and the present). This generation consists of all individuals below the age of 17 as of 2017. These consumers are children, tweens and teenagers and represent tomorrow's market. Much like millennials, these consumers are tech savvy and take technology for granted as they have always had it. Generation Z consumers are able to blend online and offline platforms effortlessly when shopping and socialising, they do product research before they or their parents buy products, and more than half who have access and conduct online shopping prefer it to traditional methods. While traditional media forms are important for this age group, marketers and retailers alike must be sure to target them on platforms they are most at, namely the digital, mobile and online world. Social media will play a big role when promoting products to this age group (Armstrong & Kotler, 2015:103).

2.3.4.3 Blur in gender roles and time pressures

Retailers need to be aware that there has been a shift in gender roles where there has been an increase in the number of women who are working (Terblanche et al., 2016:40). These working women tend to be more confident, appearance conscious, focused on self-improvement and education, share family and household tasks with their partners, are more concerned with convenience, more knowledgeable and demanding as customers, have an interest in travel and leisure activities, are less sensitive to small price changes among retailers, and lastly, they are less interested in leisurely shopping trips (Berman & Evans, 2013:208). In essence the working woman might not have enough time to go shopping, therefore retailers will see more couples shopping on weekends or husbands doing the shopping (Terblanche et al., 2016:40). The increase in the number of women working will therefore have an influence over the lifestyle of men; more men as indicated will assist their wives with shopping for the family, taking care of the children and other household tasks, therefore the traditional roles will now be shared among men and

women (Berman & Evans, 2013:208). With both men and women working and sharing the drive for self-fulfilment, most consumers are feeling pressured for time, therefore today's consumer is looking for more time conscious ways to shop. Retailers can address this need by adding branch stores, having a shorter checkout point, having websites on which consumers can order, as well as longer trading hours to allow consumers to shop when convenient (Berman & Evans, 2013:208).

2.3.4.4 The family life cycle and marital status

The family life cycle, otherwise referred to as the family structure, is an important consideration for marketers as at each stage needs, attitudes, purchases and income changes (Berman & Evans, 2013:208). The family life cycle essentially deals with how a traditional family moves from bachelorhood to having children through to retirement. Retailers do, however, also need to consider that some individuals will never marry or have children and that some will divorce, there will be single-parent families, and there will be couples without children (Berman & Evans, 2013:207). Each of these groupings will have different consumption patterns and it is therefore incredibly important for the retailer to be aware of that. Take for example an unmarried person: they are likely to spend most of their money on travel, convenience foods and entertainment and less on furniture and kitchen appliances (Hult et al., 2013: 78), whereas a married couple might spend more of their money on furniture, cars and houses. Those couples who have kids might spend more on children's clothing, sporting equipment and toys.

2.3.4.5 Education

A consumer's education is a good indicator of an individual's potential income, their purchasing behaviour and their attitudes. Educated consumers are more alert to claims made in advertising, and the quality and price of merchandise. While education levels are set to rise in the years to come, retailers can expect these consumers to be more sophisticated, independent in their search for products, discriminating, and demanding of intelligent and capable retail staff (Dunne et al., 2014:108–109).

2.3.4.6 Health consciousness

In today's world consumers have become more health conscious and more selective about what they eat. They are therefore purchasing foods that are organic, hormone free, contain less fat such as low-fat products, and free range meats (Hult et al., 2013:80). Retailers can address this trend by offering healthier alternatives with their regular offerings. For example, Woolworths offering free range chicken, therefore catering to the health conscious consumer (Terblanche et al., 2016:41).

2.3.4.7 Geographic location of consumers

The location of retailers in relation to where the consumer resides will often affect their purchase behaviour and it is therefore an important consideration for retailers. While it is important to review population growth and the consumers' age, it is also important to consider where the consumer lives. All consumers want to have stores close by and therefore the distance to a retailer might be the determining factor of consumers to purchase in-store or online (Dunne et al., 2014:104–108).

2.3.4.8 Social responsibility and environmental consciousness

It must be noted that consumers in today's environment are becoming more conscious of the impact their spending has on society. In essence, consumers are choosing to shop at retailers that they know or believe are doing the right thing; while they are supporting retailers that give back to society, they are also avoiding those retailers that conduct unethical practices, for example, organisations that use children to manufacture their products (Terblanche et al., 2016:41). While consumers are becoming more aware of how the money they spend affects society, they are also becoming more environmentally conscious, and take into consideration the environment when making purchases. It is therefore vital that retailers are aware of these trends in order to remain competitive and maintain market share (Terblanche et al., 2016:41).



Please see the following links to see how South African companies are making an impact on the society in which we live:

- http://www.myschool.co.za/about-myschool/about-us
- http://www.specsavers.co.za/page/corporate-social-responsibility-commitment
- http://barloworldmotor.com/about-us-barloworld-motor-retail/corporate-social-responsibility/
- https://www.sappi.com/social-responsibility

2.3.4.9 Consumers' household income

While the economic environment will affect how much income consumers will receive after taxes, it is also important that retailers know the amount of household income consumers have and the income bracket that most of their consumers fall into (Erdis & Cant, 2015:15). It is important for retailers to know how consumers spend their money, whether they save a lot, and what their purchasing behaviour is. Higher disposable income is important as it means retailers can sell more.

The following section addresses how the natural and physical environment can impact on retailing.

2.3.5 The natural and physical environment

As shown in figure 2.2, the fifth variable in the macro-environment is the natural and physical environment. The natural environment plays an important role in organisational growth and economic development of all countries (Andaleeb & Hasan, 2017:43) and is therefore an important element for retailers and marketers alike to keep in mind. The ***natural environment*** can be seen to comprise the natural resources that are required by organisations to manufacture their products and services such as raw materials, as well as the physical environment such as the climate, weather conditions and unforeseen happenings such as volcanos, earthquakes, tornados, droughts, floods and tsunami's that can affect a retailer in their marketing decisions and strategies (Armstrong & Kotler, 2015:109; Kiley in: Strydom, 2014:37). So how exactly does the natural environment affect a retailer? Well, let's look at a few examples:



One of the problems being faced in the natural environment is the impending shortage of raw materials; resources such as water, coal and gold to name a few are only available in limited quantities (Cant, 2016:39). So if you are a jeweller, for example, and work with gold, you need to know that gold supplies are finite and the cost of producing your products will increase over time. In other words, you will have higher production costs, which will lead to a higher cost to the consumer. This could affect the demand for your products by customers and your ability to supply gold jewellery to the marketplace in future.

Another example in relation to the waning supply of natural resources would be the finite quantities of oil. According to Cant et al. (2013:46), experts believe oil supplies will dry up in the next 30 years. What this means is that manufacturers of cars, airplanes and other products that require oil or oil by-products will have to start thinking of alternative sources in order to be able to manufacturer their products or conduct their services. Therefore, it is essential that marketers keep close tabs on raw material supplies and continuously do research into alternative sources.

Another way in which the natural and physical environment can affect businesses and retailers in particular are changes in the climate and weather conditions, for example, if the winter of 2018 is unexpectedly hot, retailers will see less sales in warm clothing such as boots and scarves, and more sales in sunblock and hiking gear, therefore it is important for retailers to forecast possible sales (Armstrong & Kotler, 2015:109).

Lastly, businesses can be affected by the natural and physical environment through unforeseen happenings as previously indicated. Take, for example, the series of droughts that were experienced in South Africa in 2015/2016; during this period many farmers were unable to maintain crop levels, which resulted in lost sales and had a negative effect on the country's gross domestic product (GDP). A report conducted by a multi-stakeholder task team on the drought titled, "A raindrop in the drought" (AgriSa, 2016), presents an interesting view on how the drought experienced in 2015 affected farmers and consumers in 2016 (please see figure 2.5 below).

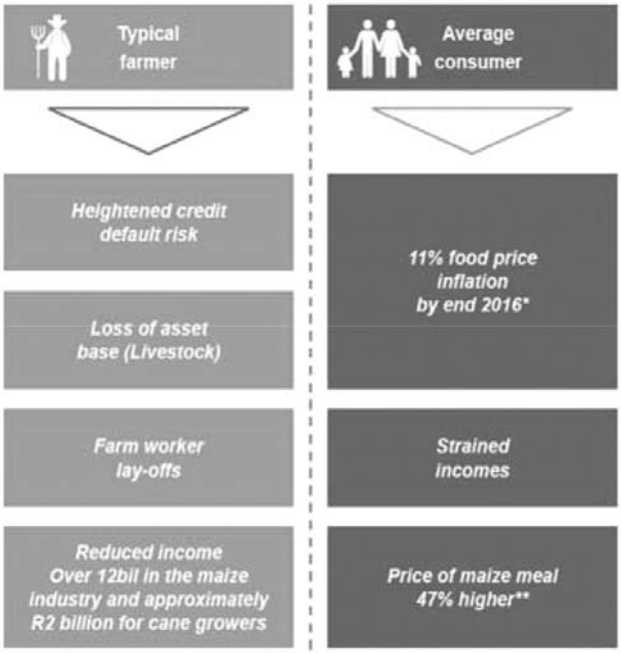


Figure 2.5: What the drought meant for farmers and consumers in 2016

Source: AgriSA (2016:6)

Although every effort has been made to trace the copyright holders, this has not always been possible. Should any infringement have occurred the publisher apologises and undertakes to amend the omission in the event of a reprint.

Figure 2.5 provides an indication of how unforeseen or unexpected climate changes can affect not only the producer or even retailer, but also the consumer.

While keeping close tabs on natural resources and the physical environment is important to ensure the future of your operations, businesses and retailers alike are starting to realise that they do not operate by themselves. They are part of a broader and larger community and are therefore obliged to act in a manner that is environmentally responsible (Venter & Jansen van Rensburg, 2014:68). Concerns over the well-being of the natural environment have grown over the past two decades (Kotler, Burton, Deans, Brown & Armstrong, 2013:133) and firms are having to take into account public views on issues such as pollution, depletion of natural resources, damage to the ozone layer, the increase in climate, deforestation, the increasing cost of energy, mass extinction of species and the loss of habitats (Venter & Jansen van Rensburg, 2014:68; Erdis & Cant, 2015:19; Blythe, 2012:35). Businesses need to realise that they must create more eco-friendly products and services not only to protect the environment from further damage, but to also be viewed as entities that are socially responsible (Mahajan & Mahajan, 2015:39). Businesses can expect to see more legislation being passed as well as a surge in environmental activists and should be fully aware of this fact as it will definitely have an impact on future retailing decisions (Mahajan & Mahajan, 2015:40).

We will now look at the last variable within the macro-environment, namely the international environment:

2.3.6 The international environment

As shown in figure 2.2, the sixth and final variable in the macro-environment is the international environment. Advances in technology have made the world a global marketplace; when events occur in any country they are reported on almost instantly and individuals and markets alike can

be seen to react almost immediately (Cant, 2016:38). Distance is also no longer a problem; what this means is that other countries can affect retailers quickly, especially in terms of importing and exporting of products (Wiid, 2014:23).



In essence the international environment refers to events that occur in other countries that will affect one's business and retailing activities (Kiley in: Strydom, 2014:42). Retailers that plan on selling products overseas and those who plan on importing products need to understand the laws and regulations of both countries and the sociocultural differences that might have an influence on trade (Cant, 2016: 39). While going abroad might require retailers to review the macro-economic forces and variables of the destination country, the international environment also incorporates outside retailers entering local markets. Take, for example, the buyout of SABMiller by ABInbev in 2016; such events will force local manufacturers and retailers alike to evaluate the challenges faced and adopt strategies accordingly (Cant et al., 2013:45).

Let's now take a look at how the international environment could affect businesses wishing to export merchandise around the world, and how happenings within these environments could and have affected such trade.

Let's look at Brexit (Britain's exit of the European Union) – according to Gibb (2016), "The most significant threat of Brexit to South Africa will arise from a reduced export demand if the UK economy is damaged as a result of leaving the EU". To understand this impact, it is important to note that 26% of South Africa's total product/goods trade comes from the European Union; of that 26%, 15% comes from the UK, so if their economy is damaged by Brexit, this could leave South African businesses paying more for imported goods (Gibb, 2016). In terms of exports, 20% of South Africa's total exports goes to the EU, of which 20% of those exports go to the UK; should the UK economy fall under pressure, less exports might be demanded (Gibb, 2016).

Another example would be the election of Donald Trump as President of the United States of America. Donald Trump in his campaign for presidency highlighted that he wanted to bring jobs back to the USA and retain them. He further highlighted that he wanted the USA to be more self-sustaining, which would result in fewer goods/products being imported; how he would do this would be to raise import costs, thereby making it cheaper for US citizens to buy locally produced goods instead of imports. The impact that this has on the South African economy is that the USA is South Africa's single biggest exporting location and such a decision to hike import costs will see South African businesses struggle (Business Tech, 2016c).

Note: You should now be able to discuss with the aid of practical examples how the variables in the macro-environment have an impact on retailing operations.



Activity 2.1

After having read what the macro-environment comprises, try to answer the following question:

Mpho, a friend of yours, has come up with a new business venture, namely to import quality German leather boots, and is considering opening up a store in Sandton called Trixia. She knows that you have studied marketing and has therefore asked for your advice on what macro-environmental variables could affect her business. Identify and discuss the variables of the macro-environment that could have an effect on Trixia with the aid of practical examples.



Feedback

The political and legal environment *– This is a variable that will greatly affect Mpho's company, Trixia, as it is government that decides on the import duties Mpho will have to pay in order to get her products into her stores. If government decides to increase import duties, this will have a direct effect on the price Mpho will have to sell her products for. Another example of how the political and legal environment can affect Mpho's company would be if labour laws brought in new higher minimum wages; Mpho might have to up the staff salaries, which could either mean less staff could be employed in the store or that the price of the boots will need to increase to accommodate for the increase in expenditure.*

The economic environment *– This is a variable that many of us are familiar with, namely interest rates, higher personal income tax, changes to the exchange rate and unemployment to name but a few. But how does this affect Trixia? Well, let's look at the exchange rate; say for instance Mpho imports her leather boots from Germany and the price of buying 1 Euro is R16 and it goes up to R18 per Euro, a pair of boots that would have cost R400 will now cost R450. A change in personal income tax could also mean that Trixia consumers could have less money to spend on luxury leather boots, which will affect sales*

The technological environment *– This environment is all about innovation and change. The technological environment could affect Trixia in the sense that the German manufacturer could discover new and faster methods for dying the leather hide for the boots they make, which could ultimately speed up the manufacturing process. A new rubber composite could be used, which costs less to produce and is a more durable material for consumers. These discoveries could enhance the overall product being sold to consumers and reduce manufacturing times. Trixia might then be able to order stock with a lead time of four weeks instead of six weeks.*

The socio-cultural environment *– This environment can affect Mpho's company in that there could be a decrease in population growth, which means that the target market comprises fewer consumers. However, this environment does not always have a negative effect on a business; the changing role of women, whereby more women are working these days, could mean that there is more disposable household income and therefore sales could increase.*

The physical environment *– The physical environment plays a huge part in businesses as this is where one obtains the raw materials from in order to produce products that are then sold to consumers. If the rubber composite used to make the soles of the boots in Germany is becoming scarce, this means that the cost of buying the boots for Mpho will be more and therefore the consumer will have to pay more for the product. This could mean fewer sales due to the increased cost. Another way in which the physical environment could affect Trixia would be if there is a natural disaster such as an earthquake in Germany, which destroys the manufacturing plant of the boots; this could mean a delay in Mpho receiving her stock to sell in her stores. Therefore, consumers would not be able to buy merchandise if Mpho does not have enough stock, resulting in a loss of sales.*

The international environment *– South Africa, like all other countries, is a part of the global village and therefore our economy and the businesses within our economy are at times influenced by other countries' troubles. In terms of Trixia, if Germany experiences a civil war and sanctions are imposed, Trixia might not be able to obtain stock due to these sanctions.*

As shown in the learning unit overview diagram, in the next section we discuss the market environment and the variables that can affect a retailer.

2.4 THE MARKET ENVIRONMENT

As shown in figure 2.1, the second component in the retail environment is the market environment. The ***market environment,*** otherwise known as the task or operating environment, is where a retailer conducts their business and refers to those factors and variables that cannot be controlled by a retailer, but can be partially influenced by their strategies (Cant, 2016:34; Varley & Rafiq, 2014:81; Kiley in: Strydom, 2014:34–35). The market environment can be seen to have two sides, namely a demand and supply side. The demand side includes all the potential consumers that wish to purchase the goods and services your organisation is offering, whereas the supply side refers to all the organisations that offer related products (ones' competitors) (Fourie, 2014:35). This environment further includes aspects such as suppliers and intermediaries that are necessary in getting one's product to consumers. Figure 2.6 below illustrates the four variables that the market environment is comprised of:

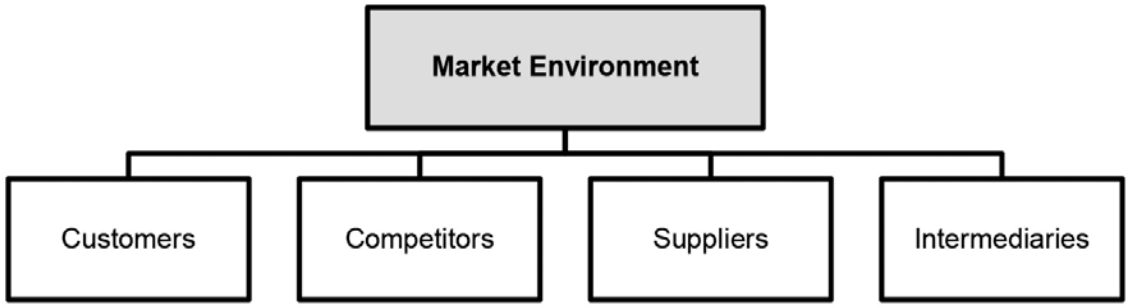


Figure 2.6: Variables in the market environment

Adapted from theory (Cant, 2016:34; Varley & Rafiq, 2014:81; Kiley in: Strydom, 2014:34–35)

We will now discuss each of the market environment variables below:

2.4.1 Customers

As shown in figure 2.6, the first variable in the market environment is customers. ***Customers*** are essentially the reason your organisation exists and will continue to exist in the future, and can be described as an individual or company that purchases the goods or services from a business (Investopedia, 2017e). It is therefore incredibly important that a retailer know who its customers are, what their needs are, and how the organisation can best go about catering to these needs in terms of their product offering, pricing and suitable location for instance (Goworek & McGoldrick, 2015:39).

2.4.1.1 *Types of customer markets*

There are five types of customer markets a retailer must be aware of, namely (Armstrong & Kotler, 2015:98):

- ***Consumer market –*** this is the customer market most of us are familiar with and include individuals like you, me and households that purchase products/services for personal use. For example: Jessica buys a pair of Levi jeans from Edgars. Edgars is a retailer that serves the consumer market.
- ***Business/industrial market –*** this is where an organisation will purchase something for use in the production of their own products or for further processing. For example: Jack goes to Builders Warehouse to buy wood so that he can make the desk that Annabelle ordered from him.
- ***Reseller market*** – where an organisation purchases products/services from another organisation and resells them to consumers to make a profit. For example: Ed's supermarket purchases apples from Pink Lady Apples and resells them in his store.
- ***Government market*** – where government departments/agencies purchase goods/services for public services. For example: When 20 BMWs are purchased from the retailer for the police department's high-jacking unit.
- ***International market –*** consists of all previously mentioned markets, but from a foreign perspective, namely the international consumer, business, reseller and government markets that require goods/services from your company. For example: The selling of Pink Lady apples to foreign retailers and consumers.

Customers are critical to the sustainability of retail operations; it is therefore essential that a retailer be able to analyse their customer markets in order to see how they function and how best to cater to their needs and desires. One way to understand customers and their behaviour is by applying the 6W model, which guides marketers and retailers to answer the following six questions (Fourie, 2016:38):

- *Who*: Who are the current and potential customers?
- *What*: What does the customer do with the product?
- *Where*: Where do consumers purchase the product?
- *When*: When do they purchase the product?
- *Why*: Why and how do customers select the organisation's product?
- *Why:* Why do they not purchase the product?

Once a retailer has answered all of these questions, they should be able to successfully meet their customers' demands.

> **Note:** You should be able to discuss the different types of consumer markets and provide practical examples for each.

Another variable within the market environment that a retailer must consider is that of its competitors. This variable will now be discussed.

2.4.2 Competitors

As shown in figure 2.6, the second variable in the market environment is competitors. ***Competition*** can be seen as a fact of life for any retailer offering products and services, and is what mostly determines the price for which a product is sold (Blythe, 2013:46; Cant et al., 2013:42). Competition can be defined as any other organisation/company or firm that offers products similar to your

organisation, or products that can be used as substitutes for your product to the same target market (Pride, Ferrell, Lukas, Schembri & Niininen, 2015:43). Retailers need to continuously monitor their competitors' activities such as the products they offer, their prices, distribution methods and promotional efforts, as any decision made by a retailer can influence a consumers' response in the marketplace (Boone & Kurtz, 2014:64). Therefore, retailers need to define the target market, discussed in section 2.5.1.3, that their company will serve while at the same time determining who their competitors are (Pride & Ferrell, 2016:64).

Potential problems that could result in failing to monitor one's competition include the retailer possibly being taken by surprise, the retailer potentially becoming a follower instead of a leader, and the retailer focusing on the short term rather than the more important long-term problems. Some of the reasons for conducting a competitor analysis include the following (Fourie, 2016:43):

- To recognise who the organisation's current and potential competitors are. This is not limited to only direct competitors that offer the same or a similar product or service, but indirect competitors in other industries as well.
- To learn why consumers choose the product/service or brands of competitors they do, thereby providing insight into growth or revitalisation.
- To seek opportunities that can be exploited by taking the strengths, weaknesses and strategies of competitors into account.
- To identify emerging threats and opportunities in the market by forecasting future competitive action.
- To use information on the benefits of rival products (in other words to take their strengths) and to design better products that will deliver added value to the consumer and provide the retailer with a competitive advantage.
- To predict future action of competitors by deciding between strategic alternatives.
- To identify strategic questions and issues after completing a competitor analysis.
- To keep up to date with the developments in the retail environment.
- Increased vitality of the entire business environment leads to assorted responses by competitors, which further increases the complexity of the environment.

The following section shall now address the types of competitors a retailer faces as well as the competitive market structures they could form part of.

2.4.2.1 Types of competition

There are various types of competition that can affect retailers, namely:

- ***Intra-type competition*** is competition that occurs among retailers in the same type of business or business format that compete directly with each other for the same customer. This is the most common type of competitor retailers can be seen to face (Business Dictionary, 2017c; Dunne et al., 2014:146). Examples would be Foschini and Truworths. Both retailers offer clothing and cosmetics. It is important to note, however, that retailers do not necessarily compete with each other if one retailer is selling more premium based products and the other less expensive products (Dunne et al., 2014:146). For example: an individual who buys Haagen Daz ice cream (a speciality item) in Sandton is not likely going to be the same customer that buys a soft serve ice-cream from Steers (convenience item).
- ***Inter-type competition*** can be described as the competition among retailers that has different types of retail set-ups or formats that sell the same type of products. Take for example, a retailer such as Musica whose primary product is music; they can be seen to face competition not just from other music specialists, but also from supermarkets such as Pick n Pay and Checkers Hyper (Varley & Rafiq, 2014:46).

- ***Divertive competition*** is when a retailer intercepts customers from a competing retailer. Take, for example, a customer wanting to buy balloons from a party shop, but before she goes to the party shop she stops at her local pharmacy to pick up her prescription and sees they offer balloons and therefore purchases them there instead of at the party shop. The pharmacy has intercepted the customer and has taken away the party shop's sale (Dunne et al., 2014:148).

Competition can also occur in the distribution channel. Varley and Rafiq (2014:46) identify these types of competition as vertical competition and corporate systems competition:

- ***Vertical competition*** can be seen to occur between a producer and a retailer or wholesaler that sells products to the retailer's customer. This sort of competition occurs between manufacturers of national brands and private brands. Take for example Kellogg's that competes with Woolworths own cereal brand.
- ***Corporate systems competition*** is when the manufacturing, distribution and retailing is centrally managed. This can occur through backward or forward integration. Backward integration is where the retailer takes ownership of the wholesaler and the manufacturer, and forward integration is where the manufacturer purchases the wholesaler and the retailer.

SELF-ASSESSMENT



Briefly discuss the types of competitors within the marketplace and provide an example for each. Share your answer on the myUnisa discussion forum.

2.4.2.2 Competitive market structures

While knowing who your competitors are, it is also important that retailers be aware of the competitive market structure in which their retail operations can be seen to be a part of. The ***competitive structure*** is descriptive of the current state of a products market indicating, among other aspects, the demand and supply of the product, the amount of competitors and the ease of entry into the market (Business Dictionary, 2017d). Table 2.1 below is indicative of the various competitive market structures that face retailers and the examples of some of the products they sell:

Table 2.1: Competitive market structures

Competitive market structure	Number of suppliers and product substitutes	Entry to the marketplace	Examples
Pure monopoly	Sole provider; no substitutes	Many barriers to entry	Electricity suppliers such as Eskom
Oligopoly	Few suppliers; homogenous (similar) or differentiated products (perceived or real differences)	Some barriers to entry	Similar: gold & platinum suppliers Differentiated: post office, DHL, Mr Delivery. Toyota, Lexus, Mercedes (cars).

Competitive market structure	Number of suppliers and product substitutes	Entry to the marketplace	Examples
Monopolistic competition	Many suppliers; products are differentiated, but there are many substitutes	Few barriers to entry	Guess, Sissyboy, Levi, Strauss (jeans)
Pure competition	Unlimited suppliers; homogenous (similar) products	No barriers to entry	Farmers Market stores (e.g. watermelon and naartjies).

Source: Adapted from: Pride and Ferrell (2017:52)

- ***Pure monopoly*** is a competitive market structure in which there is only one provider or single supplier of a product or service and there are no close substitutes available in the market, so they can therefore set their prices accordingly (Boone & Kurtz, 2016: 64; Pride & Ferrell, 2017: 52; Dunne et al., 2014:133). Not many monopolies exist as monopolies tend to set excessively high prices; therefore, the monopolies that do exist are carefully regulated and even prevented by government (Blythe, 2013:47). Examples of companies that have a monopoly would be electricity companies such as Eskom and telecommunications suppliers Telkom used to have a monopoly before NeoTel came into being.
- ***Oligopoly*** is a competitive market structure in which there are only a few suppliers that sell a particular product; barriers to entry are somewhat high to keep new entrants from entering the marketplace (Boone & Kurtz, 2016: 65; Pride & Ferrell, 2017: 52). Examples of an oligopoly would be cellphone networks such as 8ta, MTN, Vodacom and Cell C. Access to entry is high as it would entail having network stations all over the country. These companies will compete using marketing strategies.
- ***Monopolistic competition*** is a competitive market structure in which there are many providers or suppliers of a particular product. An organisation in this type of competitive structure will try to develop a marketing strategy that differentiates their products from other similar offerings (Pride & Ferrell, 2017:52).
- ***Pure competition,*** if it exists at all, is a competitive market structure in which there are an unlimited number of providers or suppliers of a particular product, none of which are strong enough to influence the supply or the price of the product (Blythe, 2013:47; Pride & Ferrell, 2017:52). An example would be a *"pad stal"* (farm stall).



Activity 2.2

Now that you have learnt about the types of competitors that exist in the market environment and the competitive market structures, try the following activity:

Alice and Tim have opened up a bakery called Mc Gonagal's Tasty Delights, where they bake all sorts of goods ranging from bread and cakes to savoury treats. Identify and discuss the competitive market structure of Mc Gonagals Tasty Delights, and also discuss the type of competition Pick n Pay would be to Mc Gonagals Tasty Delights?



Feedback

Alice and Tim's bakery can be seen to have a monopolistic competitive market structure as there are many suppliers of baked goods; products can be seen to be differentiated, but there are substitutes

available in the market and there are only a few barriers to entry. Retailers in this competitive market structure mostly differentiate themselves by marketing strategy. Secondly, Mc Gonagals Tasty Delights specialises in baked goods; Pick n Pay, however, is a supermarket that sells appliances, household products such as detergents and baked goods to name but a few aspects The type of competition Pick n Pay would pose is that of intertype competition as they differ in retail format to Mc Gonagals, but they sell the same products.

We will now look at suppliers within the market environment.

2.4.3 Suppliers

As shown in figure 2.6 the third variable in the market environment is suppliers. ***Suppliers*** can be seen to play a critical role in the overall customer value delivery system in that they provide the retailer with the merchandise they sell to customers (Armstrong & Kotler, 2015:95). A supplier should be viewed both as a partner as well as a competitor to the retailer (Dunne et al., 2014:145). A partner in the sense that they could assist you with marketing materials to promote their products within your store or they could provide you with innovative products that create a competitive advantage, and also the other way around whereby you as the retailer create an awareness of the supplier's product in the marketplace; and a competitor in the sense that every additional rand charged by the supplier is one less for the retailer (Dunne et al., 2014:145). Supplier problems can have a big impact on retail operations. It is therefore incredibly important to have the right supplier that delivers the right quantity at the right quality and at the right price, as this has a direct impact on prices charged to consumers and the ability to satisfy customers, which will determine success and survival of the retail operation (Cant et al., 2013:41).

2.4.4 Intermediaries

As shown in figure 2.6 the fourth variable in the market environment is intermediaries. An ***intermediary,*** also referred to as a middleman, plays an incredibly important role in getting producers' products through to the final consumer and include wholesalers, distributors, financial intermediaries such as banks and insurers, agents, brokers and retailers (Erdis & Cant, 2015:24). While all intermediaries play a role in getting the product or service to the consumer, let us take a look at three key intermediaries that could have an effect on a retailer and their ability to get their products or services to the end consumer:

2.4.4.1 Wholesaler and retailer

These intermediaries are described as independently owned organisations that take ownership of the products they handle. Wholesalers purchase products in bulk and store them until there is a demand; this demand usually comes from other intermediaries such as retailers who then sell on the products to the consumer for a further profit (Hammond, 2017). Some retailers might purchase the products they sell in their stores from wholesalers; look at a spaza shop – in most cases spaza shops will go to wholesalers such as Makro and buy products in bulk and sell them off to their consumers for a profit.

2.4.4.2 Distributor

Distributors often have exclusive buying agreements with the manufacturer of a product, which limits the number of firms that can carry a product or enables that distributor to cover specific areas. A ***distributor*** is the manufacturer of that particular product or product lines and has direct contact with prospective buyers. While distributors rarely sell to end consumers, wholesalers and retailers generally purchase from distributors in order to sell these products on to the final

consumers (Cole, 2017). Take for, example, Apple products in South Africa; Apple is a product that is manufactured overseas, however, it sells its merchandise to distributors across the world to then sell on to resellers. Apple products in South Africa can be bought by the Core Computer Business (CCB) – a value-added distributor in Southern Africa – which then sells Apple products on to retailers (Core Group, 2012) such as Incredible Connection. Therefore, the above-mentioned intermediaries play an important role in getting the product to the retailer and then the consumer.

2.4.4.3 Financial intermediary

A ***financial intermediary*** can be seen to be a financial institution such as a bank, investment bank, insurer, pension fund or building society that offers a service to assist a company or individual to borrow or save money (Pettinger, 2012). Let's revisit the Spaza shop example; the owner of the Spaza shop might need additional funds in order to purchase the stock for his shop, so he will approach a financial intermediary that will fulfil this role.

As shown in the learning unit overview diagram, in the next section we will look at the micro-environment and how businesses need to evaluate their own internal variables in order to remain competitive.

2.5 THE MICRO-ENVIRONMENT

As shown in figure 2.1 the third component in the retail environment is the micro-environment. The ***micro-environment,*** also termed the internal environment, comprises internal variables that management can control such as the mission and vision statements, the staff that are hired, the retail mix, and other functional areas like logistics, finance and operations (Cant, 2016:27; Kiley in: Strydom, 2014: 34). It is important that retailers understand the makeup of this environment as these variables are key determinants in the potential of the retailer to meet challenges faced in the external environment (Senapati, 2015:17; Cant, 2016:28). Figure 2.7 below illustrates the variables that make up the micro-environment, namely strategic plan, resources, skills and abilities, and retail mix.



Figure 2.7: Variables in the micro-environment

Source: Adapted from: Cant (2016:27) and Dunne et al. (2014:70)

Let's start by taking a look at the strategic plan of a business.

2.5.1 Strategic plan

As shown in figure 2.7, the first variable in the micro-environment is the strategic plan. The ***strategic plan*** within the micro-environment comprises all the variables that determine the strategic direction of a retail organisation and involves adapting these variables to the opportunities and threats to the changes in the retail environment (Cant et al., 2013:36; Dunne et al., 2014:46). These variables include a retailer's mission and vision statements, their goals and objectives, and their target market selection. Each of these elements will be briefly discussed below:

2.5.1.1 The mission and vision statements of the organisation

The first thing that a retailer needs to consider in their strategic planning is the formulation of their mission statement (Dunne et al., 2014: 47). The ***mission statement*** describes the core reason for why the organisation exists; it identifies its products, services and customers and indicates to employees and customers the direction in which the enterprise is heading (Cant, 2016:29; Dunne et al., 2014:47; Grewal & Levy, 2014:36). Essentially a mission statement should be a summary of what the retailer hopes to achieve through their operations (Goworek & McGoldrick, 2015:38). Changes in the mission statement are a reflection of changes occurring in the environment and management practices (Boone & Kurtz, 2014:38). While a mission statement defines an organisation's purpose and reason for existence, many organisations also prepare a vision statement.

A ***vision statement*** is a detailed future-thinking piece that is indicative of an organisation's intentions for a five-year period for example; this could include how it proposes treating its customers and its ethical standpoint to name but a few aspects (Poloian, 2013:69).



Let's now take a look at a few mission and vision statements of a few well-known retailers in South Africa, namely Specsavers, Mica and PNA, by following the links below.

- http://www.specsavers.co.za/page/aboutcompanyoverview
- http://www.mica.co.za/about-us/vision-mission/
- https://www.pna.co.za/about.pna

2.5.1.2 Goals and objectives

The ***strategic goals and objectives*** a retailer sets are seen as the guidelines on how the company intends accomplishing its mission. Essentially goals provide an overview as to what the organisation wants to achieve in the future, while objectives provide the retailer with a more specific framework to follow, thereby empowering them to implement their strategies (Goworek & McGoldrick, 2015:38). Objectives can either be set for the short term or the long term.

2.5.1.3 Identifying the target market

Once the mission, vision, goals and objectives of an organisation have been defined, the retailer will need to identify the consumers they wish to target. The ***target market*** comprises those individuals who the retailer wishes to serve (Dunne et al., 2014:64). Identifying these individuals allows a retailer to then establish their wants and needs and offer products that cater to these

needs and wants at a suitable place and price (Goworek & McGoldrick, 2015:39). The target market selected by an organisation should be large enough for the organisation to meet their stated goals and objectives, and thereby safeguard growth and survival in the long term. Some retailers might target smaller markets as the company is able to exploit these markets with the resources they have available while making a profit. The most important aspect for a retailer to keep in mind is that each market selected is defined by certain characteristics and these characteristics need to be kept in mind when formulating their retailing strategy (Cant, 2016:30).

The second variable within the retail environment is that of the retail mix. This will now be discussed.

2.5.2 The retail mix

As shown in figure 2.7, the second variable in the micro-environment is the retail mix. In order to achieve the goals and objectives of the organisation, a retailer needs to compile a retail mix that appeals to their target market. According to Dunne et al. (2014:67), a retailing mix can be seen to comprise:

- location – the place in which your store is located;
- store layout and design – the way in which the store is set up in order to appeal to the target market;
- merchandise – these are the products that your store will sell to consumers;
- price – the amount that the retailer charges for a product;
- customer service and selling – value added services that a retailer can employ to create a pleasant shopping experience; and
- advertising and promotion – the way in which a retailer creates an awareness of the product they are selling

As you can see, the retail mix comprises the "rights" of retailing discussed in learning unit 1.

2.5.3 Resources, skills and abilities

As shown in figure 2.7, the third variable in the micro-environment is the resources, skills and abilities of an organisation, and is something the retailer can control. Resources refer to capital, both monetary and human, that the organisation has available. When organisations structure and manage their available capital in the correct way, it allows employees to operate to the best of their abilities. Furthermore, it can be seen that with the correct structure in place, market threats and opportunities can be dealt with effectively (Cant et al., 2013:40). Many organisational structures arrange employees into functions with specific activities or tasks. Below are some examples of these functions and their core objectives (Kiley in: Strydom, 201:34):

2.5.3.1 The marketing function

These are all the activities that are used by marketers to promote and sell the retailers' products to potential customers (Kiley in: Strydom, 2014:34).

2.5.3.2 The logistics function

This is the process of moving physical goods in the most effective manner from the source (manufacturer) to the final destination (end consumer) and includes all the activities of

transportation, inventory management, warehousing and order fulfilment (Berman & Evans, 2013:416).

2.5.3.3 The financial function

The primary responsibility of the financial function within the organisation is to ensure that all debtor and creditor payments happen on time (Kiley in: Strydom, 2014:34). Other tasks of the financial function are to manage the balance sheet, income statement and the evaluation of the organisation's financial investments to name but a few (Terblanche et al., 2016:397–398).

2.5.3.4 The human resource function

The function of human resource management involves the hiring of the right individuals for the retailer, training and payment of staff, and ultimately the alignment between staff structure and strategy (Berman & Evans, 2013:320). This is a very important aspect within the retail environment as an organisation's sales staff could imprint a bad or good impression of the business on the consumer's mind.

We have now come to the end of our discussion on the retail environment and the different variables that can be seen to affect retailers at each level. It is important that retailers evaluate the variables in the market and macro-environment as it is these external variables that will shape the strategy and product offering of the retailer – essentially the retailer's internal environment. The core purpose of reviewing the different layers within the retail environment is so that a retailer can bring in line organisational strengths with the potential opportunities presented in the marketplace and therefore remain sustainable and competitive (Erdis & Cant, 2015:24).

2.6 SUMMARY

This learning unit brought to light the fact that we live in an environment that is forever changing and that if a retailer wishes to remain successful or wishes to avoid failure, they must anticipate and respond to changes in the environment. Retailers need to take cognisance of the fact that they cannot change the macro-environment, that they have partial influence over the market environment, and that they have to review these two external environments and develop and alter strategies and variables internally in order to remain competitive.

In the next unit (learning unit 3) we will have an in-depth discussion of the different types of suppliers that retailers can use and how retailers are to ensure good supplier relations. Before continuing to the following unit, please complete the assessment questions and reflect on what you have learned in this unit.

2.7 SELF-ASSESSMENT



Please note that these self-assessment questions will be available on myUnisa on the self-assessment tool, and you are encouraged to complete them online. The answers will be provided to you upon submission.

QUESTION 1

Tessa, the owner of a clothing boutique, is considering using digital mirrors within her store; she believes it will give her store a competitive advantage. Which layer within the retail environment has Tessa consulted in drawing up this conclusion?

1 Micro-environment
2 Market environment
3 Macro-environment
4 Task environment

QUESTION 2

Most countries around the world can be seen to have banned the promotion of cigarettes; this can **BEST** be explained as an influence of the … environment.

1 sociocultural
2 legal and political
3 economic
4 technological

QUESTION 3

Paul, the director of a well-known pharmacy group, has decided it is time to change some of his company's goals and objectives. This refers to a change in the … environment.

1 micro-
2 task
3 market
4 macro-

QUESTION 4

Tiny Toes, a company that produces and sells handmade baby clothing, can **BEST** be seen to operate in a … market.

1 business/industrial
2 consumer
3 government
4 reseller

QUESTION 5

Inter-type competition can be described as …

1 competition that occurs among retailers with the same type of retail format.
2 competition between retailers with different formats, but that sell the same merchandise.
3 competition in which the manufacturer owns the distribution channel and the retailer.
4 when a retailer intercepts a competing retailers consumer.

QUESTION 6

Which **ONE** of the following competitive market structures has only a few sellers of a particular product and the barriers to entry are somewhat high to keep new entrants from entering the marketplace?

1 Pure monopoly
2 Oligopoly
3 Monopolistic competition
4 Pure competition

QUESTION 7

According to News online, interest rates will increase from 11.2% to 11.6% in January 2017. Which macro-environmental variable could be affecting retailers?

1 Technological
2 Sociocultural
3 Physical
4 Economic

QUESTION 8

Which **ONE** of the following options represents variables in the market environment?

1 Consumers and suppliers
2 Economic and technological environment
3 The mission statement and retail objectives
4 The retail mix and the management structure

QUESTION 9

In the micro-environment a retailer has … over the environment.

1 no control, but slight influence
2 direct control
3 partial control and partial influence
4 no control

QUESTION 10

An oligopolistic competitive market structure is **BEST** described by which **ONE** of the following statements?

1 There are only a few suppliers, where the products are homogenous or differentiated and there are some barriers to entry.
2 There is only one supplier; there are no substitutes and there are high barriers to entry.
3 There are many suppliers; products are differentiated by marketing strategies and there are a few barriers to entry.
4 There are an unlimited number of suppliers; products are the same and there are no barriers to entry.

2.8 REFLECTION



Before you continue to the next learning unit, please reflect on the following questions:

1 How do you think you will be able to use the skills you learned in this learning unit in your professional life?
2 What did you find difficult about this learning unit? Why do you think you found it difficult? Do you understand the concept you were struggling with now or do you need help? What are you going to do about getting help if you need it?
3 What did you find interesting in this learning unit? Why?
4 How long did it take you to work through this learning unit? Are you still on schedule or do you need to adjust your study programme?

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TOPIC 2

MANAGING RETAIL OPERATIONS

AIM

The aim is to demonstrate your knowledge on managing retail operations. You should be able to explain the importance of selecting suppliers and building supplier relations in the retailing environment. Discuss the importance of selecting an appropriate location for a retailing operation and the importance of designing the correct store layout at the chosen location. Explain the importance of ensuring that a retailer has the right variety and assortment of merchandise at the appropriate quality level in their store to ensure that they match the needs and requirements of their identified target market. Discuss the importance of pricing merchandise performance in order to effectively manage stock in a retail outlet.

LEARNING OUTCOMES

After studying this topic, you should be able to know, understand and be able to do the do the following:

- Understand the term "sourcing".
- The various sources of supply for the retailer are identified and described in terms of their characteristics and the services they provide.
- The criteria to be considered when evaluating suppliers are described and illustrated by means of practical examples.
- The issues to be considered and finalised when negotiating the purchase with suppliers are described.
- The tasks of ordering and following up on the purchase are described in terms of the activities that must be performed.
- The importance of building and maintaining relationships with suppliers is described in terms of the long-term benefits they can deliver to the retailer. The foundations of supplier relationship and supplier relationship management are discussed.
- The importance of store location is described in accordance with relevant literature with emphasis on the retail principles that apply in the choice of a location.
- The issues to be considered when selecting a location are explained and applied to a given case study.
- The factors to consider when planning merchandise assortment to meet customer demand are explained in the context of merchandising with the aid of relevant practical examples.
- The use of the buying plan to control stock investment is explained in accordance with the relevant literature.
- The importance of planning for staple and non-staple stock is explained with the aid of practical examples to highlight the difference between the two types of stock.

- The importance of planning the variety and assortment of merchandise for a retail store is explained and the consequences of poor planning outlined.
- The decisions to be made when deciding on the level of merchandise to keep in stock are explained and highlighted with practical examples.
- The decision areas to be considered when deciding on when merchandise should be ordered is explained.
- The various pricing objectives are considered in the context of retailing.
- The different pricing strategies are explained in accordance with relevant literature to illustrate their application.
- The various factors that may influence pricing decisions are discussed in accordance with relevant literature.
- The different types of mark-downs are explained and their use highlighted with appropriate examples.
- The steps in the merchandise handling process are explained in a logical step-by-step process with the aid of relevant practical examples.
- The steps to be followed when developing the merchandise budget plan are described in accordance with relevant literature.
- The various types of store layouts are described and suggestions are made as to the most appropriate option to select for a given retailer.
- The various store images and atmospherics are discussed in accordance with relevant literature in retailing.

TOPIC CONTENT

Learning unit 3:	Choosing the right supplier
Learning unit 4:	Selecting the right location and store image
Learning unit 5:	Choosing the right merchandise to sell
Learning unit 6:	Deciding the right amount to sell and when
Learning unit 7:	Determining the right place to sell at

Learning unit 3

Choosing the right suppliers

Contents

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Key concepts
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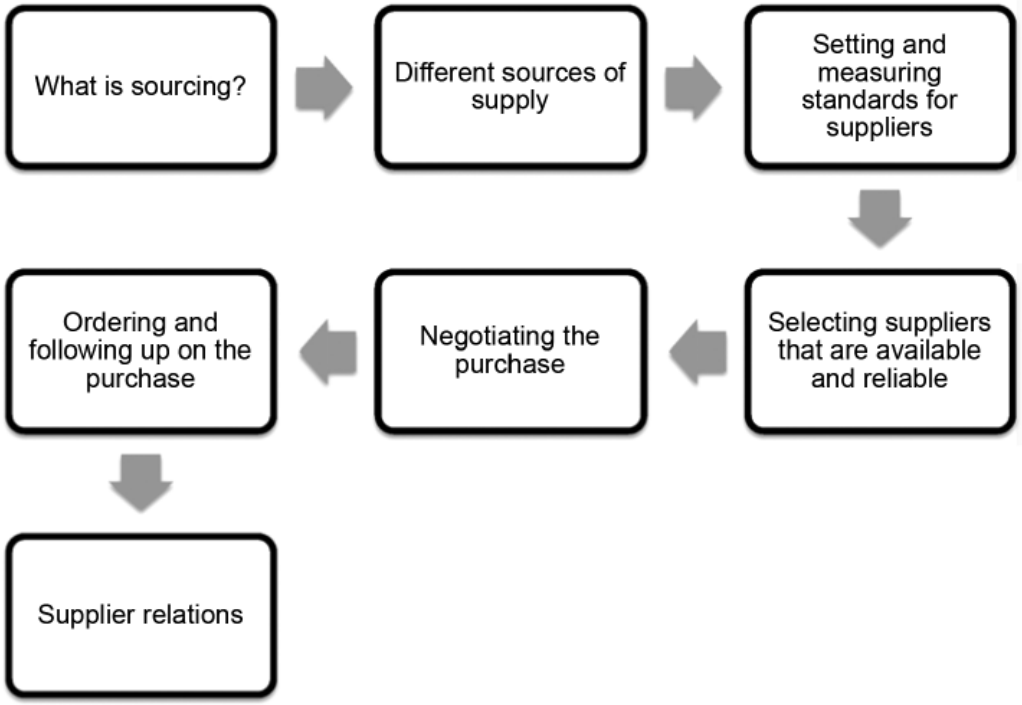
3.7 Summary
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OVERVIEW OF THIS LEARNING UNIT

In this learning unit we discuss and explain what sourcing is, the different types of retailers, setting and measuring standards for suppliers, selecting suppliers that are available and reliable, negotiating the purchase, ordering, and following up on the purchase and supplier relations.

Ultimately you need to understand the importance of selecting suppliers and supplier relations and the important roles these play in having a satisfied consumer.

This learning unit unfolds as follows:





LEARNING OUTCOMES

After completing this learning unit, you should be able to do the following:

- Explain what the term "sourcing" entails
- Identify and explain the different types of suppliers that retailers can use
- Explain the different standards criteria used to evaluate suppliers
- Discuss the factors that are used to evaluate the availability and reliability of suppliers
- Understand and identify the various sources of supply that can be used by retailers
- Identify and discuss the factors to be considered when negotiating the purchase
- Understand and discuss the importance of supplier relations



KEY CONCEPTS

You will need to master the following key concepts in order to meet the learning outcomes for this learning unit:

- Sourcing
- Producer
- Manufacturer
- Repetitive process
- Discrete process
- Job shop process
- Continuous process

- Batch process
- Wholesaler
- Merchant wholesaler
- Full service wholesaler
- Limited-service wholesaler
- Brokers
- Agents
- Discount
- Cash discount
- Anticipation discount
- Trade discount
- Quantity discount
- Seasonal discount
- Promotional allowance
- On memorandum
- On consignment
- Transactional relationship
- Collaborative relationship
- Alliance relationship
- Supplier relationship management

INTRODUCTION

In the eyes of the public, the supplier and retailer are often seen as the same entity. Therefore, it is of the utmost importance for any retailer to select the right supplier for their business's and consumer's needs. In the previous learning units, you were familiarised with the nature of retailing together with the retail environment. Retailers should select suppliers through a thorough identification and evaluation process to ensure a reliable partnership with suppliers. This process is vital, as it will ensure that the supplier delivers the correct products at the right time, place and price to the end consumer (Poulsen, n.d.).

3.1 WHAT IS SOURCING?

Sourcing refers to all the activities and processes needed to purchase goods and services from suppliers (Sanders, 2012:153). Once the retailer has determined what they need, the next step is to select the right suppliers – which can be new or existing suppliers, negotiate the purchase and contracts, and manage the orders (Sanders, 2012:157).



In order to find a suitable supplier, a buyer must request suppliers to send through the relevant information. According to Chakravarty (2014:113), there are three types of requests that buyers can put through to suppliers, namely:

- Request for information. This is when the buyer requests more information from the supplier in order to obtain market intelligence regarding the products and services.
- Request for proposal. This is when the buyer issues a request for proposal stating what they need, and the suppliers respond as to how they would address their needs.
- Request for quotation. This is used in a tendering process where the buyer specifically states the standard for the goods and services needed, and the supplier bids on what they can offer. The buyer then selects the most suitable bid.

Which of the three types of request do you think is most applicable for retailers and why? Share your opinion on the myUnisa discussion forum.

Note: You should be able to discuss the types of requests that buyers can put through to suppliers.

As shown in the learning unit overview diagram, now that we have a brief understanding of what sourcing entails, we can look at the different types of suppliers that a retailer can choose from.

3.2 DIFFERENT TYPES OF SUPPLIERS

In learning unit 1, the distribution channel was discussed. It highlighted some of the groups of people or organisations that move products or services from the producer or manufacturer to the end user. In learning unit 2, for the market environment, suppliers and intermediaries are differentiated. Suppliers provide merchandise for the retailer to sell, and intermediaries are referred to as the middlemen (the retailer itself and wholesalers etc.) in getting the goods to the consumer. Intermediaries may also act as suppliers, for example, wholesalers that provide merchandise to retailers for resale to the final consumer. This is indicated in figure 3.1, which shows the sources of supply for retailers, namely producers, manufacturers and wholesalers.

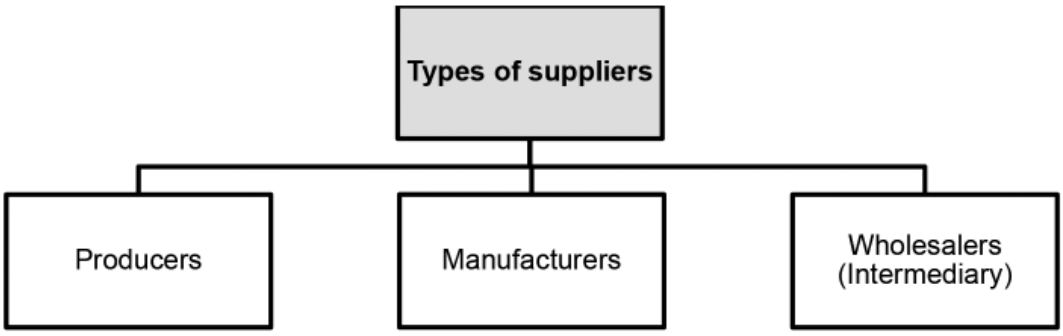


Figure 3.1: Types of suppliers

Adapted from theory. Chakravarty (2014:89)

3.2.1 Producers

A ***producer*** can be defined as someone who grows agricultural products or uses natural resources to produce goods (Merriam-Webster, 2017; Seth, 2016). According to Chait (2016), there are different types of agricultural products, namely foods, fibres and raw materials. Examples of food products

include grains such as rice, cereal crops such as wheat and corn, meats, and dairy products. Examples of fibres include cotton, wool, silk and hemp, which are usually used to make clothing and linen items. Raw materials are agricultural products used to make other agricultural products, for example, grains and cereal used to feed cows that produce dairy products. An example of a producer would be Thabo who owns a chicken farm and sells chickens to Mika Pies in order for them to make their peri-peri chicken pies.



Producers play a significant role in retailing because they are generally the first within a distribution channel and are required to use resources efficiently and effectively in order to ensure that goods are available for the consumers. According to Loomba and Nakashima (2012:697), there is enormous pressure on producers to become more environmentally sustainable. Over the years our consumption has increased significantly, depleting the natural resources, and this has led to the increased demand of sustainable development (Joshi & Rahman, 2015:128). Sustainable development is commonly defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (International Institute for Sustainable Development (UNDP), n.d.). In order to achieve sustainable development, it is important that three core elements – economic growth, social inclusion and environmental protection – are all addressed (Sustainable Development Goals, n.d).

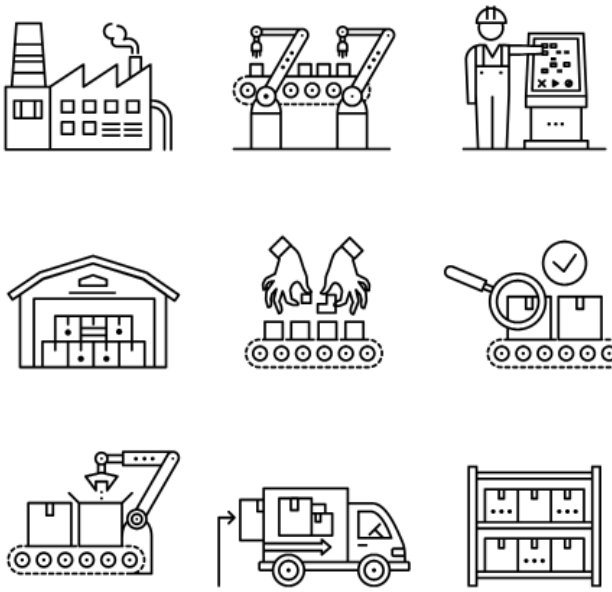


Before we begin with the discussion on manufacturers, please follow the link provided and read up more on the 17 goals of sustainable development by the UNDP.

– http://www.za.undp.org/content/south_africa/en/home/sustainable-development-goals.html

3.2.2 Manufacturers

Manufacturer – an organisation that takes raw products and through processes and operations, produces a final product (Business Dictionary, 2016a). Manufacturers generally distribute the final products to wholesalers and retailers to sell (Crandall & Crandall, 2015:273). For example, Mika Pies is the manufacturer of pies. They source all their products, like flour, butter, eggs and meat. After receiving the raw materials, they have a production line where the dough is prepared and another production line where the meat is prepared. After preparation is completed the pies are put together, baked and delivered.



According to Goldense (2015), there are five main types of manufacturing processes that most companies use in order to make the final product, namely the repetitive process, discrete process, job shop process, continuous process and batch process. Each of these is briefly explained below.

- ***Repetitive process*** **–** is used to make the same or similar goods the whole year round. For example, food products like cooking oil or laundry softeners in bottles (wiseGeek, 2017). The repetitive process is used for mass production at a high throughput and on a generic type of item (Management Study Guide, 2017). This method focuses on production rates and allows manufacturers to specify the quantity to be made on a daily, weekly or monthly basis (Oracle, n.d.).
- ***Discrete process*** **–** is used to make goods that are easily counted or touched and can be broken down at a later stage. For example, a car is made up of a variety of different parts, which can be stripped at a later stage (Rouse, 2009). The discrete process usually makes identical products through an assembly line and therefore focuses on assembly rates (Eby, 2015).
- ***Job shop process*** **–** is used make small batches of custom-made goods (Inc. 2017). For example, tailor-made clothing or custom-designed furniture sets. The job shop process requires a unique set and sequence for each type of custom-made item (Management Guru, 2014).
- ***Continuous process*** **–** is similar to the repetitive process except it is generally more complex in nature as it transforms or converts raw materials to produce an item that cannot be converted back to its original form (Eby, 2015). For example, food processing generally uses a method – for instance, when making rusks, the various ingredients are added and mixed together until the final product is done.
- ***Batch process*** **–** is similar to the continuous process except the materials are processed in batches. For example, a pharmaceutical company makes use of this process to create medicine; also, alcoholic beverages such as beer usually go through this process (Oracle, n.d.). For the batch process, each of the steps in the production process is done at the same time to an entire batch of items, and that batch only moves on to the next step once the whole batch has been completed (Graphic Products, 2014).

3.2.3 Wholesalers

A ***wholesaler –*** an entity in the distribution channel that buys in bulk from the manufacturer and resells the product (Business Dictionary, 2016b). Wholesalers generally resell the product to retailers, other merchants and commercial users (Dunne et al., 2014:185). While retailers generally resell to end users for personal use, wholesalers generally sell to those buying for resale purposes or for business uses (Kotler & Armstrong, 2013:418). As illustrated in figure 3.2, there are three categories of wholesalers, namely merchant wholesalers, brokers and agents, and sales branches and offices (Kolter & Armstrong & Kotler, 2013:420–423). Each of these will now be discussed.

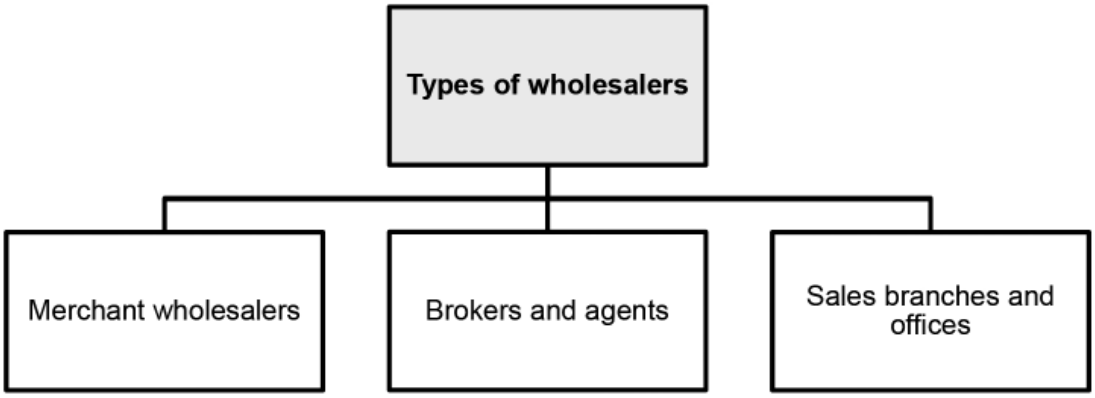


Figure 3.2: Types of wholesalers

Adapted from theory: Kotler & Armstrong (2013:420–423)

3.2.3.1 Merchant wholesalers (Kotler & Armstrong, 2013:420–423)

Merchant wholesalers are independently owned businesses that take ownership of goods in order to resell them (Elliot et al., 2014:384). There are two types of merchant wholesalers, namely full-service wholesalers and limited-service wholesalers. Full-service wholesalers generally handle large sales volumes and offer a wider variety of services to its customer, whereas limited-service wholesalers usually only offer services on a specific part (Britannica, 2017).

- ***Full-service wholesalers*** provide a range of services such as carrying stock, offering credit, making deliveries, maintaining sales force and providing managing assistance. Wholesale merchants mainly sell to retailers and there are three types. Merchandise wholesalers have a number of merchandise lines, for example, they might carry clothing, appliances, furniture and homeware. A general line wholesaler carries only a small number of lines, but with great variety. For example, they might carry only women's and men's clothing, but will have a wide selection of clothing items. A specialised wholesaler carries only part of a line, for example, they might only carry different types of denim jeans.
- ***Limited-service wholesalers*** offer only a few services and are differentiated based on the services that they offer. For example, cash-and-carry wholesalers carry a small line of fast-moving goods that are sold to smaller retailers and do not deliver the goods (Britannica, 2017). Truck wholesalers carry perishable goods that they stock in their own trucks. Rack jobbers usually carry non-food items and set up their own point-of-purchase displays and keep inventory records.



3.2.3.2 Brokers and agents (Kotler & Armstrong, 2013:420–423)

Brokers and agents do not take ownership of the goods and only facilitate buying and selling where they earn commission.

- ***Brokers*** are hired to assist with financing, assessing risk and negotiating between the buyer and seller. Brokers usually work on a short-term or once-off basis to negotiate on behalf of buyers and sellers (Elliot et al., 2014:384).
- ***Agents*** are generally used more regularly than brokers and tend to work on a continual basis to negotiate on behalf of the buyers and sellers (Elliot et al., 2014:384). There are four types of agents: manufacturing agents that represent wholesalers who offer complementary lines; selling agents who are contracted to sell all of the manufacturers' lines; purchasing agents who buy the best goods at the best price; and commission agents who take physical possession of the goods and negotiate the sales.

3.2.3.3 Manufacturers' and retailers' sales branches and offices (Kotler & Armstrong, 2013:420–423)

This is when the wholesaling process is done between the buyer and seller without an independent wholesaler being involved. Sales branches and offices also do not carry inventory (Elliot et al., 2014:388).



Activity 3.1



Please follow the link provided and read the article.

– http://www.infoentrepreneurs.org/en/guides/supplier-selection-process/

After reading the above article, assume you have been appointed the "buyer" for Mr Harper's one-stop shop in Polokwane. You can buy appliance, groceries, fresh products, braais, fireplaces and liquor all under one roof. It is important for you to manage suppliers, be able to rely on your suppliers, and know what to buy where in order to spend your money wisely and stay within budget.

Mr Harper wants to know from you where, and from what supplier you will be buying the below products and why?

- Fresh fruit and vegetables
- Fireplaces
- Appliances like toasters, hair dryers and kettles



Feedback

After doing your research, assessing your suppliers and identifying suitable suppliers, you were able to answers Mr Harper's questions as the buyer for his one-stop shop.

Fresh fruit and vegetables: These raw products you will be buying directly from the famers in Polokwane. By doing this you side-step the middleman and save on costs.

Fireplaces: These products are bought directly from the area wholesaler. It is also cost-efficient, as he is not required to go to Pretoria to buy these products and then have to arrange for distribution of the product to Polokwane.

Appliances: These are bought in bulk directly from XYZ Manufacturers.

Mr Harper can see from the above that, depending on the product, you have selected a suitable source of supply that can deliver the product to you as the retailer.

Note: You should be able to discuss the identification of a suitable source of supply.

Retailers will need to analyse their suppliers on a regular basis to ensure that they still meet the retailer's requirements and demands (Benton, 2014:168–170). In the next section we look at setting and measuring standards for suppliers, as shown in the learning unit overview diagram.

3.3 SETTING AND MEASURING STANDARDS FOR SUPPLIERS

In order for retailers to evaluate suppliers, they first need to decide on the type of factors a supplier should adhere to (Benton, 2014:173). It is crucial for the retailer to combine various factors in a meaningful way in order to rank their suppliers (Chakravarty, 2014:106). Evaluating suppliers should be based on tangible measures (Crandall & Crandall, 2015:270). The relationship between suppliers and retailers is more complex than ever and the purpose of evaluating suppliers not only assists in selecting the correct suppliers, but could also further develop current suppliers by addressing their weaknesses and strengths (Hofmann, Maucher, Kotula & Kreienbrink, 2014:94). It is important to note that there are numerous factors that could be used; therefore each retailer should set their standards based on their specific needs.

3.3.1 Factors for evaluating suppliers

Christopher (2016:51–53) and Erdis and Cant (2015:35–38) identify a few factors that could be used when evaluating suppliers, as illustrated in figure 3.3. Each of these factors will now be discussed.

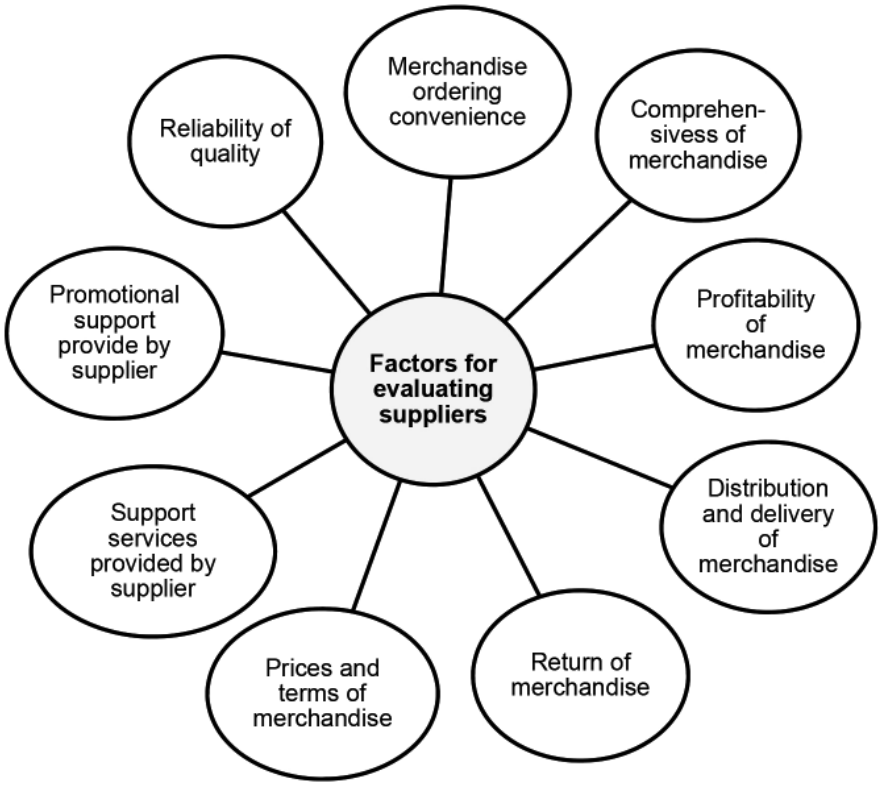


Figure 3.3: Factors for evaluating suppliers

Adapted from theory: Christopher (2016:51–53) and Erdis & Cant (2015:35–38)

- The first factor for evaluating suppliers as illustrated in figure 3.3 is merchandise ordering convenience. Retailers, like any other business, experience many different stressors while conducting business. Therefore, working with suppliers that they can easily and efficiently order merchandise from is important. For example, how easy is it to get hold of XYZ Manufacturers and to place orders? Are they able to make amendments to orders before delivery? Are they able to deliver both large and small quantities when needed?
- Comprehensiveness of merchandise is the second factor shown in figure 3.3. Increasingly, more retailers rationalise their supplier base and prefer having fewer suppliers (Christopher, 2016:35). It is important for retailers to know that they could get, if neccessary, a full line of products from one supplier. For example, if Abby Manufacturers produces only a variety of kettles, but Mr Harper wants one supplier that sells all kitchen appliances, then they would be eliminated as a supplier. This also saves the retailer time, transport costs and allows for bulk discounts.
- The next factor to consider when evaluating suppliers is the profitability of merchandise (see figure 3.3). The main aim of any retailer is to make money and be profitable; therefore retailers will regularly search for good prices on merchandise they can sell to make profit. For example, if Farmer A can provide tomatoes for R20 and Farmer B can provide tomatoes for R30, Mr Harper will definitely purchase from Farmer A as he can make more profit from selling his produce.
- As shown in figure 3.3, distribution and delivery of merchandise is another factor for evaluating suppliers. Order cycle time refers to how long it takes to deliver the merchandise from the time the customer orders it. Suppliers should deliver goods on time, every time, and this should be based on the retailer's stated requirements – especially for small retailers who run small stock levels. Retailers need to be able to trust and rely on suppliers to the deliver goods in order to have ample supply for their customers.

- Return of merchandise, as illustrated in figure 3.3, is another factor for evaluating suppliers. The retailer and supplier should agree on a return policy from the start. This is important as from time to time goods need to be returned due to damage, unsold stock, out of season stock or dissatisfied customers. In these situations, it is also important to evaluate how quickly the suppliers deal with these claims. Both the retailer and supplier should agree on the return policy and be held accountable for it.
- Prices and terms of merchandise is another factor for evaluating suppliers (see figure 3.3)**.** Each supplier has its own pricing conditions, transport conditions with cost, discounts, return policies and payment terms. These terms and conditions are different from supplier to supplier. These are very important factors for any retailer to take into consideration when evaluating a supplier. For example, Mr Harper chose XYZ Manufacturers as they have a 60-day payment plan, whereas their competitor, Vego Manufacturers, expects payment on a weekly basis.
- Support services provided by the supplier, as shown in figure 3.3, is another factor for evaluating suppliers. For example, does XYZ Manufacturers have a call centre consumers can phone when they struggle with their coffee machine? This is important for a retailer, as this enhances the consumer experience.
- Another factor for evaluating suppliers is the promotional support provided by the supplier (see figure 3.3). A supplier is expected to support the retailer when they want to run a promotion with your products. For example, XYZ Manufacturers is approached by Mr Harper to do a Mother's Day promotion on coffee machines. Mr Harper expects the supplier to have sufficient stock, deliver on time, and give him a discount.
- As illustrated in figure 3.3, the final factor for evaluating suppliers is reliability of quality. Consumers prefer going to a retailer that well-known for delivering quality goods. Retailers expect high quality goods from their suppliers as this is one of the reasons they are used as a supplier. The same level of quality is expected of suppliers every time they deliver goods.



Activity 3.2

Let's put the above evaluation criteria into perspective by completing the below exercise. As the buyer for Mr Harpers "one-stop shop" in Polokwane, you do an annual review of your supplier and give two new suppliers the opportunity to participate in the evaluation process. Doing this annually ensures that you deal with only the best suppliers at the best price.

You have decided to review the kitchen appliance division. You have three suppliers: XYZ Manufacturers who is your current supplier, Vego Manufacturers who is a new competitor in the market, and Abby Manufacturers who used to be your supplier before XYZ Manufacturers replaced them. In the below blocks, give a point out of 10 (1–5 being poor, 6–8 good, 9–10 excellent). Remember to take into account the type of supplier and location of the supplier. After the total score, please give a summary justifying your score for each supplier.

Evaluation criteria	XYZ Manufacturers	Vego Manufacturers	Abby Manufactures
Merchandise ordering convenience			
Comprehensiveness of merchandise			
Profitability of merchandise			

Evaluation criteria	XYZ Manufacturers	Vego Manufacturers	Abby Manufactures
Distribution and delivery of merchandise			
Return of merchandise			
Prices and terms of merchandise			
Support services provided by the supplier			
Promotional support provided by the supplier			
Reliability of quality			
Total score			



Feedback

Evaluation criteria	*XYZ Manufacturers*	*Vego Manufacturers*	*Abby Manufactures*
Merchandise ordering convenience	*7*	*8*	*7*
Comprehensiveness of merchandise	*10*	*10*	*9*
Profitability of merchandise	*6*	*6*	*6*
Distribution and delivery of merchandise	*9*	*8*	*8*
Return of merchandise	*10*	*8*	*8*
Prices and terms of merchandise	*9*	*9*	*9*
Support services provided by the supplier	*8*	*7*	*7*
Promotional support provided by the supplier	*5*	*7*	*6*
Reliability of quality	*9*	*8*	*9*
Total	*73*	*71*	*69*

XYZ Manufacturers:

Looking at the above evaluation, XYZ Manufacturers is still the best supplier, but there are some points they can improve on and that should be discussed with them. It is good to build a relationship with a supplier and to some extend it will be beneficial for the supplier and the retailer to continue

with the relationship, but it is always good to keep the supplier on their toes in order to deliver the best product at the best price.



Please read more on supplier evaluation by clicking on the link. This will give you a broader perspective on different versions of supplier evaluation.

– http://www.cigna.com/suppliercommunity/supplier-evaluation-criteria

Note: You should be able to discuss, in detail and with relevant examples, the evaluation process of suppliers and the execution thereof.

As shown in the learning unit overview diagram, the next section will discuss selecting suppliers that are both available and reliable.

3.4 SELECTING SUPPLIERS THAT ARE AVAILABLE AND RELIABLE

If a supplier is unable to assist or is unreliable, then it could cost the retailer (Chakravarty, 2014:89). According to Christopher (2016:33), if retailers have persistent "out of stock" situations, it could permanently drive customers away from the store. Therefore, after setting standards for suppliers, retailers should select the correct suppliers who are both available and reliable to work with. Availability of suppliers can be defined as the supplier being dedicated, credible and functional upon the demands and needs of the retailer (Business Dictionary, 2016c). On the other hand, reliability of retailers can be defined as the ability of a supplier to constantly perform on the delivering of products to the retailer (Business Dictionary, 2016d). The supplier is considered as reliable if they always deliver the products on time as per their agreement without having to follow up on them.

As shown in the learning unit overview diagram, in the next section we look at various aspects that should be considered when negotiating the purchase with suppliers.

3.5 NEGOTIATING THE PURCHASE

By now you have realised that selecting a supplier is a lengthy process. At this stage, you have identified the source of supply, set standards for the suppliers and determined the availability and reliability of the supplier. After these mentioned steps, you should have a clear indication of the supplier you want to use. The next step is negotiating the purchase.



Each company will have its own terms that they would like to negotiate on. Below are some suggested topics that will be good to include according to Info Entrepreneurs (n.d.).

- Price: From a retailer's point of view, the price needs to be reviewed every three months in order to secure the best price, but the supplier would like to have a fixed price for a year. Therefore, it is an important aspect that needs to be discussed and agreed upon.
- Value for money: From a retailer's point of view, it is important to determine whether the purchase is worth it. In this instance, promotions and discounts play an important role. When the retailer, Mr Harper, wants to promote Fox fireplaces during the winter months, he wants the supplier to also participate by giving him assistance and a discount if he buys double his usual order. The supplier, Fox fireplaces, should be willing to assist the retailer, as this is good for their brand and good for selling their stock and reaching their targets. This should be a win-win situation for both sides.
- Delivery: For example, fresh products like tomatoes, bread and milk need to be delivered daily, but long life shelve products like apricot jam, mayonnaise and cleaning products can be ordered and delivered on a monthly basis. The retailer also doesn't want to receive all his supplier deliveries on one day; therefore the dairy should deliver every Monday, the farmer every Wednesday, and suppliers goods every last Friday of the month. This way you will have full control over your deliveries.
- Payment terms: When will the supplier be paid? 30 days of 60 days' payment plan? On what day do they need payment, 25th or 1st of every month? These are all important aspects that the supplier and retailer need to agree on.
- After-sales services and maintenance arrangements: For example, if the retailer sells a fireplace to the consumer and the door hinge breaks, who will have to repair it? Are there spare parts available to replace the broken hinge? How many months or years is the fireplace under warranty? This ensures that the retailer is clear on their role as well as the supplier.
- Quality: For instance, if goods are made with more affordable material then the quality may not be as good compared to those that are made with more expensive materials. Therefore, the quality of goods and how much they cost should be discussed between the retailer and the supplier.
- Ownership transfer: At what point does the retailer take responsibility of ownership – when he places the order or when the goods are delivered to his store? This is a critical point as there are costs and risks involved. For example, XYZ Manufacturers received a bulk order from Mr Harper with the value of R50 000. En route to deliver the goods the truck is in an accident. Who takes responsibility for the insurance and the damaged goods? It is important to come to an agreement with the supplier on this point.

From the above it is very clear that the supplier and retailer have a few critical points to discuss before proceeding with their relationship.



Activity 3.3

Let us assume you are the owner of Barry's Garage and you make use of Mika Pies. You have chosen Mika Pies after you evaluated four other suppliers that can deliver freshly baked pies. Taking the above terms into consideration, how will you negotiate with Mika Pies on the following topics?

- Price
- Value for money
- Delivery
- Payment terms

- After sale services and maintenance arrangements
- Ownership transfer



Feedback

Price: *The normal profit for Barry's Garage is 25%, therefore in order to stay competitive and profitable they agreed with Mika Pies to pay them R15 a pie in order for them to sell it for R20.*

Value for money: *Every Friday, Barry's Garage likes to do a promotion "Friday is pie day. Buy two pies and receive a cold drink for free." Mika Pies has agreed to give them a R2.50 discount for each pie delivered on Fridays. This is a win-win situation as the order is normally double on Fridays due to the promotion.*

Delivery: *Mika Pies delivers freshly baked pies every second day in order to keep the stock fresh and tasty as agreed with Barry's Garage. The delivery fee is charged on top of the pies at R150 per delivery.*

Payment terms: *Barry's Garage agreed with Mika Pies to do a bi-weekly payment, as it is a business that relies on cash flow for its fresh ingredients.*

After sale services and maintenance arrangements: *If Mika Pies provided Barry's Garage with a branded food warmer for the pies, then they would agree to maintain it to ensure the customers always have warm pies. Also, Mika Pies agreed to take back the pies that Barry's Garage was unable to sell before the expiry date.*

Ownership transfer: *It was agreed that change of ownership will only take place once the pies are delivered to the dealership. If the pies are damaged en route to the garage, Barry's Garage will not be held liable.*

It is clear from the above that each company/organisation/retailer will have its own negotiation terms and conditions, which need to be agreed upon with the supplier in order for both parties to be happy with the relationship.

According to Clodfelter (2015:433–440), the four topics below are highly recommended for any negotiation between a retailer and a supplier, namely discounts, transportation, allowances and return privileges. Each will now be discussed.

3.5.1 Discounts



Discount – paying less than the original face value amount (Benton, 2014:35). A discount is indicated on the invoice before payment is made. For example, XYZ Manufacturers purchases boxes from a company called Box It. When they purchase in bulk – 5 000 or more boxes at once – they receive a 10% discount. The 10% discount will be indicated on the invoice before payment takes place. As shown in figure 3.4, there are five different types of discounts, namely cash, anticipation, trade, quantity and seasonal discounts (Clodfelter, 2015:433–438; McDaniel et al., 2013:741). Each of these will now be discussed.



Figure 3.4: Types of discounts

Adapted from theory (Clodfelter, 2015:433–438; McDaniel et al., 2013:741)

- ***Cash discount –*** the motivation or incentive a supplier offers to the retailer for an account that is settled before the agreed date (Investopedia, 2016). A cash discount can be best explained through an example. XYZ Manufacturers and Mr Harper agreed on a 60-days' payment period for goods delivered and date of invoice, but if Mr Harper pays the invoice 15 days after date of invoice, he is eligible for a 12% discount; 25 days after invoice, 8% discount; and 35 days after invoice, 5% discount on the full invoice. Therefore, if the invoice is not paid after 35 days, the full amount on the invoice is due. If you were Mr Harper, what would you do? As a business man, Mr Harper knows that paying within 15 days of receiving the goods could save him a lot of money during the course of the year. It will all depend on cash flow and how well the product sells in Polokwane.
- ***Anticipation discounts –*** receiving payment from the retailer before the end of the cash discount period (Inforcenter, 2014). For example, Mr Harper paid XYZ Manufacturers five days after receiving the invoice. An anticipation discount is calculated on the number of days from payment date to the end of the cash discount period; the sooner the retailer is able to pay, the more discount they receive (Inforcenter, 2014). An anticipation discount depends on the supplier and whether they offer it to retailers.
- ***Trade discount –*** an amount or percentage by which the retail price list of a product is reduced when sold to a retailer (Key Differences, 2016). A trade discount shows the retailer's profit margin and has a direct influence on the volumes of products purchased. For example, XYZ Manufacturers offer their retailers a 30% trade discount. The retail price for a coffee machine is R500. Mr Harper now orders 50 coffee machines at a trade discount and he will be charged R350 per coffee machine.
- ***Quantity discount –*** the discount a retailer will receive when and if they buy in bulk from the manufacturer (Business Dictionary, 2016). For example, Mika Pies sells its pies for R15 a pie to Barry's Garage when they order 12 pies daily. Due to new management and an upgrade of the garage, the garage is getting busier and Barry's Garage increases their order to 24 pies daily. Due to the increase in order, Mika Pies now sells the pies to Barry's Garage at R13 a pie.
- ***Seasonal discount –*** offering the retailer a discount for purchasing products a season in advance. For example, if Mr Harper ordered air conditioners in June for the upcoming summer, or heaters in December for the upcoming winter, then XYZ Manufacturers could offer a 2% discount on goods ordered.

The following section will now look at transportation aspects within the negotiation.

3.5.2 Transportation

When it comes to transporting goods, it is important to take the following into consideration: the costs and the titles of the goods (Clodfelter, 2015:438). Some basic essential topics need to form part of any negotiation between a retailer and supplier. For both parties this is a delegate topic as it can have a big influence on cost and profit.



The below terms need to be determined in the discussion:

- Who will be responsible for the transportation costs?
- Who will be held accountable to file a claim if something goes wrong?
- Who owns the shipment while it is in transit?

A few options should be taken into consideration regarding transportation costs:

- When the supplier pays for the transport/shipment:
  - it increases the cost of goods delivered to the retailer.
  - the supplier could offer a competitive rate to deliver goods to the retailer as they would most likely make delivery stops close to the retailer.
- When the retailer pays for the transport/shipment:
  - the price of the goods increases, making the end product even more expensive.
  - the retailer needs to add insurance for the goods while en route to him, adding to the end product price.

From the above it is very clear that transportation costs should be one of the main topics when negotiations take place between a retailer and supplier. In order to close the deal and start a good relationship, the supplier could give the retailer a preferred rate in order to accommodate some of the costs to the retailer; this could lead to the retailer saving some transportation costs.

3.5.3 Promotional allowances

Promotional allowances **–** payment the supplier offers to a retailer in order to assist the retailer to do additional promotional marketing of the supplier's products (Benton, 2014:58). A promotional

allowance is similar to a trade discount. For example, in the event that XYZ Manufacturers decide that they would like Mr Harper to do additional promotional work for their products in order to establish their name in Polokwane and get consumers to buy the product. In negotiations, XYZ Manufacturers agreed to give Mr Harper free promotional materials as well as a discount on the goods for the first six months in order to assist Mr Harper with marketing promotions on the full range. Mr Harper decided to give XYZ Manufacturers' products a very good area in his store; everyone who enters and leaves Mr Harpers store will be able to see the promotions – giving the supplier additional exposure. He could add them to his weekly promotional pamphlet and window promotions. As you can see from the above, a promotional allowance should be a win-win situation for the supplier and the retailer and both parties should benefit from it.



Read more about promotional allowances in the following the link:

– http://yourbusiness.azcentral.com/promotional-allowance-8094.html

3.5.4 Return privileges

Return privileges are generally used by suppliers of new goods that retailers may think of as risky (Clodfelter, 2015:440). For example, if Thulu approached a retailer to sell vegan cheese and yoghurt, the retailer might be reluctant because they do not feel that there is sufficient demand for vegan products in the South African market. In order to ease the retailer's mind, Thulu could negotiate return privileges. There are two types, namely on memorandum and on consignment. ***On memorandum*** is when the retailer pays for the goods, but can return any unsold items after a specified period (Clodfelter, 2015:440). On the other hand, ***on consignment*** is when the retailers take goods and only pay for the items once they have sold (Clodfelter, 2015:440).

Note: You should be able to discuss and understand the importance of negotiating the right purchase with the right supplier.

As shown in the learning unit overview diagram, in the next section we look at ordering and following up on purchases from suppliers.

3.6 ORDERING AND FOLLOWING UP ON THE PURCHASE

The retailer has an expectation to be supplied with merchandise from the supplier, but the supplier also has an expectation to receive merchandise orders from the retailer in order to supply them with goods (Benton, 2014:117). For example, Mika Pies can only deliver fresh pies on time, every time, when Barry's Garage places an order and confirms the order for delivery the following day. From the above it should be clear that once a retailer has determined their merchandise needs, they place an order and this order should be followed up to ensure confirmation that they are indeed preparing to deliver the order.



3.6.1 Ordering

Ordering refers to the process where the retailer contacts the supplier to place an order for merchandise; this process will secure the delivery of goods to the retailer. Once the retailer has placed the order, the supplier will send them an ordering form or a quotation for the merchandise. If the retailer signs the ordering or quotation form, they have accepted the terms and conditions for the merchandise and are legally obligated to purchase these goods (Business Dictionary, 2016e).

3.6.2 Following up orders

It should be clear that placing and following up an order should be an easy process for the retailer. Once the retailer has placed an order, they should follow up with the supplier to confirm that they have indeed received the order and they are preparing the order to be delivered. Once the retailer receives the order, they should double check the order to ensure that the correct goods and quantity have been delivered. In order to ensure a successful continuous relationship with suppliers, it is important to monitor suppliers to ensure that they are performing as agreed upon (Chakravarty, 2014:104).

As shown in the learning unit overview diagram, the next section will discuss supplier relationships.

3.7 SUPPLIER RELATIONSHIPS

Good supplier relations are critical to a healthy business. It is beneficial for both parties to realise; the best relationship is a win-win relationship. Retailers need good suppliers to deliver products for their business to sell, but suppliers need retailers to sell their products (Benton, 2014:261). According to Schroeder, Goldstein and Rungtusanatham (2013:151), suppliers could be viewed as partners, and building relationships with suppliers can improve the exchange of goods and services, which is mutually beneficial (Crandall & Crandell, 2015:595). This is a growing trend as it offers a number of benefits such as improved quality, reduced costs and integrated scheduling deliveries (Christopher, 2016:25). Taking this into account, it is beneficial and important to nurture and build good relationships with crucial suppliers.



Read more about supplier relationships on the following link:

– https://www.entrepreneur.com/article/205868

3.7.1 Foundations of supplier relationships

According to McCubbrey (2016), there are five core foundations of successful supplier relationships as illustrated in figure 3.5. Each of these will now be discussed.

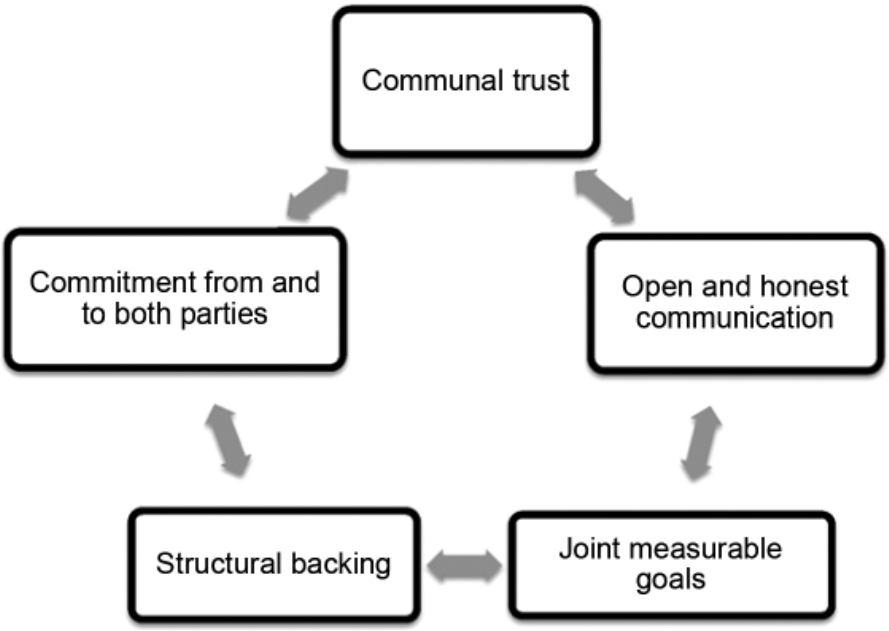


Figure 3.5: Foundations of supplier relations

Source: adapted from McCubbrey (2016)

- Communal trust – this foundation element is the most important of the five. Throughout this study guide, trust has been mentioned a few times. Retailers need to rely and trust on their suppliers to deliver goods on time, every time, and suppliers need to trust retailers to pay them and to place more orders. Having communal trust between these two parties is beneficial to both parties in the long term.
- Open and honest communication – this foundation is seen as a fundamental building block in having a long, strong and successful relationship with a supplier. Both parties need to be transparent with what their goals and deliverables are in order to have a better understanding of the other party.
- Joint measureable goals – both parties need to be open and honest regarding what their goals are and how they would like to reach them. For example, XYZ Manufacturers' main goal is to penetrate the Polokwane market through Mr Harper, therefore they would like to use this relationship to create awareness and distribute their products. Mr Harper would like to give his consumers a bigger choice of products in his store. From the above example it is clear to see that both parties are open about their goals and they will be able to measure them after a year.
- Structural backing – both parties should have the commitment and support of the relationship between them. Each person in an organisation plays an important role in either getting the products to the retailer, or selling the product to the end consumer. Management from both supplier and retailer should explain the reason for the partnership, and also the benefits there are to the partnership. This will help employees to have a better understanding of the commitment and the mutual goals both these parties have to each other.
- Commitment from and to both parties – once both parties have committed to each other, they should understand the mutual advantage there will be for due to this commitment.

It is beneficial for both parties to look out for each other and have each other's "back"; this will ensure mutual gain for both parties.

Note: You should now be able to discuss the five core foundations of building and maintaining a good relationship with a supplier.

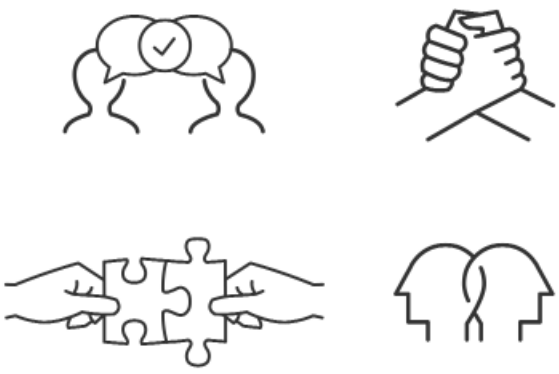
3.7.2 Types of supplier relationships

According to Badenhorst-Weiss, Van Biljon and Ambe (2017:120–123), there are three types of supplier relationships:

- ***Transactional relationship –*** the most common type of relationship because it is the most appropriate for once-off purchases and on-going transactions with the supplier. For this type of relationship there are many suppliers that aim to address short-term objectives with the price of the supplier goods as the main focus.
- ***Collaborative relationship –*** working with the supplier to sustain a cooperative trading relationship over a period of time. For this type of relationship, being interdependent and cooperating may lead to a beneficial relationship for both parties involved, and this is acknowledged by both. There are usually a limited number of suppliers that have long-term goals and are committed to working together with the supplier.
- ***Alliance*** or partnership-based ***relationships –*** have clear measures of success in place in order to build long-term, mutually beneficial relationships with the supplier based on specific performance requirements and conditions. A lot of hard work, time and trust are required for this type of relationship with the suppliers. There are usually few suppliers that have the long-term goals of sharing risk, opportunities and rewards with the supplier.

3.7.3 Supplier relationship management (SRM)

Supplier relationship management (SRM) – a fairly new concept that entails managing the relationships and interactions with suppliers in order to streamline and improve the effectiveness of the relationships (Crandall & Crandall, 2015:271). SRM in essence addresses any matters associated with sourcing and procurement, such as analysing the spending of a retailer, managing the products' catalogue, executing the sourcing processes, addressing payment, settlement and contracting aspects, and monitoring supplier performance (Crandall & Crandall, 2015:15).



Note: You should now be able to discuss the ordering and follow up process between the retailer and supplier.



Activity 3.4

As the owner of Mika Pies, how will you ensure that your retailers have a user-friendly experience when placing orders?



Feedback

As the owner of Mika Pies, I have put the following check points in place to ensure a hassle-free ordering system for my retailers:

- *As per the agreement between Mika Pies and all its retailers, all orders for the following day should be placed before 15h00 daily.*
- *Retailers simply log on to Mika Pies' website, log in as a retailer, and place their order.*
- *Once they have placed their order, they will receive a confirmation e-mail – confirming their order and the time of delivery.*
- *As per the agreement between Mika Pies and all its retailers, all orders for the following day will be delivered before 10h00 daily.*
- *Retailers can follow up their order by simple phoning Mika Pies' head office if they experience any difficulty.*

3.8 SUMMARY

In this learning unit, we defined, explained and demonstrated the process and importance of selecting suppliers and building a good reliable relationship with a supplier. Selecting a supplier plays a big role in running a successful business and supplying goods to the end consumer. Each step taken to ensure that the correct supplier is selected for your business is extremely important and should be evaluated in the best interests of the end consumer and the success of your business.

In the next learning unit, learning unit 4, you will look at being in the right location. Before continuing with the next learning unit, complete the self-assessment and reflect on what you have learned in this learning unit.

3.9 SELF-ASSESSMENT



Please note that these self-assessment questions will be available on myUnisa on the self-assessment tool, and you are encouraged to complete them online. The answers will be provided to you upon submission.

Question 1

Which **ONE** of the following **BEST** describes a manufacturer?

1 A manufacturer can be defined as an entity in the distribution channel that buys in bulk from the manufacture and resells to retailers.

2 A manufacturer can be defined as an organisation that takes raw products and through processes and operations, produces a final product that is required and demanded by a retailer.
3 A manufacturer can be defined as the organisation that delivers the end product directly to the consumer.
4 A manufacturer can be defined as the middle man between a retailer and end user.

Question 2

Which **ONE** of the following is a core foundation of building and maintaining relationships with a supplier?

1 Communal trust
2 Correct supplier
3 Product supply
4 Consumer demand

Question 3

Which **ONE** of the following **BEST** explains promotional discount?

1 A discount is received when an invoice is paid earlier than required.
2 A discount is received when a bulk order is placed for goods.
3 A discount is received for marketing purposes.
4 A discount is the product price that a supplier offers to a retailer in order to assist the retailer to do additional promotional marketing of the supplier's products.

Question 4

Distribution and delivery forms part of negotiating the purchase with a supplier.

1 True
2 False

Question 5

According to this study guide, which **ONE** of the following options is **NOT** a criterion for evaluating suppliers?

1 Comprehensiveness of merchandise
2 Support services provided by the supplier
3 Reliability of quality
4 Geographic location

Question 6

Which **ONE** of the following types of supplier relationships is characterised by having many suppliers?

1 Transactional
2 Collaborative
3 Alliance
4 Voluminous

Question 7

An incentive provided by a supplier to encourage payment of the account before the agreed upon date **BEST** describes a/an … discount.

1 cash
2 anticipation
3 trade
4 quantity

Question 8

The sooner the retailer is able to settle the account, the more discounts they receive. This is an example of a/an … discount.

1 cash
2 anticipation
3 trade
4 promotional

Question 9

The amount or percentage by which the retail price list of a product is reduced when sold to a retailer is an example of a/an … discount.

1 cash
2 anticipation
3 trade
4 quantity

Question 10

The discount that a retailer receives when they buy in bulk from the manufacturer is an example of a/an … discount.

1 promotional
2 anticipation
3 trade
4 quantity

3.10 REFLECTION



Before you continue to the next learning unit, please reflect on the following questions:

1 How do you think you will be able to use the skills you learned in this learning unit in your professional life?
2 What did you find difficult about this learning unit? Why do you think you found it difficult? Do you understand the concept you were struggling with now or do you need help? What are you going to do about getting help if you need it?
3 What did you find interesting in this learning unit? Why?
4 How long did it take you to work through this learning unit? Are you still on schedule or do you need to adjust your study programme?

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Learning unit 4

Selecting the right location and store image

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OVERVIEW OF THIS LEARNING UNIT

This learning unit deals with the selection of the correct location for the retail business. The key issues of focus are store location, the selection of the correct province, city or town, and premises and the layout for retailers.

This learning unit unfolds as follows:





LEARNING OUTCOMES

After completing this learning unit, you should be able to:

- understand and discuss the criteria for choosing where to locate a store.
- discuss the criteria for selecting a province.
- discuss the criteria for selecting a city or town.
- discuss the criteria for selecting a suitable location.
- explain the importance of choosing the correct layout.
- discuss the store image and atmosphere.
- explain the objectives and planning process of store design.



KEY CONCEPTS

- Market potential
- Economic condition
- Business district
- Central business district (CBD)
- Shopping centre or mall
- Free-standing location
- Non-traditional
- Storefront
- Aisle
- Major aisle
- Secondary aisle
- Grid layout
- Free-flow layout
- Loop layout
- Spin layout
- Atmospherics
- Ambient lighting
- Tasking lighting
- Accent lighting

- Decorative lighting
- Tempo
- Volume
- Genre
- Fixture
- Planograms
- Theme

INTRODUCTION

In order for any organisation to survive or remain competitive, it is crucial that they choose the correct location for their retail business. Where one chooses to locate their retail business will have a major impact on everything the shop does. The difference between selecting the wrong location and the right site could be the difference between business failure and success. Sometimes retail stores have launched new businesses in a particular location, only to close their doors after sales failed to deliver good profits. This section will help you to ensure that an existing location you move into is suitable and that you should not construct an entirely new building in a bad business location. We will begin by first looking at identifying a suitable target market.

4.1 IDENTIFYING A SUITABLE TARGET MARKET



Before identifying the right location for a retail store, it is important for the retailer to know who their target market is, which was briefly discussed in learning unit 2. Target markets refer to a group of consumers that a retailer is aiming to sell to (Entrepreneur, 2017). The following criteria should be met when identifying a target market, namely whether it is measurable, substantial and accessible (Dunne et al., 2014:261).

- Measurable. Retailers should be able to clearly identify the consumers within the target market by looking at demographic variables such as age, income, education and gender (Adams, 2017). This data is generally available and is easy to quantify, making it measurable.
- Substantial. Retailers should identify a large group of consumers that will be profitable (Adams, 2017). If the group is large enough, then it could possibly ensure that there are enough customers going to the store to ensure its success.
- Accessible. Retailers should be able to reach the consumers with their marketing strategies. For instance, a retail store located in Pretoria East could possibly post promotional items in that area's newspaper in order to reach that group.



Follow the link below to view statistics from the 2011 South African census.

– https://census2011.adrianfrith.com/

For each province, each metropolitan municipality, suburb and area, the demographics (gender, race and language) and population size are provided. The retailer could take this information along with more detailed reports to determine who stays in a specific area to find a measureable, substantial and accessible target market.

Note: You should be able to discuss the criteria for identifying a target market.

As shown in the learning unit overview diagram, the following section discusses selecting the right store location, which, as stated previously, is crucial for the success of any retailer.

4.2 SELECTION OF A STORE LOCATION

The location of a store should be on top of the list of considerations a business should have. A winning product is very important, but how will anyone know of the product if consumers do not enter through the door? (Entrepreneur, 2016). The correct location for a store is very complex, as it might have a high cost, and once the site is chosen there is very little flexibility in changing the site. The easier it is to reach a store, the more traffic a store will have, which will lead to higher sales and profit (Dunne et al., 2014:258). The location therefore has a big impact on the strategy of a company. Berman and Evans (2013:257) argue that a good location may enable a retailer to succeed even if its strategy is mediocre. An example is a hospital gift shop, which carries a limited range, has high prices, and does not advertise, yet the shop is very successful due to the location.



4.2.1 Store location selection criteria

The choice of a location requires extensive decision-making and there are a number of criteria to consider when making the decision. Illustrated and listed below are some of the important store location selection criteria that have to be considered (Erdis & Cant, 2015:48–49; Levy & Weitz, 2012:190–194).

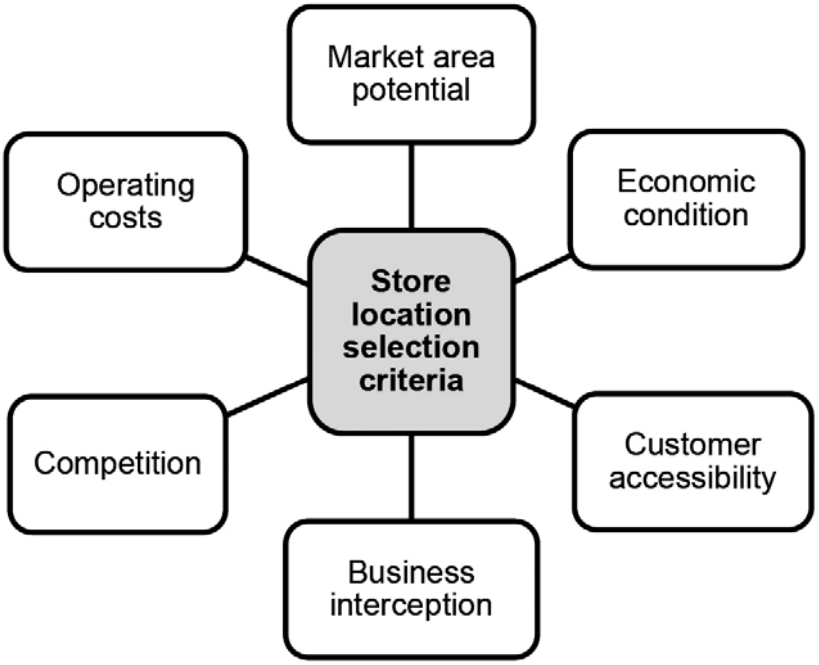


Figure 4.1: Store location selection criteria

Adapted from theory (Erdis & Cant 2015:48–49; Levy & Weitz 2012:190–194)

- As shown in figure 4.1, the first criterion to consider is market area potential. It is important to be located in an area with sufficient market potential. Drotsky (2014:45) states that ***market potential*** is the number of units for a product offering that a specific market can consume in a clearly defined period under ideal conditions, where marketing and competition do not have an influence. In essence, it refers to the potential a product offering has for the whole industry within the area (Ramaswamy & Namakumari, 2013:673). In addition, a store should ideally be in an area with customers that have purchasing power and the will to spend their money.
- Economic condition is the second criterion as shown in figure 4.1. ***Economic condition*** refers to the financial position of an area within a specific period, which looks at variables such as unemployment and the GDP among other things (Business Dictionary, 2017). A store should be in a location where it has growth and employment potential. Due to the fact that a retail store requires a lot of investment to set up and aims to be at one location for a long period of time, the growth and employment potential is important. An example would be a store in a new residential area with new development estates that is populated with predominantly young married couples.
- Customer accessibility is the third criterion as shown in figure 4.1. It is vital that the store is accessible and in reach of the consumers. There are issues that need to be addressed to assess whether a store is accessible (Samli, 2015:75), such as whether the area is safe for shoppers and whether there is excessive traffic as this might negatively impact customers. An example would be a grocery store in the busiest part of town that is not visited as much as the one in the quieter suburbs. Due to the high volumes of traffic it is difficult for consumers to walk with bulky packets when there is a lot of traffic. Some retailers, on the other hand, may locate their store at the entrance that is the closest to the public transport entrance, making it easier for the customers to go home once they have done their shopping.
- As shown in figure 4.1 the fourth criterion is business interception. Interception means to "catch" a consumer. This can be done by being attractive or offering something unique. A store can be located in an area where it can intercept the shopper on the way to a traditional

retailer. For instance, a small pharmacy that operates from a local grocery store with longer trading hours will deter shoppers from travelling to a bigger pharmacy chain that is situated further away.

- Competition is the next criterion as illustrated in figure 4.1. Current and future competitors must be identified and considered. It is important to have a unique offering so that the store is chosen instead of its competitor. An example would be a hotel that opens in a small village on the Wild Coast. It will attract a lot of guests as it is situated in a unique place, but might also attract other hotels as there is potential.
- Operating costs is the last criterion as shown in figure 4.1**.** The retailers need to look at the feasibility of a site and the cost of running a store there. Certain areas may be more expensive in terms of property costs and leasing, for example, if one were to consider an area like Sandton, Johannesburg compared to Polokwane, Limpopo.

Note: You should be able to discuss the importance of the correct store location and the criteria to consider when deciding on the location.



Activity 4.1

Themba wants to open a fish and chips shop in Soweto. Discuss the criteria that he needs to consider when deciding on the location.



Feedback

There are six criteria that Themba must consider. You can discuss any three of the below:

***Market area potential**. Themba could open his fish and chips shop in a busy location, for instance, in a busy mall or close to a taxi rank, because these locations are likely to have a lot of people going past on a daily basis. After doing some research Themba found that there is a demand for fish and chips; there is only one other fish and chip shop in Soweto. There are a lot of people living in Soweto who spend a lot on take-aways.*

***Economic condition**. Themba could open his shop in an area where there is potential for growth – for instance, a new extension in Soweto that is booming with new development taking place where centres and office parks are being erected.*

***Customer accessibility**. Due to the fact that the shop would be situated in a busy mall or a taxi rank that experience a lot of foot traffic, it would most likely be easily accessible to his potential customers. However, it is also important that the shop be visible to these customers. Even if the store is close to the mall or taxi rank, but it is located behind these locations and is hidden behind some building, then the potential customers may not see it.*

***Business interception**. Themba could open his shop en route to the mall or to the taxi rank. That way the potential customer will likely walk pass it on his way to another shop or on his way to and from work.*

***Competition**. Themba should be mindful that other fish and chips shops could open in the same area, so it is important to choose the correct location. Ideally, if Themba is the first to open a fish and chips shop and he does a good job by providing quality food at the correct price, then it will be more difficult for other shops to sell the same product because he would have established a good reputation.*

***Operating costs**. Themba should ensure that the location he chooses has the right facilities for his potential customers and to run his store. For example, the mall he chooses should hopefully have a generator for stores so that there is a consistent supply of electricity. So even during load shedding times, his business can continue.*

Once the store location has been decided on, the next section would be to look at the store premises, as shown in the learning unit overview diagram.

4.3 SELECTION OF PREMISES

"Premises" refers to a house or building, together with its land and outbuilding, occupied by an organisation (Dictionary.com, 2017). When it comes to selecting a location, the retailer must look at the location of the premises and the actual store.

4.3.1 Basic locations of premises for retailers

As illustrated in figure 4.2, there are four basic locations that retailers can consider (Dunne et al., 2014:264–270).

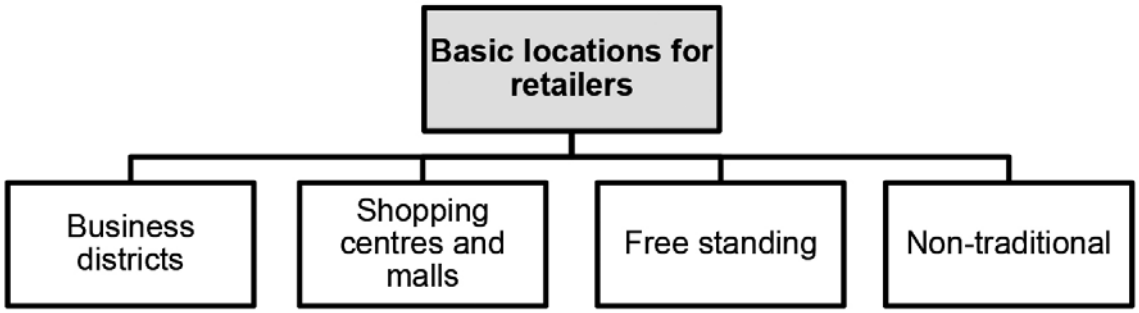


Figure 4.2: Basic locations for retailers

Adapted from theory (Dunne et al., 2014:264–270)

- ***Business districts*** refer to a part of a city or town where many businesses are situated (Merriam-Webster, 2017a). The ***central business district (CBD),*** also known as the centre of town, is usually a shopping area that was not planned, but formed because it is linked to numerous public transport systems. Retail stores located in the CBD are usually closely situated to financial and other business buildings (Poloian, 2013:273). Think of all the major cities in South Africa where many businesses are located. Being located in the CBD has a number of strengths and weaknesses, as listed in table 4.1:

Table 4.1: Strengths and weaknesses of business districts

Strengths	Weaknesses
Easy access to public transport	Insufficient or expensive parking
Wide product mix available	Usually older buildings
Variety of stores, prices and services	Possible traffic and delivery problems

Source: adapted from theory (Dunne et al., 2014:264–270)



- There is an explosion of shopping centres and malls opening in South Africa. A ***shopping centre or mall*** has a collection of stores that operate under one roof where there are usually one or more larger stores that generally draw more customers to the shopping centre. Shopping centres usually create their own image, preference and personality, which could make retailers more competitive so they can be associated with one that has a good image. Shopping centre and malls have the following strengths and weaknesses listed in table 4.2:

Table 4.2: Strengths and weaknesses of shopping centres and malls

Strengths	Weaknesses
More traffic due to wide product range	Fixed working hours
Shared costs with other stores	Generally higher rent costs
Accessibility to highway and parking	Possibly too much competition
Usually clean and neat	Requires membership with centre

Source: adapted from theory (Dunne et al., 2014:264–270)



- A ***free-standing location*** is when the retailer is located on a busy road, but does not really have many competing stores on the same road. This type of location would be better suited to well-known retailers as customers already know them and what they have to offer. Smaller retailers, on the other hand, could struggle because customers might not be

willing to drive to their store as it is not located near other stores. Free-standing locations have the following strengths and weaknesses listed in table 4.3:

Table 4.3: Strengths and weaknesses of free-standing locations

Strengths	Weaknesses
No direct competition	Difficult to draw customers
Usually has lower rent costs	Unable to share costs with other stores
Able to choose own trading hours	No complementary store close by
Usually does not have parking costs	May have to build instead of renting

Source: adapted from theory (Dunne et al., 2014:264–270)



- ***Non-traditional*** locations are increasingly being used and these include places such as an airport, hospital, student campus, restaurant, or basically anywhere where there are a lot of people who pass by (Goldberg, 2017). Another example would be a pop-up shop, which has become quite popular in the retail environment. A pop-up shop is usually open for a short period, for example, a day or three months, and can be a small shopping trolley to an actual store (Storefront, 2016). The strengths and weakness differ as it depends on which location is chosen and the target market.

Note: You should be able to discuss the different basic locations for a retail store.

4.3.2 Factors influencing store selection

According to Erdis & Cant (2015:55), there are a number of factors that influence store selection. These are illustrated in figure 4.3.

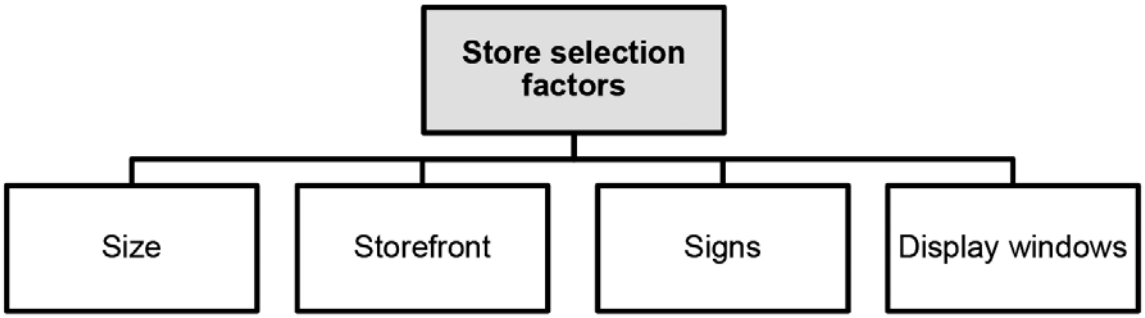


Figure 4.3: Store selection factors

Adapted from theory (Erdis & Cant 2015:55–58).

- As shown in figure 4.3, the first store selection factor is size. The building must be large enough so that the business can operate optimally, for instance, enough office space for staff. Future prospects should also be considered, for instance, expansion opportunities if the store grows more than expected.
- The second factor to consider when selecting a store is the storefront (see figure 4.3). ***Storefront*** is the front of a store or street-facing building (Merriam-Webster, 2017b). The storefront should be functional so that customers can access the store, and aesthetic so that it looks nice and welcoming (Varley, 2014:206). Retailers must understand the importance of the storefront as the entrance to a store will determine whether a consumer enters.
- As shown in figure 4.3, the next factor to consider when selecting a store is signs. Signs allow customers to identify the brand and type of merchandise a store has (Donnellan, 2014:393). It should be clear, easy to read and simple. A retail store can have permanent signage made from durable materials that will not change anytime soon, such as the brand name and logo (Donnellan, 2014:393). Signage on a store window can also be an effective way for retailers to notify customers of specific events such as new product launches, so windows can be used as free advertising space for the company to disperse information to passing customers (Goworek & McGoldrick, 2015:229). These types of signage are generally temporary and made from disposable material as they usually change all the time (Donnellan, 2014:393).
- The last factor to consider when selecting a store is the display windows (see figure 4.3). Display windows communicate to the customer the type of merchandise the store has and should be designed in such a way to get the attention of people walking by (Varley, 2014:237). Windows can be open, which allow customers to see past the displays and into the store, or windows can be closed, which shows the customers only what is being displayed (Varley, 2014:237). An example of an open window could be a florist that has a beautiful display of flower arrangements in the window, but the customer can see that other flowers are also available. A closed window, on the other hand, could be a clothing store that displays the latest fashion trends with signs enticing the customer to come into the store.

If a retailer has enough capital to invest in building their own store, the following factors will also need to be taken into consideration in order to build a store that suits the image that they are trying to portray. For instance, having identified a suitable location (business district, shopping centre or mall, non-traditional or free-standing) for the store, the retailer would then build the store by considering its size, storefront, signs and display windows.

Note: You should be able to discuss the different factors influencing store selection.



Activity 4.2

Donuts4Africa has 10 stores in the Gauteng area. The CEO decides to expand to the Free State and wants to open the first branch in Bloemfontein. Discuss which basic location would be the best for the store.



Feedback

There are four basic locations to choose from:

- *Business district*
- *Shopping centres or malls*
- *Free standing*
- *Non-traditional*

The ideal location for the donut shop would be in a shopping centre or mall as there is ample parking, which means there will be more shoppers and the mall is likely to be neat and clean.

Once the building has been selected, the store planning and design must be determined. As shown in the learning unit overview diagram, in the next section we will look at the different layouts for retailers

4.4 SELECTION OF STORE LAYOUT

According to Dunne et al. (2014:554), a good layout ensures the efficient movement of large numbers of shoppers through the store, exposing them to more merchandise, but also determines the character of a store. It should enhance a consumer's experience and draw the consumer's attention to the products on offer (Dunne et al., 2014:554). A retailer's success depends on how well the store floor plan is designed. The ultimate aim of the retailer is for the customer to buy from them. An optimal floor layout will maximise selling opportunities and sales conversions at no additional cost to the retailer through effective fixture, category and product placement (Bell, 2014:80). In essence, a store that is strategically designed ensures the effective use of merchandise and aisles to lead customers through a store in order to maximise exposer to all their products (Donnellan, 2014:379).

4.4.1 Types of aisles

An ***aisle*** is defined as a pathway for traffic within a store (Farlex, 2017). Aisles can be classified based on the size and the number of customers that can walk through it (Donnellan, 2014:380). Aisles are either considered to be a ***major aisle,*** which is very wide and connects to major parts of the store, or a ***secondary aisle,*** which is narrow (Donnellan, 2014:380). For example, major aisles would be at the entrance and exit areas, the pay till area and the product area, and secondary aisles would have snacks, canned foods and toiletries.



4.4.2 Types of layouts

According to Dunne et al., (2014:554–557), there are four basic layouts to choose from, namely grid, free-flow, loop and spine. Each of these will now be discussed.

- In the ***grid layout*** the aisles are placed parallel to each other in long rows as illustrated in figure 4.4. This layout allows for a lot of stock to be merchandised, and building costs will be kept low, but it can look uninteresting and the layout limits the customer as they are forced to move in a certain direction. In essence, the grid layout allows for the maximum available space to be allocated to the merchandise that the retailer stocks (Poloian, 2013:316). An example of a store with a grid layout would be a supermarket or pharmacy where all the products are merchandise on shelves parallel to each other.

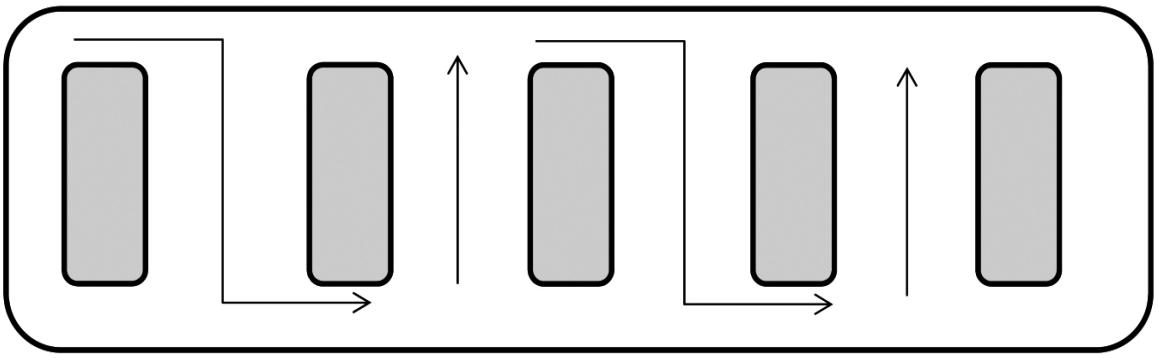


Figure 4.4: Grid layout example

- The ***free-flow layout***, as shown in figure 4.5, is a simple and informal layout, which makes use of various shapes and fixtures for its displays. Customers can follow any pattern they like. The advantage of this display is that it is flexible. Every store that follows this layout looks unique – keeping the customer interested. According to Poloian (2013:316), even though this form of layout is less structured, it does not forget about the traffic flow, meaning that it should still be easy for customers to shop and move from fixture to fixture.

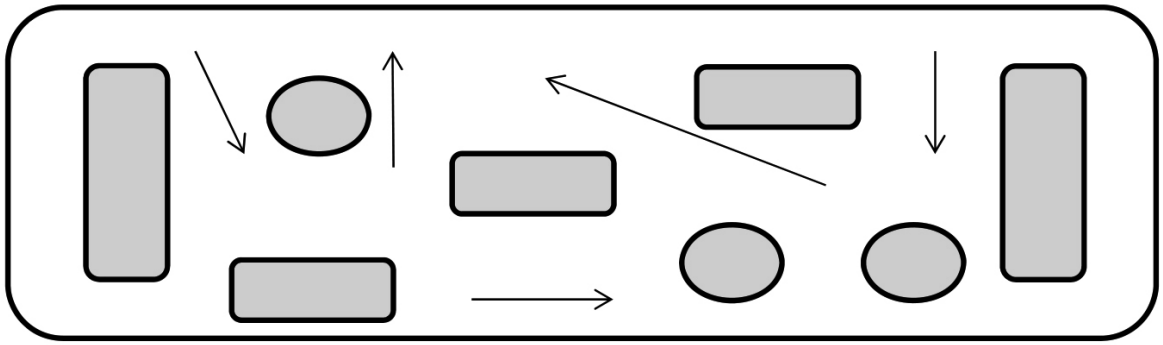


Figure 4.5: Free-flow layout example

- The ***loop layout*** is also referred to a race track layout, which has one major aisle leading customers through the store in a certain shape, as shown in figure 4.6. Customers have to walk from the beginning to the end, which allows retailers to expose customers to all their merchandise. This form of layout allows retailers to encourage their customers to shop throughout the entire store (Poloian, 2013:316).

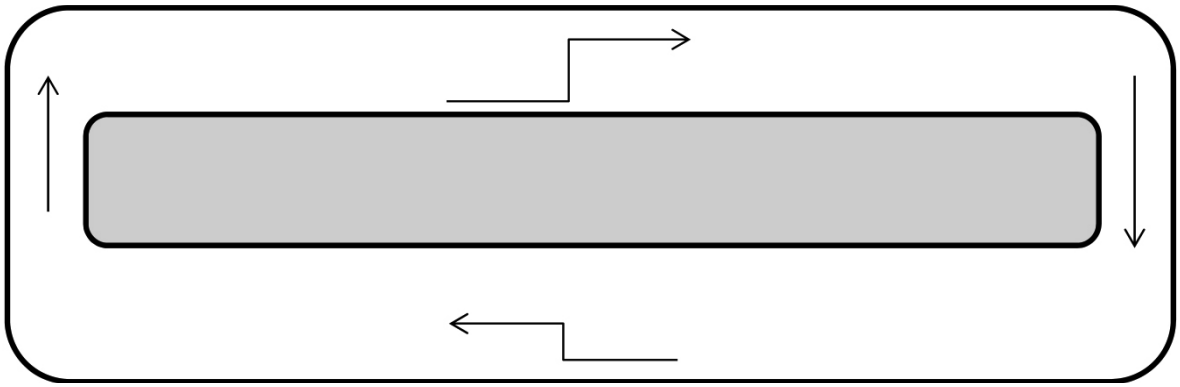


Figure 4.6: Loop layout example

- The ***spine layout*** is a combination of the three layouts discussed above, illustrated in figure 4.7. This type of layout generally has one main aisle where customers can walk up and down, and on either side on the main aisle other layouts are used to display the merchandise.

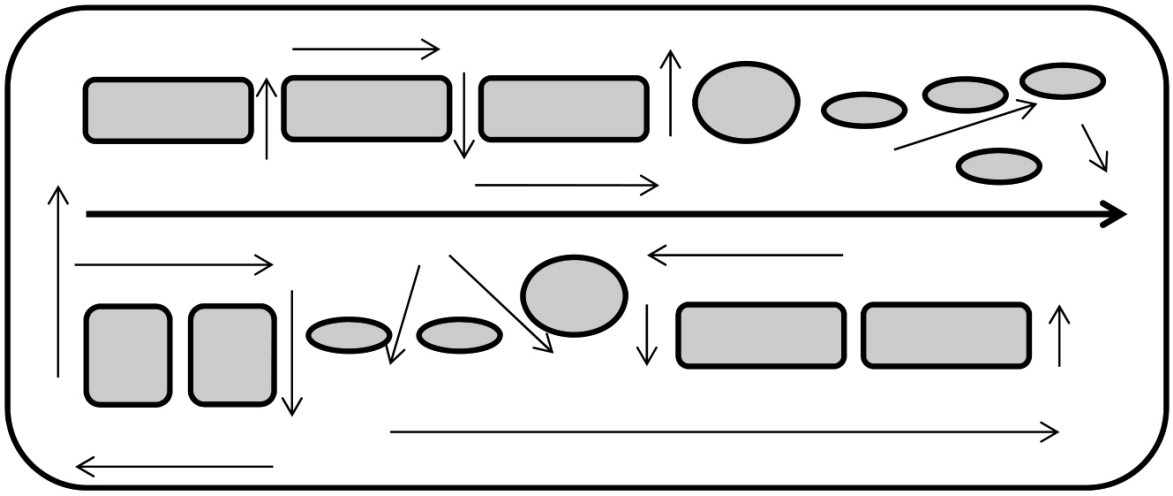


Figure 4.7: Spine layout example

Note: You should be able to list and discuss the type of isles and layouts that a retailer can choose to use.



Activity 4.3

Stan wants to open a supermarket in Durban. Name the four floor layouts he must consider and indicate which one you think would be the most suitable.



Feedback

There are four floor layouts:

- *The grid layout*
- *The free-flow layout*
- *The loop layout*
- *The spine*

The most suitable option would be the grid layout as it allows for a lot of stock to be merchandised, and building costs will be kept low. The grid layout is the most suitable option for a supermarket as the customer shops the whole store floor. This often results in impulse buying decisions resulting in bigger spend.

As shown in the learning unit overview diagram, in the next section we will look at the retail store image and atmosphere.

4.5 RETAIL STORE IMAGE AND ATMOSPHERICS

Store image refers to the way in which a store is perceived by a shopper or the impression the shopper has of the store (Waja, 2013:17). According to Waja (2013:17), store image is a multidimensional construct based on various dimensions such as atmosphere, merchandise (learning unit 5), convenience, facilities, sales personnel, service (learning unit 8), promotion (learning unit 9) and store reputation. The various dimensions discussed throughout this study guide all have an influence on a consumer's perception of a retail store. In this unit, the discussion will focus on the store atmosphere. A retailer's atmosphere often influences people's shopping enjoyment, as well as their time spent browsing, willingness to converse with personnel, tendency to spend more than originally planned, and the likelihood of visiting the store again (Berman & Evans, 2013:491). ***Atmospherics*** are subliminal messages that aim to act on the subconscious through a consumer's senses of sight, hearing, taste, smell and touch, as shown in figure 4.8 (Varley, 2014:202; Pediaopolis, n.d.). Each will now be discussed.

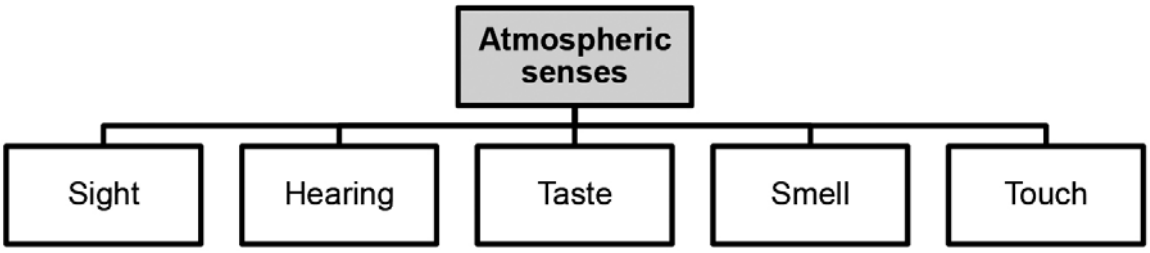


Figure 4.8: Building selection factors

Adapted from theory (Varley, 2014:202; Pediaopolis, n.d.).

4.5.1 Sight

As shown in figure 4.8, the first sense is sight, which is considered to be the most powerful sense of an individual (Hulten, 2011:259 in Nell, 2013:22). Two main aspects influencing sight are colour and lighting (Nell, 2013:23–26). These will now be discussed.



4.5.1.1 Colour

Colour not only has the power to evoke certain emotions and feelings in consumers, but it also assists consumers to recall brands and have a better understanding of what the brand represents (Gobé, 2009:79–80 in Nell, 2013:23). For example, to create a feeling of warmth and have impact, a retailer could use the colours red and orange (Varley, 2014:202). If a retailer wants to create a calm, cool and clean atmosphere, white, blue or green could be used (Varley, 2014:202).



Read more about the meaning of different colours that can be used in a retail store.

– http://www.retailadventuresblog.com/2010/06/color-psychology-use-of-color-in-store.html

4.5.1.2 Lighting

Lighting contributes significantly to the atmosphere within the store (Varley, 2014:204). According to Waring (2016), there are four basic types of lighting, namely:

- ***Ambient lighting,*** also called general lighting, is at a comfortable level of brightness usually used for the whole store. Ambient lighting ensures that customers can comfortably see all the merchandise (Varley, 2014:204).
- ***Tasking lighting*** is used to focus on a certain area within the store where more light is needed in order to perform a certain task. For instance, in the dressing rooms of a retail store, the light is generally slightly brighter to allow customers to see the clothing better.
- ***Accent lighting*** is used to focus on certain displays in order to accentuate the merchandise (Varley, 2014:204). For example, in the display windows there will generally be a brighter light shining on the mannequin dressed in the latest clothing items sold in store.
- ***Decorative lighting*** is used for decorations and to present a certain image of the store. For example, in a boutique style store, there may be a chandelier, which makes the store seem more sophisticated.

4.5.2 Hearing

The second sense is hearing as illustrated in figure 4.8. When it comes to hearing, music in a retail store can create a desired atmosphere, which represents the store's image and consumer's choice (De Farias, Aguiar & Melo, 2014:91). According to Deaton (2015), there are four elements to consider when choosing what music to play in store namely:

- ***Tempo*** refers to the speed of music being played (Farlex, 2017b). It has been found that slower music being played resulted in people spending more time in a store. On the other hand, faster music could be played during peak times to get customers to spend less time in a store (Goworek & McGoldrick, 2015:235).
- ***Volume*** refers to the loudness of the music being played (Merriam-Webster, 2017c). Selecting the right volume is difficult and depends on the target audience. It has been found that older people tend to spend more time in a shop with softer music; however, with younger people it is the opposite.
- ***Genre*** refers to the style of the music being played (Vocabulary.com, 2017). The type of music being played is the first thing that consumers will notice when entering a store, and it should always represent the image that the store wants to portray. For example, a clothing store that is for young and trendy consumers may play the latest top of the charts songs.
- **Messaging**. Retail stores should take this opportunity to advertise to their consumers to reinforce the brand, and announce specials or services offered in the store. Some retail stores even have their own dedicated station.





Read more about why a store should play music in their store.

– https://www.lsretail.com/blog/7-reasons-play-music-store/

4.5.3 Taste

As shown in figure 4.8, the third sense is taste. When it comes to taste, a retail store can offer samples of the food that they sell or stores that do not sell food can provide complimentary items. For example, if you go to a bakery or ice cream store and they offer you samples of their products to try, this could persuade you to purchase the cake or ice cream. On the other hand, if you go to an up-market jewellery store, the store could offer a glass of expensive champagne. Or if one goes to the hairdresser, offering customers cappuccino while they get their hair done communicates a certain message about the store.



4.5.4 Smell

Smell is the fourth sense as indicated in figure 4.8. According to Levy, Weitz and Beitelspacher (2012:491), certain scents used by retailers could make shoppers feel that they have spent less time in a store compared to a store that does not use scents. When a store smells good the consumer will most likely think the merchandise is of value (Shabgou & Daryani, 2014:575). The smells or scents that a retailer uses in-store should be suitable for the type of merchandise being sold, the image of the store, as well as the target audience (Rabie, 2017:233). For example, for a clothing store that is targeting females might use a sweet floral scent.





Read more on how retailers can use scent marketing to influence their shoppers.

- https://www.shopify.co.za/retail/the-science-of-smell-how-retailers-can-use-scent-marketing-to-make-more-sales

4.5.5 Touch

The final sense is touch (refer to figure 4.8). Being able to touch merchandise plays a crucial role in determining whether consumers will purchase it (Nell, 2013:35). Touch is when a consumer is able to physically make contact with objects and their surroundings (Kang, Boger, Back & Madera, 2011:3). When it comes to touch, the materials, temperature and fixtures used are important aspects to consider.



4.5.5.1 Materials used

Materials used communicate the brand's identity and values. If a store uses unattractive materials then the consumer might think the merchandise is not good. Some of the different types of flooring include carpets, laminated flooring, tiles or concrete (Varley, 2014:201). Some of the different types of walls include plastered, glass, wood or tiles (Varley, 2014:201). The materials used depend on the store image. For example, carpets could be for upmarket stores whereas concrete could be used for more trendy stores.

4.5.5.2 Temperature

Temperature refers to the hotness or coldness of an environment (Farlex, 2017c). It has been found that when an individual feels warm, they activate memories associated with warmth such as comfort and trust (Weather Unlocked, 2017). According to Jones (2014), the optimal temperature for consumer purchasing is 25.5 degrees Celsius and if consumers feel comfortable, they are likely to spend more money in store.

4.5.5.3 Fixtures

Fixtures are shelves or racks that store and present the merchandise to consumers in the store (Donnellan, 2014:386). According to Donnellan (2014:386), there are four main types of fixtures, namely:

- Floor fixtures, which are free-standing units that are on the ground. For example, in a supermarket, vertical shelves are placed on the floor to display the merchandise.
- Top or counter fixtures, which are placed on top of counters. For example, merchandise that is placed by the till. These are generally small items such as lighters or gum.
- Display fixtures, which restrict customers from the merchandise. For example, in a jewellery store, the customer can see the merchandise, however, would need the assistance of sales personnel to take the merchandise out.

- Storage fixtures that are used to store the merchandise. For example, the store room of a shoe shop would stock all the different shoes in boxes.

Note: You should be able to discuss the aspects that create the atmosphere in a store.



Activity 4.4

Thandi wants to open a salon that does hair and nails for women. She would like her store to be perceived as prestigious and she would like her customers to feel comfortable at all times. What would Thandi have to consider when addressing store atmospherics?



Feedback

- ***Sight*** *– Thandi could have a white salon with accents of black and grey. In terms of lighting, she should ensure ambient lighting is used in the store, accent light for the display fixture of the products used and being sold, and decorative in the centre of the store to give it an extra touch.*
- ***Hearing*** *– Thandi should use slow paced music that is not too loud and possibly pop music. This way, customers can relax and enjoy having their nails or hair done without feeling rushed. Music that is not too loud also allows her customers to converse with the hairdresser or manicurist if they wanted to.*
- ***Taste*** *– Thandi could offer her customers tea and coffee while they are getting their nails or hair done.*
- ***Smell*** *– Thandi could ensure that the scent of shampoo or conditioner that she uses on the customer is always present. Some nail products have a strong smell, which could be unpleasant for some customers.*
- ***Touch*** *– Thandi would likely use tiles because they are easy to clean. She should also ensure that her store is set at 25 degrees Celsius. She could use floor fixtures for the products that she sells, top fixtures for the business cards, and storage fixtures to store the clean towels used for customers.*

Now that we have an understanding of the different aspects retailers need to consider when designing their store design, we will look at planning the store design, as shown in the learning unit overview diagram.

4.6 PLANNING STORE DESIGN

The first step of store design planning is to set out the objectives of store design. According to Poloian (2013:313–314), there are three main objectives of store design, namely:

- To increase sales and profits. The retail store needs to ensure that the merchandise fits the store image, is suitable for the target audience, and is accessible. Top selling products should be placed in prime locations so that the retail store is able to maximise sales.
- To increase operational efficiency. Retailers generally make use of ***planograms,*** which are detailed scale drawings of the store's layout and exactly where each fixture and merchandise should be placed. By doing so, the retailer can ensure that the store space is well allocated in order to maximise traffic flow.

- To prevent the sameness syndrome. In order for a retailer store to stand out, the retail store should ensure that their design clearly shouts out their store image and is different from other retail stores that have similar merchandise and a similar target audience.

Having set the objectives, the retailer needs to take into consideration the target market, merchandise assortment, store image (Poloian, 2013:314), as well as the store location, premises and layout when planning the store design. The following section discusses the process of store design.

4.6.1 Process of store design (Poloian, 2013:314–316)

- Set the theme. The ***theme*** can be referred to as the underlying message that a retailer is trying to portray (Notari, 2017). In essence, it is the story that the retail store tells. For example, if a retail store uses bright colours and funky décor, the theme that they are trying to communicate is that they are fun and exciting. A store that uses neutral colours such as grey, black or white with simple décor could portray a more sophisticated and stylish theme.
- Organise the space. When it comes to organising the store space, merchandise assortment and planned sales need to be taken into consideration. For example, seasonal merchandise such as heaters will be placed near the front of the store during the cold months and back-to-school products will be placed there during the beginning of the school year. In essence, the retailer should know which products sell the most and ensure that these products are placed in prime space within the retail store so that they are able to maximise sales.
- Determine the costs. In order for a retailer to achieve the store image it is aiming for, they are required to invest in the store. It is important to evaluate the type of materials, fixtures and lighting used that will hopefully last a number of years.

Note: You should be able to discuss the objectives and process of store design.

4.7 SUMMARY

This learning unit highlighted the importance of selecting the right location, premises and layout for a retail store. If retailers are situated far from their target market, in a building that looks run down and has an impractical store layout, then they are not likely to succeed. It is crucial to correctly identify the target market and then base the location and store design decision on them in order to ensure success. In the next unit (learning unit 5) we will discuss selling the right products. Before continuing to the following unit, please complete the assessment questions and reflect on what you have learned in this unit.

4.8 SELF-ASSESSMENT



Please note that these self-assessment questions will be available on myUnisa on the self-assessment tool, and you are encouraged to complete them online. The answers will be provided to you upon submission.

Question 1

Which **ONE** of the following statements refers to the measurable criteria of identifying a target market?

1 Retailers should be able to reach the consumers with their marketing strategies

2 Retailers should identify a large group of consumers that will be profitable
3 Retailers should be able to clearly identify the consumers within the target market
4 Retailers should know the number of units for a product offering within a market

Question 2

Which **ONE** of the following options refers to the economic condition of the store location criteria?

1 A specified market consuming a product under ideal conditions
2 A potential for growth and employees within an area
3 The ability of the consumers to access the store to purchase goods
4 The ability of the store to catch the consumer to purchase goods

Question 3

Which **ONE** of the following options is considered as a store location criteria?

1 Competition
2 Measurable
3 Substantial
4 Storefront

Question 4

According to this learning unit, which **ONE** of the following options is a **WEAKNESS** of business districts?

1 Generally higher rent costs
2 Possibly too much competition
3 Difficultly drawing customers
4 Usually older buildings

Question 5

According to this learning unit, which **ONE** of the following options is a **STRENGTH** of shopping centres and malls?

1 Accessibility to highway and parking
2 Usually lower rent costs
3 Able to choose own trading hours
4 Tends to not have direct competition

Question 6

According to this learning unit, which **ONE** of the following options is a **WEAKNESS** of a free-standing location?

1 No complementary store close by
2 Fixed working hours
3 Generally higher rent costs
4 Insufficient parking

Question 7

A simple and informal layout that makes use of various shapes and fixtures for its displays is a … layout.

1 grid
2 free-flow
3 loop
4 spine

Question 8

If a retailer's display window has a mannequin dressed in the latest clothing items sold in store, then … lighting would most likely be used.

1 ambient
2 tasking
3 accent
4 decorative

Question 9

General lighting that is at a comfortable level of brightness is referred to as ... lighting.

1 ambient
2 tasking
3 accent
4 decorative

Question 10

A jewellery store that restricts customers from touching the merchandise uses a … fixture.

1 floor
2 counter
3 display
4 storage

4.9 REFLECTION



Before you continue to the next learning unit, please reflect on the following questions:

1 How do you think you will be able to use the skills you learned in this learning unit in your professional life?
2 What did you find difficult about this learning unit? Why do you think you found it difficult? Do you understand the concept you were struggling with now or do you need help? What are you going to do about getting help if you need it?
3 What did you find interesting in this learning unit? Why?
4 How long did it take you to work through this learning unit? Are you still on schedule or do you need to adjust your study programme?

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Learning unit 5

Choosing the right merchandise to sell

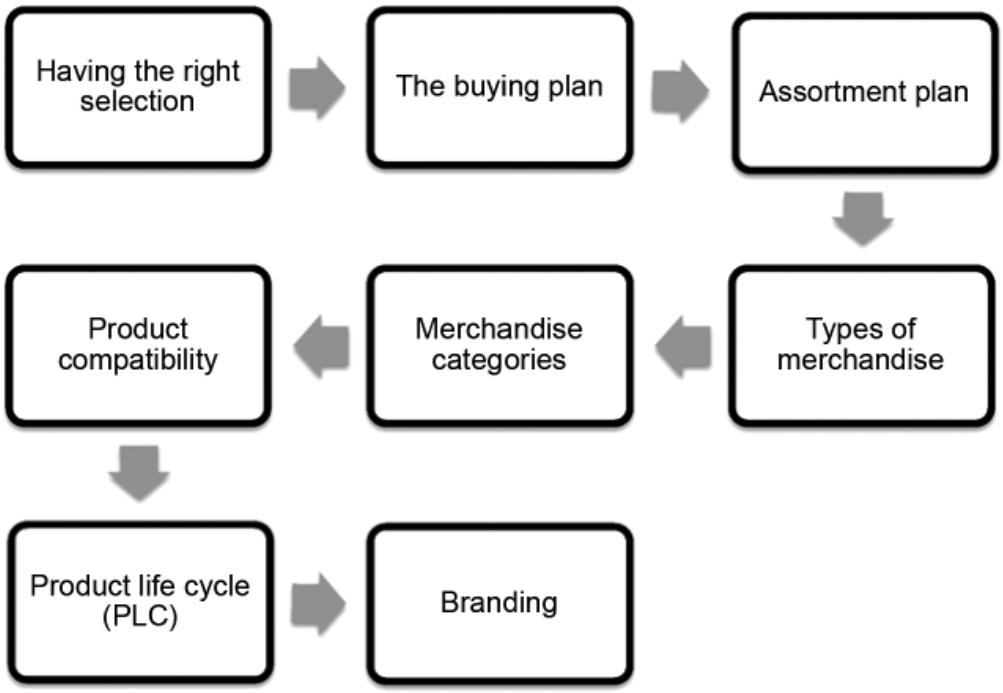
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OVERVIEW OF THIS LEARNING UNIT

This learning unit deals with the retailers selling the right selection of products. We will firstly look at how the retailer makes the right selection. Next, we will discuss the buying plan, and explain the difference between staple stock and non-staple stock. This is followed by discussions on the assortment plan, types of merchandise, merchandise categories, product compatibility, and the stages of product life cycle and major variations of the category life cycle. Finally, in this unit we will discuss the branding of merchandise.

This learning unit unfolds as follows:





LEARNING OUTCOMES

After completing this learning unit, you should be able to do the following:

- Explain the right selection of merchandise and factors to consider when selecting the right merchandise
- Discuss the buying plan of the retailer
- Distinguish between planning of staple stock and non-staple stock
- Describe variety and assortment of merchandise
- Explain the categories of merchandise
- Discuss product compatibility
- Discuss the branding of merchandise



KEY CONCEPTS

You will need to master the following key concepts in order to meet the learning outcomes for this learning unit:

- The right selection
- Price
- Quality
- Store image
- Quantity of merchandise
- Profitability
- Buying plan
- Staple stock
- Non-staple stock
- Stock keeping unit (SKU)
- Variety of merchandise
- Assortment of merchandise
- Fashion merchandise
- Merchandise categories
- Merchandise group
- Merchandise class
- Product compatibility
- Complementary products
- Staple merchandise
- Seasonal merchandise
- Unrelated merchandise
- Substitute product
- Introductory stage of PLC
- Growth stage of PLC
- Maturity stage of PLC
- Decline stage of PLC
- Branding
- Generic brands
- Manufacturers' brands

INTRODUCTION

Imagine walking into a retail store and looking for an item to buy, only to realise that the retail store has run out of stock or does not offer the merchandise that you thought you would find. Retailers must at all times live up to expectations by making sure that they carry the merchandise that they promise to offer. It is the duty and the responsibility of the retailer to dedicate their time and effort to searching for the right product. When retailers plan their merchandise, they must select the right suppliers, consider the quantity of merchandise, consider the style and the quality that will suit the demands of the customer, and determine the time the merchandise must be ready and available for selling. In so doing they will succeed in their business.

5.1 THE RIGHT SELECTION

The ***right selection*** of merchandise is described as a balanced assortment of a well-planned variety of merchandise (Erdis & Cant, 2015:63). Retailers are faced with the challenge of selecting the assortment and variety of merchandise that will suit the needs of the customers. The selection of assortment and variety of merchandise has an impact on the retailers' sales and profit (Agrawal & Smith, 2015:5). Assortment and variety of merchandise will be discussed in detail later in the learning unit.



Activity 5.1

You will have noticed how some retailers have focused mainly on one product line. Provide an example of such a specialty shop and how they select their merchandise.



Feedback

An example of a retail store that specialises in one type of product is Toys for Kids. This type of retailer offers a variety of toys for children. Toys for Kids selects its toys for children from 3 months to the age of 12 years old. The variety of toys includes Barbie dolls, remote control cars, bicycles, plastic cutlery and scooters.

5.1.1 Factors affecting selection of the right merchandise

As illustrated in figure 5.1, factors to consider when selecting the right merchandise include price versus quality, store image, fashion consciousness, quantity of merchandise, ease of selling, and profitability (Erdis & Cant, 2015:66). Each will be discussed in the following section.

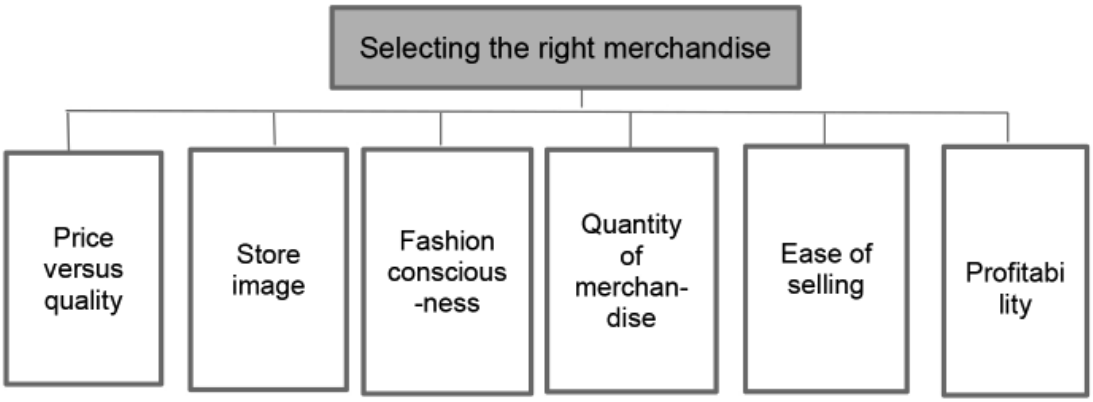


Figure 5.1: Factors affecting selection of the right merchandise

Adapted from theory (Erdis & Cant, 2015:66)

5.1.1.1 Price versus quality

Price is the value assigned to the item that is purchased, sold or offered for sale in terms of monetary units. It reflects the value of a specific product or service to the buyer and seller (Machado, 2013:3). Erdis and Cant (2015: 66) describe price as the exchange value of goods or services. Retailers should not set prices without carefully considering the attributes of the merchandise being priced. Clodfelter (2015:282) mentions that retailers use different factors when selecting merchandise for the retail store. Aspects that they consider when setting prices are as follows: the target customer, type of retail outlet, willingness of customers to pay price, and the quality of the merchandise. For example, Jumba grocery stores charge low prices to customers; the prices are influenced by the merchandise they sell, the service they provide to customers, and the store location. Jumba grocery stores do not provide in-store shop assistance to customers, have no queuing management for customers, and have inexpensive in-store design. Jumba grocery stores are located in the cities as well as in the townships, and target customers with a low income.

- **Selling price**

According to Terblanche, Beneke, Bruwer, Corbishley, Frazer, Pentz and Venter (2014:204), retailers set prices for products and services. When setting retail selling prices, the following calculation shows how prices are set based on cost of goods:

*Selling price = Cost of goods + Mark-up

For example, Silvia's shoe store wants to set up a retail price on the cost of goods she is selling. She is using the formula to calculate the mark-up on retail price on the shoes she sells in the store. She buys the shoes for R55 a pair and then sells them at R120 a pair. Use the formula to calculate the selling price for Silvia's shoe store.

*Selling price = Cost of goods + Mark-up
R120 = R55 + Mark-up

Mark-up = R120 – R55
= R65

Silvia has a mark-up of R65 per pair of shoes.

- **Quality**

Clodfelter (2015:282) defines ***quality*** as the features of products and services that meet customer needs and thereby provide customer satisfaction. According to Erdis and Cant (2015:75), quality refers to the features of products and services formed to satisfy the needs of customers. For example, Gant Meat Wholesaler sells quality A-grade meat to higher income customers who are health-conscious and are willing and prepared to pay for quality meat.

5.1.1.2 Store image

Clodfelter (2015:185) describes ***store image*** as a combination of physical and functional factors such as interior and exterior design of the retail store. According to Dunne, Lusche and Carver (2014:402), customers perceive the retail store by the image created by the store. Store image includes aspects such as lighting used in the store, the shelf design, the painting, the store front windows, and store display. This was discussed in detail in learning unit 4 of this study guide.

5.1.1.3 Fashion-consciousness

Retailers prefer to purchase merchandise that is in fashion. This merchandise is quick to be accepted by customers who are fashion-conscious and want to be the first to own fashionable items (Donnellan, 2014:118). Fashion merchandise is characterised by fast changes in trends and is highly demanded by customers; however, they have short product life cycles (Terblanche et al., 2014:204). An example of a retail store that sells fashionable merchandise is Edgars clothing wear, which specialises in fashionable clothes, shoes and accessories.

5.1.1.4 Quantity of merchandise

Quantity of merchandise refers to the number or the amount of merchandise the retailer is willing to carry in the retail store (Erdis & Cant, 2015:66). Clodfelter (2015:229) describes quantity of merchandise as the size of stock that is physically located in the retailer's location. An example of quantity of merchandise is the large packets of fruit sold by fruit and vegetable shops.



5.1.1.5 Ease of selling

Erdis and Cant (2015:67) indicate that retailers prefer merchandise that is easy to sell, is relatively cheap and is in high demand. Examples of merchandise that sell fast and easily include bath soap and toothpaste, which are purchased regularly by customers.

5.1.1.6 Profitability

According to Clodfelter (2015:468), ***profitability*** is the ability of a retail store to utilise its resources to generate revenues in excess of its expenses and to earn a profit. Dunne et al. (2014:296) explain that profitability is the relationship between the revenues and expenses of the company.

Note: You should be able to discuss factors affecting selection of the right merchandise.

As shown in the learning unit overview diagram, in the next section we look at the buying plan and differentiate between staple stock and non-staple stock.

5.2 THE BUYING PLAN

A buying plan is the possible plan set by retailers to purchase merchandise for a retail store. It determines the quantity of merchandise that the retailers plan to purchase and sell (Clodfelter, 2013:241). According to Levy and Weitz (2013:305), a buying plan is the process of planning which merchandise retailers must purchase and sell. When setting a buying plan, retailers use both staple and non-staple stock to plan the purchase (Erdis & Cant, 2015:68). As illustrated in figure 5.2, a buying plan consists of the elements of staple and non-staple stock. Staple and non-staple stock will now be discussed.

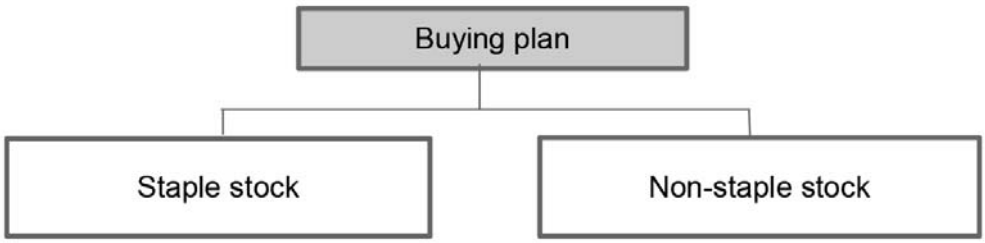


Figure 5.2: Elements of a buying plan

Adapted from theory (Levy & Weitz, 2013:305)

5.2.1 Planning staple stock

Staple stock is the inventory or merchandise that is regularly purchased by the retailer. Staple stock is all very similar and competes on the basis of price (Tepper, 2014:58). Examples of staple stock include milk, salt and butter.



According to Clodfelter (2015:264), when retailers plan staple stock they use minimum and maximum systems. The difference between minimum and maximum systems will be discussed below:

- Minimum stock is the amount of stock that should be on hand to cover sales during the order period, maintain enough selection, and allow for unexpected sales.
- Maximum stock is the amount of stock that should be on hand or on order for any time. It is based on the rate of sales, re-order periods, ordering cost, and quantity discounts available on larger orders.

According to Erdis and Cant (2015:69), factors that retailers must consider when planning staple stock are as follows:

- Retailers use past sales information to determine staple merchandise to buy in future.
- When retailers plan staple stock, they make provision for any changes in the market or in customer needs.
- Retailers selling staple merchandise can easily make a staple stock list using invoices and sales records. A retailer opening a new retail store can plan staple stock by visiting other similar retail stores as well as by talking to suppliers.
- Retailers may also approach wholesalers and manufacturers to assist with making a list of the individual staple merchandise they should stock, and the list of merchandise stock may change as customer demand or supplier offering changes.



Activity 5.2

As the store manager of Choppies Supermarkets, explain to the general manager how you will plan to purchase a staple stock.



Feedback

As the store manager of Choppies Supermarkets, when planning a purchase a staple stock you will make a list of the staple stock that was purchased previously, review records of the past sales, use list of invoices of the staple stock this will assist in planning the purchase of staple stock.

5.2.2 Planning non-staple stock

Erdis and Cant (2015:70) describe ***non-staple stock*** as the stock that the retailer does not purchase routinely and the stock that requires a particular buying process to purchase. As illustrated in figure 5.3, factors of non-staple stock planning include planning by price, planning by size, planning by colour, and planning by style. The different factors will now be discussed.

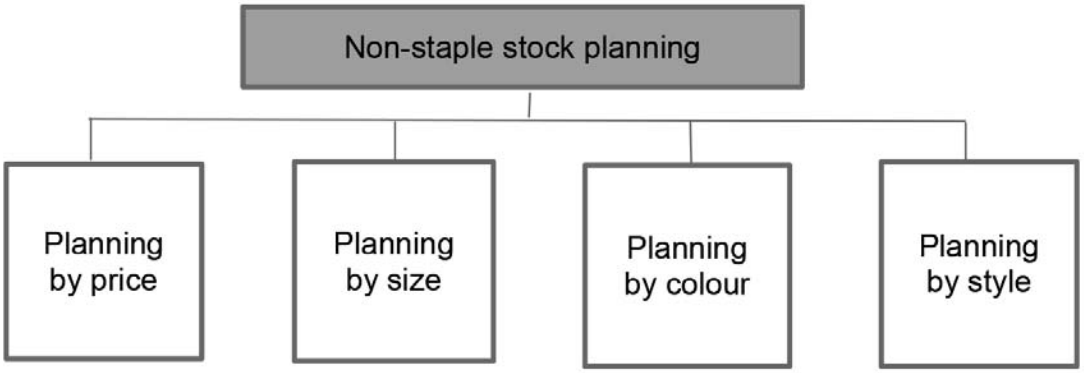


Figure 5.3: Factors of non-staple stock planning

Adapted from theory (Erdis & Cant, 2015:70)

- Planning by price: Retailers should offer a few different prices for the merchandise in each category. A difference in prices will accommodate customers with different tastes and buying power, and will give customers the opportunity to compare similar merchandise before they decide what to buy (Erdis & Cant, 2015:70).
- Planning by size: When planning for non-staple merchandise, retailers should consider the sizes to purchase (Erdis & Cant, 2015:70), particularly when purchasing merchandise such as home furniture, clothing, tools and tiles.
- Planning by colour: Colour plays a crucial role when retailers purchase non-staple merchandise or fashion items (Erdis & Cant, 2015:70). Fashion merchandise such as the colour of women's handbags, shoes and accessories can be more important than the material used for the merchandise.
- Planning by style: When retailers plan for non-staple merchandise, they should consider the style that customer prefer. Sufficient knowledge of customer taste and style may assist in planning for non-staple merchandise. Trade magazines, supplier representatives, and competitors may provide relevant information relating to current styles (Erdis & Cant, 2015:70).

Note: You should be able to discuss staple stock and non-staple stock.

As shown in the learning unit overview diagram, in the next section we look at the assortment plan.

5.3 ASSORTMENT PLAN

Assortment plan is the set of stock keeping units (SKU) that include the variety and assortment of merchandise a retailer offers (Levy & Weitz, 2012:315). As illustrated in figure 5.4, the assortment plan is divided into two main categories: variety and assortment of merchandise. The two main categories will now be discussed.

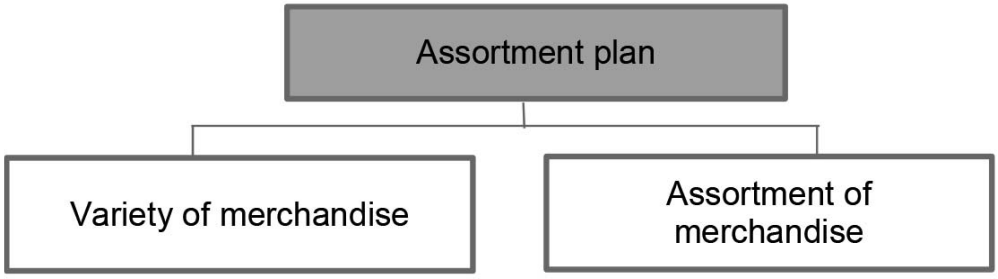


Figure 5.4: Categories of assortment plan

Adapted from theory (Levy & Weitz, 2012:315)

Variety of merchandise

According to Terblanche et al. *(*2014:196), ***variety of merchandise*** refers to the number of different types of product lines offered by the retailer. It is beneficial to retailers as it caters for different types of customers with unique needs. An example of variety of merchandise is in Spariden Supermarket, which carries merchandise such as washing products, toiletries, food parcels, soft drinks, fruit and vegetables, and tablets in various sizes, flavours and quantities.



- **Assortment of merchandise**

Assortment of merchandise is the number of different product items that a retailer offers within a particular product line (Berman & Evans, 2013:387). Assorted merchandise products complement one another in terms of product types, quality of the product, price range, and style (Dunne et al., 2014:361). An example of assortment of merchandise is Kobus' Fruit and Vegetables, which sells an assortment of vegetables such as tomatoes, pumpkin, green peas, carrots and onions.



According to Berman and Evans (2013:392,) merchandise assortment may range from shallow to deep assortment merchandise. The difference between shallow and deep assortment is discussed below:

- Shallow assortment merchandise consists of a limited quantity of product items. For example, Cashbuild is a hardware retailer with a limited assortment of product items under each line, such as bricks, cement, windows and roof materials.
- Deep assortment merchandise means that a retailer offers a large number of products items in a particular product line. An example of deep assortment merchandise is retail stores offering different types of paint such as roof paint, interior and exterior wall paint, paving brick paint, steel paint and wood paint.

Note: You should be able to discuss variety and assortment of merchandise.

According to Berman and Evans (2013:392), narrow variety and shallow assortment, wide variety and shallow assortment, and narrow variety and deep assortment each has their advantages and disadvantages. The following sections will now discuss the advantages and disadvantages of narrow variety and shallow assortment, wide variety and shallow assortment, and narrow variety and deep assortment.

Table 5.1: Advantages and disadvantages of narrow variety and shallow assortment

Advantages	Disadvantages
Aimed at convenience customers	Limited customer loyalty
High turnover of items	Small trading area
	Not a one-stop shop

Source: Adapted from Berman and Evans (2013:392)

Wide variety and shallow assortment. The retailer carries a wide variety of styles in the merchandise, but in only a few colours, for example, a retailer selling bags such as travel bags, handbags, laptop bags and vanity cases, but available only in limited colours and brands.

Table 5.2: Advantages and disadvantages of wide variety and shallow assortment

Advantages	Disadvantages
Broad market	It offers low variety within product lines
Retailers have high customer traffic	It provides a weak image
Emphasis on convenience customers	Retailer may carry a lot of items with low turnover
Less costly	Reduced customer loyalty
Retailer offers one-stop shopping to customers	

Source: Adapted from Berman and Evans (2013:392)

- Narrow variety and deep assortment. The retailer carries a small number of different products items with each item being available in huge quantities. For example, some stationery shops may decide to carry a narrow variety of stationery merchandise such as envelopes, pens and staples. Although available in small numbers, they are available in different sizes, brands, and colours, giving them a deep assortment.

Table 5.3: Advantages and disadvantages of narrow variety and deep assortment

Advantages	Disadvantages
It offers retailers a specialist image	Too much emphasis on one category
Retailers have a good customer choice in merchandise categories	Not one-stop shopping
Retailers have specialised personnel	More susceptible to trends/cycles
Retailers will have no disappointed customers	Greater effort is needed to enlarge the size of the trading area
	Little or no scrambled merchandising

Source: Adapted from Berman and Evans (2013:392)

Table 5.4: Advantages and disadvantages of wide variety and deep assortment

Advantages	Disadvantages
Broad market	Requires high investment in stock for inventory
Retailers have full selection of items	It provides a generalised image
It offers a high level of customer traffic	Retailer may carry a lot of items with low turnover
Retailers have customer loyalty	Retailer may have some obsolete merchandise
Retailer offer one-stop shopping to customers	

Source: Adapted from Berman and Evans (2013:392)



Activity 5.3

Identify two main categories of assortment plan and provide an example of each.



Feedback

Variety of merchandise *refers to the number of different types of product lines offered by the retailer. An example of variety of merchandise in a grocery store is merchandise such as washing products, toiletries, food parcels, soft drinks, fruit and vegetables, and tablets in various sizes, flavours and quantities.*

Assortment of merchandise *is the number of different product items that a retailer offers within a particular product line. An example of assortment of merchandise is Vergie Tiles stores, selling an assortment of tiles such as ceramic tiles, wooden tiles and plastic tiles.*

As shown in the learning unit overview diagram, the following section will discuss merchandise categories.

5.4 TYPES OF MERCHANDISE

According to Levy and Weitz (2012:308), retailers must develop a system of planning their merchandise. As illustrated in figure 5.5, the merchandise management planning system consists of different types of merchandise such as fashion, staple and seasonal merchandise. The types of merchandise management planning system will now be discussed.

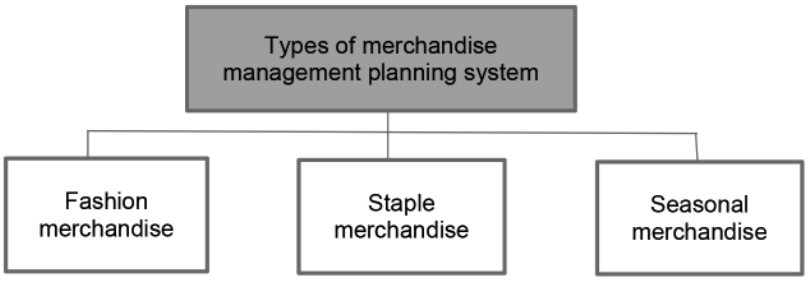


Figure 5.5: Types of merchandise management planning system

Adapted theory from Levy and Weitz (2012:308)

5.4.1 Fashion merchandise

Fashion merchandise is cyclical merchandise that changes according taste and lifestyle. It is difficult to forecast because style may change from year to year (Berman & Evans, 2013:387). According to Levy and Weitz (2012:308), fashion merchandise is widely accepted by people of different groups at any one time. Examples of fashion products are skinny jeans and pants, brightly coloured socks, and leather jackets.

5.4.2 Staple merchandise

Terblanche et al. (2014:204) mention that ***staple merchandise*** is merchandise that is purchased on a routine basis, and has continuous demand over an extended period of time. According to Levy and Weitz (2012:308), staple merchandise is in constant demand, must be replenished on a continuous basis, and is low risk with low margins. Examples of staple products are bread, milk and airtime.

5.4.3 Seasonal products

Seasonal merchandise is merchandise that has a high volume of sales in a particular season of the year because of the increase in demand, and this type of merchandise is bought for a specific reason (Berman & Evans, 2013:387). Levy and Weitz (2012:308) explain that the sales of seasonal merchandise differ according to the time of the year. Examples of seasonal products are heaters, blankets, jerseys, corduroys and boots, which are sold in large quantities in a particular season, such as winter.



Activity 5.4

Identify types of merchandise management planning systems and give practical examples.



Feedback

Fashion merchandise *is merchandise that changes according to taste and lifestyle. It is widely accepted by people of different groups at any one time. Examples of fashion products are skinny jeans and pants, brightly coloured socks and leather jackets.*

Staple merchandise *is merchandise that is routine and is in continuous demand over an extended period of time. It has low risk with low margins. Examples of staple products are bread, milk and airtime.*

Seasonal merchandise *is merchandise that has a high volume of sales in a particular season of the year because of the increase in demand. These types of merchandise are bought for a specific reason. Examples of seasonal products are heaters, blankets, jerseys, corduroys and boots, which are sold in large quantities in a particular season such as winter.*

5.5 MERCHANDISE CATEGORIES

A **merchandise category** is a specific line of products within a merchandise class with a specific assortment of products that are directly comparable and easy to substitute with a specific line of products within a merchandise class (Zentes, Morschett & Schramm-Klien, 2017:253). Merchandise categories consist of a merchandise group and a merchandise class. As illustrated in figure 5.6, merchandise is divided into two main categories, namely merchandise group and merchandise class. The different types of merchandise categories will now be discussed.

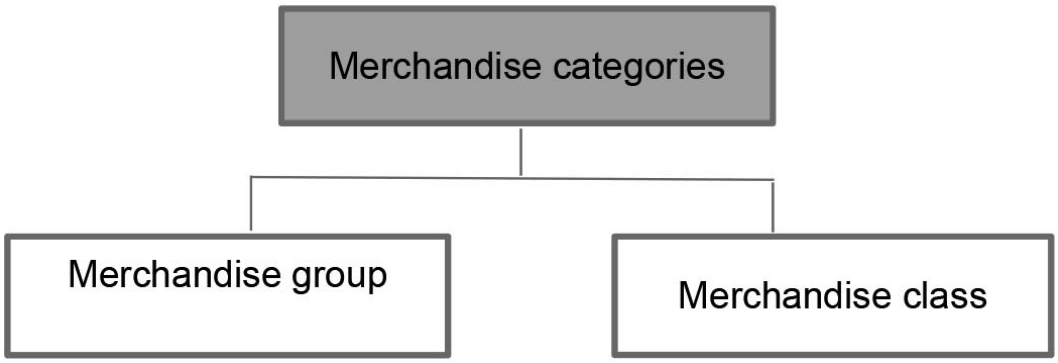


Figure 5.6: Types of merchandise categories

Adapted theory from Erdis and Cant (2015:72)

- ***Merchandise group*** is a broadly related line of products that retailers offer to consumers. It is broadly defined as a division of merchandise. The line of products that are related have a variety and assortment of merchandise (Erdis & Cant, 2015:71). For example, Mkhize Grocery Store stocks food, sweets, vegetables and fruits, and home appliances in one retail store.
- ***Merchandise class*** is a subdivision of merchandise group. It is a narrowly defined division of products that are closely related within a merchandise group (Erdis & Cant, 2015:72). A retailer such as Da Silva's Clothing Store has divided merchandise according to men's, women's and children's clothing. This type of merchandise division is called merchandise classification within the group.

As shown in the learning unit overview diagram, the following section will discuss product compatibility.

5.6 PRODUCT COMPATIBILITY

According to Erdis and Cant (2015:67), product compatibility is important in planning the merchandise assortment for retail stores as it relates to the type of relationship between products lines and product items. For example, Riggs Retail Stores is known for selling international brands such as Polo, Lacoste and Joseph Cotton. Riggs Retail Stores has a reputation for selling international merchandise that is compatible with its product line. Product compatibility includes complementary, substitute and unrelated products. The following section will discuss the types of product compatibility. As illustrated in figure 5.7, product compatibility consists of complementary, substitute and unrelated products. The different types of product compatibility will now be discussed.

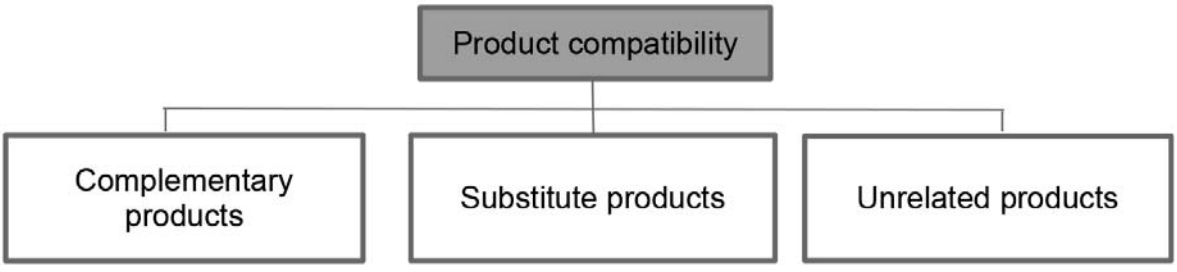


Figure 5.7: Types of product compatibility

Adapted theory from Erdis and Cant (2015:57)

5.6.1 Complementary products

Complementary products are products used and bought in conjunction with another product or products. Retailers offer products that complement each other or are combined with one another; these products work hand in hand (Levy & Weitz, 2012:315). A retail store that sells washing powder detergent would always carry fabric softener, as the two products are seen to be complementary items. They work together – a person cannot use one without the other.

5.6.2 Substitute products

A ***substitute product*** is a product that consumers use for the same purpose as another product. These products are different, but are made to replace one another and can be substituted for one other when required for the same purpose (Erdis & Cant, 2015:57). For example, margarine and butter, or soft drinks and sparkling water, are substitute products, although they are different to such an extent that consumers will buy them for different, but related purposes. Substitute products increase consumer choice.

5.6.3 Unrelated products

Unrelated products are neither complementary nor substitute products; they are products that do not have similar characteristics, and may not share relatedness by use or consumption (Fernie, Fernie & Moore, 2015:35). A well-known example of unrelated products is when a retail store such as Spar may add items that are unrelated such as cigarettes, juice, meat products and newspapers. These items are unrelated, but may be carried for profit purposes.

As shown in the learning unit overview diagram, the product life cycle will now be discussed.

5.7 PRODUCT LIFE CYCLE

According to Jobber and Chadwick (2013:398), product life cycle is the tool used for understanding the changes that may take place during the time that a product is on the market; it has four stages. As illustrated in figure 5.8, products go through stages in the life cycle, namely the introductory, growth, maturity and decline stages. The different stages of product life cycle will now be discussed.

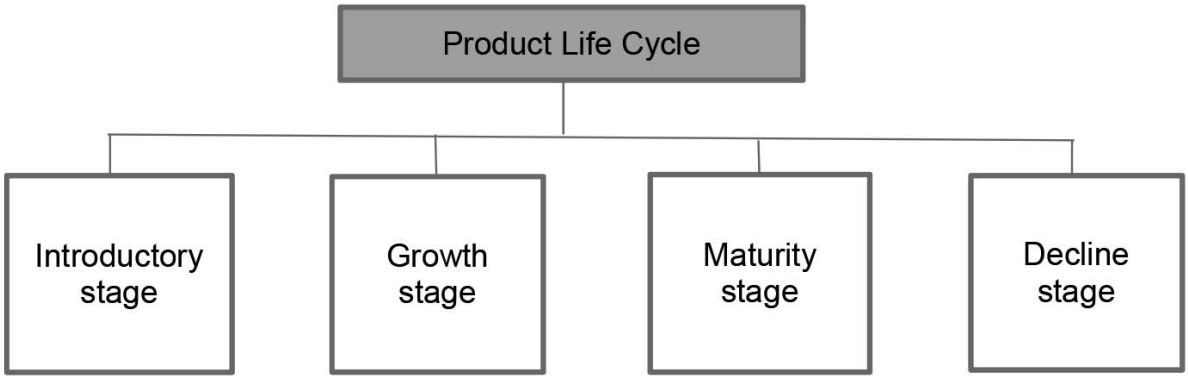


Figure 5.8: Stages of product life cycle (PLC)

Adapted theory from Terblanche et al. (2014:208)

5.7.1 Introductory stage

This is the stage where the product is completely new to the world or the retailer. Sales are slow because customers do not know the merchandise yet (Terblanche et al., 2014:208). In this stage the product is new and requires a full scale launch; marketing costs are high and the retailer requires a marketing budget. There is a high level of risk in offering products at this stage (Jobber & Chadwick, 2013:398). Retailers may decide on extensive advertising and sales promotions to reduce the extent of the risk (Terblanche et al., 2014:208). An example of the introductory stage is a holographic projection with a technological system that allows consumers to turn any flat surface into a touchscreen interface.

5.7.2 Growth stage

This is when sales are beginning to increase, competitors are entering the market, and marketing budget is starting to grow. In this stage the sales escalate and the profits increase, with lower risks and costs (Jobber & Chadwick, 2013:398). This stage is the most appealing to retailers, as customers become more aware of the product's existence. The marketplace becomes more competitive and price promotions become necessary in order to get sales (Terblanche et al., 2014:208). For example, the Apple technology company keeps improving the features and quality of its Apple iPad to distinguish it from its competitors.

5.7.3 Maturity stage

In this stage, sales continue to increase, but at a slower rate. Competitors are entering the market, but some are also falling out. The maturity stage is the most competitive one in the PLC (Jobber & Chadwick, 2013:399). Price increase is crucial and the retailer must consider whether it has the resources to participate in price-cutting campaigns (Terblanche et al., 2014:202). For example, laptop computers have been around for a number of years, but more advanced components, as well as diverse features that appeal to different segments of the market, will help to sustain this product as it passes through the maturity stage.

5.7.4 Decline stage

This is the last stage in the product life cycle. This is where product sales decline – some slow, others fast. The rate of decline is governed by how rapidly consumer tastes change (Jobber & Chadwick, 2013:400). The characteristic of the decline stage is that the market is reduced to the extent that profits are not realised (Terblanche et al., 2014:203). Examples are typewriters and even electronic word processors, which offer very limited functionality. Typewriters are a product that is in the final stage of the product life cycle.

As shown in the learning overview diagram, branding of merchandise will now be discussed.

5.8 BRANDING

Branding is a name, term, symbol, design or a combination of those that identifies retailers and differentiates them from competitors (Weib, 2015:16). The two alternatives regarding brand types are generic and manufactures' brands (Jobber & Chadwick, 2013:308). The following section will discuss the types of brands. As illustrated in figure 5.9, the alternatives regarding brand types are generic and manufactures' brands. The types of branding will now be discussed.

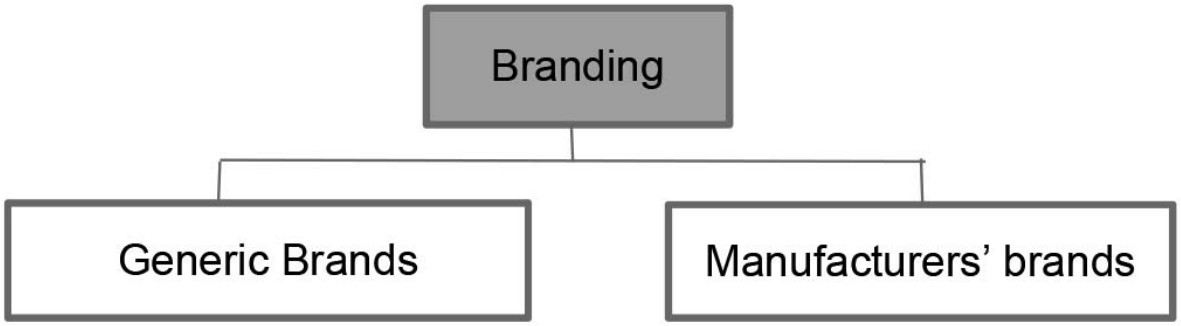


Figure 5.9: Types of brands

Adapted theory from Jobber and Chadwick (2013:308)

5.8.1 Generic brands

According to Terblanche et al. (2014:208), ***generic brands*** are so-called "no name" brands, where retailers do not spend their budget on promoting and advertising, and the products are priced lower than manufacturers' brands. Jobber and Chadwick (2013:309) mention that generic brands are usually less expensive and are preferred as substitutes for expensive brands. They are also preferred by the cost conscious consumer, and this can inflate the cost of goods or services. Terblanche et al. *(*2014:208) explain that retailers attribute the value of name brands to reasonable packaging and marketing, which is why the products can be sold more cheaply.

For example, Beaver Grocery Store sells generic "no name" brands such as bath soaps, washing detergents and toiletries.



5.8.2 Manufactures' brands

Manufacturers' brands, also referred to as national or producer brands, are produced by manufacturers and sold through retail stores. National brands may be a combination of family brands, and within a family brand there are products with individual names (Terblanche et al., 2014:205). Jobber and Chadwick (2013:309) explain that manufacturers market their products under their own name and prefer to use its brand to attract both existing and potential customers. Manufacturers' brands are supported by huge advertising budgets. An example of a manufacturer's

brand is Unilever brands. Unilever is the umbrella brand that manufactures various types of individual products such as Dove soap, Flora butter, Handy-Andy liquid and Lipton tea.

According to Terblanche et al. (2014:207), manufacturers' brands offer a variety of advantages including the following:

- Product availability: brand name items are usually easy to find
- Perceived quality: brand name items are often seen as having a higher quality than comparable private label items
- Positioning: brand name items often carry a higher societal value

5.9 SUMMARY

In this learning unit we looked at how the retailer makes the proper selection of the right merchandise and the factors that should be considered when making the right selection of merchandise. We discussed the buying plan, and explained the difference between staple stock and non-staple stock. We explained the variety and assortment of merchandise, and also identified the stages of product life cycle and variations of the category life cycle. We concluded the learning unit by discussing branding and quality of merchandise.

In the next learning unit, we will have an in-depth discussion on deciding on the right amount to sell and when. Before continuing with the next learning unit, complete the self-assessment and reflect on what you have learned in this learning unit.

5.10 SELF-ASSESSMENT



Please note that these self-assessment questions will be available on myUnisa on the self-assessment tool, and you are encouraged to complete it online. The answers will be provided to you upon submission.

QUESTION 1

A broadly related line of products that retailers and consumers associate with one another, according to their end use, refers to a merchandise ...

1 group.
2 style.
3 category.
4 class.

QUESTION 2

A stage in the product life cycle whereby sales are beginning to increase, competitors are entering the market, marketing budget is starting to grow, sales escalate and profits increase, with lower risks and costs. This refers to the … stage.

1 decline
2 introductory
3 maturity
4 growth

QUESTION 3

Inventory such as wool jerseys, coats, corduroy trousers and leather boots have are in high demand in winter. Consequently, merchandise sales increase during this period. This is an example of … merchandise.

1 fad
2 seasonal
3 staple
4 fashion

QUESTION 4

Outdoor Living sells camping products and equipment such as clothes, blankets, outdoor furniture, gas cylinders, stoves, heaters and accessories. What is the term used to **BEST** describe Outdoor Living's product range?

1 Merchandise group
2 Merchandise assortment
3 Merchandise category
4 Merchandise quantity

QUESTION 5

A closely related line of products within a merchandise group that clearly differentiates particular consumer needs **BEST** describes a merchandise ….

1 class.
2 category.
3 group.
4 element.

QUESTION 6

Woolworths clothing store carries a product line called Country Road that presents an image of a high quality store offering a quality range of products and services. This is an example of …

1 merchandise type.
2 fashion type.
3 shop image.
4 competition.

QUESTION 7

Which **ONE** of the statements is **NOT** an advantage of a manufacturer's brand?

1 Product availability and brand name items are usually easy to find.
2 Perceived quality: brand name items are often seen as being of higher quality than comparable private label items.
3 Manufacturers' brand items cost more than generic or no name brands.
4 Brand name items often carry a higher societal value.

QUESTION 8

Private label brands that do not have a real brand name and are identified by the actual product description are called … brands.

1 national
2 generic
3 manufacturers'
4 international

QUESTION 9

Products that do not have similar characteristics, and may not share relatedness by use or consumption, are referred to … products.

1 complementary
2 substitute
3 additional
4 unrelated

QUESTION 10

Products that are purchased on a routine basis are in continuous demand over an extended period of time. They are in continual use and purchased through a replenishment process, and are classified as … products.

1 staple
2 seasonal
3 fad
4 fashion

5.11 REFLECTION



Before you continue to the next learning unit, reflect on the following questions:

1 How do you think you will be able to use the skills you learned in this learning unit in your professional life?
2 What did you find difficult about this learning unit? Why do you think you found it difficult? Do you understand the concept you were struggling with now or do you need help? What are you going to do about getting help if you need it?
3 What did you find interesting in this learning unit? Why?
4 How long did it take you to work through this learning unit? Are you still on schedule or do you need to adjust your study programme?

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Learning unit 6

Determing the right amount to sell and when

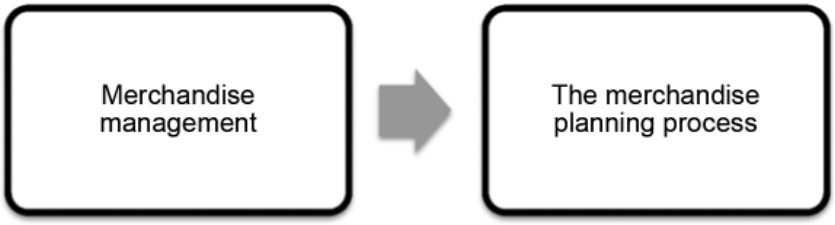
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OVERVIEW OF THIS LEARNING UNIT

This learning unit deals with selling the right quantity at the right time, with emphasis on the four steps in the merchandise planning process, namely; developing the sales forecast, determining the merchandise requirements, merchandise control and assortment planning.

This learning unit unfolds as follows:





LEARNING OUTCOMES

After completing this learning unit, you should be able to

- understand the concept of merchandise management in a retailing context
- discuss and practically apply the steps in the merchandise planning process
- explain the importance of developing a sales forecast
- discuss and practically apply the steps in developing a sales forecast
- understand how to estimate sales on an annual or monthly basis
- explain the components involved in planning the merchandise budget and understanding the calculations thereof
- comprehensively discuss and explain merchandise control, with emphasis on open-to-buy (OTB)
- explain the importance and purpose of an assortment plan
- discuss how retailers can prepare an assortment plan



KEY CONCEPTS

- Merchandise management
- Merchandise planning
- Sales forecast
- Merchandise budget
- Basic stock method
- Percentage variation method
- Weeks' supply method
- Stock-to-sales ratio method
- Beginning of the month (BOM)
- End of the month (EOM)
- Open-to-buy (OTB)
- Assortment planning
- Classification

INTRODUCTION

Have you walked into a store intending to buy a specific product and found to your frustration that the product is out of stock? It becomes worse if the retail store advertised a product promotion and you especially drove there in response to the advertisement. Retailers cannot afford to have products out of stock; if a customer's first choice is not readily available, he/she will simply find an alternative. This could mean lost customers, lost sales and perhaps worst of all, a tarnished reputation.

Merchandise management involves the process by which retailers aim to offer the right quantity of the right product, in the right place, at the right time and at the right price in order to achieve organisational objectives (Levy & Weitz, 2012:302). Deciding what products to purchase and in what quantity are vital tasks for any retailer. It takes time to purchase merchandise and have it delivered and available at the right time; it is therefore essential to plan. As shown in the learning unit overview diagram, let us begin by discussing merchandise management.

6.1 MERCHANDISE MANAGEMENT

Merchandise management consists of the activities involved in purchasing the right merchandise and making it available in the right quantity, at the right place, at the right time and at the right price. Retailers need to ensure that they monitor customer preferences and anticipate what customers will want to buy in future, but this ability to analyse market trends is just one of the components needed to effectively manage merchandise inventory. Merchandise management refers to the analysis, planning, acquiring, handling and controlling of merchandise investments in a retail operation (Dunne, et al., 2014:349):

- Analysis – Retailers must correctly identify the target market and then determine their wants and needs in order to buy and sell the right merchandise to satisfy their customers. Analysing historical trends is just as important as it may assist in future planning as well as meeting sales targets and achieving desired profit levels.
- Planning – Merchandise must be purchased well in advance of the selling season. This involves sufficient planning and requires retailers to predict trends, customer buying patterns, and other factors such as the economy, weather and employment in order to determine what will sell in the future.
- Acquisition – Retailers usually purchase their merchandise from wholesalers or manufacturers. In this case, they need to do extensive research to ensure that they source the best vendors to get the best merchandise at the best possible prices.
- Handling – Retailers must ensure that logistics are in place for getting the merchandise to where it is required, still in proper condition.
- Controlling – It is important to ensure that the amount of money spent on inventory is controlled and that an adequate financial return on the retailer's merchandise investment is achieved.

Note: You should be able to understand the role of merchandise management and discuss the components needed to effectively manage merchandise inventory.

As shown in the learning unit overview diagram, in the next section we look at the merchandise planning process.

6.2 THE MERCHANDISE PLANNING PROCESS

Merchandise planning is the systematic approach at maximising return on investment by planning sales and inventory to ensure profitability and minimise losses (The Planning Factory, 2016). The main objective of merchandise planning is to satisfy customer demand/needs and achieve the organisation's financial goals (Wiid, 2012:51). In order for a retailer to achieve this objective, a merchandise plan should be developed in order to create a balance between inventory planning and sales forecasts (Wiid, 2012:51). Retailers need to ensure that inventory levels are controlled effectively to maximise sales and minimise markdowns.

Figure 6.1 indicates the four steps in the merchandise planning process. The remainder of this learning unit will provide a detailed discussion on each of these steps.

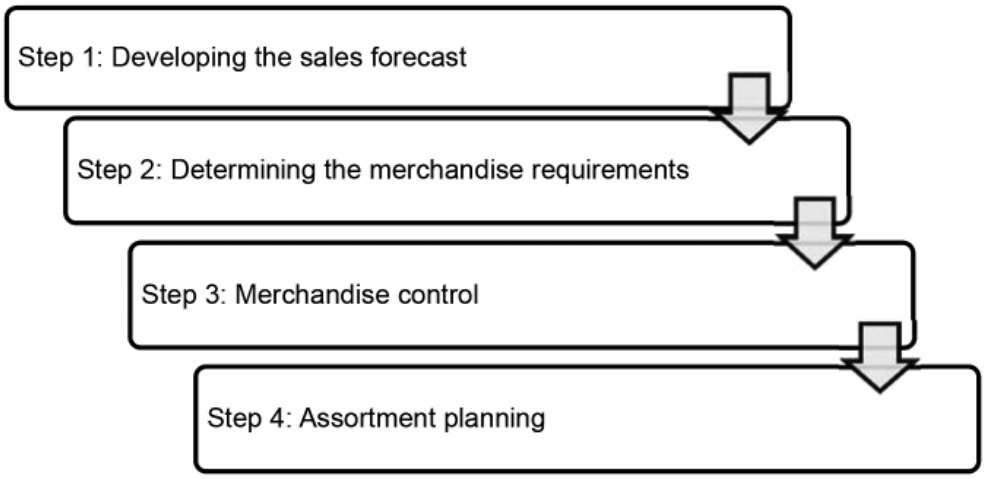


Figure 6.1: Merchandise planning process

Adapted from theory: Pradhan (2009:227)

6.2.1 Step 1: Developing the sales forecast

As shown in figure 6.1, the first step in the merchandise planning process is to develop a sales forecast. A ***sales forecast*** is a prediction of an organisation's expected retail sales over a specific period of time (Berman & Evans, 2013:386). According to Clodfelter (2015:214), sales forecasts are developed to determine the following:

- The amount of each product that needs to be purchased.
- Whether new products should be added to the merchandise assortment.
- The amount of inventory that is needed to support the planned sales.
- The prices that should be charged for each product.

Sales forecasting can have a major influence on the success and performance of retailers. Holding excess inventory may increase costs (e.g. storage, insurance) and could result in more markdowns if merchandise cannot be sold. Holding too little inventory, on the other hand, may lead to lost sales due to merchandise being unavailable when customers have requested a specific product (Tang & Lim, 2012). Understanding customer demand and forecasting what merchandise is likely to be purchased in the future allows retailers to efficiently allocate resources to buying and managing inventory in order to ultimately achieve organisational objectives (Hartman, 2017).

When developing a sales forecast, a process can be followed, which involves an analysis of past sales data, as well as internal factors (e.g. store policies, promotional efforts, pricing) and external factors (e.g. economic conditions, demographic, geographic and psychographic trends, competition) that may affect sales. We will examine these steps in the next section.

6.2.1.1 Stages in developing the sales forecast

The stages in developing a sales forecast are illustrated in figure 6.2 and discussed further below (Wiid, 2012:53; Clodfelter, 2015:221).

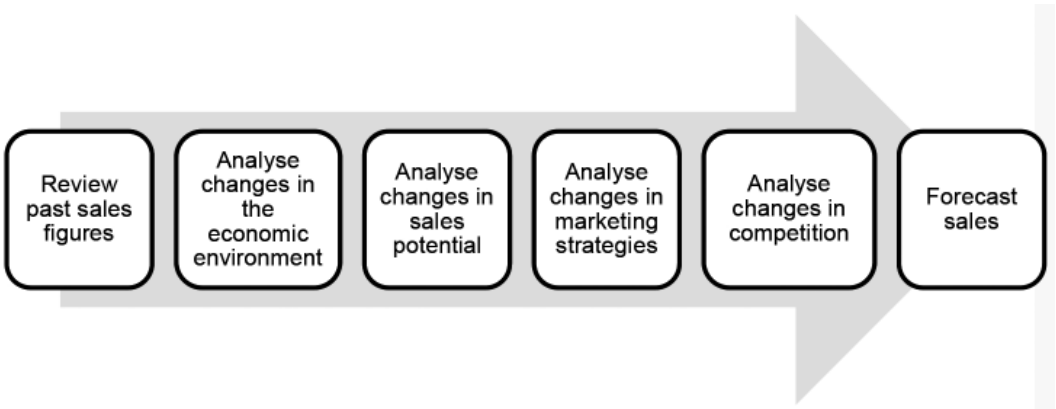


Figure 6.2: Stages in developing a sales forecast

Adapted from theory: Clodfelter (2015:221)

- **Stage 1: Review past sales figures**

As shown in figure 6.2, the first stage is to review past sales figures. Past sales figures are analysed to determine whether there is a pattern or trend in terms of what customers have purchased in the past year for example, which may provide an indication of future sales. A retailer might recognise that sports apparel increased tremendously in 2016. In this case, sales for sports apparel may be forecasted to be higher for 2017.

Analysing past sales allows retailers to answer the following questions:

– Is there a sales pattern evident over the past years? Is there an increase or decrease in sales? What is the average percent?
– Do recent sales figures support this trend?
– Can a percentage figure be identified that will reflect the sales trends observed? (Keep in mind that this figure will constantly be adjusted due to internal and external factors that may affect sales – see figure 6.2.)

- **Stage 2: Analyse changes in the economic environment**

The next stage in developing a sales forecast is to analyse changes in the economic environment (see figure 6.2). The economic environment must be taken into consideration as it has a direct link to customer spending and a substantial impact on sales. For example, high inflation rates could reduce purchasing power, which means that customers may have less income to spend after covering basic expenses such as food and housing. This may result in a decrease in sales. Similarly, high interest rates may have the same effect as purchases become significantly more expensive. Retailers need to ensure that they continuously monitor the economic environment in order to predict changes in consumer spending patterns.



Here's an interesting article on the effect of economic conditions on South Africa's food retailers:

– https://www.businesslive.co.za/bd/companies/retail-and-consumer/2017-03-23-pick-n-pay-to-cut-food-prices/

- **Stage 3: Analyse changes in sales potential**

As shown in figure 6.2, the third stage is to analyse changes in sales potential. Demographic, geographic and psychographic factors must be analysed before developing a sales forecast. A

retailer's target audience is the key group of potential customers that are most likely to purchase the organisation's merchandise (Kelly & Williams, 2017:191), therefore trends or changes in that target audience – such as buying habits – need to be monitored on a continuous basis. Research can be conducted to determine customer trends, interests and expectations. For example, if customers express a strong interest in a specific style of skinny jeans, then the retailer can expect an increase in sales based on the percentage of customers who said they would purchase a pair. Other important aspects that can impact on future sales include:

- The movement of customers into or out of the retailer's location of business (trading area). For example, if a spaza shop situated in a township notices a decrease in the number of residents, sales forecasts should be adjusted to be lower.
- Changes in the composition of the population. A retailer that targets the 21-35-year-old market may find that the fastest growing segment in its trading area is individuals over 45. This means that there may be a decrease in sales and adjustments will have to be made.
- Changes in customer lifestyle. For example, All-Plastic is a store that sells plastic tableware that may not be considered eco-friendly. If customers become more environmentally conscious and start purchasing products that are less harmful to the environment, All-Plastic could lose these customers resulting in a loss of sales.

• Stage 4: Analyse changes in marketing strategies

The fourth stage is to analyse changes in marketing strategies, as illustrated in figure 6.2. Future sales may be affected by a retailer's policies, promotional efforts and pricing. For example, the decision to add new products to the merchandise assortment may attract customers and increase sales. Similarly, changes in store policy, such as longer trading hours and improved return procedures, could have a positive effect on sales.

• Stage 5: Analyse changes in competition

Stage five of developing a sales forecast is to analyse changes in competition (see figure 6.2). Competitors can enter or leave the market at any time. Their actions may positively or negatively affect the retailer's sales and therefore need to be continuously monitored and analysed. For example, a competitor down the road from ShoeMend introduces a new improved waterproof spray for suede shoes at a reasonable price. This may attract customers, who might even purchase additional products from the store. This may cause a drop in ShoeMend's sales. Conversely, if the same competitor leaves the market, ShoeMend's sales could increase and sales forecasts will need to be adjusted accordingly.

Retailers can use market share to forecast sales. This is based on the organisation's percentage of sales in relation to the total industry sales potential (Ramaswamy & Namakumari, 2013:677). If there is a R2 000 000 market, and ShoeMend has a market share of 10%, then it can use R200 000 in sales as an average for the forecast. These figures may change based on anticipated performance against competitors.

• Stage 6: Forecast sales

As shown in figure 6.2, the final stage in developing the sales forecast (step 1 in the merchandise planning process, figure 6.1) involves determining the sales forecast. For example, assume that after reviewing past sales a retailer established an average of a 7% increase in sales for the previous year (keep in mind that sales can be estimated on an annual or monthly basis – this is discussed in the next section). In addition, the retailer forecasts that strong economic conditions will increase sales by 3%; the size of the market will grow by 3% and a new competitor that will

be entering the market may decrease sales by 4%. From this analysis, the retailer might forecast a 9% increase in sales for the next year (7% + 3% + 3% – 4% = 9%).

Forecasting sales may not be the most accurate process; however, it does provide a starting point from which to plan future sales.

– Annual/monthly sales forecast

While sales can be estimated on an annual or monthly basis, this will depend highly on the type of merchandise (Levy & Weitz, 2012:308):

- Staple items have a consistent demand over an extended period of time and demand is relatively easy to forecast, for example, bread, milk and basic apparel such as underwear. Retailers usually predict future demand based on sales history and on the assumption that factors affecting previous sales will be similar in the future.
- Fashion items are usually in demand for a short period of time and may be more challenging as some or all of the merchandise is new compared to previous seasons/years, for example, apparel, shoes and electronics. Retailers predict future sales by reviewing things such as past sales figures, conducting market research and analysing trends more frequently (see all factors in the previous discussion).
- Seasonal items are usually in demand during certain times of the year, for example, Christmas decorations, Valentine's Day heart chocolates and winter coats. Seasonal items have characteristics of both staple and fashion merchandise.

– Estimating annual sales

As mentioned above, it is easier for retailers to predict sales for staples over a long period of time than fashion merchandise. A figure is determined by using past sales and applying the following formula:

*Annual sales for previous year x (1 + percentage increase) = Forecasted sales

Note: Percentage increase is the growth rate divided by 100.

For example, if the annual sales figure for cleaning detergent was R150 000 for 2016 and historical data showed an average annual growth rate of 3%, sales for 2017 can be forecasted as:

*Forecasted sales = Annual sales for previous year x (1 + percentage increase)
= R150 000 x (1 + 0.03)
= R150 000 x 1.03
= R154 500

The annual sales figure for 2017 can be forecasted at R154 500.

When the growth rate is not known, the following formula can be used (Marz, 2017):

*Growth rate percent = (Next period sales – Prior period sales / Prior period sales) x 100

Let's look back at the previous example; if the annual sales figure for cleaning detergent was R150 000 for 2016 and the retailer forecasted sales for 2017 at R154 500, the growth rate can be calculated as:

*Projected growth rate percent = (Next period sales – Prior period sales/Prior period sales) x 100
= (R154 500 – R150 000 / R150 000) x 100
= (R4 500 / R150 000) x 100
= 3%

– Estimating monthly sales

Monthly sales forecasts are conducted to determine if any adjustments need to be made to respond to projected growth or contraction. It enables the retailer to consider potential effects of factors that may increase or decrease sales, such as holidays or seasonal events (Keolanui, 2017). According to Wiid (2012:56), estimating monthly sales involves three steps:

1. Estimate annual sales.

   Let's consider the cleaning detergent again in the previous example. The annual sales figure for 2017 was forecasted at R154 500 (see above for calculation).

2. Estimate average monthly sales.

   If the retailer wants to calculate the estimated monthly sales for the cleaning detergent, the annual sales must be divided by 12 (12 months of the year) to get the average sales per month:

   * R154 500/12 = R12 875

   If sales are constant throughout the year, and there are no trends or seasonal fluctuations, then this method of using the average is sufficient.

3. Adjustment of estimated average monthly sales.

   For cleaning detergent, the retailer may realise that sales vary slightly throughout the year. However, fashion merchandise, on the other hand, may require much more analysis. Let's consider women's jackets for example: in winter there will be an increase in the demand for jackets, but in summer sales might decrease. It will therefore be necessary to adjust the sales for these months accordingly. By reviewing historical monthly sales volume, the retailer may find that 70% of total annual sales volume was realised during winter and that the remaining 30% percent of sales was spread fairly evenly over the rest of the months of the year.

Retailers can also determine sales estimates based on the sales figures for the same month in the previous year. Let's look at an example:

Table 6.1: 2016/2017 sales (women's jackets)

Month	2016	2017 reported	2017 estimate
January	R9 000	R8 200	
February	R10 000	R11 500	
March	R10 100	R9 500	
April	R18 000	R17 150	
May	R38 500	R43 600	
June	R36 200	R42 800	

Month	2016	2017 reported	2017 estimate
July	R38 000	R40 500	
August	R10 000	R11 000	
September	R7 150	R11 000	
October	R8 000	R9 000	
November	R8 000		R8 176
December	R7 000		R7 154
Total	R199 950	R204 250	
Percent increase		2.2%	

Table 6.1 shows 2016/2017 sales for women's jackets. In order to forecast sales for November and December 2017, the growth rate needs to be calculated first using the total sales figures for 2016 and 2017:

*Growth rate percent = [(Next period sales – Prior period sales)/Prior period sales] x 100
= [(R204 250 – R199 950) / R199 950] x 100
= [R4 300 / R199 950] x 100
= 2.2%

Once the growth rate has been identified, sales can be forecasted using November and December 2016 figures:

*Forecasted sales for November 2017 = Monthly sales for previous year x (1 + percentage increase)
= R8 000 x (1 + 0.022)
= R8 000 x 1.022
= R8 176

*Forecasted sales for December 2017 = Monthly sales for previous year x (1 + percentage increase)
= R7 000 x (1 + 0.022)
= R7 000 x 1.022
= R7 154

Note: You should be able to discuss the stages in developing a sales forecast and understand how to estimate sales on an annual or monthly basis.



Activity 6.1

FunGalore, a small toy store, is in the process of forecasting sales for its battery cars for the next year. Discuss two external factors that may influence this sales forecast.



Feedback

External factors such as economic conditions, demographic, geographic and psychographic trends, and competition may affect sales negatively or positively and FunGalore will need to adjust its sales forecast accordingly.

***Changes in the economic environment**. The economic environment includes factors such as inflation, interest rates and recession. It has a direct link to customer spending and a substantial impact on sales. For example, high inflation rates could reduce purchasing power, which means that customers may have less income to spend after covering basic expenses such as food and housing. This may result in a decrease in sales as toys are not necessities (in this case, battery cars). Furthermore, batteries are an additional expense, which are very costly to replace every now and then.*

***Changes in competition**. Competitors may positively or negatively affect the retailer's sales and therefore need to be continuously monitored and analysed. For example, if FunGalore's competitor increases prices for its battery cars, more customers may purchase from FunGalore, thereby increasing sales. However, if the competitor decreases prices for its battery cars, sales may drop unless FunGalore decides to meet the competitor's prices.*

The second step in the merchandise planning process (figure 6.1) – determining the merchandise requirements – will now be discussed.

6.2.2 Step 2: Determining the merchandise requirements

As shown in figure 6.1, step two of the merchandise planning process is to determine the merchandise requirements. Retailers need to ensure that they plan well financially and control the amount of merchandise purchased in order to meet customer needs/demand during a specific period of time (Poloian, 2013:418). In this step, we will look at the merchandise budget. The ***merchandise budget*** is a financial plan for an upcoming season and generally consists of five components as illustrated in figure 6.3.

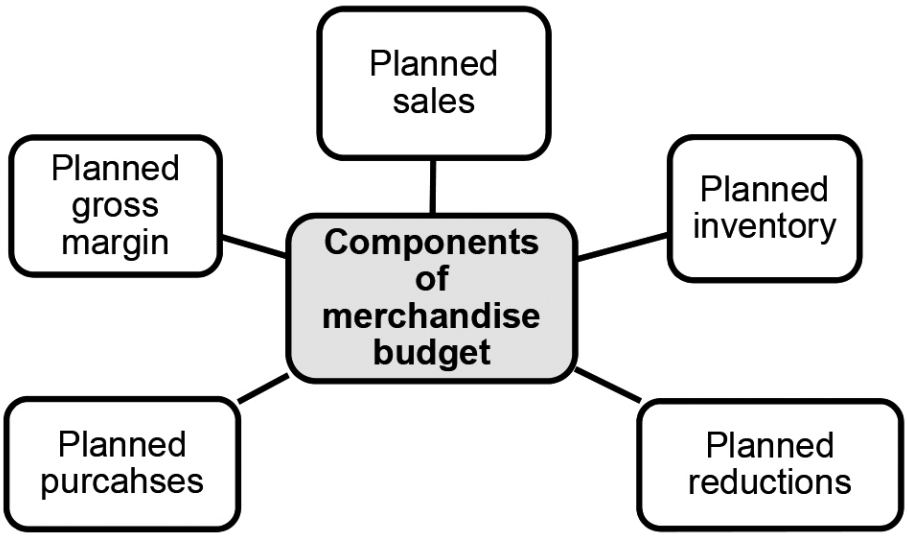


Figure 6.3: Components of merchandise budget

Adapted from theory: Pradhan (2009:227); Fiorito and Gable (2012:170); Poloian (2013:418)

When preparing the merchandise budget, retailers need to keep the following in mind (Dunne et al., 2014:311):

- The budget must be formulated well in advance of the selling season.
- The budget language must be easy to understand.
- The budget should be planned for a short period of time due to factors that may influence sales (six months is the standard for most retailers – see table 6.2).
- The budget should be flexible enough to allow for adjustments.

Each of the merchandise budget components will now be discussed (Pradhan, 2009:227; Fiorito & Gable, 2012:170; Poloian, 2013:418):

6.2.2.1 Planned sales

The first component of a merchandise budget is planned sales (see figure 6.3). The precision of planning the remaining merchandise budget components depends on the sales forecast. The sales forecast is a central basis for all planning and for determining retailers' merchandise needs for a specific period of time. An inaccurate sales forecast may negatively affect all the other components of the plan. For example, if sales are forecasted too high, retailers will have excess inventory in stock. If sales are forecasted too low, retailers may not have sufficient inventory to cover customer demand and ultimately profits will be unfavourably affected.

We've already discussed sales forecasting in the first step; you can refer back to section 6.2.1. Once sales are forecasted, the retailer will need to plan inventory levels that will support the predicted sales.

Table 6.2: Six-month merchandise budget (example template)

		Six-month merchandise budget Department _____						
		Month 1	**Month 2**	**Month 3**	**Month 4**	**Month 5**	**Month 6**	**Total**
Sales	Last year							
	Plan							
	Increase %							
	Revised							
	Actual							
Beginning of month (BOM) stock	Last year							
	Plan							
	Increase %							
	Revised							
	Actual							

		Six-month merchandise budget Department _____						
		Month 1	**Month 2**	**Month 3**	**Month 4**	**Month 5**	**Month 6**	**Total**
Reductions	Last year							
	Plan							
	Increase %							
	Revised							
	Actual							
Purchases (Retail)	Last year							
	Plan							
	Increase %							
	Revised							
	Actual							
Purchases (Cost)	Last year							
	Plan							
	Increase %							
	Revised							
	Actual							
End of month (EOM) stock	Last year							
	Plan							
	Increase %							
	Revised							
	Actual							

Adapted from theory: Pradhan (2009:227), Fiorito and Gable (2012:170), Poloian (2013:418)

6.2.2.2 Planned inventory

The second component of the merchandise budget is planned inventory (see figure 6.3). This component involves determining the amount of merchandise to be on hand at the ***beginning of the month (BOM)*** and at the ***end of the month (EOM)*** in order to meet sales expectations. As illustrated in figure 6.4, there are four methods that retailers can use to plan inventory levels, namely basic stock, percentage variation, week's supply and stock to sales ratio. These methods are explained below.

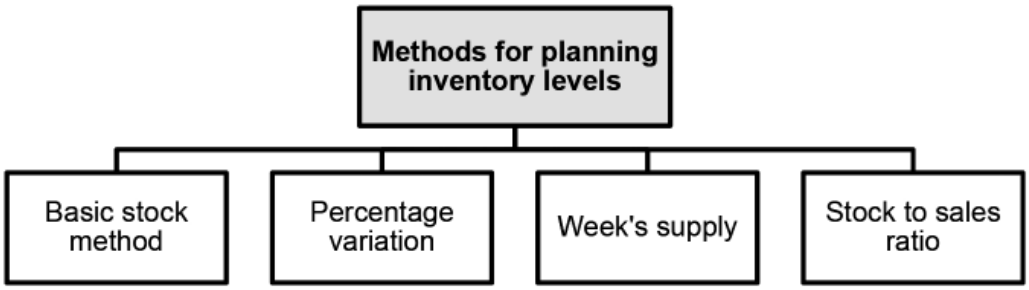


Figure 6.4: Methods for planning inventory levels

Adapted from theory: Pradhan (2009:227); Fiorito and Gable (2012:170); Poloian, (2013:418)

- **Basic stock method**

As shown in figure 6.4, the first method for planning inventory levels is the basic stock method. The basic stock method ensures that BOM inventory is equal to the planned sales for the month, plus an additional amount in case the actual sales exceed forecasted sales. This method helps retailers avoid out-of-stock situations. Retailers with a lower stock turnover usually apply this method. Stock turnover is a measure of how quickly merchandise is sold. Therefore, when retailers have a low stock turnover rate, it means that the stock they carry is sold out at a slower rate.

The basic stock formula:

*__Basic stock__ = Average stock for the season – Average monthly sales for the season

- Average stock = Total planned sales for the season / Turnover rate
- Average monthly sales = Total planned sales for the season / Number of months in the season

*__BOM stock__ = Planned monthly sales + basic stock

Let's look at an example. Table 6.3 shows the planned sales for Catherine's retail store (six months). Using past sales figures, a stock turnover of 4 was forecasted.

Table 6.3: Catherine's retail store – planned sales for the season (six months)

Month	Planned sales
February	R9 000
March	R10 100
April	R10 500
May	R11 000
June	R14 000
July	R14 800
Total	R69 400

If Catherine wants to determine the basic stock for the month of February, she can calculate this as follows:

*Planned sales for the month of February = R9 000

*Average stock = Total planned sales for the season / Turnover rate
= R69 400 / 4
= R17 350

*Average monthly sales = Total planned sales for the season / Number of months in the season
= R69 400 / 6
= R11 567

***Basic stock** = Average stock for the season – Average monthly sales for the season
= R17 350 – R11 567
= R5 783

Therefore, **BOM stock** for February

= Planned monthly sales (R9 000) + basic stock (R5 783)
= R14 783

- **Percentage variation method**

The second methods for planning inventory levels is the percentage variation method (see figure 6.4). The percentage variation method emphasises that BOM stock should be a percentage of average inventory. This percentage may vary each month depending on planned sales. Dunne et al., (2014:644) states that this method "assumes that the percentage fluctuations in monthly stock from average stock should be half as great as the percentage fluctuations in monthly sales from average sales". Compared to the basic stock method, the percentage variation method is used when the retailer has a high stock turnover, usually above 6.

The percentage variation formula:

***BOM stock** = Average stock for the season x 0.5 (1 + Planned sales for the month / Average monthly sales)

Let's go back to the previous example on Catherine's retail store, referring to table 6.3. If Catherine wants to calculate BOM stock for the month of February using the percentage variation method, it can be done as follows:

***BOM stock** = Average stock for the season x 0.5 (1 + Planned sales for the month / Average monthly sales)
= R17 350 x 0.5 (1 + R9 000 / R11 567)
= R17 350 x 0.5 (1 + 0.8)
= R17 350 x 0.5 (1.8)
= R17 350 x 0.9
= R15 615

Catherine must have R15 615 worth of stock at the beginning of the month (February) to ensure that there is enough stock to support planned sales.

Note: We used the figures that were calculated in the previous example.

- **Week's supply method**

The third method for planning inventory levels is the week's supply method (see figure 6.4). The week's supply method is used to plan inventory on a weekly basis. Think about fast-moving fashion merchandise or fruit and vegetable vendors. Inventory is planned for shorter periods as the goods require more frequent replenishment. The amount of inventory necessary to support the planned sales for a week is driven by the number of weeks that the inventory will last based on a projected turnover.

The week's supply formula:

*Number of weeks to be stocked = Number of weeks / Stock turnover

*Average weekly sales = Estimated total sales / Number of weeks

***BOM stock** = Average weekly sales x Number of weeks to be stocked

Let's refer back to Catherine's retail store (table 6.3). Planned sales are provided for six months, which means there is a total of 26 weeks:

*Number of weeks to be stocked = Number of weeks / Stock turnover
= 26 / 4
= 6.5

If we consider planned sales for the month of February (R9 000) and there are approximately four weeks:

*Average weekly sales = R9 000 / 4
= R2 250

then:

***BOM stock** = Average weekly sales x Number of weeks to be stocked
= R2 250 x 6.5
= R14 625

The amount required to support the sales plan is R14 625.

- **Stock-to-sales ratio method**

As illustrated in figure 6.4, the fourth method for planning inventory is the stock-to-sales method. This method uses a desired stock-to-sales ratio to establish the inventory level for a specific period of time. The ratio is usually determined by looking at past sales figures in the same period.

The stock-to-sales-ratio formula:

***BOM stock** = Desired stock-to-sales ratio x Planned sales

If Catherine wants to determine the BOM stock for February (see table 6.3), assuming the stock-to-sales-ratio is 2.0, she can calculate it as follows:

***BOM stock** = Desired stock-to-sales ratio x Planned sales
= 2.0 x R9 000
= R18 000

The BOM stock for the month of February should be R18 000.

In comparing the four methods to calculate Catherine's BOM stock for February, the differences may be somewhat significant:

- Basic stock method – R14 783
- Percentage variation method – R15 615
- Week's supply method – R14 625
- Stock-to-sales ratio method – R18 000

Retailers need to decide which method is best suited to the business.

6.2.2.3 Planned reductions

Retailers might not sell all their merchandise at the planned initial markup. For example, consider seasonal merchandise: the price of coats may be reduced towards the end of winter. What about damaged merchandise? A pair of jeans that has a defective zip cannot be sold to the customer at the full price and will most likely be reduced. These reductions must be planned when preparing the merchandise budget.

Retailers can calculate planned markdowns for each month using the following formula:

> *Planned markdown = Forecast markdown percentages for the month x Planned markdowns for the season

For example, Joseph does clothing alterations and decides to give senior citizens a discount. He forecasts a markdown percentage of 4% for the month of March and total planned markdowns for the season (six months) is R7 500. This means that the planned markdown amount for March is R300 (4% x R25 000).

Types of markdowns/reductions are covered in learning unit 7.

6.2.2.4 Planned purchases

Planned purchases refer to the merchandise that must be bought to ensure adequate stock levels to meet demand.

- **Planned purchases at retail**

The planned purchases in retail can be calculated by using the following formula:

> ***Planned purchases at retail = Planned sales + Planned reductions + Planned EOM – Planned BOM

Let's work through an example:

Pat owns a boutique and wants to plan purchases for April. Based on past sales figures and the analysis of market conditions, sales are forecasted to be R150 000. Reductions planned for the season is R10 000. EOM stock is planned at R30 000. If BOM stock had a value of R25 000, planned purchases can be calculated as:

> *Planned purchases at retail = Planned sales + Planned reductions + Planned EOM – Planned BOM
> = R150 000 + R10 000 + R30 000 – R25 000
> = R165 000

- **Planned purchases at cost**

The planned purchases at cost can be calculated using the following formula:

*Planned purchases at cost = Planned purchases at retail x (100% – Initial markup %)

Considering the above example, if the initial markup percentage is 40%, then planned purchases can be calculated as:

*Planned purchases at cost = Planned purchases at retail x (100% – Initial markup %)
= R165 000 x 60% (or 0.60)
= R99 000

Markups are covered in learning unit 7.

6.2.2.5 Planned gross margin

The gross margin is the difference between the retail selling price and the cost of the merchandise sold.

Refer to the previous example on Pat's boutique. Using the planned purchases, the gross margin can be calculated in two steps:

*Planned initial markup = Planned retail purchases – Planned cost purchases
= R165 000 – R99 000
= R66 000

Then:

*Planned gross margin = Planned initial markup – Planned markdowns
= R66 000 – R10 000
= R50 000

Note: You should be able to explain the components involved in planning the merchandise budget and understand the calculations thereof.



Activity 6.2

Assume that you own a small convenience store, stocking everyday items such as bread, milk, soft drinks, snacks, toiletries and cigarettes. Based on past sales figures for toiletries, you forecasted a stock turnover of 6 and sales for the next year as follows:

Month	Planned sales
January	R4 500
February	R4 300
March	R4 100
April	R4 200
May	R4 600
June	R4 000

Month	Planned sales
July	R4 100
August	R4 200
September	R4 400
October	R4 300
November	R4 500
December	R4 200
Total	R51 400

Questions:

1 Would you forecast sales on an annual or monthly basis, based on the merchandise you stock? Motivate.
2 Calculate the BOM stock for the month of January using the basic stock method.



Feedback

1. *Products such as bread, milk, soft drinks, snacks, toiletries and cigarettes can be referred to as staple items. Demand is consistent over an extended period of time and therefore easy to forecast. Retailers usually predict future demand based on sales history and on the assumption that factors affecting previous sales will be similar in the future. Sales can therefore be forecasted annually.*
2. *The basic stock for the month of January can be calculated as follows:*

**Planned sales for the month of January = R4 500*

**Average stock = Total planned sales for the year / Turnover rate*
= R51 400 / 6
= R8 567

**Average monthly sales = Total planned sales for the year / Number of months in the season*
= R51 400 / 12
= R4 283

**Basic stock = Average stock for the season – Average monthly sales for the season*
= R8 567 – R4 283
= R4 284

Therefore, BOM stock for January

= Planned monthly sales (R4 500) + basic stock (R4 284)
= R8 784

In the next section, we discuss the third step in the merchandise planning process (figure 6.1) – merchandise control.

6.2.3 Step 3: Merchandise control

As shown in figure 6.1, the third step in the merchandising planning process, is merchandise control. Retailers should be aware of how much money can be spent on merchandise at any point in time. If a retailer discovers an exclusive style of pants and wishes to add it as a new collection to increase profits, there must be money available for this purchase. It's important that retailers

control the amount of merchandise ordered in a specific period of time, and to have as best as they can, the sales and stock plans in place. This control is usually attained through a system called ***open-to-buy (OTB)*** (Diamond, 2013:148). OTB can be described as (Tepper, 2014:347; Donnellan, 2014:291):

- the amount of unspent money available for purchasing merchandise during a specific period, and
- the difference between planned purchases and merchandise on order.

The advantages of using the OTB system (Ray, 2010:53):

- It ensures that a sufficient amount of inventory is available.
- Merchandise purchases can be adjusted.
- Purchases are kept within the budget.
- Markdowns are limited.
- It improves stock turnover.
- It prevents underbuying and overbuying.

The OTB amount can be calculated using the formula below (Donnellan, 2014:291):

*OTB = Planned purchases – Merchandise on order

Note: Since calculations for planned purchases were indicated in the previous section, let's refer back to Pat's boutique.

The planned purchases at retail for Pat's boutique was calculated as follows:

*****Planned purchases at retail = Planned sales + Planned reductions + Planned EOM – Planned BOM

= R150 000 + R10 000 + R30 000 – R25 000

= R165 000

If merchandise on order is R15 000, the OTB figure will be:

*OTB = Planned purchases – Merchandise on order

= R165 000 – R15 000

= R150 000

This figure can also be converted to cost as follows (Poloian, 2013:423):

*****OTB at cost = OTB at retail x (100% – Initial markup %)

= R150 000 x 60% (or 0.60)

= R90 000

Note: In this calculation, we used Pat's boutique's initial markup percentage of 40%.

Note: You should be able to explain and calculate OTB.



Activity 6.3

BuildersTools, a small hardware store, has a stock level of R50 000 on 1 March and planned R55 000 end of month (EOM) stock. The planned sales for the store amounted to R30 000 and planned reductions R1 000. Merchandise on order is R10 000.

Questions:

1 Calculate BuildersTools OTB amount at retail.
2 What are the advantages for BuildersTools using the OTB system?



Feedback

1. *The planned purchases at retail is calculated as follows:*

   **Planned purchases at retail = Planned sales + Planned reductions + Planned EOM – Planned BOM*
   = R30 000 + R1 000 + R55 000 – R50 000
   = R36 000

   If merchandise on order is R10 000, the OTB figure will be:

   **OTB = Planned purchases – Merchandise on order*
   = R36 000 – R10 000
   = R26 000

2. *This figure can also be converted to cost as follows:*

   **OTB at cost = OTB at retail x (100% – Initial markup %)*
   = R150 000 x 60% (or 0.60)
   = R90 000

Using the OTB system will help BuildersTools ensure that they have enough stock at all times and purchases can be kept within the budget. This will further prevent underbuying and overbuying, thereby avoiding markdowns. If need be, purchases can be adjusted.

Assortment planning, the last step in the merchandise planning process (see figure 6.1), will be discussed next.

6.2.4 Step 4: Assortment planning

Assortment planning involves a retailer determining the specific quantities and characteristics of each product that they plan to purchase in relation to aspects such as brand, style, colour, size and material (Pradhan, 2009:227). The aim of an assortment plan is to achieve a balance of merchandise that satisfies the needs of the target market. When planning the assortment, it is essential to analyse past sales figures as well as understand customers' preferences and current trends. This will help retailers to ensure that they offer the right amount of product lines or brands (breadth) and the right amount of choices within each product line or brand (depth) to meet customer demand and expectations (Dunne et al., 2014:360).

Follow the link below to give you a better idea of product breadth and depth.



– https://image.slidesharecdn.com/retailmerchandising-130718024311-phpapp01/95/retail-merchandising-44-638.jpg?cb=1374115484

Clodfelter (2015:294) identifies five stages when preparing an assortment plan. This is shown in figure 6.5.

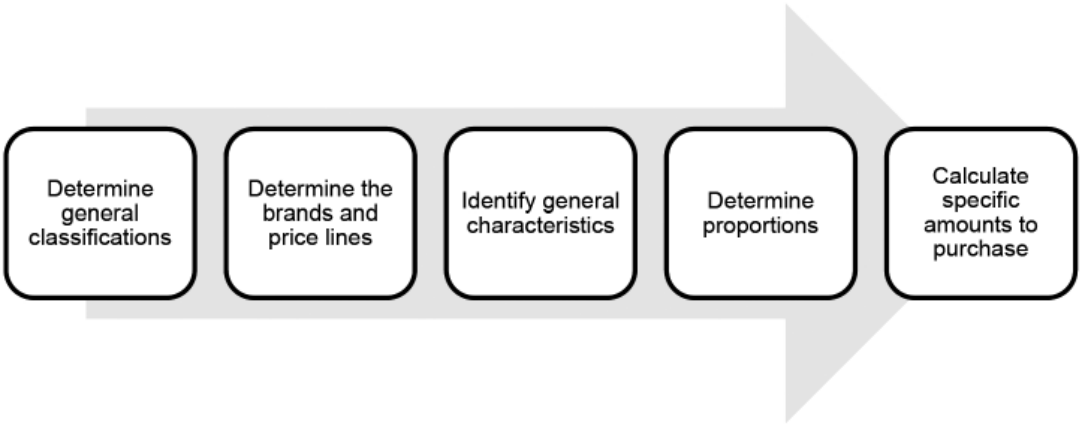


Figure 6.5: Stages in preparing an assortment plan

Adapted from theory: Clodfelter (2015:294)

Each of the stages in figure 6.5 is briefly discussed below (Clodfelter, 2015:294):

6.2.4.1 Determine general classifications

The first stage when preparing an assortment plan is to determine the general classification of merchandise (see figure 6.5). The term ***classification*** refers to a specific kind of product or category. For example, a retailer may decide to sell men's shirts or women's dresses. Each of these categories can be further divided into subclassifications. Examples of a subclassification of men's shirts may be sport shirts, casual shirts and formal shirts.

6.2.4.2 Determine the brands and price lines

The second stage in preparing an assortment plan is to determine the brands and price lines, as shown in figure 6.5. In this stage, the retailer must determine the brands and price lines for each of the subclassifications. These decisions are tied in with the retailer's overall strategy and will depend on the characteristics of the target market. For example, when customers enter the retailer's store, do they look for specific brands such as Levi's or Nike when purchasing casual shirts? If the target market is not brand loyal, the retailer does not need to offer a wide selection of brands. In addition, the retailer may consider private labels. Private labels are brands that are owned, controlled and sold by the retailer (Ray, 2010:102). These brands can be offered at lower prices, which is another important aspect to be taken into account in the assortment plan. The retailer should attempt to offer subclassifications at different price ranges, however, this again will depend on the target market.

6.2.4.3 Identify general characteristics

The third stage in preparing an assortment plan is to identify general characteristics (see figure 6.5). General characteristics include aspects such as size, colour, material and style. Let's look at men's casual shirts:

- Size – small, medium, large, extra large
- Colour – black, white, blue

- Material – cotton, silk
- Style – short sleeves, long sleeves

Retailers cannot plan for every single customer; therefore, the most important characteristics need to be selected to achieve a balanced assortment. Reviewing past sales figures can assist the retailer in this process. For example, a retailer could offer casual shirts in the colour red. However, if most of the sales are forecasted around black, white and blue, then such a decision would not be wise.

6.2.4.4 Determine proportions

As shown in figure 6.5, the next stage in preparing an assortment plan is to determine proportions. In this stage the retailer needs to decide on the proportion of one subclassification to another. This means that the retailer must look at each subclassification and decide which characteristics are the most popular. For example, cotton formal shirts might be more popular than silk formal shirts. In this case, a higher proportion of cotton formal shirts will be represented in the retailer's stock. As mentioned in the previous stage, past sales figures can help the retailer determine proportions of each product.

6.2.4.5 Calculate specific amounts to purchase

The final stage of preparing an assortment is to calculate specific amounts to purchase (see figure 6.5). Lastly, the retailer calculates the amount of units to be purchased. Let's look at an example that shows how an assortment plan is prepared:

Assume that you are selling men's casual shirts (stocking only one brand). According to the merchandise budget formulated, you have R5 000 to spend on casual shirts for the month. At R50 a shirt, you can buy 100 shirts. The casual shirts are available for purchase as follows:

- Size – small, medium, large, extra large
- Colour – black, white, blue
- Material – cotton, silk
- Style – short sleeves, long sleeves

Table 6.4 shows the past sales figures.

Table 6.4: Past sales figures

General characteristics	Past sales
Size	
Small	15%
Medium	25%
Large	40%
Extra large	20%
Colour	
Black	45%
White	40%
Blue	15%

General characteristics	Past sales
Material	
Cotton	90%
Silk	10%
Style	
Short sleeves	90%
Long sleeves	10%

After reviewing past sales figures, you decide to offer only cotton, short sleeve casual shirts in all sizes. Since you've had a number of customers requesting grey casual shirts, you also decide to replace the blue with grey due to blue's low percentage of sales.

Now the amount of casual shirts for each of the sizes and colours can be calculated as shown in table 6.5:

Table 6.5: Assortment calculations

Size	Units	Colour	Units
Small	15	Black	7
		White	6
		Grey	2
Medium	25	Black	11
		White	10
		Grey	4
Large	40	Black	18
		White	16
		Grey	6
Extra large	20	Black	9
		White	8
		Grey	3

* The number of casual shirts has been rounded off

** The number of units by size can be calculated by multiplying each sales percentage by 100 (the number of units you can purchase with R5 000).

*** The number of units by colour can be calculated by multiplying each sales percentage with the number of units by size.

Note: You should be able to explain the purpose of an assortment plan and discuss how retailers can prepare an assortment plan.

6.3 SUMMARY

In this learning unit we examined how retailers can manage the process of merchandising; that is, selling the right quantity of the right product, in the right place, at the right time and at the right

price. This was accomplished through underlining the four steps in merchandise planning. Firstly, we discussed how retailers can forecast sales for a specific period, followed by the merchandise budget, which assists retailers with this task. Thereafter, the importance of merchandise control was highlighted with specific emphasis on the open-to-buy (OTB) system. Lastly, we touched on how retailers can prepare an assortment plan to ensure that the right products are purchased to satisfy customers and to ultimately achieve organisational objectives.

In the next unit (learning unit 7) we discuss selling at the right price. Before continuing to the following unit, please complete the assessment questions and reflect on what you have learned in this unit.

6.4 SELF-ASSESSMENT



Please note that these self-assessment questions will be available on myUnisa on the self-assessment tool, and you are encouraged to complete them online. The answers will be provided to you upon submission.

QUESTION 1

The analysis, planning, acquiring, handling and controlling of merchandise investments in a retail operation is **BEST** described as …

1 sales planning.
2 merchandise management.
3 product ordering.
4 merchandise acquisition.

QUESTION 2

Basic apparel such as underwear is an example of … merchandise.

1 staple
2 fashion
3 custom
4 trend

QUESTION 3

If the annual sales figure for sandals was R139 900 for 2017 and the retailer forecasted sales for 2018 at R145 550, what is the projected growth rate?

1 3%
2 3.8%
3 4%
4 5.2%

QUESTION 4

Use the percentage variation method to determine the BOM stock for the month of April based on the following information:

Planned sales for April = R11 200
Average monthly sales = R12 500
Average stock for the season = R17 800

1 R12 500
2 R16 910
3 R19 100
4 R24 920

QUESTION 5

Which **ONE** of the following statements regarding open-to-buy (OTB) is **INCORRECT**?

1 It is used to prevent underbuying and overbuying.
2 It is used to help control the amount of merchandise ordered.
3 It is the amount of unspent money available for purchasing merchandise.
4 It is the difference between planned sales and actual sales.

QUESTION 6

Zukisa's spaza shop has calculated planned purchases at R85 550. Teabags, cigarettes and toiletries on order amounts to R10 800. What is the OTB figure?

1 R74 750
2 R74 910
3 R85 550
4 R96 350

QUESTION 7

Which step in the merchandise planning process involves a retailer determining the amount of dresses (size 32) to be purchased in black, white and red?

1 Developing the sales forecast
2 Determining the merchandise requirements
3 Merchandise control
4 Assortment planning

QUESTION 8

A retailer decides to stock two brands of sneakers, Converse and Levi's. This can be referred to as the …

1 product depth.
2 product breadth.
3 general classification of products.
4 characteristics of products.

QUESTION 9

Use the basic stock method to determine the BOM stock for the month of July based on the following information:

Planned sales for July = R10 500
Average monthly sales = R11 350
Average stock for the season = R15 200

1 R3 850

2 R7 500
3 R19 100
4 R14 350

QUESTION 10

A retailer forecasts sales for handbags to drop by 10% due to an increased inflation rate. In which stage in developing a sales forecast would a retailer analyse such changes?

1 Analyse changes in the economic environment
2 Analyse changes in sales potential
3 Analyse changes in marketing strategies
4 Analyse changes in competition

6.5 REFLECTION



Before you continue to the next learning unit, please reflect on the following questions:

1 How do you think you will be able to use the skills you learned in this learning unit in your professional life?
2 What did you find difficult about this learning unit? Why do you think you found it difficult? Do you understand the concept you were struggling with now or do you need help? What are you going to do about getting help if you need it?
3 What did you find interesting in this learning unit? Why?
4 How long did it take you to work through this learning unit? Are you still on schedule or do you need to adjust your study programme?

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Learning unit 7

Determining the right price

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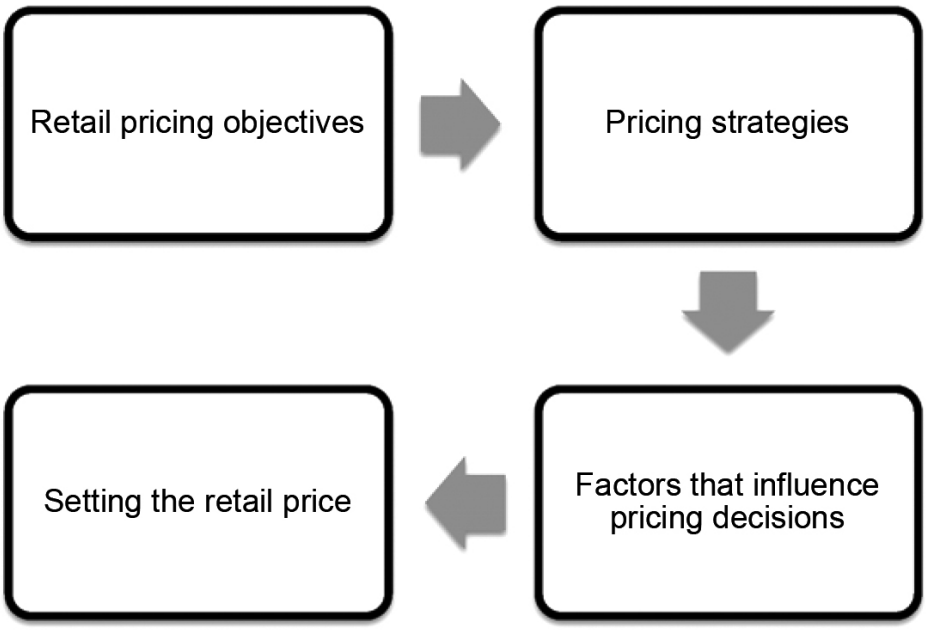
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OVERVIEW OF THIS LEARNING UNIT

This learning unit deals with pricing merchandise and places emphasis on what retailers need to consider in order to set the right price. The key areas of focus are: retail pricing objectives, pricing strategies, key factors that may influence pricing decisions, and lastly setting the retail price (markups and markdowns).

This learning unit unfolds as follows:





LEARNING OUTCOMES

After completing this learning unit, you should be able to:

- Explain the concept of price
- Differentiate between the types of pricing objectives
- Discuss the internal and external factors that may influence pricing decisions
- Distinguish between the various pricing strategies
- Explain the use of markups and markdowns
- Calculate markups and markdowns



KEY CONCEPTS

- Price
- Pricing objectives
- Profit-oriented pricing objectives
- Sales-oriented pricing objectives
- Status quo pricing objectives
- Price skimming
- Price penetration

- Price lining
- Odd pricing
- Bundle pricing
- Everyday low pricing (EDLP)
- Loss leader pricing
- Segmented pricing
- Internal factors
- Fixed costs
- Variable costs
- External factors
- Price elasticity
- Cost
- Markup
- Initial markup
- Maintained markup
- Markdowns
- Damage markdown
- Employee discount
- Promotional markdown
- Clearance markdown

INTRODUCTION

Almost every transaction that occurs in our lives involves a price. ***Price*** can be defined as the amount of money needed to obtain something of value (a product or service). The value of a product or service is determined by its benefit to the customer and the sacrifice in terms of the money and effort exerted to acquire it (Machado, 2013:4). Value is a complex term as it means something different to every individual; while some may associate value with high quality, others may see value as nothing more than low prices. For example, how much would you be prepared to pay for a pair of jeans? One may place great value on a certain pair of branded jeans and be prepared to pay R600, while someone else might find no value in the name and would rather pay R100 for a pair of jeans elsewhere. Retailers should therefore be aware of customers' perceptions of value and the prices they are willing to pay for merchandise.

Determining the appropriate retail selling price is a challenging and essential task for any retailer. It could mean the difference between profitability and loss, and ultimately long-term survival. Setting a price that is too low could reduce profit margins and may limit an organisation's ability to cover merchandise costs and expenses. Conversely, setting a price that is too high is just as disastrous as it may negatively affect customer demand for a product or service. The right price needs to be attractive; that is, charging a price that potential customers are willing and able to pay, yet is sufficient to meet the organisation's overall objectives. This is, however, easier said than done. Many aspects need to be considered before the right price is set; these includes clearly defining the pricing objectives, which should ultimately achieve the organisation's overall objectives; knowing the target market and what price they are prepared to pay; determining the organisation's position in the market and what competitors are charging; calculating costs, sales and profit estimates; and understanding the various pricing strategies and tactics that can be used to price merchandise. It is proposed that the first step in setting the right price is to have a clear understanding of and establishing pricing objectives (Pride & Ferrell, 2014:702). As shown in the learning unit overview diagram, we begin by discussing the various pricing objectives that retailers may consider.

7.1 RETAIL PRICING OBJECTIVES

Formulating SMART (specific, measurable, achievable, realistic and timely) pricing objectives is a critical part of any organisation's marketing strategy (Bowie & Buttle, 2011:188). Pricing objectives serve as a foundation and provide direction to the retailer's entire pricing process. The clearer the objectives, the easier it is to set prices for merchandise.



Pricing objectives can be defined as the goals that an organisation aims to achieve through its pricing efforts (Mahajan & Mahajan, 2015:121). These pricing objectives must be consistent with and support the organisation's marketing and overall objectives. There are three major groups of pricing objectives, namely profit-oriented, sales-oriented and status quo. These groups are presented in figure 7.1.

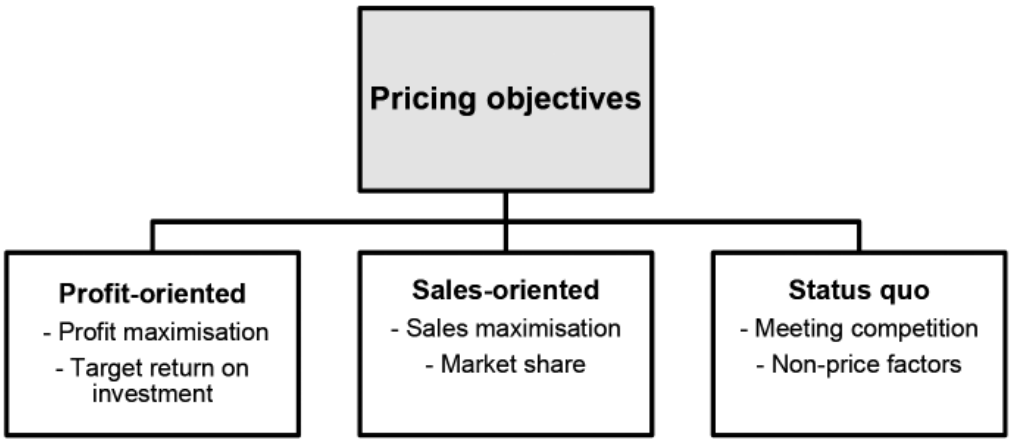


Figure 7.1: Pricing objectives

Adapted from theory (Terblanche, Beneke, Bruwer, Corbishley, Frazer, Pentz & Venter, 2013:171)

The pricing objectives as shown in figure 7.1 are differentiated below (Terblanche et al., 2013:171):

7.1.1 Profit-oriented objectives

As shown in figure 7.1, the first group of pricing objectives is profit-oriented pricing objectives. ***Profit-oriented pricing objectives*** are aimed at pricing merchandise to ensure profit maximisation or achieving a target return on investment (ROI). Profit maximisation seeks to gain the highest percentage of profit relative to total costs. Here, a retailer may increase their efforts in cutting

costs or implementing programmes to build customer loyalty. Target ROI is the amount of profit a retailer hopes to obtain on a percentage of sales or return on capital invested, for example, an organisation that has invested R200 000 in a new product and aims to achieve a 10% ROI, will want to reach a profit of R20 000.

7.1.2 Sales-oriented objectives

Figure 7.2 illustrates that the second group of pricing objectives is the sales-oriented pricing objectives. ***Sales-oriented pricing objectives*** are focused on sales maximisation or gaining a percentage share of the market, both of which do not necessarily take profitability into account. Sales maximisation involves increasing sales as much as possible, either in rand value or unit terms. In this case, a retailer may introduce short-term sales promotion tactics such as discounts and coupons to boost sales. When setting objectives relative to market share, a retailer will measure its sales against the sales of other organisations in the industry. In response to this, the retailer will determine whether to keep its prices the same or reduce prices if it wishes to maintain or capture a larger share of the market. A typical sales-oriented objective might be "to set prices to achieve a 15% market share within two years."

7.1.3 Status quo objectives

As shown in figure 7.3, the third group of pricing objectives is the status quo objectives. ***Status quo pricing objectives*** are targeted at meeting competitors' prices or competing on factors other than price. Retailers who do not have the resources to survive a price war or are satisfied with their current market share and profit level often adopt status quo objectives. For example, Thandi's Hair Salon, that opens up just down the street from its direct competitor, JP-Styles, may charge R150 for a ladies' hair treatment – the same price as JP-Styles. At the same time, Thandi's Hair Salon will monitor JP-Styles' prices closely and most likely adjust its prices if JP-Styles introduces a price increase or decrease.

Some retailers may wish to compete on grounds other than price, such as being conveniently located or offering a 24/7 service. For example, purchasing a chocolate from a convenience store situated at a petrol station or a vending machine will cost you a lot more than when purchasing it from a local supermarket.

Note: You should be able to define pricing objectives and distinguish between the three major groups.



Activity 7.1

M&M-Pruning is a newly established family-owned business started by Malcom and his son, Mo. Together, the two of them plan to offer gardening, grass cutting and pruning services. They are in the process of determining what prices to charge for their services. Discuss, with the use of examples, how M&M-Pruning can follow the status quo route in pricing its services (you may do some additional research on the topic).



Feedback

Status quo pricing involves the practice of meeting current price levels of competitors or competing on non-price factors.

If competitors are charging a R400 standard price for pruning, M&M-Pruning may consider charging the same price. If for some reason, competitors decide to hike up the price to R450, M&M-Pruning needs to ensure that they continuously monitor these variations and adjust accordingly. If M&M-Pruning aims to compete on non-price factors, they could focus on offering an exceptional quality of customer service by ensuring that they always arrive on time to carry out a specific service; following up with customers to see whether they were satisfied with the job; extending operating times (including Sundays) for customer convenience; providing loyalty discounts; and going the extra mile.

As shown in the learning unit overview diagram, in the next section we look at pricing strategies that retailers could use to price their products or services.

7.2 PRICING STRATEGIES

A pricing strategy is a method or course of action that organisations can use to price their products or services. Retailers need to decide on a pricing strategy that is consistent with their pricing objectives. For example, as highlighted in the previous sections, a retailer adopting a status quo objective might opt to price in line with its competitors rather than below or above. In addition to these strategies, however, there are various pricing strategies retailers can consider when setting their prices as shown in figure 7.2 (Machado, 2013; Levy & Weitz, 2012).



Follow the link provided, which will give you a better overview of competition pricing.

– https://www.boundless.com/marketing/textbooks/boundless-marketing-textbook/pricing-8/competitive-dynamics-and-pricing-58/price-competition-291-7302/

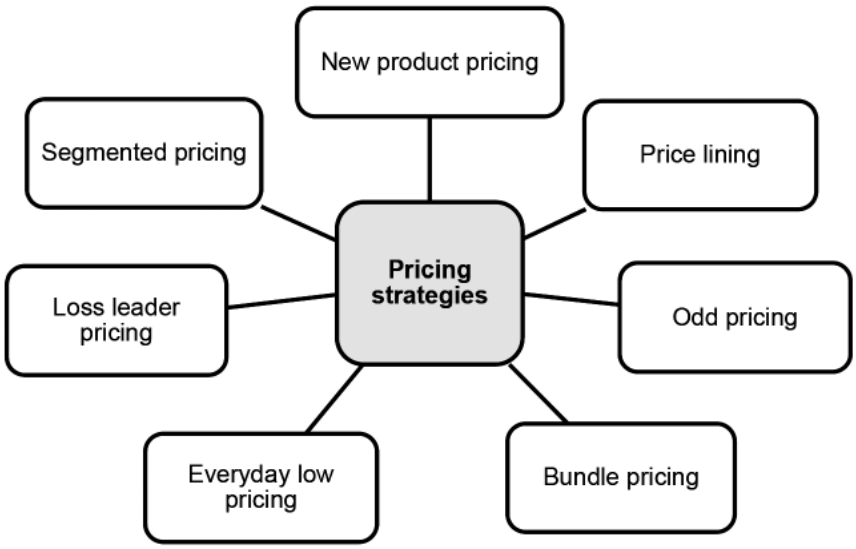


Figure 7.2: Pricing strategies

Adapted from theory (Machado, 2013; Levy & Weitz, 2012)

7.2.1 New product pricing

The first pricing strategy as indicated in figure 7.2 is new product pricing. When setting the prices for new products, retailers need to consider things such as the size of the market, price sensitivity and the rate at which competitors will enter the market. Price skimming and price penetration are commonly used as new-product pricing strategies, but are usually temporary measures; once the objectives have been achieved or circumstances in the market have changed, retailers may then price merchandise more closely in line with competitors. Let's have a look at these two strategies in more detail:

7.2.1.1 Price skimming

A ***price skimming*** strategy is based on setting a high initial price for a product or service in order to skim maximum revenue from the market before substitute products arise. This pricing strategy is usually used by retailers when customers are less price sensitive; there is little competition and the market segment is small. The higher prices charged enable retailers to recover research and development costs, and since the merchandise may be seen as innovative and exclusive, maximum profits can be attained before competitors start offering similar products or services. As competition increases, prices may be gradually reduced. For example, ElectronicS may introduce a new LCD TV to the market at a high initial price if the product is unique, far ahead of competitors, and customers are willing to pay the high price. Once sales start to slow down and competitors introduce a similar product, the retailer will progressively lower prices, skimming each layer of the market. There are two types of price skimming strategies, namely rapid and slow price skimming:

- A rapid price skimming strategy involves introducing a new product to the market at a high initial price and at high promotional intensity. In this case, ElectronicS may assume that potential customers are not aware of the product and will therefore spend a lot on radio, television, digital media and other promotional techniques to convince the market of the exceptional quality of the LCD TV.
- A slow price skimming strategy involves introducing a new product to the market at a high initial price and at low promotional intensity. In this case, ElectronicS may assume that potential customers are already aware of the product and will therefore rather aim to keep marketing expenses down and recoup as much profit as possible.

7.2.1.2 Price penetration

Price penetration is based on setting a low initial price for a product or service in order to capture a larger share of the market. This strategy may work well in markets that are price sensitive, where competition is intense, and the size of the market is large. For example, consider consumable products such as soap and shampoo; think about the number of brands that exist. Consumers may easily switch by observing a beneficial fluctuation in price. Retailers that use a price penetration strategy may anticipate initial losses. Thereafter, prices may be increased depending on customer reactions and competitors. There are two types of price penetration strategies, namely rapid and slow price penetration:

- A rapid price penetration strategy involves introducing a new product to the market at a low initial price and at high promotional intensity. A small retailer presenting a new soap to the market may use heavy promotion such as newspapers, magazines, pamphlets and social media in order to increase awareness and capture as many customers as possible.
- A slow price penetration strategy involves introducing a new product to the market at a low initial price and at low promotional intensity. Similar to price skimming, the retailer assumes

that the potential market is aware of the product; the aim is thus to reduce expenses while maximising sales and profit.

7.2.2 Price lining

As illustrated in figure 7.2, another pricing strategy is price lining. ***Price lining*** is the practice of determining set price points for a specific category of merchandise. For example, Nkosi, a small retailer, sells handcrafted customised jeans. Her price points are R150, R250 and R300, depending on the style of the jeans, fabric used and the amount of beadwork incorporated. Retailers may have a wide range of price points, which may be based on things such as style (casual, smart casual, formal) or quality (good, better, best).

Price lining assists customers in making merchandise comparisons in the same price range and also caters to different market segments (low-, middle- and high-income groups). However, the monetary difference between the price lines should be big enough to reflect a value difference to customers. For the retailer, ordering merchandise and the management thereof becomes less complicated.

7.2.3 Odd pricing

As shown in figure 7.2, another pricing strategy is ***odd pricing,*** which refers to setting prices that end with digits such as 5, 7 and 9. It is a common pricing strategy used to make customers feel that they are paying less than they actually are. If you walk into a local supermarket for example, you will notice that most products are priced in this manner; you might pay R11.99 for a loaf of bread instead of R12. This creates an illusion of enhanced value for the customer even though the price difference is so small. Some customers, however, are becoming more aware of this strategy and may automatically round off odd prices to the nearest whole number.

7.2.4 Bundle pricing

As illustrated in figure 7.2, another pricing strategy is ***bundle pricing,*** which involves selling two or more distinct products together (usually complementary in nature) at a single price, used to build the impression of extra value. The perceived savings (in cost or time) justifies the purchase. At the same time, retailers could increase revenue using this strategy since customers may actually purchase more products than originally planned. For example, a fast-food stall sells a standard Kota sandwich and a 2l coke at R35, a cheaper price than when these items are purchased separately. Customers might feel that they are getting a good deal, even though they may have not intended to purchase both items. Some retailers may also sell two or more identical products together at a single price, this is also termed "multiple-unit pricing" by other authors. For example, a street vendor may sell a bag of potatoes for R15, but offers two bags for R25, convincing the customer to buy both.

7.2.5 Everyday low pricing (EDLP)

Figure 7.2 shows another pricing strategy namely everyday low pricing. Retailers that adopt an ***EDLP*** strategy offer merchandise at low prices on a continuous basis. This doesn't necessarily mean that they offer the lowest prices in the market, but they offer prices lower than non-sale prices. Some retailers, however, have a low-price guarantee policy; in this case, they will match any lower price found in the market and may include a provision to refund customers the difference. The aim of an EDLP strategy is to encourage customer loyalty, especially from price sensitive

customers. Advertising costs are reduced and retailers may be able to control inventory efficiently. This strategy is usually adopted by large retailers such as hypermarkets and supermarkets. Think about the store/s that you purchase groceries from.

7.2.6 Loss leader pricing

Another pricing strategy as illustrated in figure 7.2 is ***loss leader*** pricing (or leader pricing), which refers to offering products close to or below cost for a short period of time in order to attract customers, hoping that they will also buy additional items (at full markup) once in the store. For example, you go specifically to AZ-Groceries just to purchase rice and soft drinks that you noticed were on promotion. While you're there, you might just get some coffee, biscuits and other items that you need. In this case, the retailer makes up for the losses due to the additional purchase of profitable merchandise. This strategy is aimed at increasing in-store retail traffic. However, a disadvantage is that it may attract "cherry pickers" – individuals who only purchase merchandise on sale. In this case, retailers may not generate a profit as customers do not purchase merchandise at full markup.

7.2.7 Segmented pricing

The final pricing strategy shown in figure 7.2 is segmented pricing. ***Segmented pricing*** refers to selling a product or service at different prices, depending on the market segment. Prices can be based on the following:

- Customer – Different customers pay different prices. For example, a hair salon may charge a lower price for a kid's haircut (ages 13 and under).
- Location – Different areas/regions may be charged different prices. For example, since Cape Town is considered a popular holiday destination, Zandi's B&B in Cape Town might charge R690 for a room per night, whereas the same type of room offered by Zandi's B&B in Pretoria may be R490.
- Time – Different prices are charged, based on the season, month, day or hour. A fast-food stall might offer a lunch meal at a special price until 13h00. Or think about your mobile network provider; you may be charged different rates for peak and off-peak times.
- Product – Different versions of the product or service are priced differently, but not according to differences in their costs. For example, two individuals may be travelling on the exact same flight to Durban. However, one might pay R1089 for an economy class seat while the other pays R2492 for a business class seat.

Note: You should be able to discuss the various pricing strategies retailers can use when setting their prices.



Activity 7.2

Phumi is the owner of Nail-Beauty, which she operates from her garage at home. Besides offering nail treatments, she sells a range of professional manicure supplies such as acrylic nail powder, gel nail polish and nail files. Discuss three pricing strategies that you feel would be most suitable to the business. In your discussion, also indicate with examples how each one can be used by Phumi.



Feedback

Phumi could consider using the following pricing strategies:

***Odd pricing** – When retailers use this strategy, they usually price merchandise that end with digits such as 5, 7 and 9. Phumi could price her nail polish at R39.99 and nail files at R7.99. These price ranges appear to be more appealing than R40 or R8. Phumi's customers may feel that they are paying less than they actually are.*

***Bundle pricing** – This strategy involves selling two or more products together at a single price. These products are usually complementary in nature. Phumi can package an acrylic nail polish, nail polish remover and a nail file and sell it at R55 – a cheaper price than when these items are purchased separately. Customers may find value in purchasing the package even though they might not need all the products.*

***Segmented pricing** – Retailers may sell a product or service at different prices, depending on the market segment. Phumi can charge different prices for different customers, for example, by offering 20% senior discounts on all nail treatments. She could also offer Tuesday treatment specials from 08h00–11h00, depending on her non-peak business times.*

You should be able to provide sufficient theory and examples for the three suggested strategies.

As shown in the learning unit overview diagram, in the next section we look at the factors that may influence retailers pricing strategies/decisions.

7.3 FACTORS THAT MAY INFLUENCE PRICING DECISIONS

When setting the price, retailers need to take into consideration several internal and external factors as shown in figure 7.3.

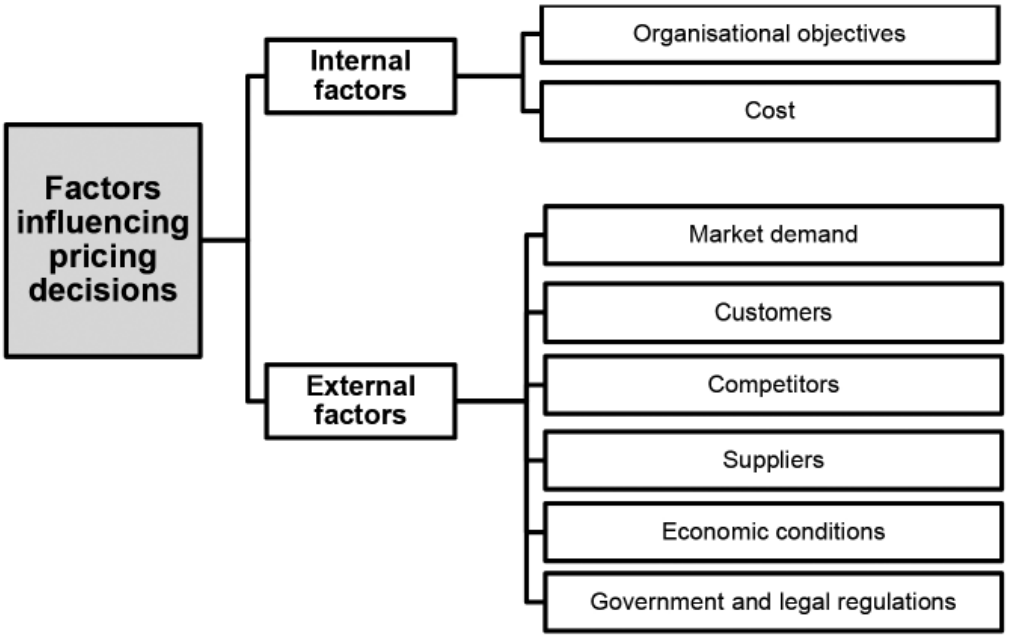


Figure 7.3: Factors that may influence pricing decisions

Adapted from theory (Sivathamu, 2014; Machado, 2013:62)

Each of these factors will now be discussed (Sivathamu, 2014; Machado, 2013:62):

7.3.1 Internal factors

Internal factors are those factors that the organisation has a considerable amount of control over. For example, a retailer that specialises in ceramic pots may want to increase the quantity of pots that are produced within a specific period of time in order to reduce the cost of producing each pot and ultimately reducing the price of the pots. However, making such changes is not always realistic; increasing their productivity of ceramic pots could require major modifications at the manufacturing facility, which may not translate into lower costs for the retailer. Such decisions must therefore be carefully thought out. Let's look at the two internal factors as presented in figure 7.3, namely organisational objectives and costs:

7.3.1.1 Organisational objectives

As previously mentioned in the beginning of this learning unit, retailers must set prices that are consistent with the organisation's marketing and overall objectives. For example, if a clothing retailer has a set goal of selling high quality merchandise, prices will be set according to the quality of the garments. In this case, prices may be high to portray an image of high quality. Similarly, if the retailer aims to increase sales by 15% every year, then reasonable prices have to be charged in order to increase the demand of the product.

7.3.1.2 Costs

The price that customers pay for a retailer's product or service must exceed the total costs of producing that specific product or service. Total costs include fixed costs and variable costs, which are explained below:

- ***Fixed costs*** (or overhead costs) – are costs which the organisation must pay regardless of the level of production, for example, rent, salary and insurance. If a shoe retailer is operating his business in a rented building, he has to pay the rent whether he produces 100 units or 500 units. Refer to figure 7.4, whereby fixed costs are constant at R10 000 despite the number of units produced. These costs usually remain constant unless the rent of the building increases over time. In this case, the retailer will have to adjust their prices based on the increase in fixed costs. As a student, you may also incur fixed costs such as the rent you pay for an apartment. You are required to pay per month regardless of the number of days you stay in the apartment.
- ***Variable costs*** – are costs that vary depending on the level of production, for example, raw materials and machinery. A vendor who wants to produce twice as much *vetkoek* may need to purchase more ingredients such as flour, yeast, margarine and oil. Refer back to figure 7.4; you will note that variable costs increase as the number of units produced increases. Also consider petrol or transport costs; this amount will vary depending on how frequently you travel.

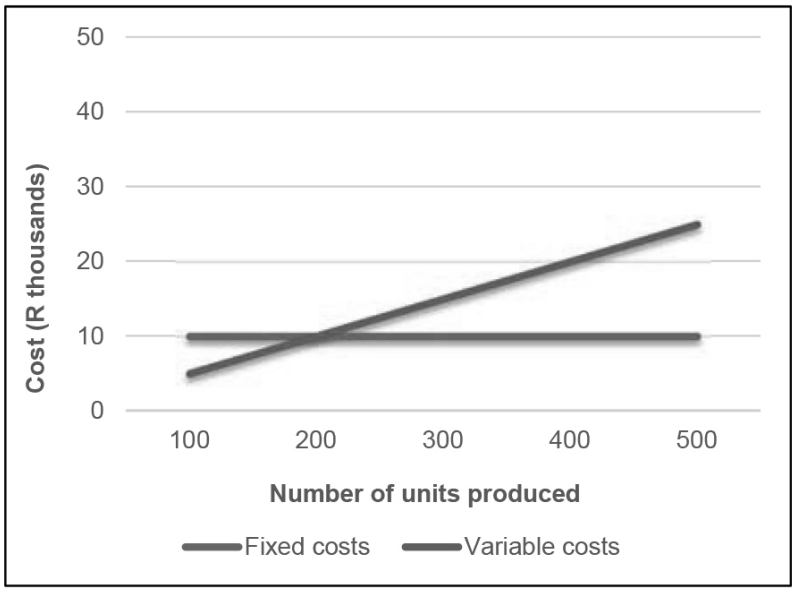


Figure 7.4: Fixed and variable costs

Note: While a salary is largely a fixed cost, a retailer that hires two more temporary staff members to increase production for a specific period may consider this as a variable cost to the organisation. In addition, some costs are partly fixed and variable, known as semi-variable costs (Lincoln & Lashley, 2011:182). An example would be electricity; electricity usage may increase with production (e.g. the use of machinery directly involved in manufacturing), but if nothing is produced a retailer still may require a certain amount of power just to maintain itself (e.g. lighting).

7.3.2 External factors

External factors are defined as those factors that cannot be directly controlled by the organisation; this includes market demand, customers, competitors, suppliers, economic conditions, and government and legal regulations (as shown in figure 7.3). A retailer's success will largely depend on its adaptability to these factors. For example, two cellphone accessory stores (Cellular1 and PhoneBuzz) are located in the same street and compete directly with each other. It is beyond Cellular1's control if PhoneBuzz decides to decrease the prices of its cellphone cases, however, Cellular1 may also lower its prices to meet the competition If not, the organisation risks losing customers who will rather purchase similar products at a cheaper price. Understanding external factors requires retailers to conduct research and continuously monitor what is happening in the market. Let's look at the six external factors as presented in figure 7.3, namely market demand, customers, competitors, suppliers, economic conditions, and government and legal regulations.

7.3.2.1 Market demand

Market demand can be defined as "… the total volume that would be bought by a defined customer in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing programme" (Sarin, 2013:116).

The market demand for merchandise will have a great influence on a retailer's price. There is usually a reciprocal effect (or inverse relationship) between the two (demand and price), in other

words, demand may affect price (generally, the higher the demand for a product or service, the higher the retailer can price the product or service and vice versa). On the other hand, the price that the retailer sets may affect demand (lowering the price of a product or service could increase demand while raising the price may decrease demand). Let's consider an example from a customer's perspective: the price of soft drinks is R5 per can (as shown in figure 7.5) and the customer purchases eight cans at this price. As the price increases, the customer purchases less than usual. You will notice that at R17, there are no purchases and the customer may possibly switch to a substitute. If the price per can decreases, the customer may purchase more. This is known as the law of demand, represented as the demand curve. Retailers may constantly adjust prices of merchandise to generate and/or maintain the expected level of demand.

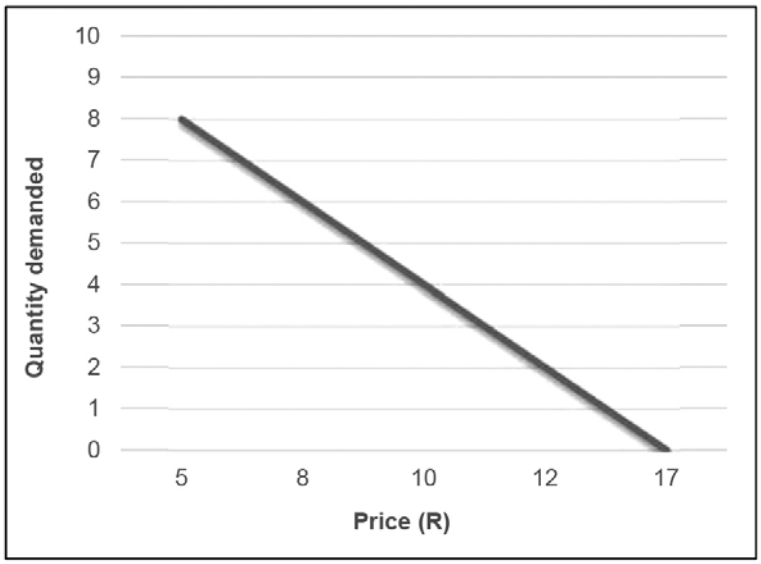


Figure 7.5: Demand curve

7.3.2.2 Customers

As shown in figure 7.3, the second external factor is customers. Customers are the individuals who either have dealings with the organisation, or have purchased/used its products and services. The main aim of an organisation is to satisfy customer needs. With this in mind, it makes sense for a retailer to consider customers when determining the price of its merchandise. This not only relies on judgement of the retailer, but also research into customer perceptions, purchasing power, price sensitivity and their willingness to pay for a product or service.



The link below directs you to an interesting article on customer perception:

– https://hbr.org/2017/01/how-customers-perceive-a-price-is-as-important-as-the-price-itself

As an example, let's look at price sensitivity and how it affects demand (refer back to the previous point), when customers are very sensitive to price changes of a product or service (i.e. they purchase more of it at low prices and less of it at high prices); the demand for it is price elastic. Think about products such as a washing machine, TV or a stove. Customers are more likely to purchase these products when prices drop. Conversely, when customers are not price sensitive (i.e. the demand for a product relatively stays the same even if there is a price increase), the demand is price inelastic. For instance, basic food stuffs; you will most probably still buy bread and milk even if there is a slight price increase.

In the above paragraph, we refer to demand as price elastic and price inelastic. ***Price elasticity*** can be defined as the ratio of the percentage change in sales for each percentage change in price. We can calculate price elasticity using the following formula:

$$*E = \frac{\%\text{ change in unit sales}}{\%\text{ change in unit price}}$$

If a hair salon increases its shampoo and conditioner prices by 15% and knows that customers will purchase 5% less, the price elasticity is calculated as:

$$*E = \frac{5\%}{15\%}$$

$$*E = 0.3$$

The price elasticity value of less than 1 is known as inelastic demand. As already mentioned above, in this case, customers are not that price sensitive and may continue purchasing the shampoo and conditioner at a higher price. If the hair salon finds that customers will purchase 20% less, this will result in a price elasticity value of 1.3:

$$*E = \frac{20\%}{15\%}$$

$$*E = 1.3$$

The price elasticity value is more than 1 and is referred to as elastic demand. Customers are more sensitive and a price increase may affect demand considerably.

Price elasticity can also be unitary (equal to 1), that is, if customers buy 15% less:

$$*E = \frac{15\%}{15\%}$$

$$*E = 1$$

In this case, the change in price will have no effect on total revenue. Understanding price elasticity enables retailers to determine a feasible price increase or decrease in order to increase revenue and maximise profits.

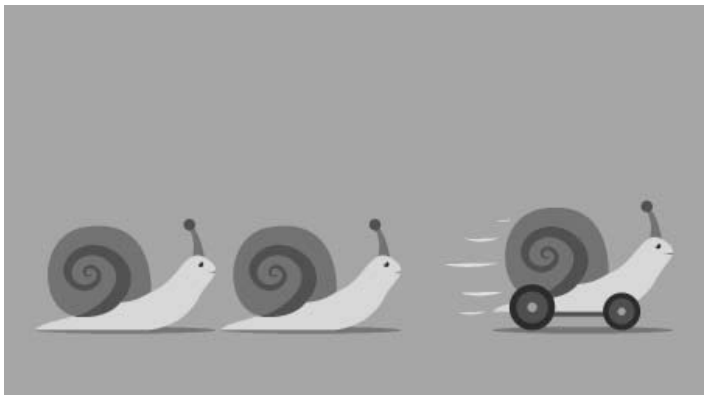
7.3.2.3 Competitors

The third external factor is competitors (figure 7.3). Competitors can be defined as those that produce products that are similar to (or can be substituted for) the products offered by the organisation. Competitors have a significant effect on a retailer's pricing decisions. Think about this: if you wanted to buy a certain shirt, but the price is 25% less at one store than another, what would you do?

Customers are offered a wide variety of products and services to choose from, and they generally search for the best value. In addition, with so many products being sold online, consumers can easily compare the prices of retailers before making a purchase decision. Retailers therefore need to consider and carefully monitor competitors' prices when setting their own. Retailers can price above, below, or at parity with their competitors. Often they will match their competitors' prices to establish and maintain customer loyalty. Some retailers, for example, may give you an extra

discount if you find the same product for less somewhere else. The more intense the competition in an industry, the more flexible the pricing strategy will have to be. For example, if a competitor of a street vendor sells potatoes at a lower price, this may have a negative impact on the business. In this case, the street vendor may want to set prices in parity with their competitor. There are four main competitive forms/market structures that were discussed in learning unit 2. Let us look at pricing within each of these competitive market structures (Gottheil, 2013:257; Hansen & Mowen, 2018:937):

- Monopoly – one producer/seller for a product or service. For example, government can create a monopoly over an industry that it wants to control, such as electricity. Since there are no close substitutes and high barriers to entry, the organisation has more market power and can therefore charge a higher price to maximise profits (price maker). Bear in mind that monopolies cannot charge any price they want; it must be a price that customers are willing to pay.
- Oligopoly – a few big players that make up the industry, with significant barriers to entry. Think about the main mobile network providers in South Africa. These organisations may be highly sensitive to one other's pricing. If one decreases the price of its products or services, rivals may immediately react to it. Organisations that compete within this structure often try to avoid price competition and focus on non-price factors instead.
- Monopolistic competition – many sellers, with well-differentiated offers. For example, the fast-food industry. Each fast-food outlet/restaurant has a different menu, ethnic style of food, atmosphere and location. Product differentiation is the primary reason for charging a higher price, provided that customers are willing to pay more for aspects that appeal to them.
- Perfect (or pure) competition – many sellers selling the same product. Organisations do not have much effect on the going market price and are therefore referred to as price takers. If an organisation within this structure charges a higher price, customers will switch if they can purchase the same product at a lower price elsewhere. It is generally said that this market structure does not exist.



7.3.2.4 Suppliers

Figure 7.3 illustrates that the fourth external factor is suppliers. Suppliers provide products or services to other organisations, either for resale or for use in the production process (raw materials). If the costs of these products or services rise, the increase is passed on by suppliers to retailers. Retailers, in turn, incorporate it into the final price and pass it on to the customers. A dressmaker, for example, may use cotton to produce garments. The prices for this fabric are dependent on the market price for the raw materials used to produce it. Any increase in raw material prices would increase the dressmaker's cost of sales and decrease profitability – unless the higher prices are passed on to the customers. In addition, if competitors are able to reduce

their production costs by favourable sourcing agreements, the dressmaker may face pricing pressures from those competitors and may be forced to reduce prices or experience a decline in sales, which could negatively affect the business.

7.3.2.5 Economic conditions

The fifth external factor is economic conditions as shown in figure 7.3. Economic conditions can be referred to as the characteristics that describe the state of the economy and are influenced by factors such as inflation, recession, employment and interest rates. These specified factors have a direct influence on price. For instance, higher inflation rates could reduce purchasing power, which means that customers may have less income to spend after covering basic expenses such as food and housing. Interest rates may also substantially affect customer purchasing power. Consider products such as cars and jewellery, which are often purchased by customers on credit. Higher interest rates make these purchases significantly more expensive. Therefore, during weak economic conditions, retailers may need to lower their prices on merchandise in order to increase demand.



The link below provides an interesting article on how South Africans are dealing with inflation:

– http://www.iol.co.za/business-report/economy/how-south-africans-are-dealing-with-inflation-7450990

7.3.2.6 Government and legal regulations

The final external factor is government and legal regulations (figure 7.3). Retailers need to be aware of the regulations that could influence the prices they set. These regulations are predominantly government enforced, which means that there may be legal consequences if retailers don't abide by the rules. Regulations are usually intended to protect customers, promote competition, and encourage organisations to conduct business in an ethical and fair manner.

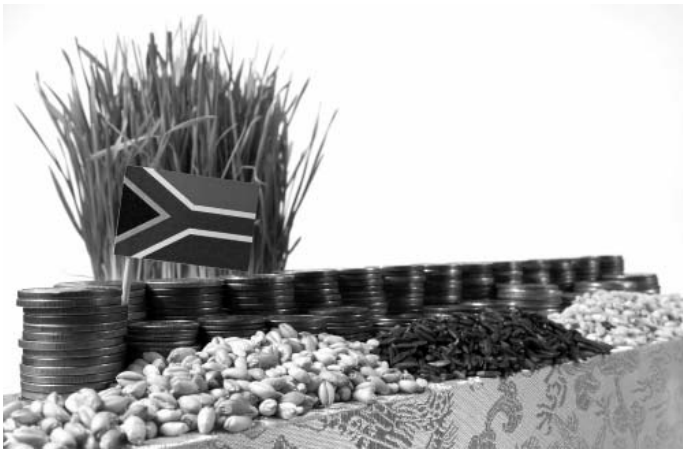
In South Africa specifically, consider the following:

- The Consumer Protection Act (2008) – this gives customers the right to fair and honest dealings, quality products and services, and full disclosure to information such as the price of products and services. (The South African Labour Guide, 2017).
- Price control over certain products; for example, the South African government sets the highest price at which a loaf of bread can be sold.
- Tax control – government can increase or decrease taxes to promote or control economic growth. A tax increase can affect retailers negatively as it may influence the final price of merchandise and could also reduce customer purchasing power.
- Illegal practices – there are certain practices such as price fixing that retailers should avoid in order to ensure that they are protected. Price fixing is when organisations get together and agree to charge the same prices. These prices may be high as customers have to the pay the amount regardless of where they purchase the product or service.



Follow the link below to observe how external factors have affected various food prices in South Africa:

– https://businesstech.co.za/news/business/148919/these-are-the-foods-you-will-be-paying-more-and-less-for-in-2017/



Note: You should be able to discuss how each of the internal and external factors could influence retailers' pricing decisions.



Activity 7.3

Jane plans to establish a women's apparel store in her township. Discuss, with examples, the external factors that may influence Jane's pricing decisions.



Feedback

External factors are those that the retailer has limited control over:

***Market demand** – Demand may affect price and price may affect demand. For example, if there is a high demand for Jane's tank tops, she would be able to charge higher prices. Similarly, if there is a low demand, Jane could lower prices to increase demand. As a clothing retailer, Jane needs to create styles that appeal to her target market in order to increase demand, and thus enable her to sell at higher prices.*

***Customers** – Jane needs to take into account customer perceptions, purchasing power, price sensitivity and willingness to pay. If customers perceive Jane's clothing to be of a high quality, she can charge higher prices. However, she needs to keep in mind the purchasing power and price sensitivity of her customers. During difficult economic times, customers may have less income to spend. In this case, Jane might have to lower prices to make her clothing more affordable. If customers in the township are price sensitive, they may be more likely to purchase when prices drop.*

***Competitors** – Jane needs to consider and carefully monitor competitors' prices when setting her own. She can either price above, below, or at parity with her competitors. Jane operates in a monopolistic market – there are many clothing retailers with well-differentiated offers. She therefore needs to keep up to date with her target market and meet the needs of her customers. The introduction of new styles by a competitor at lower prices can shift demand away from Jane's store. If Jane does not have the resources to compete in price wars, she might have to set clothing prices in line with her competitors.*

***Suppliers** – If the costs of raw materials rise, the increase is passed on to retailers; retailers in turn pass it on to the customers. If the prices of fabric increases, Jane has to incorporate these costs into the final price of her clothing and therefore has to set higher prices. This is a two-way street, as if competitors are able to reduce their production costs by favourable sourcing agreements,*

Jane may be forced to reduce prices or experience a decline in sales, which could negatively affect her business.

***Economic conditions** – Jane needs to consider factors such as inflation and interest rates. Economic factors could have both a positive or negative impact on Jane's store. During strong economic conditions, individuals have more disposable income allowing Jane to set higher prices. However, recessions have the opposite effect. Higher inflation rates could reduce customer purchasing power, which means that customers may have less income to spend and in turn may shop for cheaper clothing. In addition, many customers often purchase clothing on account; higher interest rates make these purchases significantly more expensive. Jane may find herself in a situation where she is trapped with large amounts of clothing and therefore may have to sell at substantially reduced prices.*

***Government and legal regulations** – Jane needs to be aware of the regulations that could influence her prices. A tax increase can affect the business negatively as it may increase the final price of her clothing and at the same time reduce customer purchasing power. She therefore needs to set a price that customers are willing to pay and will also enable her to achieve her business objectives.*

As shown in the learning unit overview diagram, in the next section we look at setting the retail price of a product or service.

7.4 SETTING THE RETAIL PRICE

What do you think constitutes the "right" retail price? You will recall, in the beginning of this learning unit, it was mentioned that the right price needs to be sufficient (high enough) to meet organisational objectives while being low enough to attract potential customers. This can be a difficult and daunting task for retailers, having to make a judgement in setting the most appropriate price while achieving a suitable profit margin. There are several methods for determining prices, but the most common in retailing is using markups (Poloian, 2013:461), which will be covered in this section, along with markdowns.



7.4.1 Markups

A retail price consists of two elements, namely cost and markup (Donnellan, 2014:241). ***Cost*** is the proportion of a retail price that is used to produce the product or service; this includes fixed and variable costs (see section 7.2). ***Markup*** is the amount that is added to the cost to determine the retail price. The relationship between retail price, cost and markup is as follows (Donnellan, 2014:242):

* Retail price = Cost + Markup

Let's look at some examples of calculating markup:

Jacob makes homemade strawberry jam, which he packages in large jars. The total cost to produce one jar is R40, and he plans to sell each at a retail price of R60. The markup can be calculated using the above mentioned formula:

* Retail price = Cost + Markup
R60 = R40 + Markup
Markup = R60 – R40
= R20

Jacob earns a markup of R20 per jam jar.

Note: When any two elements of the formula are known, the third can be derived:

* Retail price = Cost + Markup
* Cost = Retail – Markup
* Markup = Retail – cost

For example, if only the cost (R40) and markup (R20) were specified in the scenario, these two figures simply need to be added up to determine the retail price.

Markup can also be expressed as a percentage of cost or retail. Since many retailers base their markup as a percentage of retail, we will be focusing on this aspect. The formula for calculating Jacob's markup percentage at retail is as follows:

$$\text{* Markup percentage} = \frac{\text{Markup}}{\text{Retail price}} \times 100$$

$$= \frac{R20}{R60} \times 100$$

$$= 33\%$$

Note: If the retail price is unknown, for example, Jacob might have decided that he wants to make a 33% markup on each jam jar that costs R40, the following formula (Machado, 2013) can be used to calculate the retail price:

$$\text{*Retail price} = \frac{\text{Cost}}{(100 - \text{Markup \%} / 100)}$$

$$= \frac{R40}{(100 - 33\% / 100)}$$

$$= \frac{R40}{0.67}$$

$$= R60$$

Markups may fall into different categories, namely initial and maintained markup (Donnellan, 2014:244; Levy & Weitz, 2012:379). An ***initial markup*** refers to the first markup added to the

cost of producing a product or service. It is often termed as the original price. However, retailers seldom sell all merchandise at the initial price. For instance, prices may be reduced to get rid of excess stock at the end of a season, or merchandise may be lost due to theft or accounting errors (see markdowns). These factors force the retailer to determine the maintained markup, which considers the actual sales realised from the product or service minus the cost. Let's assume, for example, that Miranda produced 20 ladies' handbags to be sold at a retail price of R100. A total of 10 handbags were sold in the first two weeks; thereafter sales slowed down. Miranda then decides to markdown the handbags to R80 to promote sales. The ***maintained markup*** reflects the reduction in retail price.

7.4.2 Markdowns

Markdowns are reductions in the price of merchandise, which retailers enforce in order to stimulate sales (Dunne et al., 2014:423). Markdowns are part of the cost of doing business, and thus retailers plan for them. This is due to the fact that retailers stock more than they actually need in order to reduce the risk of running out of popular merchandise. Running out of stock can do more harm to the organisation and its reputation than simply discounting merchandise, which just reduces maintained markup (Terblanche et al., 2013:182).

A markdown is usually expressed as a percentage of the retail price on which the markdown is taken. The formula for calculating it is as follows (Donnellan, 2014:246):

$$\text{* Markdown percentage} = \frac{\text{Markdown}}{\text{Current retail price}} \times 100$$

Let's look at Jacob's example again. If Jacob wanted to markdown each jam jar from R60 to R50 he would have to determine the markdown percentage as follows:

$$\text{* Markdown percentage} = \frac{\text{Markdown}}{\text{Current retail price}} \times 100$$

$$= \frac{\text{R10}}{\text{R60}} \times 100$$

$$= 16\%$$

Note: The markdown in rands can also be determined if the markdown percentage and retail price are known. For example, if Jacob knew he wanted a markdown of 16% on each jam jar, he would have calculated the rand value as follows:

$$\text{*Markdown} = \frac{\text{Current retail price x markdown percentage}}{100}$$

$$= \frac{\text{R60 x 16}}{100} \times 100$$

$$= \text{R10}$$

This means that Jacob would markdown the jam jars by R10 each as shown above.



Have a look at this article on retailer markdowns:

– http://www.cnbcafrica.com/news/financial/2017/01/17/south-africas-mr-price-posts-drop-in-q3-sales-on-clothing-markdowns/

Figure 7.6 highlights the most common types of markdowns, each of which will now be discussed (Donnellan, 2014:248).

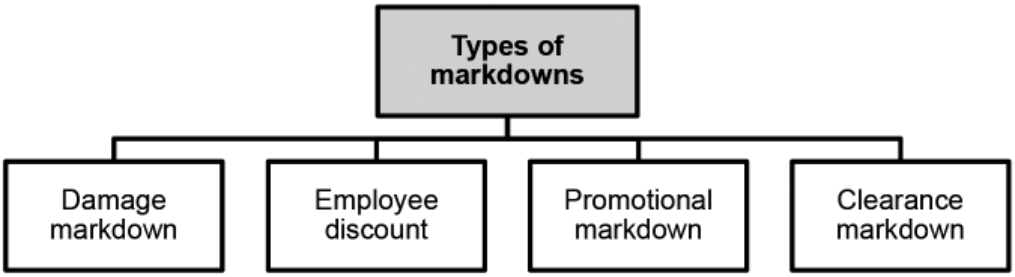


Figure 7.6: Common types of markdowns

Adapted from theory (Donnellan, 2014:248)

- ***Damage markdown*** **–** Prices are reduced on damaged merchandise where the damage occurred after delivery. A clothing retailer, for example, may sell a R120 shirt for R90 due to missing buttons. A customer may find it worthwhile, spending a little less and adding a few buttons that won't cost as much. Similarly, this could also benefit the retailer in terms of the time and effort it may require in getting the shirt mended.
- ***Employee discount*** **–** Prices are reduced on purchases made by employees – a benefit offered by many organisations. Employee discounts generally range between 5 and 50%. Some retailers offer bigger discounts to motivate employees to purchase their merchandise and wear it to work as a way of promoting the organisation.
- ***Promotional markdown*** **–** Prices are reduced on merchandise featured in a promotional sale. Promotional markdowns can also be described as temporary markdowns; prices go back to normal once the promotion has ended. For example, a supermarket that gives out coupons offering immediate redeemable savings on certain products, or a fast-food stall that offers 30% off on lunch meals for a short period of time. The duration of a promotion can range from a few hours to a few days. Think about the Black Friday promotion, where almost every retailer offers multi-day or one-day-only deals.



Here are some interesting articles on the Black Friday madness and its effect on sales:

– https://businesstech.co.za/news/finance/151399/black-friday-provides-boost-for-sa-retail-sales/

– http://www.timeslive.co.za/sundaytimes/stnews/2016/11/25/IN-PICTURES-South-Africans-get-in-on-the-BlackFriday-madness



- ***Clearance markdown*** – Prices are reduced on old, outstanding or slow-selling merchandise. Clearance markdowns can also be described as permanent markdowns; the merchandise does not return to its normal price, but instead is reduced by succeeding additional markdowns until all of the merchandise has been sold. For example, consider seasonal merchandise: a retailer may reduce its prices on scarves by 30% towards the end of winter. If the scarves do not sell out within a week, the retailer may reduce the prices again by 50% until all the scarves are sold.

Note: You should be able to explain and calculate merchandise markups and markdowns.



Activity 7.4

Jerry sells handmade furniture such as chairs, tables, stools and benches. He usually designs what his customers want to ensure that everything made is sold. However, he recently decided to create some of his own pieces that he plans to offer to the public. The table below presents the cost and retail price of two new pieces that he designed: a rocking chair and a coffee table. You are required to complete the table by determining the markup in rands and percentage of both the items listed. You must show your calculations.

	Rocking chair	Coffee table
Retail price	R300	R500
Cost	R180	R320
Markup in rands	?	?
Markup percentage on retail price (%)	?	?



Feedback

Rocking chair

- *Markup in rands*

  ** Retail price = Cost + Markup*
  R300 = R180 + Markup
  Markup = R300 – R180
  = R120

- *Markup percentage on retail price (%)*

$$\text{* Markup percentage} = \frac{\text{Markup}}{\text{Retail price}} \times 100$$

$$= \frac{R120}{R300} \times 100$$

$$= 40\%$$

Coffee table

- *Markup in rands*

  ** Retail price = Cost + Markup*
  R500 = R320 + Markup
  Markup = R500 – R320
  = R180

- *Markup percentage on retail price (%)*

$$\text{* Markup percentage} = \frac{\text{Markup}}{\text{Retail price}} \times 100$$

$$= \frac{R180}{R500} \times 100$$

$$= 36\%$$

	Rocking chair	*Coffee table*
Retail price	*R300*	*R500*
Cost	*R180*	*R320*
Markup in rands	*R120*	*R180*
Markup percentage on retail price (%)	*40%*	*36%*

7.5 SUMMARY

There are several determinants that retailers need to be aware of and take into consideration when setting prices. In this learning unit, we looked at the three major groups of pricing objectives that retailers can base their prices on. Thereafter, the internal and external factors that may have an impact on the retailers pricing decisions were highlighted, followed by a discussion on the various pricing strategies that can be used to price merchandise. We concluded this learning unit by focusing on how retailers set prices using markups and markdowns.

In the next learning unit we discuss the provision of the right services. Before continuing to the following unit, please complete the assessment questions and reflect on what you have learned in this unit.

7.6 SELF-ASSESSMENT



Please note that these self-assessment questions will be available on myUnisa on the self-assessment tool, and you are encouraged to complete them online. The answers will be provided to you upon submission.

Question 1

A retailer that aims to compete on non-price based factors such as better quality products and services would most likely follow a … objective approach.

1 profit-oriented
2 sales-oriented
3 status quo-oriented
4 target-oriented

Question 2

A bakery that purchases flour and eggs to produce an amount of fresh rolls will incur … costs.

1 variable
2 fixed
3 semi-variable
4 markup

Question 3

Woodcore is a company specialising in wooden flooring. Which **ONE** of the following is an internal factor that may influence their pricing decisions?

1 Woodcore's supplier has increased the price of its wood.
2 The demand for wooden floors has decreased.
3 Woodcore's fixed costs have increased.
4 The interest rate has decreased.

Question 4

The mobile phone industry in South Africa consists of a few big players (such as Vodacom, MTN, Cell C and 8ta) who monitor each other very carefully in terms of price levels. This industry can be categorised as which competitive form?

1 Monopoly
2 Oligopoly
3 Monopolistic competition
4 Perfect competition

Question 5

Which **ONE** of the following options **BEST** demonstrates 'customer-segment pricing'?

1 A specific washing machine priced differently on the basis of the features offered.
2 Gold Reef City entrance fees are lower for children under the age of 12.
3 Ticket prices for a music festival will differ depending on the area of seating.
4 Vodacom offers lower "off-peak" rates to all their customers.

Question 6

X-Scent usually sells its fragrance packages (which include 30ml perfume, 90ml body spray and 250ml body lotion) cheaper than when selling each item individually. X-Scent is using ...

1 bundle pricing.
2 price penetration.
3 price lining.
4 loss leader pricing.

Question 7

Which **ONE** of the following options **BEST** describes the "rapid skimming" pricing strategy?

1 Entering the market with a low initial price to capture a greater market share.
2 Launching a new product at a high price, but at a low promotional intensity.
3 Launching a new product at a high price and spending a lot on promotions.
4 Selling a product below average for a short period of time in order to attract customers.

Question 8

If a retailer buys a product for R35 and sells it for R55, what is the markup percentage at retail?

1 30%
2 36%
3 57%
4 63%

Question 9

If a retailer reduces its stationery cases to R29.99 from the original retail price of R45.99. What is the markup percentage for this item?

1 30%
2 34%
3 53%
4 65%

Question 10

TopCafe is having a lunch special every Wednesday until March. They have decided to reduce the price of their gourmet sandwiches by 50%. Which markdown approach is TopCafe following?

1 Damage markdown
2 Employee discount

3 Promotional markdown
4 Clearance markdown

7.7 REFLECTION



Before you continue to the next learning unit, please reflect on the following questions:

1 How do you think you will be able to use the skills you learned in this learning unit in your professional life?
2 What did you find difficult about this learning unit? Why do you think you found it difficult? Do you understand the concept you were struggling with now or do you need help? What are you going to do about getting help if you need it?
3 What did you find interesting in this learning unit? Why?
4 How long did it take you to work through this learning unit? Are you still on schedule or do you need to adjust your study programme?

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TOPIC 3

IMPLEMENTING THE RETAIL STRATEGY

AIM

The aim is to demonstrate your knowledge on implementing the retail strategy. You should be able to discuss the importance of customer service and setting standards within the retail environment. Describe the role of IMC tools in the retailing environment and explain how the various promotion methods can be used to communicate with the consumer to deliver an integrated message.

LEARNING OUTCOMES

After studying this topic, you should be able to do or understand the following:

- Understand and give what customers want within the retail environment.
- Discuss the different aims and objectives of customer service in the retail context with the aid of practical examples.
- Equip retail employees with the means to provide customer service and be able to resolve conflict within the retail environment.
- Set customer service standards in order to measure service performance in the retail environment.
- The use of different IMC tools in retailing is explained and examples given of how these tools can be used by an identified retailer in a given scenario.

TOPIC CONTENT

Learning unit 8:	Providing the right service
Learning unit 9:	Retail promotion

Learning unit 8

Providing the right service

Contents

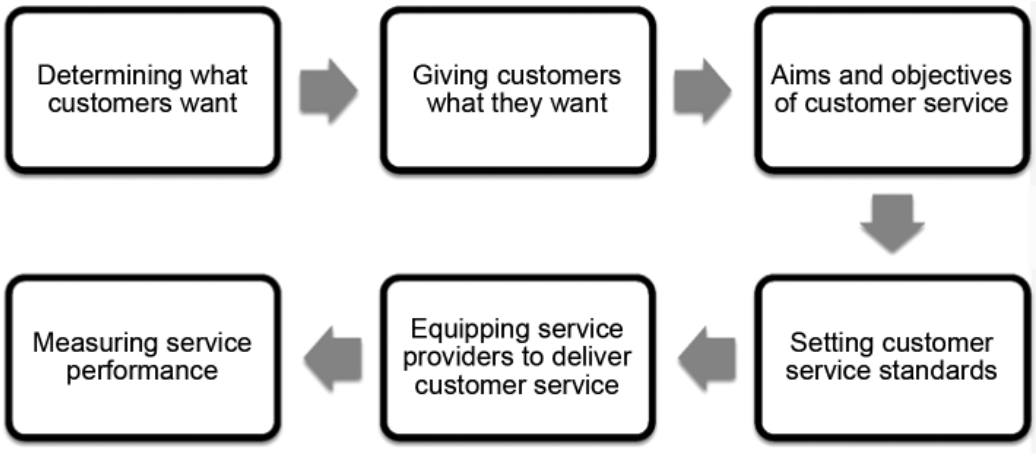
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OVERVIEW OF THIS LEARNING UNIT

This learning unit deals with providing a service to customers. The key issues of focus are: knowing what customers want, giving customers what they want, aims and objectives of customer service,

setting customer service standards, equipping service providers to deliver customer service, and measuring service performance.

This learning unit unfolds as follows:





LEARNING OUTCOMES

After completing this learning unit, you should be able to

- identify customer needs and how to fulfil them
- understand and briefly discuss the aims and objectives of customer service
- explain the importance of setting customer service standards
- know how to equip service providers to deliver customer service
- understand the process of measuring service performance



KEY CONCEPTS

- Customer service
- Customer centric approach
- Customer expectations
- Predicted service
- Desired service
- Adequate service
- Expected service
- Enduring service intensifiers
- Explicit service promises
- Customer satisfaction
- Service quality
- Pre-transaction services
- Transaction services
- Post-transaction services
- Reliability
- Responsiveness
- Assurance
- Empathy

- Tangibles
- Service goals
- After sales surveys
- Mystery shopper
- Customer satisfaction index
- SERVQUAL

INTRODUCTION

Retailers find themselves in a more competitive market than ever before. Simply having the right product is no longer enough if a company wants to differentiate itself from competitors. Providing the right service enables retailers to not only meet customer needs, but also to exceed them. Excellent service helps to retain customers and also attract new customers. Retailers and their employees are at the forefront of providing customer service and their interactions with customers greatly influence the customer's perception of service. Retailers therefore should clearly communicate the service goals to all employees and provide the right structures to enable service providers to deliver superior service. The focus of this learning unit is customer service and how to best satisfy the needs of customers. As shown in the learning unit overview diagram, let us begin by addressing how to determine what customers want.

8.1 DETERMINING WHAT CUSTOMERS WANT

In order for companies to provide the right service to customers, it is essential that they understand what customers want. According to Berndt and Tait (2014:46), companies find themselves in a highly competitive environment today; as a result they must fulfil each customer's needs quickly and accurately. Customer service can be used as a competitive advantage, differentiating a company from its competitors. In order to keep customers, retailers should provide a more satisfactory experience than their competitors (Caplan, 2013:vi).



Customer service entails providing a service before, during and after a purchase is made (Berndt & Tait, 2014:47). It refers to the organisation's policy, system, action or even inaction that adds to the service culture within the organisation (Lucas, 2012:42). Successful companies have a customer centric approach. Lucas (2012:42) describes the ***customer centric approach*** as putting one's customers first. This is done by focusing on the needs of customers and potential customers; and spending time, effort and money on identifying those needs. Instead of first

focusing on the internal skills and capabilities of the organisation, the organisation begins with a deep understanding of its customers and potential customers (Dunne et al., 2014:608) and what they want. Organisations should focus on building long-term relationships and customer loyalty instead of just selling products and services to a customer and going onto the next (Lucas, 2012:42). Zafer (2015:1) mentions that companies are under increasing pressure to become more customer centric as competition and customer expectations are constantly changing. Therefore it is important for retailers to listen to their customers and understand their expectations (Dalgic & Yeniceri, 2013:54).

8.1.1 Customer expectations

Lucas (2012:377) defines ***customer expectations*** as "the perceptions that customers have when they contact an organisation or service provider about the kind, level and quality of products or services they should receive". According to Berndt and Tait (2014:51), "customer expectations" refers to the desires or wants of a customer. It is more about what a customer feels a company should offer than the actual offering. Berndt and Tait (2014:52) identify common types of customer expectations, namely:

- ***Predicted service*** – describes the level of service customers believe is likely to occur during their interaction with the company. For example: when you go to a petrol station to put fuel in your car, you expect the petrol attendant to be friendly and put in the amount of fuel you asked for.
- ***Desired service*** – describes a customer's ideal service expectation and what a customer wishes or what customers actually want in terms of service delivery (Rautiainen, 2015:24). The desired service refers to a blend of what customers believe "'can be" and what "should be" provided (Thai, 2015:7). For example: when you go to a petrol station to put fuel in your car, not only is the petrol attendant friendly and he puts in the amount of fuel you asked for, he also cleans your windows and checks your car's tyres
- ***Adequate service*** – describes the minimum tolerable level of service a customer is willing to accept. For example: when you go to a petrol station to put fuel in your car, the petrol attendant is not friendly, but at least he does put the right amount of fuel into your car.
- ***Expected service*** is a combination of desired and adequate services and refers to what customers think "should be" in terms of service delivery (Rautiainen, 2015:24).

The following section looks at the different factors that influence customer service expectations.

8.1.1.1 Factors that influence service expectations

Berndt and Tait (2014:54) further suggest that there are certain factors that influence service expectations, which are illustrated in figure 8.1 below:

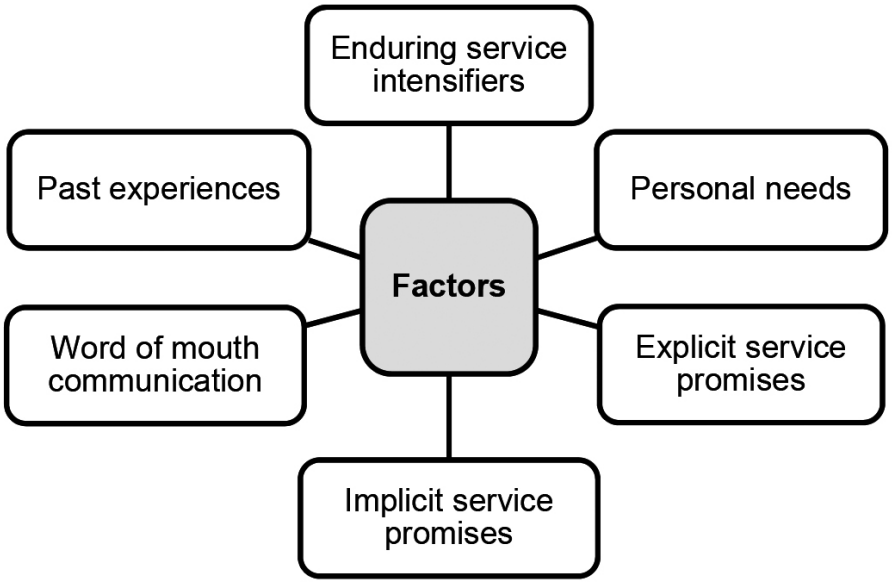


Figure 8.1: Factors that influence service expectations

Adapted from theory: Berndt and Tait (2014:54)

- As shown in figure 8.1 the first factor that influences service expectations is enduring service intensifiers. ***Enduring service intensifiers*** are considered personal factors that remain constant over time, increasing a customer's sensitivity to how the service should best be provided. This factor is influenced by an individual's personal philosophy towards services and expectations caused by others (Tahyudin, 2012:1). For example: a customer might believe that he should be addressed as sir by employees when he enters the store.
- "Personal needs" is the next factor that influences service expectations as shown in figure 8.1. Customers have multiple needs and no two likes are exactly the same. This factor includes aspects such as the individual physical, social and psychological needs (Tahyudin, 2012:1). Some customers are more demanding than others and expect more with regard to services. For example: when going to a retail store some customers want the staff to come and find out whether they need any assistance or to check on them. Other customers feel irritated when staff members interrupt them too often while they are shopping or just casually browsing the store.
- As illustrated in figure 8.1, the next factor that influences service expectations is explicit service promises. ***Explicit service promises*** is what an organisation promises to the customer through their personal selling, advertising, contracts and other forms of communication (Tahyudin, 2012:1). For example: when a clothing brand advertises a sale on all its clothes before the festive season, in the newspaper and on the radio, and states that the store will be open an extra hour every evening for the next week.
- Implicit service promises are the next factor that influences service expectations (see figure 8.1). ***Implicit service promises*** refers to other service cues that are not explicitly promised, which influence both the desired service and predicted service (Zhang, n.d:1). If the price of a product increases, customers expect the organisation to deliver higher quality service. For example: if shopping at a jewellery store that is expensive and stocks only the most luxurious brands, one would expect better service such as being offered a complimentary cappuccino while you shop and friendly staff.
- Word of mouth communication, as shown in figure 8.1, is also a factor that influences service expectations. Personal sources of information are viewed as unbiased information. Therefore customers tend to rely more on these sources than non-personal sources such

as advertisements when deciding which service provider to use. For example: if one of your family members or a close friend recommends a specific store that tailors clothing well, you are more likely to use that tailor than the one you saw advertise their services in the newspaper.

- As illustrated in figure 8.1, past experiences is the final factor that influences service expectations. When evaluating a service, customers often compare their current service encounter to previous encounters with the same provider. For example: when you take your car to a carwash, you compare the service you receive now to previous times you had your car washed.

SELF-ASSESSMENT



Read the following scenario and answer the questions that follow. Share you answer on myUnisa.

Tumelo decided to approach a TV programme in which service providers are named and shamed for providing bad service. When the programme was aired you learnt that Tumelo was unhappy with service he received from a courier company called Mzansi Couriers, which claimed that his parcel would be delivered to his nearest post office. Tumelo expected the company to bring his parcel to his door. Upon being approached for comment, the Mzansi Couriers marketing manager, Mr Brown, mentions that his company did not commit to delivering the parcel to Tumelo's door, but rather to his nearest post office. The company did pick up his parcel from its original place and left it at his nearest post office as per their slogan – "Mzansi your fastest post office to post office couriers."

Mr Brown adds that since they realise that Tumelo is unhappy and that the process was not clearly explained to him, they are willing to overlook their boundaries and deliver his parcel to his door, as they value him as a client.

Was Tumelo justified in demanding his desired service? Provide a motivation for your answer?

How did Mzansi Courier company fair with regard to the following:

- Customer centric approach
- Explicit service promise

8.1.2 Customer experience and satisfaction

Customer experience is very important as this is where the customer interacts with the company brand and is what the customer actually sees. Therefore, it is crucial that retailers know how to drive this experience in a smooth and integrated way (Williams, 2014:108). It is essential that the whole organisation, from top management to service till employees and product packers, focuses on creating customer satisfaction (Dalgic & Yeniceri, 2013:53). When the total shopping experience of the customer has been met or exceeded, ***customer satisfaction*** results (Lucas, 2012:377). Customer satisfaction is significant as it costs the average retailer five times as much effort to get a new customer in than to sell a product to an existing customer or even to retain a customer who is unhappy (Dunne et al., 2014: 86). One way of achieving customer satisfaction is to provide quality service.

Service quality is the capacity of the organisation to meet and even exceed customer expectations. Service quality can be defined as the general lead a company has over its competitors and the consistency with which the customers' expectations are met. It consists of understanding

customer needs, listening to customers, and having in depth knowledge of the market. In an effort to increase the level of service quality, a company can aim to increase service standards and improve on their service performance (Berndt & Tait, 2014:55). The customer's perception of service rather than the actual performance is what really counts. Service quality is becoming increasingly important to customers (Cook, 2015:5). Lucas (2012:68) identifies the six aspects most customers want and that companies should strive to fulfil if they want to retain customers, namely:

- Personal recognition. Giving recognition to a customer can range from sending out thank you cards and birthday messages, to going out of your way to serve a customer or simply just a smile as a customer enters the store.
- Courtesy. Basic good manners such as saying thank you and please make a big difference. This should be the standard, even when customers are not right.
- Timely service. Companies need to provide quick yet effective service. If, for example, extensive delays are likely to occur, then offer customers an alternative.
- Professionalism. Customers expect their questions to be answered by knowledgeable staff. Customers notice when service personnel take pride in their work.
- Enthusiastic service. When customers come to a company, they want to satisfy a certain need. Ensuring a positive service experience is vital in retaining customers. Service with a smile, and additional services and information can help ensure a positive experience.
- Empathy. Customers want to be understood; therefore, an organisation should provide the appropriate service and make every effort to understand their customers.

McPartin (2012) further states that knowledgeable staff and utilising front-line employees is one of the most effective ways of creating meaningful customer experiences

Note: You should be able to explain what customer service is, discuss why companies should follow a customer centric approach, and identify the factors that influence service expectations and how service quality influences a customer's perception of service.



Activity 8.1

Pumla owns a small boutique clothing store and hired you to train her employees on how to give customers what they want when they are in her store. What are the six aspects that you would inform them on?



Feedback

***Personal recognition**. Giving recognition to a customer can range from sending out thank you cards and birthday messages, to going out of your way to serve a customer or simply just a smile as a customer enters the store. For example, remembering loyal customers' names and asking how their children are doing.*

***Courtesy**. Basic good manners such as saying thank you and please make a big difference. This should be standard, even when customers are not right. For example, each employee should always greet the customer and offer assistance when they enter the store.*

***Timely service.** Companies need to provide quick yet effective service. If, for example, extensive delays are likely to occur, offer customers an alternative. For example, if the store is busy and there is only one cashier available to ring up the purchases, another one should quickly jump in to assist so that customers do not have to wait too long.*

***Professionalism**. Customers expect their questions to be answered by knowledgeable staff. Customers notice when service personnel take pride in their work. For example, if the customer asks a question about the clothing, such as what fabric it is and how to wash it properly, the employee should be able to answer.*

***Enthusiastic service.** When customers come to a company, they want to satisfy a certain need. Ensuring a positive service experience is vital in retaining customers. Service with a smile, and additional services and information can help ensure such a positive experience. For example, always being friendly, even when the customer is simply browsing in the store and does not purchase anything.*

As shown in the learning unit overview diagram, in the next section we look at giving customers what they want.

8.2 GIVING CUSTOMERS WHAT THEY WANT

Determining what customers want is crucial for any profitable organisation. Fields (2013) suggests that the companies that will flourish in the future will be those that are able to give customers exactly "what they want, the way they want it, when they want it – before they even know what they want". In giving customers what they want, Berndt and Tait (2014: 50) state that organisations should, at the very least, offer products that deliver as promised. Also, organisations should go further than just satisfying a basic need, but should also strive to exceed customers' expectations, provide adequate information, and offer organisation-wide commitment in service and after sale support.

Customers now believe companies should come to them and make them feel special, providing them with personalised, productive and pleasant service. Therefore, successful organisations are putting customers first, engaging with them in different and new ways, as well as paying more attention to customer service and satisfaction. Companies also need to take into consideration the fact that customers of each generation have different wants and needs. Millennials, for example, tend to rely much more on peer relationships and social networks to help them with purchasing decisions than that of Baby Boomers and Generation X individuals (Fields, 2013).

Zafer (2015:8) mentions that a truly convenient shopping experience will help ensure that a customer comes back. Therefore, a memorable and positive shopping experience should be part of the goals of any business. A recent study shows that many retailers are using elements such as appropriate music, attention-grabbing displays and the addition of interactive elements to enhance their in-store environments in an attempt to create a more positive shopping experience for customers (Vong, 2016).

8.2.1 Experience enhancers

McPartin (2012) identifies five experience enhancers that will enable a retailer to provide differentiated experiences to their customers. These are discussed below:

- Focus on the shopper experience: A company can make use of their front-line staff members to create emotional connections with customers. These staff members can confirm a customer's purchase decision, provide friendly service, and prevent buyer's remorse.
- Make satisfied customers your brand ambassadors: A customer who experiences a positive shopping encounter can possibly become one of the company's best marketers. These brand

ambassadors should be encouraged to create a social media buzz by using viral campaigns or community-based events.

- Help consumers avoid risk**:** Many consumers are reluctant to make a purchase because of some psychological barrier such as an inflexible return policy. Companies can help consumers to overcome these barriers by offering, for example, a more flexible return policy.
- Embrace the anytime, anywhere economy: Customers today have multiple options when it comes to shopping. They can research and buy products offline, online, from home or in the store. It is important to understand customers' preferences before competitors do. Companies should develop a strategy that will enable customers to shop where they want and easily research products.
- When something bad happens, fix it: Failing to resolve customer issues can be very costly to an organisation. This is because a negative shopping experience often results in customers unwilling to repurchase from the retailer. A feedback channel is one way of addressing bad experiences quickly and effectively. This can help to retain customers after an incident has occurred.

8.2.2 Product and service expectations

Lucas (2012:218) identifies a number of expectations that relate to product and service expectations. By meeting these expectations companies are giving customers what they want.

- Products and services should be easily accessible and available. Customers are easily frustrated when a product or service is not available. This may even influence whether a customer makes a repeat purchase. Therefore, a retailer should ensure that products and services are always available and easily accessible.
- Reasonable and competitive pricing. Retailers should follow a sensible pricing strategy. Products and services should be priced relative to that of their competitors are asking and what customers are willing to pay.
- Products and services should adequately address needs. Customers buy products and services because they want to satisfy a need. Retailers should ensure that their product and services fulfil such a need.
- Quality. Customers expect a certain level of quality when they purchase products and services. This is usually influenced by the price they pay for such a product or service.
- Ease of use. Retailers should ensure that products and services are easy to use and come with complete instructions.
- Safe. Products and services should be safe to use and faulty products should be recalled immediately the organisation becomes aware of it.
- Ease of return or exchange. Exchanging or returning a product should be hassle free. A very strict exchange policy could end up costing the organisation a sale.
- Appropriate and convenient problem resolution. The customer should be able to easily access the right channels should a problem arise. Retailers should also promptly respond to queries.

Sturt and Nordstrom (2014) believe that organisations should not expect customers to do their thinking for them. By becoming familiar with customers' habits, patterns and problems, a retailer can come up with solutions that give customers what they want and more.

Note: You should be able to list and discuss five experience enhancers and the eight products and service expectations that customers have.



Activity 8.2

What are the possible product and service expectations of a jewellery store that a customer may have?



Feedback

Products and services should be easily accessible and available. *Customers are easily frustrated when a product or service is not available. This may even influence whether a customer makes a repeat purchase. Therefore, a retailer should ensure that products and services are always available and easily accessible. For example, the store should be open during its working hours. A customer who is in a rush could be frustrated if the store has a "be back in 10 minutes" sign when they visit the store.*

Reasonable and competitive pricing. *Retailers should follow a sensible pricing strategy. Products and services should be priced relative to that of their competitors and what customers are willing to pay. For example, the jewellery store should charge a similar price for the same product because if the customer found out that the same watch is R1 000 cheaper at another store, then they could feel like they have been taken advantage of.*

Products and services should adequately address needs. *Customers buy products and services because they want to satisfy a need. Retailers should ensure that their product and services fulfil such a need. For example, the jewellery store should have jewellery in stock that a customer can purchase.*

Quality. *Customers expect a certain level of quality when they purchase products and services. It is usually influenced by the price they pay for such a product or service. For example, if the customer purchased a watch for R3 000, then they would have an expectation that the watch is of better quality compared to one that is worth R300.*

Ease of use. *Retailers should ensure that products and services are easy to use and come with complete instructions. For example, if the customer purchased a digital watch, instructions and advice should be given on how to reset the time.*

Safe. *Products and services should be safe to use and faulty products should be recalled immediately the organisation becomes aware of it. For example, if manufacturers found that waterproof digital watches were allowing water through, causing it to blow up, then they would have to recall the brand to ensure that no customers are hurt.*

Ease of return or exchange. *Exchanging or returning a product should be hassle free. A very strict exchange policy could end up costing the organisation a sale. For example, if a customer was buying a watch as a gift for a family member; if the family member preferred a different brand name or style, then the store should allow it to be exchanged provided that the watch hasn't been worn, and still has its original packaging and slip.*

Appropriate and convenient problem resolution. *The customer should be able to easily access the right channels should a problem arise. Retailers should also promptly respond to queries. For example, if the customer was not able to physically go into the store, and they phoned wanting to speak to the manager, then calls should be easily directed to the manager.*

Can you think of other examples? If so, share your examples on the myUnisa discussion forum.

As shown in the learning unit overview diagram, in the next section we look at the aims and objectives of customer service.

8.3 AIMS AND OBJECTIVES OF CUSTOMER SERVICE

Providing excellent customer service requires that companies first determine what customers want from their shopping experience, and then set about formulating certain aims and objectives that will provide an outline in achieving these. The organisation should consider which services will enhance a customer's shopping experience and tick all the boxes on a customer's wish list. There are many forms of customer services an organisation can offer their customers.

8.3.1 Forms of customer service

Customer service can be classified according to when the purchase is made, namely:

- ***pre-transactions services*** are provided to the customers before they enter a store;
- ***transaction services*** are offered to consumers during the purchase process in order to make it as easy and convenient for them and to assist them to get out the store quickly and effortlessly; and
- ***post-transaction services*** are offered after a purchase has been made (Dunne et al., 2014:494).

Table 8.1 illustrates the typical services offered before, during and after a sale is made within the retail context.

Table 8.1: Classification of retail services

Classification	Type of service	Description
Pre-transaction services:	Convenient hours	Convenient shopping hours is one of the most basic services an organisation should offer its customers. Convenient shopping hours make it easy for customers to visit the store. For example, many large shopping centres offer extended shopping hours during the festive season.
	Parking	Having adequate parking is an essential service a retailer should offer its customers. The parking should be secure and easily accessible. If customers need to pay for parking, the prices should not be excessive.
	Information aids	Companies can make use of various information aids to encourage purchases even before the transaction process begins. For example, a company's website can provide plenty of information to any prospective customers.
	Online orders	Customers are now able to make purchases from the comfort of their own homes. Many companies also offer free delivery, which adds to the convenience of ordering online.
	Internal and external display	The exterior facility includes factors such as the design, colour, landscaping and surrounding environment. The interior facility includes the flow and layout, air quality and temperature, colour scheme and store design.
	Competitions	Competitions are a very useful way of attracting a customer's attention.
Transaction services:	Credit	Credit facilities allow customers to purchase a product immediately and pay for it over a period of time – usually 6–12 months. This allows customers who do not necessarily have the cash amount at the time, to still purchase the product.
	Gift wrapping and packaging	Many stores offer gift wrapping and packaging of products bought at the store.
	Gift cards	Gift cards are very useful as they allow the recipient to choose the gift they want.
	Personal shopping	Many high-end retailers who sell luxury brands offer customers a more personalised shopping experience.
	Merchandise available	Companies need to ensure that they always have merchandise available. Out of stock items can add to dissatisfaction and cause customers to shop elsewhere.
	Sales transactions	The sales transaction should be effortless and efficient. Customers do not want to feel they are wasting time when purchasing an item.

Post- transaction services:	Alterations and tailoring	Some clothing stores offer customers a service where they can have the clothing they bought adjusted.
	Merchandise returns	This service allows customers to return goods purchased, often subject to certain requirements. For example, goods must still have the packaging and be returned within a week of purchase.
	Servicing, repairs and warranties	Car dealerships, for example, may have a service department where customers can have their cars serviced and repaired. Warranties assure the customer that if a product breaks within a specified time, the customer can bring the product in for repair at no cost.
	Delivery	Retailers that sell furniture, for example, can offer to deliver the furniture for the customer either at a fee or for free.
	Post sale follow up	Following up on a sale allows companies to determine customer satisfaction levels. In addition, it can help retain customers by showing them the organisation cares.
	Installations	Organisations that sell electronic goods, for example, can offer an installation service either for a fee or for free.
	After sales support	An essential post purchase service is supporting customers with any queries they may have about the product they bought. For example, when a customer buys a mobile phone, they may need to phone their service provider to activate various functions on their phone.
	Complaint handling	Unfortunately, not all customers are satisfied with either the product they bought or the service they received. Organisations should have the necessary channels in place to effectively deal with these complaints.

Adapted from theory: Dunne et al. (2014:494–505)

There are also a few general services that the organisation can offer such as:

- General information and customer care
- Food and beverage facility
- Entertainment for kids and attendant services such as babysitting
- Trolleys
- Facilities for customers with special needs
- Restrooms and other conveniences such as free coffee
- Banking facilities such as an ATM at a petrol station

8.3.2 Customer service factors in retailing

It is often difficult to determine the number of customer services a retailer should provide. Dunne et al. (2014:505–508) suggests there are six factors to take into account when choosing which services to offer customers. This can be seen in figure 8.2 below.



Figure 8.2: Customer service factors in retailing

Adapted from theory: Dunne et al. (2014:506)

- As shown in figure 8.2, the first factor influencing customer service in retailing is the retailers' characteristics. These refer specifically to store size, store location and store type. Location: it is easier to offer free delivery in a high density urban area such as Johannesburg than in a scarcely populated area where people live very far from one another such as in the Karoo. A major clothing retail store will offer different services to that of a small grocery store.
- Services offered by the competition is the next factor influencing customer service in retailing (see figure 8.2). Retailers must be able to offer the same services or a suitable substitute to customers, as that of the competitor. If a company is not able to match the services of their competitors, they must be willing to decrease their prices or add different services. If they do not, they risk losing customers.
- As shown in figure 8.2, the next factor is the type of merchandise handled. The type of merchandise, to a great extent, influences the type of service a company needs to offer. When buying a car, for example, a knowledgeable salesperson is required as opposed to when buying a pen at a self-service counter.

- The next factor that influences customer service in retailing is the price image of the retailer, as illustrated in figure 8.2. The higher the price, the higher the service expectation. When a customer buys a luxury product, services such as personal shopping and free delivery is generally expected. Discount stores, on the other hand, may offer only basic services such as free parking, as customers are not necessarily looking for luxury services, but rather low prices.
- Income of the target market is the next factor that influences customer service in retailing (see figure 8.2). If the target market falls into a high income bracket, those consumers will most likely be willing to pay a higher price. The higher the price that they are willing to pay, the more services the retailer can profitably provide.
- Cost of providing the service is the last factor that influences customer service in retailing as shown in figure 8.2. The service a company offers should be justified. It is important that companies know exactly how much services cost in order for them to calculate the number of additional sales needed to cover these costs. It is not profitable to continue with services that do not yield the desired return on investment.

Note: You should be able to list and discuss the different forms of customer service and explain the six factors that influence the customer service mix.

As shown in the learning unit overview diagram, in the next section we look at setting customer service standards.

8.4 SETTING CUSTOMER SERVICE STANDARDS

Customer satisfaction is significantly influenced by their perception of the quality of service that they receive. It is not always easy to provide excellent service. In many instances, it could be relatively costly to improve on service standards and provide service solutions. However, providing quality customer service as mentioned above is essential for any company seeking to build relationships with customers in the long run. Service problems do arise from time to time and finding solutions to these problems helps to uphold the service standards that the company has set.

8.4.1 Exploring solutions to service problems

Sorting out service problems should be a priority. Everyone in retailing, from top management to the frontline staff, should be committed to solving service problems. Berndt and Tait (2014:78) identify four key success factors for service management:

- The customer. Companies should take a customer-centred approach, which makes the expectations and needs of the customer the central focus of the organisation.
- Service strategy. This strategy involves an official corporate commitment to the service promise made to the customer. It also directs the attention and efforts of all those in the organisation towards the customer.
- People. Employees need to focus on meeting the needs of customers; the managers of service organisations must reinforce this.
- Systems within the organisation. All the facilities, procedures and policies must be aimed at meeting customer needs.

8.4.1.1 Solutions to typical service problems experienced

According to Exceedsales (2014), positive customer encounters result in happy customers who are less likely to go to a competitor and more likely to refer the company to others. Service problems can lead to negative customer encounters. Therefore, each employee working with customers should care about the problems customers experience. Exceedsales (2014) provides solutions to typical service problems that retailers can experience, namely:

- Address policies that hinder your ability to resolve issues. Retailers need to have the right processes in place. If such policies and procedures do not exist, management needs to work to develop and implement some. This will help to resolve customer complaints swiftly. For example, if a customer purchased a product that has already expired, the retailer should have policies in place to determine how to deal with this and other possible situations.
- Automation can help a company resolve issues quickly. Technology can improve service standards and reduce costs. Companies just have to be wary that customers can still connect with real people.
- Customer resolution personnel need to listen more than they talk. Service staff need to be great listeners and should communicate clearly to the customer that they understand the issue and that they are going to do their best to resolve it as soon as possible.
- Follow up promptly. Any promises made to customers need to be followed up quickly. For example, if a customer purchased a TV and it stopped working before its warranty period, the customer would have bought it back to the retailer to resolve the issue. If the retailer said that they would send it back to the manufacturer and provide an update, then they must do so.
- Adequate number of service staff. Organisations need to constantly check whether they still have enough customer service staff to match the size of their business. Serving existing customers is just as important as acquiring new customers. For example, if the retailer knows that their busiest time is after working hours between 16h00 and 17h30, then they should have more employees available in order to assist the customers.
- Ongoing training of sales customer service employees. Customer service employees are continually interacting with customers. Initial coaching, mentoring and training should be provided. But it is imperative that interaction with these service employees takes place on a consistent and ongoing basis. For example, a retailer could have "role playing" scenarios once a year for employees to be exposed to different difficult situations that they may encounter and how best to deal with them.
- Building a company culture that values the customer experience. Management needs to lead by example. If they work hard to keep customers happy, then employees will do the same.
- Creativity and intuition. These skills are needed to identify internal problems and to come up with the best solutions. Management should engage with employees who deal with customers to get ideas as to what the problems are that they are experiencing.
- Multiple skills levels and a coordinated process. Different skills and a coordinated process can be very helpful in providing solutions for problematic customer service more effectively and efficiently.

Service providers interact with customers by providing a service to them. Therefore, they need to clearly understand their role within the organisation and what standard of service they are required to deliver.

8.4.2 Defining the role of service providers

Service providers have a direct influence on the customers' shopping experience. If they are unsure of what service they should offer, it can have a severely negative impact on customer satisfaction. Berndt and Tait (2014: 56) identify five dimensions used for evaluating service quality, which can serve as a guideline to service providers:

- ***Reliability*:** Deliver on the promises made by the organisation. This is the ability to perform the promised service consistently and accurately.
- ***Responsiveness:*** Organisation is willing to customise a service according to customer needs. Reacting to customer needs in a timely manner.
- ***Assurance*:** Employees should be knowledgeable and friendly and be able to gain the trust and confidence of the customer.
- ***Empathy*:** Refers to the individualised attention organisations give customers. Caring about their needs and requirements and whether they are being met.
- ***Tangibles:*** The physical appearance of a company, including facilities, equipment, staff and communication materials, all contribute to the image of the organisation.

Another way of ensuring customers are satisfied is by setting service goals.

8.4.3 Setting service goals

Service goals refers to goals that an organisation formulates specifically aimed at providing excellent service to customers. Customer service takes place throughout the buying process – from the first contact with a customer right through to after sales service. According to Cook (2015:71), the following aspects are considered as basic services the customers expect within a retailing environment:

- Staff greeting customers with a smile
- Staff wearing uniforms
- Staff offering assistance without being too pushy
- Staff who are friendly and helpful
- Staff who are knowledgeable and who are willing to share information and recommendations
- Staff who offer advice on similar products
- Staff who actively try to assist even when it is very busy
- Staff who are alert to any problems that may arise
- Staff who thank customers for visiting

Excellent service helps retain customers. The elements of delivering superior customer experience, which should serve as a guideline when formulating customer service goals, are discussed below (Zafer, 2015:80):

- Engaging customers: Engaging with customers from the start helps the organisation to make a lasting impact on the customer.
- Be accessible: When customers have questions or concerns, they expect to have access to employees to address these.
- Be reliable: The organisation should deliver on what was promised to customers.
- Display the right attitude: Having the right attitude helps to contribute to an atmosphere that promotes excellent customer service.
- Accept responsibility: Mistakes happen; being honest with the customer and accepting responsibility helps to rectify such mistakes.
- Be responsive: If an organisation cannot respond to customers fast enough, it could lead to dissatisfied customers.

- Be empathetic: Retailers need to recognise a customer's emotional state and provide the service that will best satisfy their needs.
- Be there for the customer: In the moment, the customers' needs should take priority over everything else.
- Monitor achievement: Consistently measuring the type of service that is delivered helps to produce superior service.

Note: You should be able to list and discuss possible solutions to customer service problems, define the role of service providers, and discuss the role of service goals.

In the next section we will look at equipping service providers to deliver customer service.

8.5 EQUIPPING SERVICE PROVIDERS TO DELIVER CUSTOMER SERVICE

In order for service providers to deliver excellent customer service, they need to have the necessary skills and knowledge, have adequate support from management, be able to communicate, resolve conflict, and they need to feel empowered.

8.5.1 Providing information and training

Lucas (2012:56) mentions that the significance of effective training cannot be emphasised enough. Service providers need to be equipped with the necessary tools in order for them to perform their job to the best of their ability and leave a positive impression on the customer. Personal training and development is especially important for those service providers in order to satisfy the internal and external needs of customers (Berndt & Tait, 2014:106). In-depth knowledge of merchandise will give employees the necessary confidence and enable them to be helpful when interacting with customers. Lucas (2012:56) states that training helps service providers to clearly understand what is expected of them and gives them the necessary skills to achieve these expectations. It is important if an organisation wants to create a culture that supports customer service. Training might include the following focus areas: interpersonal skills, technical skills, organisational skills, and/or job skills.

Gill (2014) highlights the importance of not only providing initial training, but also ongoing training for employees. Regular training can, in effect, improve the company's bottom line. The top ten benefits of providing continuous corporate training are the following:

- Keep up with industry changes. Industries are constantly evolving and in order to comply with industry regulations, companies need to keep up with these changes. This can be done through ongoing training, ensuring employee knowledge and skills are up to date.
- Be in touch with all the latest technology developments. The rapid pace of technology development requires more than just a once-off training session. Employee IT training programmes ensure that staff use all the latest technology with ease.
- Stay ahead of competitors. In order to remain competitive, it is essential that employees continually improve their knowledge and skills.
- Be able to see weaknesses and skills gaps. Regular training enables the organisation to easily identify skills shortages among their employees, as well as gaps within the existing work force.
- Maintain knowledge and skills. Employees need to refresh and practise their knowledge and skills on a regular basis. This ensures that elements are not forgotten.

- Advance employee skills. It is easy to build and improve on employee skills once the organisation has provided the basic skills training.
- Provide an incentive to learn. Continuous training as part of a longer development pathway creates an incentive for employees to learn and practise their new skills.
- Increase job satisfaction levels. Continually investing in staff can improve work motivation and create job satisfaction. This in turn improves profitability as it reduces employee turnover and increases productivity.
- Provide internal promotion opportunities. Employing new staff members can be costly. With ongoing training, existing employees can be considered for internal promotions. These employees have comprehensive knowledge of the organisation, are trustworthy, and have the necessary skills set.
- Attract new talent. Providing ongoing training creates a good image of the business. It ensures better staff retention and also enables the company to attract new employees.

It is important that companies have the right physical and mental support structures in place. These structures enable employees to deliver great customer service.

Note: You should be able to discuss the importance of providing information and training to service providers.

8.5.2 Availability of support structures

Lucas (2012:53) states that employees should not be expected to manage every customer-related situation that develops, on their own. Management should provide them with continuous coaching, counselling and training. The organisation should establish supportive working relationships in order to create a nurturing environment that promotes consideration, concern, support and trust (Berndt & Tait, 2014:106).

8.5.3 Improving internal communication and reducing conflict

Berndt and Tait (2014:107) suggest that all the departments within an organisation should participate when it comes to internal communication. Zafer (2015:29) mentions that not only is communication an important part of each internal department, but it is also influenced and shaped by the organisation's culture. Therefore feedback needs to be included in the continuous communication with employees, as this helps to determine the internal climate of the organisation. This will also help employees to understand their role and function within the organisation (Berndt & Tait, 2014:106).

Zafer (2015:30) suggests that organisations should have a strategy for internal communication; this strategy needs to be shared with all the employees. Companies should explain their communication expectations to employees and establish clear guidelines for communicating in the workplace. Lucas (2012:81) mentions that service providers are responsible for delivering quality service to customers. In addition, their action, inaction and communication skills say a lot about the organisation's emphasis on customer satisfaction. Service providers need to recognise how they communicate and understand the communication process. These are key elements necessary for successful customer interactions.

8.5.3.1 Possible causes of conflict

Conflict should be viewed as neither a negative nor a positive part of delivering customer service. Instead, companies should see these conflict situations as opportunities to identify problems that may need to be addressed when dealing with customers. As long as the focus stays on the issue and does not become personal, it can be normal and beneficial (Lucas, 2012:102). Figure 8.3 illustrates the possible causes of conflict:



Figure 8.3: Possible causes of conflict

Adapted from theory: Lucas (2012:102)

- Conflicting values and beliefs: values and beliefs are learnt over long periods of time and when these are challenged, individuals can get defensive. Values and beliefs also influence how an issue or situation is observed.
- Personal style differences: there are many different personality styles and each style needs a different approach. When the service provider and customer do not have the same personal style, it can lead to conflict.
- Differing perceptions: when a customer and a service provider view a situation differently, it can lead to a multitude of emotional feelings.
- Inadequate or poor communication: lack of communication often leads to misunderstandings, which can easily escalate into a conflict situation.
- Contrary expectations: when customer expectations are not met, whether they are warranted or not, conflict will likely result.
- Goals that are out of synch with reality: it often happens that an organisation sets unrealistic goals, which can lead to frustration for the service provider.
- Outcomes dependent on others: service providers are often dependent on others to contribute to the overall customer service experience. These situations can easily result in conflict as one party might influence the outcome in a negative way by not doing what is expected of them.
- Misuse of power: conflict can arise when either service providers or customers feel that the other is abusing his or her authority.

8.5.3.2 Guidelines for effective conflict management

Lucas (2012:106) also suggests the following guidelines for effective conflict management:

- Remain calm: to resolve conflict effectively the service provider needs to stay calm. If the situation is already out of control it might be necessary to involve a co-worker or supervisor to be an objective third party.
- Be proactive in avoiding conflict: by reading customers correctly it is possible to avoid conflict. A service provider can use both verbal and non-verbal techniques to help identify the customer's needs.
- Keep an open mind: a service provider should stay objective and not let personal values and beliefs influence them when dealing with customers.
- Identify and confront underlying issues: there are a number of emotional issues involved when dealing with problematic situations. These need to be dealt with in order to prevent the issues from escalating.
- Clarify communications: patience and good communication are necessary to identify the causes of conflict and to provide the necessary feedback to resolve the conflict.
- Stress cooperation rather than competition: service providers need to work with customers and co-workers to reach their goals.
- Focus resolution efforts on the issue: service providers should stay focused on the issue rather than the person. Name calling, pointing or accusations will only further escalate a conflict situation.
- Follow established procedures for handling conflict: most organisations have customer complaint handling procedures in place. Service providers should follow these established procedures rather than coming up with their own when in a conflict situation.

Greene (2013) lists discussion and open communication as the most successful methods when it comes to resolving conflict. Avoiding conflict will, at best, only delay the conflict and will not resolve it. Problems should be addressed quickly and directly, otherwise they may resurface at the worst possible time. Strategies for dealing with conflict include:

- The message an employee wants to convey to the customer should be easily understandable and concise.
- Service providers should use neutral and controlled language.
- Do not let emotions take over; rather stay calm throughout the conflict situation.

Note: You should be able to discuss the possible causes of conflict and the guidelines for effective conflict management.

8.5.4 Empowering store employees

Employee empowerment is the process of allowing an employee to think, behave, act, react and control their work in more independent ways (Zafer, 2015:34). Organisations should have clearly formulated guidelines and predetermined frameworks for empowering employees. This will ensure that the employees experience work satisfaction and deliver an improved service to customers (Berndt & Tait, 2014:106). According to Zafer (2015:34), management must trust and openly communicate with employees in order for them to be able to practise employee empowerment. It is also a way to reward employees in a non-tangible way (Lucas, 2012:56).

By empowering service providers, the organisation helps to ensure that that they are able to respond to customer needs or requests promptly. Empowered employees are trusted to take

action without having to call a supervisor or ask for permission. Therefore, empowerment can be seen as a delegation of authority. Giving employees authority makes them feel like an important part of the organisation (Lucas, 2012:56).

Note: You should be able to explain the role of employee empowerment within the organisation.

As shown in the learning unit overview diagram in the next section, we look at measuring customer service performance.

8.6 MEASURING SERVICE PERFORMANCE

Service performance refers to the way in which a service is executed and the outcome of that service. Measuring service performance determines to what extent the service satisfies the customer. Berndt and Tait (2014:62) identify four ways in which customer satisfaction can be measured:

- ***After sales surveys.*** It is best to survey a customer on the level of satisfaction they have experienced while the experience is still fresh in their mind. This enables the company to identify areas of improvement.
- ***Mystery shopping***. When trained personnel pretend to be customers and shop unannounced. It is a type of non-customer research that measures the service behaviour of individual employees.
- ***Customer satisfaction index.*** This type of index is created by using the information gathered during regular interviews with customers. This index enables the company to track changes in customer satisfaction over time. It also allows for comparisons among competitors.
- ***SERVQUAL.*** This is a systematic *approach* to measuring and managing service quality. SERVQUAL identifies five core service components, namely reliability, assurance, tangibles, empathy and responsiveness. The customer then indicates their expectation as well as their perception of each of these specific dimensions.



Follow the link and look at this example of a SERVQUAL survey:

– https://www.scribd.com/document/144013567/Servqual-Survey

Lucas (2012:63) also mentions the benefits of using customer satisfaction surveys as a means of measuring service performance:

- Identify existing and potential problems: This provides formal feedback from customers, which allows the organisation to pick up on any service issues.
- Show that the company cares: Satisfaction surveys demonstrate that the organisation has a real interest in the customer's well-being and whether they are satisfied.
- Evaluating employee performance: These surveys can also help the company to determine the level of employee performance, especially for merit and compensation reviews. It is also useful for sales management purposes.
- Comparison purposes: Help a company to compare itself to competitors and identify its own strengths and weaknesses.
- Focus on customer needs: Helps to improve work practices and processes within the organisation. Also encourages an increased focus on customer needs.

Note: You should be able to list and discuss four ways in which to measure customer satisfaction and explain the benefits of using a customer satisfaction survey.



Activity 8.3

Thandi, who is the manager of a retail store, noticed that sales have been declining this past year and wondered if it was due to the service they have been providing. Identify and explain four methods that she can use.



Feedback

***After sales surveys**. It is best to survey customers on the level of satisfaction they have experienced while the experience is still fresh in their mind. This enables the company to identify areas of improvement. Thandi could have a little machine placed at the till asking customers to rate how satisfied or dissatisfied they are with the service provided.*

***Mystery shopping** occurs when trained personnel pretend to be customers and shop unannounced. It is a type of non-customer research that measures the service behaviour of individual employees. Thandi could hire a student to go into the store and report on her experience in store.*

***Customer satisfaction index**. This type of index is created by using the information gathered during regular interviews with customers. It enables the company to track changes in customer satisfaction measures over time. It also allows for comparisons between competitors. Thandi could invite customers for a quick interview after they are done with shopping by asking what they enjoyed or did not enjoy while shopping in the store.*

***SERVQUAL**. It is a systematic approach to measuring and managing service quality. SERVQUAL identifies five core service components, namely reliability, assurance, tangibles, empathy and responsiveness. The customer then indicates their expectations as well as their perceptions of each of these specific dimensions. Thandi could develop a questionnaire and send it to her customers on her mailing list to fill in in order to determine where the store stands. When doing so, she could offer them a 20% discount on their next purchase in the store.*

8.7 SUMMARY

Customers have various needs. Providing the right service will increase customer satisfaction and help to retain customers and attract new ones. Employees need to understand and align themselves with the company's service aims and objectives, and specifically, the service goals that have been formulated. Organisations should provide service employees with the right training and information, have support structures in place, promote internal communication and conflict management, and also empower their employees. It is crucial to measure service performance from time to time. This enables the organisation to determine possible shortfalls in service delivery.

In the next unit (learning unit 9), we discuss retail promotions. Before continuing with the unit, please complete the assessment questions and reflect on what you have learned in this unit.

8.8 SELF-ASSESSMENT



Please note that these self-assessment questions will be available on myUnisa on the self-assessment tool, and you are encouraged to complete them online. The answers will be provided to you upon submission.

QUESTION 1

Which **ONE** of these factors does not influence service expectations?

1 Past experiences
2 Explicit service promises
3 Momentary service intensifiers
4 Word of mouth communication

QUESTION 2

The process of allowing an employee to think, behave, act, react and control their work in more independent ways refers to employee …

1 emancipation.
2 training.
3 orientation.
4 empowerment.

QUESTION 3

Which **ONE** of the following options is **NOT** a benefit of ongoing corporate training?

1 Maintain knowledge and skill
2 Be in touch with the latest technology development
3 Increase employee turnover
4 Attract new talent

QUESTION 4

The minimum tolerable level of service a customer is willing to accept refers to … service.

1 adequate
2 desired
3 tolerated
4 predicted

QUESTION 5

Which **ONE** of the following options is an example of a transaction service?

1 Parking
2 Gift cards
3 Convenient hours
4 Competitions

QUESTION 6

Which **ONE** of the following options is a dimension used for evaluating service quality?

1 Tangibles
2 Be there for customers
3 Display the right attitude
4 Monitor achievement

QUESTION 7

The general lead a company has over its competitors and the consistency with which the customers' expectations are met refers to …

1 service quality.
2 customer relationship management.
3 customer expectation.
4 customer satisfaction.

QUESTION 8

Which **ONE** of the following factors does **NOT** influence the service mix?

1 Services offered by competitors
2 Income of target market
3 Retailers' characteristics
4 Employee empowerment

QUESTION 9

Which **ONE** of the following terms refers more to what a customer feels a company should offer rather than the actual offering.

1 Customer experience
2 Service quality
3 Customer expectation
4 Customer relationship management

QUESTION 10

Which **ONE** of the following is **NOT** a shopping experience enhancer?

1 Help consumers avoid risk
2 Employee values and beliefs
3 Embrace the anytime, anywhere economy
4 Focus first and foremost on the shopper experience

8.9 REFLECTION



Before you continue to the next learning unit, please reflect on the following questions:

1 How do you think you will be able to use the skills you learned in this learning unit in your professional life?
2 What did you find difficult about this learning unit? Why do you think you found it difficult? Do you understand the concept you were struggling with now or do you need help? What are you going to do about getting help if you need it?

3 What did you find interesting in this learning unit? Why?
4 How long did it take you to work through this learning unit? Are you still on schedule or do you need to adjust your study programme?

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Learning unit 9

Retail promotion

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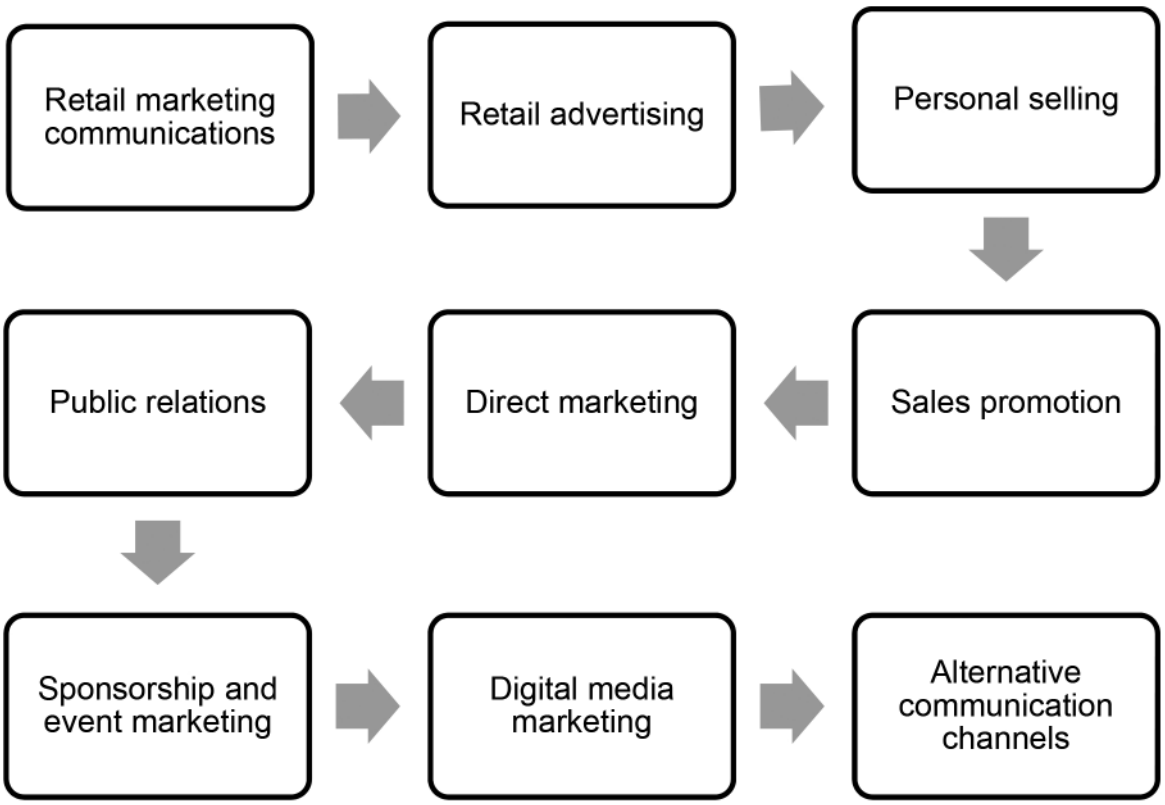
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OVERVIEW OF THIS LEARNING UNIT

Learning unit 9 deals with retail marketing communications and begins by explaining the concept of the marketing communications planning process. The unit then discusses the various marketing communication tools that a retailer can use, namely: retail advertising, personal selling, sales promotion, direct marketing, public relations, sponsorship and event marketing, digital media marketing and alternative communication channels.

This learning unit unfolds as follows:





LEARNING OUTCOMES

After completing this learning unit, you should be able to

- understand and briefly discuss retail marketing communication
- list and explain the retail marketing communication planning process

- discuss retail advertising, its types of media and objectives
- explain what personal selling is and discuss the personal selling process
- discuss sales promotions and the various tools
- explain what direct marketing is and the different media
- discuss public relations and the various PR tools and techniques
- explain what sponsorship and events marketing entails
- discuss digital media marketing and the different tools
- explain alternative communication channels



KEY CONCEPTS

You will need to master the following key concepts in order to meet the learning outcomes of this learning unit:

- Marketing communications
- Situation analysis
- SWOT analysis
- Target audience
- Brand positioning
- Brand
- Objectives
- Objective-to-task budget
- Marketing communication mix
- Advertising
- Print media
- Broadcast media
- Out-of-home media
- Digital interactive media
- Personal selling
- Prospecting
- Prospect
- Competition, contest or sweepstakes
- Coupons
- Loyalty programmes
- Premiums
- Point-of-purchase displays
- Price reduction or price-off promotion
- Samples
- Tie-in promotions
- Telemarketing
- Direct response advertising
- Public relations
- Internal stakeholders
- External stakeholders
- Media relations
- Publications
- Corporate image
- Corporate advertising
- Crisis management
- Lobbying
- Networking
- Publicity
- Digital media marketing

- Website
- Virtual storefront
- E-marketplace
- Search engine marketing (SEM)
- Search engine optimisation (SEO)
- Online advertising
- Affiliate marketing
- Mobile marketing
- Social media marketing
- Alternative communication channels
- Below-the-line
- Above-the-line
- Influencers

INTRODUCTION

In a world where consumers are constantly exposed to information through various formats, it may be difficult for retailers to set themselves apart and stand out. As consumers, we are constantly fed advertisements and information through different media platforms, whether it be TV, radio, billboards or digital media (websites, social media and online publishers etc.). Since we cannot attend to or pay attention to everything that we are exposed to, we tend to apply selective exposure (the tendency to select the information that we want to pay attention to) techniques. The challenge for marketers or retailers is to have strategies that capture consumers' attention. As shown in the learning unit overview diagram, the first section discusses retail marketing communication.

9.1 RETAIL MARKETING COMMUNICATION

A retailer can have the best products, lowest prices and great quality, but if no one knows about their store, they will not generate any profit. In order to inform consumers about their stores and the products and services that they offer, retailers make use of marketing communication. ***Marketing communication*** refers to the message an organisation conveys to their target audience (Du Plooy, 2012:29). The marketing communication used by the retailer should inform new consumers of their offerings and the products and services that they offer; their key message should persuade and attract current or new customers to return to the store (Du Plooy, 2012:29). An example of marketing communication used by retailers is when your favourite store is having a sale and you receive an SMS or you discover an advertisement on Facebook of a new store opening in your local shopping centre. Retailers can use any one or a combination of different marketing communication tools such as advertising, personal selling, sales promotion, direct response marketing, public relations, sponsorship, digital media or alternative communication channels (Koekemoer, 2014:4). Before we discuss each of these, let us look at the marketing communication planning process that retailers need to work through in order to determine which marketing communication tools to use.

9.1.1 Marketing communication planning process

Figure 9.1 illustrates nine steps in the marketing communication planning process according to Koekemoer (2014:15), which will now be discussed.

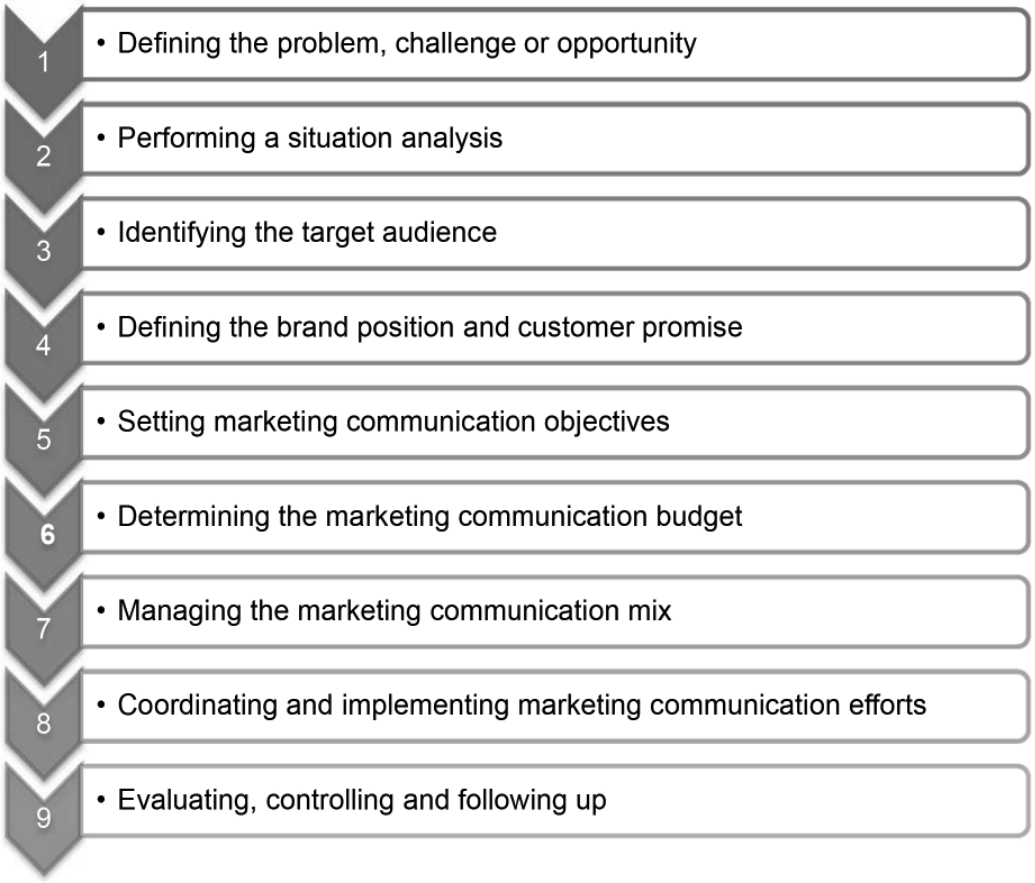


Figure 9.1: Marketing communication planning process

Source: adapted from Koekemoer (2014:15)

9.1.1.1 Defining the problem, challenge or opportunity

As shown in figure 9.1, the first step in the marketing communication planning process is to define the problem, challenge or opportunity. It is important that the retailer defines the problem, challenge or opportunity. For instance, a problem would be identified if an existing retailer noticed that sales were declining, whereas, a possible challenge could be a competing new store that will be opening close to its vicinity. On the other hand, an opportunity could be new housing developments going up in the vicinity. Either way, it is crucial that a retailer understands what they aim to address.

9.1.1.2 Performing a situation analysis

Performing a situation analysis is step two of the marketing communication planning process (see figure 9.1). A ***situation analysis*** gathers information regarding an organisation and its environment in order to assess the current situation, the position of the organisation, and what the possible results could be if issues are not addressed (Cant, 2013:68). Learning unit 2 discussed in detail the different micro- and macro-environmental variables that have an influence on retailers. By performing a situation analysis, the retailer gathers information regarding all those variables in order to perform a situation analysis. A common type of situation analysis is a ***SWOT analysis***, which can be defined as a structured approach to evaluating the strategic position of an organisation by identifying its strengths, weaknesses, opportunities and threats (Jobber &

Ellis-Chadwick, 2013:50). Figure 9.2 illustrates a SWOT analysis diagram that retailers can use. For strengths and weaknesses, the retailer would look at the micro-environmental variables that they can control (Jobber & Ellis-Chadwick, 2013:50). For example, a strength could be having friendly and reliable staff, whereas a weakness could be that the managers do not have expert marketing knowledge. For opportunities and threats, the retailer would look at the macro-environmental variables that they cannot control (Jobber & Ellis-Chadwick, 2013:50). Examples of these were discussed in the previous section.

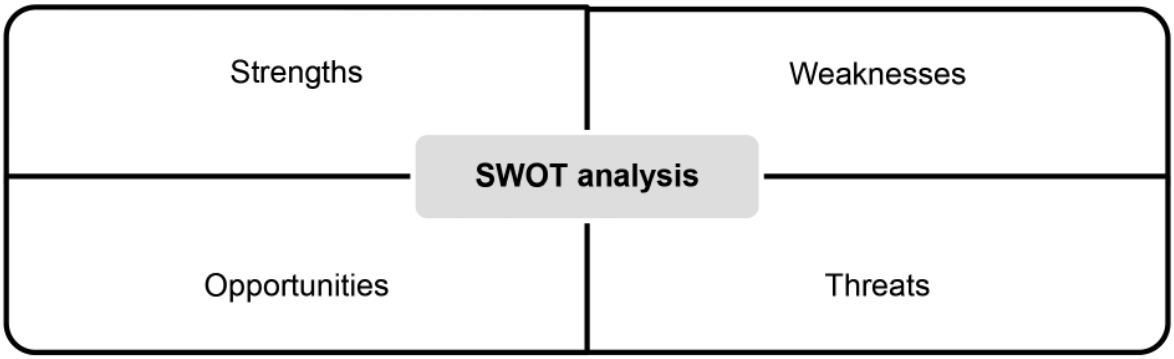


Figure 9.2: SWOT analysis

Source: adapted from Jobber & Ellis-Chadwick (2013:50)

9.1.1.3 Identifying the target audience

Step three of the marketing communication planning process is to identify the target audience as shown in figure 9.1. Identifying suitable target markets was discussed in learning units 2 and 4 of this study guide. Target market is a segment of consumers that retailers plan to sell their products and services to (Ingram, 2017). ***Target audience***, on the other hand, is more specific in that it refers to a specific group of consumers that retailers want to target with advertisements (Ingram, 2017). It is important that a retailer identify the correct target audience otherwise the marketing communication plan will be a waste of time, energy and money (Koekemoer, 2014:4).

9.1.1.4 Defining the brand positioning and consumer promise

The fourth step of the marketing communication planning process is to define the brand position and consumer promise (see figure 9.1). ***Brand positioning*** refers to the way in which a product or organisation is regarded in the mind of the consumer in relation to other products or organisations in the market – in other words, how customers perceive a product or organisation as opposed to those of competing brands (MNM1522 study guide, 2016:85). So in this instance, what do consumers think of one retailer compared to another? A retailer's ***brand*** is its promise to its customers to deliver everything that they stand for in terms of functional (practical) benefits, specific features and services, and emotional and social benefits (Aaker, 2014:1). For example, does the retailer promise to provide the best service or to offer the lowest prices or highest quality merchandise? It is crucial that the retailer knows what their strengths and weaknesses are, and are able to deliver what they promise to the consumer.

9.1.1.5 Setting marketing communication objectives

The next step in the marketing communication planning process is to set marketing communication objectives (see figure 9.1). Retailers set marketing communication strategies to achieve many long-term or short-term objectives. ***Objectives*** refer to specific goal-directed initiatives that an organisation aims to achieve (Poloian, 2013:68). Short-term objectives are goals that can be achieved in six months, or less than a year, and long-term objectives are those that exceed a year (Suttle, 2017). An example of a short-term objective is to increase the number of customers, whereas a long-term objective is to create a positive store image (Rabie, 2018). According to Cant (2013:25), when it comes to setting an objective, a few guidelines need to be adhered to:

- It should be simple, clear and concise. The retailer's employees should all know and understand what they are trying to achieve. For example, to increase sales in the retail store. This meets the guidelines, which makes the objective easy to understand.
- It should be measurable. The retailer should be able to determine whether it was achieved or not. For example, to increase sales in the retail store by 1%. The retailer can determine by looking at the sales records whether they managed to increase by 1% or not.
- It should be within a specified period. The retailers' employees should know when they will be trying to achieve something. For example, to increase sales in the retail store by 1% for January 2018. Here, the employees know that for the month of January in 2018, the objective is to increase sales by 1%.
- It should be realistic and achievable. The retailer should know what they are capable of and set objectives that they can achieve in order to keep employees motivated. In this instance, 1% is doable for the retail store.
- It should be set against a benchmark. The retailers' employees should know what the baseline is. For instance, to increase sales in the retail store by 1% for January 2018 compared to 2017. Here, the employees know that they will be comparing January 2018 to the previous year, January 2017 to determine whether they achieved the 1% increase in sales or not.

9.1.1.6 Determining the marketing communication budget

Step six of the marketing communication planning process is to determine the marketing communication budget (see figure 9.1). It is crucial for the retailer to know how much money is available to spend on the overall marketing communication campaign and to allocate how much to which marketing communication tool (MNM1507 study guide, 2016:19). A common budgeting technique to use is the ***objective-and-task budget***, where the marketing communication objective is directly linked to the budget (MNM1507 study guide, 2016:19). For example, if the retailer decided that the objective was to increase sales in the retail store by 1% for January 2018, the retailer would then have to determine specific tasks that need to be done in order to meet that objective and then estimate the costs involved in order to determine the marketing communication budget.

9.1.1.7 Managing the marketing communication mix

As shown in figure 9.1, the seventh step of the marketing communication planning process ***Marketing communication mix*** refers to the mix of various marketing communication tools such as advertising, personal selling, sales promotion, direct response marketing, public relations, sponsorship, digital media or alternative communication channels (Koekemoer, 2014:4). It is important for the retailer to determine which tools are viable in order to achieve the objectives set and within the budget. For instance, for a small retailer, it may not be possible to advertise because it is simply too expensive, but they could possibly explore other options such as sales

promotions or digital media. The different communication tools will be discussed in detail later in this learning unit.

9.1.1.8 Coordinating and implementing marketing communication efforts

The next step in the marketing communication planning process is to coordinate and implement marketing communication efforts (see figure 9.1). After deciding which tool to use in order to achieve objectives within the budget, the retailer now plans the various schedules and activities that needs to be done for each tool and brings them together (Koekemoer, 2014:18). For example, if a retailer decided to use direct mail to inform their customers of sales promotions taking place in store, then the retailer would need to make sure that the different promotional material just as boards and signs are up in store and that the system is updated to reduce the costs where applicable. The retailer also needs to ensure that all staff members are aware of the sales promotion in order to assist customers who may have any queries.

9.1.1.9 Evaluating, controlling and following-up

The last step of the marketing communication planning process, as shown in figure 9.1, is to evaluate, control and follow up. At the end of the campaign, the retailer needs to determine whether they achieved what they had set out to achieve. For example, were they able to increase sales in the retail store by 1% for January 2018? If so, how did the communication tools that they used contribute to them achieving it? If not, why were they not able to achieve their objective? Either way, retailers need to learn and decide how they will change future strategies in order to be more effective (MNM1507 study guide, 2016:19).

Note: You should be able to discuss the marketing communication process and explain how retailers can implement it.



Activity 8.2

Assume that Suzi owns a little retail store that bakes delicious vegan cakes and cupcakes that do not contain any animal by-products. Suzi would like to grow her business by increasing sales and increasing awareness of her store. Due to the fact that Suzi has a limited budget, she decided to make use of only sales promotions and digital media marketing, focusing on her Facebook and Instagram pages. Discuss how Suzi would go about the marketing communication process.



Feedback

Defining the problem, challenge or opportunity. *It is important that the retailer define the problem, challenge or opportunity. In this instance, Suzi noticed an opportunity as there is an increased demand for vegan products. In order to grow her business, she would like to increase awareness so that people know her store exists and what she specialises in.*

Performing a situation analysis. *A situation analysis gathers information regarding an organisation and its environment in order to assess the current situation, the position of the organisation and what the possible results could be if issues are not addressed (Cant, 2013:68). Suzi conducted a SWOT analysis for her business and found the following:*

- ***Strengths*** *– she makes delicious cakes and cupcakes*
- ***Opportunity*** *– there is an increased demand for vegan products*
- ***Threats*** *– more competitors are entering the market*
- ***Weakness*** *– she is the only employee and could struggle to keep up with demand*

Identifying the target audience*. Target audience refers to a specific group of consumers that retailers want to target with advertisements. Suzi will target her communication at vegans, lactose intolerant people and health-conscious consumers.*

Defining the brand positioning and consumer promise*. Brand positioning refers to how a product or organisation is regarded in the mind of the consumer in relation to other products or organisations in the market. A retailer's brand is its promise to its customers to delivery everything that they stand for in terms of functional (practical) benefits, specific features and services, and emotional and social benefits. Suzi's positioning could be the following:*

Setting marketing communication objectives*. In order to increase awareness of her store she set out the following objectives:*

- *To increase Facebook likes and Instagram followers by 10% from January to March 2018, compared to October to November 2017.*
- *To increase sales by 5% from January to March 2018 compared to October to November 2017.*

Determining the marketing communication budget*. It is crucial for the retailer to know how much money is available to spend on the overall marketing communication campaign and how much to allocate to which marketing communication tool. As stated above, Suzi has a limited budget and therefore chooses media that she would be able to manage herself with the limited funds she has.*

Managing the marketing communication mix*. It is important for the retailer to determine which tools are viable in order to achieve the objectives set, and within the budget. In order to meet her objectives, Suzi would need to use digital media tools, namely Facebook and Instagram, and sales promotions such as price reductions, samples or competitions.*

- ***Coordinating and implementing marketing communication efforts****. The various schedules and activities for each tool now needs to be planned, done and synchronised by the retailer. Suzi could use her Facebook and Instagram accounts to announce that she is having specials where customers will receive 20% off any orders of cakes or cupcakes, or invites them to her store to sample her products. Suzi could also have a competition to win a custom-made cake for R500 if consumers liked and shared her Facebook page. Suzi could also post daily pictures on Facebook and Twitter of the different cakes and cupcakes that she bakes.*

Evaluating, controlling and following-up. At the end of the campaign, the retailer needs to determine whether they achieved what they had set out to achieve. At the end of March, Suzi needs to determine whether she managed to increase Facebook likes and Instagram followers by 10% and to increase sales by 5%. If she did, she could consider doing the same sales promotions again later in the year. If not, she would need to try to understand why it did not work and think of other ways of meeting her objectives.

As shown in the overview diagram, the next section will discuss retail advertising. Now that we have an understanding of the marketing communication planning process, we will look at the various marketing communication tools that retailers could use, namely retail advertising, personal selling, sales promotion, direct marketing, public relations, sponsorship and event marketing, digital media marketing and alternative communication channels. Once retailers have decided which tools to use, it is crucial that they ensure the same, consistent message is being communicated through the different tools.

9.2 RETAIL ADVERTISING

Advertising is defined as non-personal communication messages that are controlled and paid for by an identifiable sponsor (i.e. the advertiser), and which provide information about a product, service or idea to selected target audiences through the mass media, with the intention to influence and persuade the target audience to respond favourably to the advertisement (MNM1507 study guide, 2017:38). According to Jobber and Ellis-Chadwick (2013:539), advertising relies on mass media to deliver the message and is mainly used to provide product information, to entertain, reduce risk, add value, to provide reassurance purchases, and encourage involvement with the brand. Let us look at the different advertising media that retailers can make use of.



9.2.1 Advertising media

According to Koekemoer (2014:99–106), there are four major types of advertising media, namely print, electronic or broadcast, out-of-home and digital interactive media. Each of these will now be discussed.

- ***Print media*** refers to the use of newspapers or magazines (Jobber & Ellis-Chadwick, 2013:517). For example, a grocery store including pamphlets with newspapers to inform you of the latest sales promotion in store. Alternatively, clothing retailers that place images in a magazine where a model is wearing their latest items.
- ***Broadcast media*** consists of television or radio (Jobber & Ellis-Chadwick, 2013:517). For example, a retailer will have a television or radio advertisement during the news segment highlighting the latest sales promotion in store.
- ***Out-of-home media*** includes billboards and cinemas (Jobber & Ellis-Chadwick, 2013:517). Examples of billboard advertising include signs, posters, bus stops, stadiums, or vehicles such as buses and taxis (Koekemoer, 2014:104). For example, a retailer's truck that is delivering merchandise to its store could have images of the company name and some of its merchandise on the truck.
- ***Digital interactive media*** include websites, social media, online communities and blogs (Jobber & Ellis-Chadwick, 2013:517). For example, a retailer that has social media accounts such as Facebook or Twitter that are used to communicate with customers. Another example would be a retailer that has an online forum where its customers can share recipes that they have made with the products purchased from that retailer.

9.2.2 Advertising objectives

According to Jobber and Ellis-Chadwick (2013:541–544), advertising aims to stimulate sales and increase profits; however, to ensure that advertising delivers operational value, clear advertising objectives need to be set:

9.2.2.1 Create awareness

Advertising can create awareness for the retailer and improve consumers' acceptance of what the retailer has to offer, for example, when a consumer wants to purchase homeware. If the retailer has an effective advertising campaign, the consumer will know that they can go to that specific retailer to buy homeware.

9.2.2.2 Stimulate trial

Advertising can stimulate trial in that consumers will shop at their store. For example, if a retailer has a successful advertising campaign encouraging consumers to try a new product in store, such as a facial with seaweed that has been found to be beneficial to the skin, then the consumer may be more inclined to try it.

9.2.2.3 Position in the consumer's mind

Advertising can position the retailer in the consumer's mind by developing or reinforcing the image that the retailer wants to communicate. Some examples that a retailer could aim for include being:

- "the most affordable retailer that offers the best prices"
- "the retailer that offers high quality products and services"
- "the retailer that has clothing for trendy young millennials"

9.2.2.4 Correct misconception

Advertising can allow retailers to correct misconceptions that consumers may have of them. For example, if a retailer found that consumers thought their store offered bad quality goods instead of affordable goods, then the retailer could develop an advertising campaign to correct that misconception.

9.2.2.5 Remind and reinforce

Advertising can remind and reinforce the retailer's position in the consumer's mind. For example, if the retailer was successful communicating that they were the most affordable retailer that offers the best prices, then subsequent campaigns would emphasise that to the consumer.

Note: You should be able to explain advertising and the different types of advertising media and objectives.



Activity 9.2

Consider three retailers at different stages in the business:

- The first retailer recently opened and has been running for only six months

- The second retailer has been in business for many years, however, has noticed that sales have been decreasing.
- The third retailer has been mentioned as being part of a price fixing scandal.

Which advertising objectives do you think would be used by the three retailers?



Feedback

The first retailer *would most likely have objectives to increase awareness, and stimulate trial or position in the consumer's mind.*

The second retailer *would most likely have objectives to remind and reinforce their offering to its customers.*

The third retailer *would most likely have the objective to correct misconception and to reposition their company in the consumer's mind.*

Do you think that they would have other objectives? Share your opinion on myUnisa with fellow students.

In the next section, as shown in the overview diagram, we will look at personal selling for retailers.

9.3 PERSONAL SELLING

Personal selling is defined as the interpersonal (i.e. direct, face-to-face) communication process between two or more people in which the selling party learns as much as possible about the buyer's needs and wants in an attempt to offer the buyer the most appropriate goods or services that will satisfy the buyer's needs (MNM1507 study guide, 2016:10). Personal selling is about connecting the product with the consumer using conversation. Personal selling is a communication form, which is in most cases done by a trained professional for promotional purposes. These trained professionals are delivering product information, while hoping to change or create positive perceptions about products for customers with the hope of delivering a purchase.

For example, if your local grocer has promoters based in different shopping centres selling their new mixer, these promoters need to know the dimensions and functionality of the mixer. Another example is when you are shopping and you have a salesperson trying to sell makeup or electronic products. They are trained to give you product information with the hope of creating a positive perception about the product that will lead to a sale. Personal selling adds the human element to selling. It builds up the consumer's preference of the retailer or the brand. It is therefore crucial that the retailer hires and trains employees that are knowledgeable regarding the products and services that they sell. Let us look at the personal selling process.



9.3.1 Personal selling process

Different authors have different steps within the personal selling process, which depend on the complexity and price of the product or service being sold. For example, for the latest laser hair removal system, there may be additional steps as the salesperson may be required to provide more information regarding the product to explain the latest technology that the product has. Furthermore, due to the fact that one of these hair removal machines costs a lot of money, the salesperson may be required to know more about the item in order to determine the objections they may have and know how to these handle objections. For this study guide, we discuss eight steps in the personal selling process according to Koekemoer (2014:232) and Drotksy (2016:8–19):

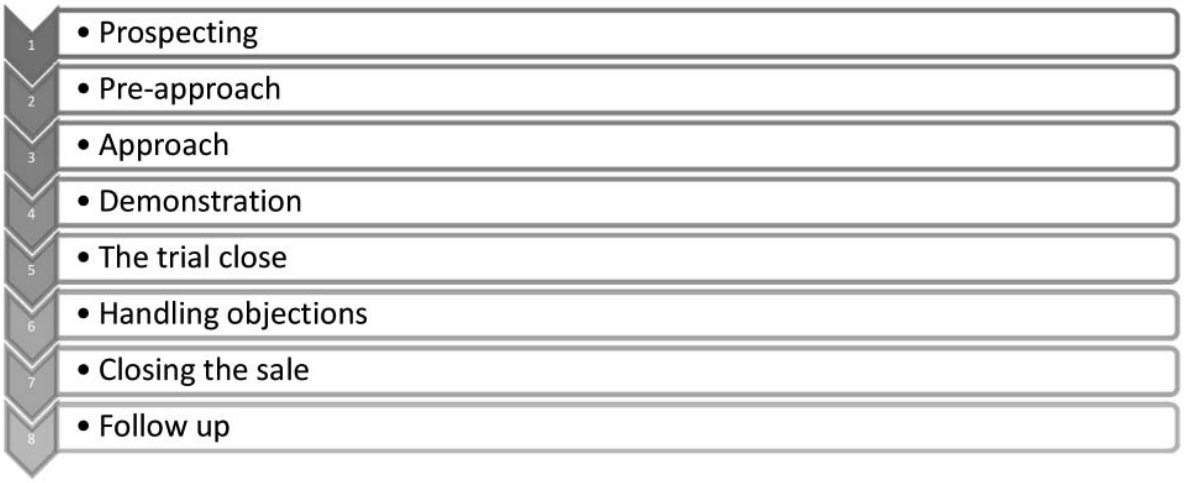


Figure 9.2: Personal selling process

Source: adapted from Koekemoer (2014:232)

9.3.1.1 Step 1: Prospecting

As shown in figure 9.2, the first step in the personal selling process is prospecting. ***Prospecting*** is the process of searching for new prospects to sell to (Drotsky, 2016:8). A ***prospect*** can be described as a person who may need the product or service, and has the ability and money to buy the product or service being offered (Drotsky, 2016:9).

9.3.1.2 Step 2: Pre-approach

The second step in the personal selling process is the pre-approach, as illustrated in figure 9.2. During this step, the sales person must learn as much as they can regarding the prospect. For

example, would the prospect be buying the product or service for themselves or for someone else; and why would they need the product or service? By having a better understanding of the prospect, the retailer's salesperson can plan the approach more effectively.

9.3.1.3 Step 3: Approach

The third step in the personal selling process is the approach (see figure 9.2). Here the salesperson approaches the prospect and introduces themselves and the product to the prospect. It is important that the salesperson makes a good impression and is able to keep the prospect interested. For example, if the salesperson is well-dressed and neatly groomed, then the prospect would likely have a better impression of the salesperson and be more inclined to listen to what they have to say.

9.3.1.4 Step 4: Demonstration

The next step, as illustrated in figure 9.2, is the demonstration. During this step, the salesperson will demonstrate the product, talk about its uses and benefits, and maybe even share relevant statistics or information about the product. For example, if the salesperson is selling a mixer, then they could use the mixer to blend different fruits, vegetables and ice to illustrate how powerful it is.

9.3.1.5 Step 5: Trial close

As shown in figure 9.2, step five is the trial close. During this step the salesperson attempts to figure out the prospect's attitude towards the demonstration. For example, the salesperson could ask, "What do you think?", to try find out if the prospect thinks that the mixer is impressive or not.

9.3.1.6 Step 6: Handling objections

Step six in the personal selling process is to handle objections, as shown in figure 9.2. In this step, the prospect is likely to ask questions and expect the salesperson to provide explanations. The salesperson must be ready for their responses and have an understanding of the possible reasons that prospects might give for not wanting to purchase the product or service. For example, if the prospect indicated that they are not interested in the product or service, or does not need it, then the salesperson should try to convince them otherwise in a polite and respectful manner.

9.3.1.7 Step 7: Closing the sale

As shown in figure 9.2, step seven of the personal selling process is closing the sale. If the salesperson was successful in convincing the prospect to buy the product or service, they become customers. For example, someone buys the mixer.

9.3.1.8 Step 8: Follow up

The final step in the personal selling process, as shown in figure 9.2, is the follow up. Ensuring customer satisfaction is important, so it is crucial that the salesperson and retailer follow up on the customer, and if they are not happy with the product or service, find out why. For example, if the mixer kept tripping the power, then the retailer would either give the customer a new one, or refund them on the purchase.

Note: You should be able to discuss the terms "personal selling" and "personal selling process".

In the next section, as shown in the overview diagram, we will look at sales promotions for retailers.

SELF-ASSESSMENT



Think about the most recent occasion where a salesperson tried to sell you a product or service. Was the salesperson good or not? If they were good, what did they do that you thought was impressive? If they were not good, what would you suggest that they change? Share you opinion on myUnisa with fellow students.

9.4 SALES PROMOTION

Sales promotion is defined as a marketing communication activity that provides some form of enticement or incentive for a short period, with the intention to motivate the target market (i.e. consumers, other organisations and salesforce) to act in a certain way (MNM1507 study guide, 2016:12). It is becoming more popular to use promotional activities to convince or persuade consumers to purchase products. These can be simple incentives such as branded T-shirts or caps, or it can be competitions for larger giveaways. According to Jobber and Ellis-Chadwick (2013:564), sales promotions increase impulse purchasing in store and it is easy to measure the impact it has. Let's explore some tools of sales promotions that retailers can make use of.



9.4.1 Sales promotion tools

There are a number of different sales promotion tools that retailers can use to target consumers. For this study guide, the common ones used will now be discussed.

- ***Competition, contests or sweepstakes*** offer customers the opportunity to win a prize by competing against each other or through lucky draws (Grewal & Levy, 2016:599–600). For example, a retail store could have a sweepstakes that asks customers to write their details on the back of their slips and place them in a box in order to stand a chance to win a car. On the other hand, a retailer could, for example, have a competition or contest that requires finalists to place their hands on the car and the last contestant left touching the car, wins it.
- ***Coupons*** offer a discount on the specific products that a customer is purchasing (Grewal & Levy, 216:598). For example, some retailers place coupons in the aisles next to the product or in newspaper advertisements that indicate that if a person purchases the item within a specific period, they will receive, for example, a R2 discount. The customer would be required to take the coupon to the till with their purchase as coupons generally have a barcode (refer

to learning unit 2) that is scanned in order to receive the discount. Some retailers are making use of quick response codes (QR codes), which is a two-dimensional barcode that can be read using smartphones or QR devices (What is a QR Code?, n.d.).

- ***Loyalty programmes*** are specifically designed programmes aimed at retaining customers by offering various incentives (Grewal & Levy, 216:600). For example, some retailers offer cash or percentage discounts that can be used on other purchases in store. Other retailers give coupons that provide discounts on overall purchases or on specific items, which the customer purchases regularly.
- ***Premiums*** offer customers a price discount or a free product if they buy, sample or test a product or service (Grewal & Levy, 216:599). For example, a retailer may offer a discount on their fresh cream if the customer buys a box of strawberries. On the other hand, the retailer could offer customers a free 50ml bottle of conditioner if they purchase a 100ml bottle of shampoo.
- ***Point-of-purchase displays*** place products at the checkout till, which increases product visibility and encourages customers to try the product (Grewal & Levy, 216:60). For example, a retailer could place small tubes of hand cream or a box of breath mints at the till, which customers can easily grab while waiting for the other products to be scanned for purchase.
- ***Price reduction or price-off promotion*** offers a reduction of the usual price of a particular product (MNM1507 study guide, 2016:103). For example, retailers could offer end-of-the season sales where they sell winter merchandise at a lower price. On the other hand, if there is a new brand of coffee that entered the market, the retailer could offer customers a 10% discount of its original price.
- ***Samples*** offer customers the opportunity to try a product or service (Grewal & Levy, 216:600). For example, some retailers may offer a sample of cooked food that they sell for customers to try.
- ***Tie-in promotions*** occur when two or more brands are combined in a campaign (MNM1507 study guide, 2016:103). For example, if a customer purchases a specified toothpaste and toothbrush together, they will receive a discount. Similarly, the retailer could combine a broom and floor cleaner.

Note: You should be able to list and discuss each tool of sales promotion and explain how retailers can use them.

SELF-ASSESSMENT



Can you think of recent practical examples of retailers in South Africa making use of these sales promotion tools? Share your examples on myUnisa with fellow students.

9.5 DIRECT MARKETING

Direct marketing is the marketing communication process that communicates directly with the target market to try and persuade the target market to respond by telephone, mail, e-mail or even through a personal visit (MNM1507 study guide, 2016:146). The Consumer Protection Act of South Africa defines direct marketing as "a means to approach a person, either in person or by mail or electronic communication, for the direct or indirect purpose of promoting or offering

to supply, in the ordinary course of business, any goods or services to the person; or requesting the person to make a donation of any kind for any reason" (Saflii.org, 2016). In today's digital world, direct marketing has evolved to incorporate new communication mediums that allow retailers to interact directly with the consumer such as e-mails, SMSes and social media. There are various direct marketing media that can be used by retailers, which will now be discussed.



9.5.1 Direct marketing media

There are a number of different direct marketing media that retailers can use to target consumers. For this study guide, some of the common ones used will now be discussed.

- Direct mail was discussed in learning 1 of this study guide and refers to sending material to targeted consumers directly via the post. For example, a retailer could send you coupons for you to use with your next purchase.
- ***Telemarketing*** is when an organisation uses the telephone or cellphone to make sales. For example, when you receive a call from your cellphone network provider to increase your data because they noticed that you buy airtime each month.
- ***Direct response advertising*** occurs through advertising media and elicits direct responses from consumers. An example would be television shopping, which was discussed in learning unit 1, where the infomercial has a number available that the consumer can call to purchase the goods being advertised.

Note: You should be able to discuss direct marketing and the different direct marketing media that retailers can use.

In the next section, as shown in the overview diagram, we will look at public relations.

9.6 PUBLIC RELATIONS (PR)

Public relations (PR) is defined as "… the communication process that manages the perceptions and attitudes of the organisation's internal and external stakeholder groups, with the intention to build good relations and a good corporate image" (MNM1507 study guide, 2016:13). ***Internal stakeholders*** refers to employees, managers, supervisors and board of directors that work within the company, whereas ***external stakeholders*** refers to customers, suppliers, competitors and the community that may be affected by the organisation (Fourie, 2014:55). According to Fourie

(2014:710), there are a number of PR tools and techniques that retailers can use and each will now be discussed.



9.6.1 PR tools and techniques

- ***Media relations*** refers to liaising directly with individuals who produce news and features for mass media and the goal is to maximise positive coverage without paying for it (Harrison, 2013). For example, a retail employee would liaise with a reporter for a newspaper or radio station and maintain this relationship for when they have a newsworthy story to report on, such as sponsoring an event for cancer survivors. Another example would be if the radio host wanted to discuss a certain topic relating to the retail environment, then the retail employee would be asked to be on the show to give their opinion.
- ***Publications*** refer to information made available in a printed or electronic form for people to view (Cambridge Dictionary, 2017a). Examples of internal publications include staff newsletters or employee manuals, whereas external publications include annual reports and industry opinions (Fourie, 2014:9). An example would be a retailer writing an opinion piece of the latest trends in retailing and this is then available online.
- ***Corporate image*** refers to the different stakeholders' perceptions of the organisation, and the goal for any organisation is to ensure that there is a consistent favourable image for all the stakeholders (Fourie, 2014:153). For example, a retailer would want the customers and employees to have a good perception of the retailer and how they conduct their business.
- ***Corporate advertising*** strengthens the organisation's image through paid advertising and focuses on an issue that the organisation is concerned about (MNM1520 study guide, 2016:42 & Fourie, 2014:135). For example, if a retailer mentions that their products do not exploit children or are not tested on animals. The retailers are communicating to consumers that they are against child labour and animal cruelty.
- ***Sponsorship and events:*** this is discussed in more detail in the next section as it is also considered to be an integrated marketing communications tool that a retailer can make use of.
- ***Promotional activities*** include conferences and exhibitions that retailers can attend to promote their image. These can also be used for networking (discussed shortly) opportunities.
- ***Crisis management*** is required when an unpredictable and sudden crisis occurs (MNM1520 study guide, 2016:42). For example, if someone shared a video of a retail employee having an argument with a customer and the employee was using derogatory language. If the video was viewed by a large number of people, then the retailer would have to issue some

sort of statement. Organisations need to have a plan in place in order to deal with potential issues that could arise that might damage their image.

- ***Lobbying*** is the attempt to persuade government officials involved in legislation to support laws that would benefit the organisation (Cambridge Dictionary, 2017b). For example, if a retail store is focused on being environmentally friendly and only stocks products that are biodegradable and not harmful to the environment, it could lobby for government officials to ban the use of plastic bags in the retail environment.
- ***Networking*** refers to meeting other individuals within the industry to share experiences, expertise and contacts for professional social purposes (MNM1520 study guide, 2016:42). For example, the retail employee would network with other individuals in the same industry at a conference or exhibition.

Note: You should be able to discuss public relations and the different tools and techniques of PR that retailers can make use of.

As shown in the overview diagram, in the next section, we will look at sponsorship and event marketing.

9.7 SPONSORSHIP AND EVENT MARKETING

Sponsorship "… occurs when an organisation (i.e. the sponsor) contractually agrees to provide resources (e.g. money, people or equipment) to another sponsored party (e.g. organisation/individual/activity/event) and in return get the rights to link its organisation's name (or brand or logo) to the sponsored initiative" (MNM1507 study guide, 2016:13). For example, if the retailer sponsored a local children's under-13 soccer team by buying their soccer outfits, then the retailer could place their logo on the outfits. Event marketing, on the other hand, would be the marketing of charity organisations, sports or cultural activities (Boone & Kurtz, 2011:19). For example, if the retailer sponsored the soccer tournament instead of just the team. ***Event marketing***, in essence, forms part of sponsorship when the event is sponsored (Koekemoer, 2014:400). Both sponsorship and event marketing could lead to publicity for the retailer. ***Publicity*** is defined as "… the activity through which the newsworthiness of an organisation's product or service obtains free and positive coverage (although this is not always the case), by publishing the stories in various publicity media (such as newspapers, radio and television)" (MNM1507 study guide, 2017:13). For example, if the local newspaper publishes a story regarding the soccer event, the retailer gets exposure.



Note: You should be able discuss how retailers can use sponsorship and event marketing.

In the next section, as shown in the overview diagram, we will look at digital media marketing.

9.8 DIGITAL MEDIA MARKETING

Bothma and Gopaul (2015) state that ***digital media marketing***, or e-marketing, is one of the latest forms of marketing that uses various digital tools such as websites, search engine marketing (SEM), search engine optimisation (SEO), online advertising, online selling, e-mail marketing, mobile marketing and social media marketing – each of which will now be discussed.



9.8.1 Digital media marketing tools

- ***Website*** refers to a place on the web that contains information (text, colour, graphics, animation and sound) about a person, organisation, educational institution or government, and can be used to gather information or complete a task (Merriam-Webster, 2016; United Online Web Service, 2016). Websites are considered to be one of the most powerful digital media marketing tools as more and more consumers are using the web to find information. There are three main types of websites that retailers can make use of. Firstly, retailers could simply have a website that provides its consumers with information such as its trading hours, contact details, products and services offered. On the other hand, retailers could have a shopping website, or ***virtual storefront***, which allows customers to search for, browse and buy products or services via the website. A virtual storefront is a transactional website that allows consumers to buy online. On the other hand, the retailer could use an e-marketplace website, such as OLX or Bid or Buy, and sell their products and services over the e-marketplace. An ***e-marketplace*** acts as an intermediary that connects buyers and sellers on their online market space (Heape, 2009; Werts & Kingyens, 2015:6).
- ***Search engine marketing (SEM)*** provides targeting opportunities as it allows retailers to ensure that their website receives as much exposure as is possible to their content and merchandise to consumers who search for specific words. For example, if Tony wanted to buy a lawnmower and he searched "lawnmower for sale in Pretoria" on Google. A retailer that effectively uses SEM will ensure that their website is one of the top results given either

through search engine optimisation that will be discussed next, or due to the fact that the retailer has paid Google for their option to be listed first (Bothma & Gopaul, 2015:71).



Follow the link below to read up more on how to use search engine marketing effectively:

– http://www.marketingmo.com/campaigns-execution/how-to-use-search-engine-marketing/

- ***Search engine optimisation (SEO)*** refers to using keywords and key phrases to ensure that the website appears as one of the top results when searched for by consumers (Bothma & Gopaul, 2015:71). For example, with Toni's example above, the retail could include other words such as "lawn", "garden", "Gauteng", or "online shop". Choosing the right keywords and key phrases ensures that the retailer can be part of the top results.



Follow the link below to read some success stories of SEO:

– https://mention.com/blog/seo-case-studies/

- ***Online advertising*** is generally interactive in that it directs consumers to the website or provides more information when they click on the advert (Bothma & Gopaul, 2015:127). For example, when you go to a weather website to check the weather for Cape Town during winter, a retailer could have a banner advertisement on the website that advertises they sell winter clothing such as coats, boots and scarves. The retailer could also use ***affiliate marketing*** where they establish relationships with other owners of websites to direct their customers to the retailer (Bothma & Gopaul, 2015:131). For example, if a retailer sells protein shakes, they could be an affiliate on another website that sells gym equipment or offers a personal trainer and vice versa.
- ***E-mail marketing*** is similar to direct mail, however, instead of sending information via the post, retailers use e-mails instead. For example, if a retailer is having a sale, they could send an e-mail to customers that the sale will take place this weekend. Some retailers allow their customers to shop for the sale items before general consumers who are not on their e-mail list.
- ***Mobile marketing*** refers to a set of practices that allows organisations to communicate and engage with consumers via any mobile device or network (The Mobile Marketing Association, 2017). Mobile devices include cellphones, smartphones and tablets (Bothma & Gopaul, 2016:197). For example, a retailer could SMS its customers that the store will be having a season clearance sale this weekend. The retailer could also have a voice message that automatically plays when the customer answers the phone, have a mobile shopping app developed specifically for them, or ensure that their website is mobile friendly (Bothma & Gopaul, 2016:206).
- ***Social media marketing*** refers to users generating content that they share with other users they are connected to (Bothma & Gopaul, 2016:226). Popular social media platforms include Facebook, Twitter, Instagram and YouTube. For example, a retailer could share advertisements on these social media platforms that target customers who they are connected to. A retailer could also have a forum section on their website where users share their questions, answers and thoughts regarding their products or services. For example, if the retailer sells cookware they could have a discussion forum where customers can ask how a device works or can share recipes that they used the device to make. On the other hand, a retailer could have a blog

where they share information relating to their products or services. For example, if a retailer sells makeup products, they could have a blog explaining different looks that customers can try with their makeup, or even what customers can do to keep their skin healthy.

Note: You should be able to discuss digital media and the various digital marketing tools that retailers can use.

As shown in the overview diagram, the next section will look at alternative communication channels.

9.9 ALTERNATIVE COMMUNICATION CHANNELS

According to Koekemoer (2014:405) ***"alternative communication channels"*** no longer differentiates between ***below-the-line*** and ***above-the-line*** media, but rather uses any of those media with an unexpected and unconventional angle. Below-the-line media include sales promotions and competitions whereas above-the-line media refer to mass media through television, radio, newspaper, magazines and outdoor advertising (Koekemoer, 2014:405). For example, retailers could use ***influencers*** on social media. An influencer is an individual who may have above-average impact on a group of people (Influencer Analysis, n.d.). For example, a well-known social media personality who has many followers would be considered to be an influencer.



Follow the link below to see an example of an influencer on Instagram. This particular influencer has a large following and posts pictures weekly, some of which mention various brands or organisations that she collaborates with.

– https://www.instagram.com/lichipan/?hl=en

Another example of alternative communication channels could be product placements (Koekemoer, 2014:405). For example, a retailer could have TV series actors act as though they are going into their store for one of the scenes. The retailer could then have in-store promotions with billboards showing the actors.

SELF-ASSESSMENT



Search for other examples of alternative communication channels and share exciting examples on myUnisa with fellow students.

Note: You should be able to describe alternative communication channels and explain how retailers can use them.

9.10 SUMMARY

Retailers can communicate with their customers through different marketing media based on the organisational and marketing objectives. It is vital for retailers to know which media will ensure

that they meet their objectives. Before you begin with revision of the module, please complete the assessment questions and reflect on what you have learned in this unit.

9.11 SELF-ASSESSMENT



Please note that these self-assessment questions will be available on myUnisa on the self-assessment tool, and you are encouraged to complete them online. The answers will be provided to you upon submission.

Question 1

During which step of the marketing communication planning process would a retailer examine their strengths, weaknesses, opportunities and threats?

1 Step 1
2 Step 2
3 Step 3
4 Step 4

Question 2

The way in which an organisation is regarded in the mind of a consumer in relation to competitors refers to the …

1 brand.
2 brand positioning.
3 competitive advantage.
4 competitive market structure.

Question 3

Which **ONE** of the following marketing communication objectives BEST adheres to all the guidelines in setting an objective?

1 To increase sales in the retail store.
2 To increase sales in the retail store by 20%.
3 To increase sales in the retail store by 20% for January 2018.
4 To increase sales in the retail store by 1% for January 2018 compared to January 2017.

Question 4

If a retailer posts recipes on their websites using ingredients that consumers can purchase from their store, it is an example of … media.

1 print
2 broadcast
3 out-of-home
4 digital interactive

Question 5

According to this study guide, during which step of the personal selling process would a salesperson show you how well a vacuum machines works at removing all the dirt?

1 Step 3
2 Step 4
3 Step 5
4 Step 6

Question 6

If a retailer gives you a free two-litre cold drink with the purchase of two large pizzas, it is an example of using which **ONE** of the following sales promotions techniques?

1 Premiums
2 Loyalty programmes
3 Price reduction promotions
4 Samples

Question 7

Direct marketing media includes only direct mail and telemarketing.

1 True
2 False

Question 8

Which **ONE** of the following public relations tools and techniques is used when a retailer emphasises that they are against animal testing in their print media placed in magazines?

1 Media relations
2 Publications
3 Corporate image
4 Corporate advertising

Question 9

If a retailer decided to sponsor juice for a 10km run for cancer and a newspaper published the story and mentioned the retailer, the story is an example of … for the retailer.

1 sponsorship
2 publicity
3 corporate advertising
4 publication

Question 10

Which **ONE** of the following digital media marketing tools provides targeting opportunities for retailers to receive maximum exposure for their website when consumers use specific words?

1 Online advertising
2 E-marketplace
3 Search engine marketing
4 Influencers

9.12 REFLECTION



Before you continue to the next learning unit, reflect on the following questions:

1 How do you think you will be able to use the skills you learned in this learning unit in your professional life?
2 What did you find difficult about this learning unit? Why do you think you found it difficult? Do you understand the concept you were struggling with now or do you need help? What are you going to do about getting help if you need it?
3 What did you find interesting in this learning unit? Why?
4 How long did it take you to work through this learning unit? Are you still on schedule or do you need to adjust your study programme?

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GLOSSARY

Learning unit 1
Retailing is the set of business activities that enhances the value of goods and services that consumers purchase for their personal, family or household use (Levy & Weitz, 2012:6). Retailing in essence includes all activities involved in the selling of goods or services to consumers for their personal use (Armstrong, Adam, Denize & Kotler, 2015:334).
A ***distribution channel*** consists of a group of people or organisations that move products or services from the producer or manufacturer to the end-user (Elliot et al., 2014:355).
Non-store retailing is when there is no physical store where consumers can go and purchase goods and services.
Store retailing is when consumers are able to go to an actual store to purchase goods and services.
Direct mail refers to a retailer carefully targeting potential consumers with tailored offers of goods and services via mail or e-mail (Business Dictionary, 2017a).
Direct sales occurs when salespeople contact consumers face to face or via the telephone. When it is face to face, salespeople are able to demonstrate the goods to the consumer and provide detailed information.
Vending machines are electronic machines that dispense goods to consumers once money has been paid (Business Dictionary, 2017b). They can be located in various locations such as public places, workplaces, restaurants and bars (Canadean, 2013:17).
Television shopping is home shopping where there are channels dedicated to selling goods or infomercials that are extended adverts that discuss or demonstrate the goods (Merriam-Webster, 2017a).
Online shopping refers to searching for and buying products or services from internet retailers (Rabie, 2017:iv).
Mobile shopping is shopping via mobile devices over the web (Mc Daniel, Lamb & Hair, 2013:549).
Assortments is the collection of goods and services that an organisation offers.
Speciality stores carry a narrow product line, but with a large assortment such as a florist or bookstore (Kotler & Armstrong, 2013:399).
Category killers are stores that are generally dominant in their category, offer a wide assortment of products, and attract consumers with low prices (Elliot et al., 2014:376; Hudson, 2016).
Pharmacy stores focus on pharmaceutical, health and personal grooming products (Grewal & Levy, 2016:528).

Outlet factory stores sell manufacturers' goods at a discounted price because they have either an excess of merchandise, have cancelled orders, or have merchandise with minor faults (Levy & Weitz, 2012:46; Elliot et al., 2014:376).
Pop-up stores appear for a short period of time in a temporary location (Elliot et al., 2014:377). Pop-up stores allow brands to demonstrate their merchandise in a different way in order to get the consumers' attention for a short period of time ranging from four days to five months (Haas & Schmidt, 2016:90).
Convenience stores generally provide a small variety and assortment of merchandise, and are situated at a convenient location that allows consumers to quickly purchase products (Levy & Weitz, 2012:40). Convenience stores are usually located in residential areas and have extended trading hours (Elliot et al., 2014:377).
Discount stores generally offer lower prices and have high turnover and sales volume (McDaniel, Lamb & Hair, 2013:540). These stores are able to sell products at a lower price because they offer fewer services, and operate in a warehouse-like location with low rental costs (Kotler & Armstrong, 2013:402).
Department stores generally carry a variety of product lines and organise their stores into distinct departments when displaying merchandise such as clothing, homeware, cosmetics and kitchenware (Levy & Weitz, 2012:41). Generally, each department has its own specialist salespeople who are able to ensure high levels of customer service when assisting consumers (Elliot et al., 2014:378).
Supermarkets carry a wide assortment of food and non-food grocery items such as meat, fresh produce, frozen foods, health and beauty products, and cleaning products (Levy & Weitz, 2012:35).
Hypermarket is the combination of a department store and supermarket that carries a wide variety of product lines as well as grocery items (Investopedia, 2017). These stores allow consumers to shop conveniently at one location for most of their shopping needs (International Comparison Program, 2011:2).
Service retailers primarily sell services rather than merchandise.
Pure service retailers conduct business with no merchandise involved (Poloian, 2013:13).
Owned-goods service retailers work on products that you own, such as appliance and car repair services (Poloian, 2013:13).
Rented-goods service retailers own merchandise that they rent out, such as dining items, cars and various pieces of equipment (Poloian, 2013:13).

Learning unit 2
A retail environment is the sum total of the variables and forces inside and outside the organisation that influence retail decision-making (Fourie, 2014:33).
The ***macro-environment***, otherwise referred to as the external environment, consists of all the variables and factors on a national and international level that can be seen to affect retailers and to which a retailer has little effect on and no control over (Kiley In: Strydom, 2016:36; Avon College Press, 2015:34; Cant, 2016:37).

Learning unit 2
The ***political and legal environment*** comprises government agencies, political parties, laws and legislation – all of which can be seen to have an impact on individuals and organisations within a country (Armstrong & Kotler, 2015:112; Grewal & Levy, 2014:165).
Exchange rates is the price for which the currency of a country can be exchanged for another country's currency (Business Dictionary, 2017b).
Interest rates are the costs associated with the borrowing of money and are stated as a percentage of the total amount borrowed (Pettinger, 2016).
Inflation is the rate at which the level of prices for products and services is rising, or alternatively the rate at which the buying power of a country's currency is falling (Investopedia, 2017a).
Unemployment is the proportion of people in the economy who are actively seeking work but do not have jobs (Boone & Kurtz, 2014:74).
A ***monetary policy*** is seen as a macroeconomic policy that is enforced by the central bank of a country (The Economic Times, 2017).
A ***fiscal policy*** is managed by the National Treasury and it refers to the spending and taxing actions of the governing party (Investopedia, 2014).
A ***business cycle*** refers to the levels of employment and productivity over a period of time (Kiley in: Strydom, 2014:41). It consists of four stages, namely prosperity, recession, depression and recovery (Hult et al., 2013:65).
The ***technological environment*** is perhaps the most intense and exciting environment shaping the retail industry today and is based on discoveries, innovation and inventions.
Barcode are two-dimensional patterns of black and white stripes that contains product information. Barcodes allow retailers to track an inventory when linked to a database, which can then in turn allow organisations to track consumer purchasing trends, adjust prices and track and order stock. Barcodes appear on almost every product in stores and are read by optical scanners, usually at a cash register.
Radio-frequency identification device (RFID) is a device that uniquely identifies a product and allows a firm to monitor the movement of a product through the value chain in real time. This means that items are tracked from production, through all intermediaries and distributors, all the way to the final consumer.
A point of sale, alternatively referred to as a point of purchase, can be described as the point at which the sale is made – such as a checkout counter. The tools used for point of sale could be cash registers, electronic card readers or barcode scanners.
Social showrooming refers to retailers integrating social media into their traditional brick and mortar stores (physical store) by encouraging customers to follow the store's activities on social media, and even pinning their favourite products on Pinterest.

Learning unit 2
Smart shelves monitor an inventory in real time. Manufacturers and retailers can scan the products on their shelves with embedded sensors and inform employees when stock is low or alternatively when theft is detected.
A Beacon is a piece of hardware that communicates with a consumer's smartphone using Bluetooth. It has been primarily used to alert customers to coupons and discounts, and is starting to transform the shopping experience.
Digital mirrors are mirrors that transform the traditional changing room by applying technology to an otherwise simple activity. Digital mirrors are large screens that show customers a live video of themselves as they try on selected items.
An ***interactive hanger*** is a hanger that will set off a pre-programmed visual media displayed on a screen close by to where the consumer is standing when it is picked up in the store by the customer.
The ***sociocultural environment*** is another important element of the macro-environment, and comprises influencing variables in a society and its culture that bring about changes in norms, attitudes, customs, lifestyles and beliefs (Hult et al., 2013:79).
The silent generation are individuals born between 1930 and 1945. These consumers are between the ages of 72 and 87 years old in 2017. The silent generation is also sometimes referred to as traditionalists or senior citizens.
The baby boomer are individuals born between 1946 and 1964. These consumers are between the ages of 53 and 71 years old in 2017 and are quite diverse as some have entered retirement while others are at the peak of their earning and spending years (Armstrong & Kotler, 2015:101).
Generation X are individuals born between 1965 and 1976. Sometimes referred to as the baby busters, these consumers are between 41 and 54 years old in 2017 (Dunne et al., 2014:94). For this group of consumers, family comes first and careers second.
Generation Y are individuals born between 1977 and 2000. Often referred to as the Millennials, Net Generation, iGeneration, Google Generation or Echo Boomers, these consumers are between 17 and 40 years in 2017 (Armstrong & Kolter, 2015:101; Dunne et al., 2014:94). These consumers are comfortable with technology and consider smartphones, internet and other forms of technology an integral part of life (Armstrong & Kolter, 2015:102).
Generation Z are individuals born between 2000 and the present, that is, 2017. This generation consists of all individuals below the age of 17 in 2017. These consumers are children, tweens and teenagers and represent tomorrow's market.
The ***natural environment*** can be seen to comprise the natural resources that are required by organisations to manufacture their products and services. These would include raw materials, as well as the physical environment such as the climate, weather conditions and unforeseen happenings such as volcanos, earthquakes, tornados, droughts, floods and tsunamis, which can affect retailers in their marketing decisions and strategies (Armstrong & Kotler, 2015:109; Kiley in Strydom, 2014:37).

Learning unit 2
The ***market environment***, otherwise known as the task or operating environment, is where retailers conduct their business and refers to those factors and variables that cannot be controlled by them, but can be partially influenced by their strategies (Cant, 2016:34; Varley & Rafiq, 2014:81; Kiley in Strydom, 2014:34–35).
Customers are essentially the reason your organisation exists and will continue to exist in the future. A customer can be described as an individual or company that purchases the goods or services from a business (Investopedia, 2017e).
Consumer market is the customer market most of us are familiar with. It includes individuals like you and me, as well as households that purchase products/services for personal use.
Business/industrial market is where an organisation will purchase goods or a service for use in the production of their own products or for further processing.
Reseller market is where an organisation purchases products/services from another organisation and resells it to consumers to make a profit.
Government market is where government departments/agencies purchase goods/services to produce public services.
International market consists of all the afore-mentioned markets but from a foreign perspective, namely, the international consumer, business, reseller and government markets that require goods/services from your company.
Competition can be seen as a fact of life for any retailer offering products and services, and is mostly what determines the price for which a product is sold (Blythe, 2013:46; Cant et al., 2013:42). Competition can be defined as any other organisation/company or firm that offers products similar to your organisation or products that can be used as substitutes for your product to the same target market (Pride, Ferrell, Lukas, Schembri & Niininen, 2015:43).
Intra-type competition occurs among retailers in the same type of business or business format who compete directly with each other for the same customer. This is the most common type of competitor retailers face (Business Dictionary, 2017c; Dunne et al., 2014:146).
Inter-type competition is the competition among retailers who have different types of retail set-ups/ formats that sell the same type of products.
Divertive competition is another type of competition retailers might be faced with. Divertive competition is when a retailer intercepts the customers of a competing retailer.
Vertical competition occurs between a producer and a retailer or wholesaler who sells products to the retailer's customer. This sort of competition occurs between manufacturers of a national brand and private brands.
Corporate systems competition is when manufacturing, distribution and retailing is centrally managed. It can occur through backward or forward integration. It is backward integration when the retailer takes ownership of the wholesaler and the manufacturer, and forward integration when the manufacturer purchases the wholesaler and the retailer.
A ***competitive structure*** is the current state of a products market indicating, among other aspects, the demand and supply of the product, the number of competitors, and the ease of entry into the market (Business Dictionary, 2017d).

Learning unit 2
Pure monopoly is a competitive market structure in which there is only one provider or there is a single supplier of a product or service and where there are no close substitutes available in the market. They can therefore set their prices as they wish (Boone & Kurtz, 2016:64; Pride & Ferrell, 2017:52; Dunne et al., 2014:133).
Oligopoly is a competitive market structure in which there are only a few sellers who sell most of a particular product. Barriers to entry are somewhat high to keep new entrants from entering the marketplace (Boone & Kurtz, 2016:65; Pride & Ferrell, 2017:52).
Monopolistic competition is a competitive market structure in which there are many providers/ suppliers of a particular product. An organisation in this type of competitive structure will try to develop a marketing strategy that differentiates their products from that of others' offerings (Pride & Ferrell, 2017: 52).
Pure competition – if it exists at all – is a competitive market structure in which there is an unlimited amount of providers/suppliers of a particular product, none of which, however, is strong enough to influence the supply or the price of the product (Blythe, 2013:47; Pride & Ferrell, 2017: 52).
Suppliers play a critical role in the overall customer value delivery system; in that they provide the retailer with the merchandise they sell to customers (Armstrong & Kotler, 2015:95).
An ***intermediary***, also referred to as a middleman, plays an incredibly important role in getting producers' products to the final consumer and include wholesalers, distributors, financial intermediaries such as banks and insurers, agents, brokers and retailers (Erdis & Cant, 2015:24).
A ***distributor*** is the manufacturer of that particular product or product lines who has direct contact with prospective buyers. Distributors rarely sell to end consumers; wholesalers and retailers generally purchase from distributors in order to sell these products to the final consumers (Cole, 2017).
A ***financial intermediary*** is a financial institution such as a bank, investment bank, insurer, pension fund or building society that offers a service to assist a company or individual to borrow or save money (Pettinger, 2012).
The ***micro-environment***, also termed the internal environment, comprises internal variables that management can control such as the mission and vision statement, the staff that are hired, the retail mix, and other functional areas like logistics, finance and operations (Cant, 2016:27; Kiley in Strydom, 2014:34).
The ***strategic plan*** within the micro-environment comprises all the variables that determine the strategic direction of a retail organisation and involves adapting these variables to the opportunities and threats to the changes in the retail environment (Cant et al., 2013:36 & Dunne et al., 2014:46).
A ***mission statement*** describes the core reason for the existence of the organisation; it identifies its products, services and customers, and indicates to employees and customers the direction in which enterprise is heading (Cant, 2016:29; Dunne et al., 2014:47; Grewal & Levy, 2014:36).
A ***vision statement*** is a detailed future-thinking piece that is indicative of an organisation's intentions for a five-year period, for example. This could include how it proposes it treat its customers and its ethical standpoint (Poloian, 2013:69).

Learning unit 2
The ***strategic goals and objectives*** a retailer sets are seen as the guidelines as to how the company intends accomplishing its mission.
The ***target market*** comprises those individuals who the retailer wishes to serve (Dunne et al., 2014:64).

Learning unit 3
Sourcing is all the activities and processes needed to purchase goods and services from suppliers (Sanders, 2012:153).
A ***producer*** is someone who grows agricultural products or uses natural resources to produce goods (Merriam-Webster, 2017; Seth, 2016).
Manufacturers are organisations that take raw products and, through processes and operations, produce a final product (Business Dictionary, 2016).
Repetitive process is used to make the same or similar goods the whole year round.
Discrete process is used to make goods that are easily counted or touched and can be broken down at a later stage. For example, a car is made up of a variety of different parts, which can be stripped at a later stage (Rouse, 2009).
Job shop process is used to make small batches of custom made goods (Inc. 2017).
Continuous process is similar to the repetitive process except it is generally more complex in nature as it transforms or converts raw materials to produce an item that cannot be converted back to its original form (Eby, 2015).
Batch process is similar to the continuous process except the materials are processed in batches.
A ***wholesale:*** is an entity in the distribution channel that buys in bulk from the manufacturer and resells the product (Business Dictionary; 2016). Wholesalers generally resell to retailers, other merchants and commercial users (Dunne et al., 2014:185).
Merchant wholesalers are independently owned businesses that take ownership of goods in order to resell those goods (Elliot et al., 2014:384). There are two types of merchant wholesaler, namely full-service wholesalers and limited service wholesalers.
Full-service wholesalers provide a range of services such as carrying stock, offering credit, making deliveries, maintaining sales force and providing managing assistance.
Limited-service wholesalers offer only a few services. Cash-and-carry wholesalers carry a small line of fast-moving goods. Truck wholesalers carry perishable goods that they stock in their own trucks. Rack jobbers usually carry non-food items and set up their own point-of-purchase displays and keep inventory records.

Learning unit 3
Brokers are hired to assist with financing, assessing risk, and negotiating between the buyer and seller. Brokers usually work on a short-term or once-off basis where they negotiate on behalf of buyers and sellers (Elliot et al., 2014:384).
Agents are generally used more regularly than brokers and tend to work on a continuing basis to negotiate on behalf of the buyers and sellers (Elliot et al., 2014:384).
Discount is paying less than the original face value amount (Benton, 2014:35).
Cash discount is the motivation or incentive a supplier offers to the retailer for an account that is settled before the agreed date (Investopedia, 2016).
Anticipation discounts is receiving payment from the retailer before the end of the cash discount period (Infor, 2014).
Trade discount is an amount or percentage by which the retail price list of a product is reduced when sold to a retailer (Key Differences, 2016).
Quantity discount is the discount a retailer will have received when and if they buy in bulk from the manufacturer (Business Dictionary, 2016).
Seasonal discount is offering the retailer a discount for purchasing products a season in advance.
Promotional allowances is payment the supplier offers to a retailer in order to assist the retailer to do additional promotional marketing on the supplier's products (Benton, 2014:58).
On memorandum is when the retailer pays for the goods, but can return any items that are unsold after a specified period (Clodfelter, 2015:440).
On consignment is when retailers take goods and only pay for the items once they have been sold (Clodfelter, 2015:440).
Transactional relationships are the most common type of relationship because it is the most appropriate for once-off purchases and on-going transactions with the supplier. For this type of relationship there are many suppliers who aim to address short-term objectives with the price of the supplier goods as the main focus (Bedenhorst-Weiss et al., 2017:120–123).
Collaborative relationships is working with the supplier to sustain a cooperative trading relationship over a period of time. For this type of relationship, being interdependent and cooperating may lead to a beneficial relationship for both parties involved, and this is acknowledged by both. There is usually a limited number of suppliers that have long-term goals and are committed to working together with the supplier (Bedenhorst-Weiss et al., 2017:120–123).
Alliance or partnership based ***relationships*** have clear measures of success in place in order to build long-term, mutually beneficial relationships with the supplier based on specific performance requirements and conditions. A lot of hard work, time and trust is required for this type of relationship with the suppliers. There are usually few suppliers who have the long-term goal of sharing risk, opportunities and rewards with the supplier (Bedenhorst-Weiss et al., 2017:120–123).

Learning unit 3
Supplier relationship management (SRM) is a fairly new concept that entails managing the relationships and interactions with suppliers in order to streamline and improve the effectiveness of the relationship (Crandall et al., 2015:271).

Learning unit 4
Drotsky (2014:45) states that ***market potential*** is the number of units for a product offering that a specific market can consume in a clearly defined period under ideal conditions where marketing and competition does not have an influence. In essence, it refers to the potential a product offering has for the whole industry within the area (Ramaswamy & Namakumari, 2013:673).
Economic condition is the financial position of an area within a specific period that looks at variables such as unemployment and the GDP. (Business Dictionary, 2017).
A ***premise*** is a piece of land and the building on it (Dictionary.com, 2017).
Business district is the part of a city or town where many businesses are situated (Merriam-Webster, 2017a).
Central business district (CBD) also known as the centre of town, it is usually a shopping area that was not planned, but formed because it is linked to numerous public transport systems.
A ***shopping centre or mall*** has a collection of stores that operate under one roof where there are usually one or more large stores that generally draw many customers to the shopping centre (Dunne et al., 2014:264–270).
Free standing location is when the retailer is located on a busy road and does not really have competing stores on the same road (Dunne et al., 2014:264–270).
Storefront is the front of a store or street-facing building (Merriam-Webster, 2017b).
An ***aisle*** is a pathway for traffic within a store (Farlex, 2017). An aisle can be classified based on the size and the amount of customers that can walk through it (Donnellan, 2014:380).
Major aisle is very wide and connects to major parts of the store whereas a secondary aisle is narrow and leads the traffic path (Donnellan, 2014:380).
In the grid layout the aisles are placed parallel to each other in long rows. For example, a supermarket that places merchandise on shelves parallel to each other.
The ***free-flow layout*** is a simple and informal layout that makes use of various shapes and fixtures for its displays.
The ***loop layout***, also referred to a racetrack layout, has one major aisle leading customers through the store in a certain shape.
The ***spine layout*** is a combination of the grid, free-flow and loop layout.
Atmospherics are subliminal messages that aim to act on the subconscious through a consumer's senses of sight, hearing, taste, smell and touch (Varley, 2014:202; Pediaopolis, n.d.).

Learning unit 4
Ambient lighting, also called general lighting, is a comfortable level of brightness usually used for the whole store.
Tasking lighting is used to focus on a certain area within the store where more light is needed in order to perform a certain task.
Accent lighting is used to focus on certain displays in order to accentuate the merchandise (Varley, 2014:204).
Decorative lighting is used for decoration and to present a certain image of the store.
Tempo is the speed of music being played (Farlex, 2017b).
Volume is the loudness of the music being played (Merriam-Webster, 2017c).
Genre is the style of the music being played (Vocabulary.com, 2017).
Fixtures are shelves or racks that store and present the merchandise to consumers in the store (Donnellan, 2014:386).

Learning unit 6
Merchandise management is the activities involved in purchasing the right merchandise and making it available in the right quantity, at the right place, at the right time and at the right price.
Merchandise planning is the systematic approach to maximising return on investment by planning sales and inventory to ensure profitability and minimising losses (The Planning Factory, 2016).
A ***sales forecast*** is a prediction of an organisation's expected retail sales over a specific period of time (Berman & Evans, 2013:386).
The ***merchandise budget*** is a financial plan for an upcoming season and generally consists of five components, namely planned sales, inventory, reductions, purchases and gross margins.
Beginning of the month (BOM) and the ***end of the month (EOM)***
The ***basic stock method*** ensures that a BOM inventory is equal to the planned sales for the month, plus an additional amount in case the actual sales exceed forecasted sales. This method helps retailers avoid out-of-stock situations.
The ***percentage variation method*** emphasises that BOM stock should be a percentage of the average inventory. This percentage may vary each month depending on planned sales. Dunne et al. (2014:644) state that this method "assumes that the percentage fluctuations in monthly stock from average stock should be half as great as the percentage fluctuations in monthly sales from average sales".
The ***weeks' supply method*** is used to plan an inventory on a weekly basis. Think about fast-moving fashion merchandise or fruit and vegetable vendors.
The ***stock-to-sales method*** uses a desired stock-to-sales ratio to establish the inventory level for a specific period of time. The ratio is usually determined by looking at past sales figures in the same period.

Learning unit 6
A system called ***open-to-buy (OTB)*** is the amount of unspent money available for purchasing merchandise during a specific period and the difference between planned purchases and merchandise on order.
Assortment planning involves a retailer determining the specific quantities and characteristics of each product that they plan to purchase in relation to aspects such as brand, style, colour, size and material (Pradhan, 2009:227).

Learning unit 7
Price is the amount of money needed to obtain something of value (a product or service).
Pricing objectives are the goals that an organisation aims to achieve through its pricing efforts (Mahajan & Mahajan, 2015:121).
Profit-oriented pricing objectives are aimed at pricing merchandise to ensure profit maximisation or achieving a target return on investment (ROI).
A ***price skimming*** strategy is based on setting a high initial price for a product or service in order to skim maximum revenue from the market before substitute products arise.
Price penetration is based on setting a low initial price for a product or service in order to capture a larger share of the market. This strategy may work well in markets that are price sensitive, where competition is intense, and the size of the market is large.
Price lining is the practice of determining set price points for a specific category of merchandise.
Odd pricing refers to setting prices that end with digits such as 5, 7 and 9. It is a common pricing strategy used to make customers feel that they are paying less than they actually are.
Bundle pricing involves selling two or more distinct products together (usually complementary in nature) at a single price, used to build the impression of extra value.
Retailers that adopt an everyday low pricing ***(EDLP)*** strategy offer merchandise at low prices on a continuous basis.
Loss leader pricing (or leader pricing) is offering products close to or below cost for a short period of time in order to attract customers, hoping that they will also buy additional items (at full mark-up) once in the store.
Segmented pricing is selling a product or service at different prices, depending on the market segment.
Internal factors are those factors that the organisation has a considerable amount of control over.
Fixed costs (or overhead costs) refer to costs that the organisation must pay regardless of the level of production, e.g. rent, salary and insurance.
Variable costs refer to costs that vary depending on the level of production, e.g. raw materials and machinery.

Learning unit 7
External factors are those factors that cannot be directly controlled by the organisation; this includes market demand, customers, competitors, suppliers, economic conditions and government and legal regulations.
Markup is the amount that is added to the cost to determine the retail price. The relationship between retail price, cost and markup is as follows: Retail price = Cost + Markup (Donnellan, 2014:242).
Markdowns are reductions in the price of merchandise, which retailers enforce in order to stimulate sales (Dunne et al., 2014:423).
Damage markdown occurs when prices are reduced on merchandise that is damaged after delivery.
Employee discount occurs when prices are reduced on purchases made by employees – a benefit offered by many organisations.
Promotional markdown occurs when prices are reduced on merchandise featured in a promotional sale. Promotional markdowns can also be described as temporary markdowns, as prices go back to normal once the promotion has ended.
Clearance markdown occurs when prices are reduced on old, outstanding or slow-selling merchandise. Clearance markdowns can also be described as permanent markdowns; the merchandise does not return to its normal price, but instead is reduced by succeeding additional markdowns until all the merchandise has been sold.

Learning unit 8
Customer service refers to providing a service before, during and after a purchase is made (Berndt & Tait, 2014:47). It refers to the organisation's policy, system, action or even inaction that adds to the service culture within the organisation (Lucas, 2012:42).
Customer centric approach: putting one's customers first. This is done by focusing on the needs of customers and potential customers, and spending time, effort and money on identifying those needs.
Customer expectations are "the perceptions that customers have when they contact an organisation or service provider about the kind, level and quality of products or services they should receive" (Lucas, 2012:377).
Predicted service: describes the level of service that customers believe is likely to occur during their interaction with the company.
Desired service: describes a customer's ideal service expectation and is what customers actually want in terms of service delivery (Rautiainen, 2015:24).
Adequate service: describes the minimum tolerable level of service a customer is willing to accept.
Expected service is a combination of desired and adequate services and refers to what customers think "should be" in terms of service delivery (Rautiainen, 2015:24).

Learning unit 8
Enduring service intensifiers are considered personal factors that remain constant over time, increasing a customer's sensitivity to how the service should best be provided.
Explicit service promises is what an organisation promises to the customer through their personal selling, advertising, contracts and other forms of communication (Tahyudin, 2012:1).
Implicit service promises: service cues that are not explicitly promised, which influence both the desired service and predicted service (Zhang, n.d:1).
When the total shopping experience of the customer has been met or exceeded, ***customer satisfaction*** results (Lucas, 2012:377).
Service quality is the capacity of the organisation to meet and even exceed customer expectations. Service quality can be defined as the general lead a company has over its competitors and the consistency with which the customers' expectations are met. It consists of understanding customer needs, listening to customers, and having in-depth knowledge of the market. In an effort to increase the quality of service, a company can aim to increase service standards and improve on their service performance (Berndt & Tait, 2014: 55).
Pre-transactions services are provided to the customers before they enter a store (Dunne et al., 2014:494).
Transaction services are offered to consumers during the purchase in order to make it easy and convenient for them and to assist them to get out of the store quickly and effortlessly (Dunne et al., 2014:494).
Post-transaction services are offered after a purchase has been made (Dunne et al., 2014:494).
Reliability is delivering on the promises made by the organisation. It is the ability to perform the promised service consistently and accurately.
Responsiveness is the organisation's willingness to customise a service according to customer needs and reacting in a timely manner.
Assurance refers to employees being knowledgeable and friendly and being able to gain the trust and confidence of the customer.
Empathy is the individualised attention organisations give customers. Caring about their needs and requirements and whether they are being met.
Tangibles are the physical appearance of a company, including facilities, equipment, staff and communication materials, which all contribute to a certain image of the organisation.
Service goals are goals that an organisation formulates specifically aimed at providing excellent service to customers.
Service performance is the way in which a service is executed and the outcome of that service. Measuring service performance determines to what extent the service satisfies the customer.
After sales surveys is best to survey a customer on the level of satisfaction they have experienced while the experience is still fresh in their mind. This enables the company to identify certain areas for improvement.

Learning unit 8
Mystery shopping is when trained personnel pretend to be customers and shop undercover. It is a type of non-customer research that measures the service behaviour of individual employees.
Customer satisfaction index is created by using the information gathered during regular interviews with customers. This index enables the company to track changes in customer satisfaction over time. It also allows for comparisons among competitors.
Servqual: is a systematic approach to measuring and managing service quality. Servqual identifies five core service components, namely: reliability, assurance, tangibles, empathy and responsiveness. The customer then indicates their expectation as well as their perception of each of these specific dimensions.