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Unit I: The Nature of Retailing

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1.0. Objective

After studying this unit, you should be able to:

- Explain the meaning and scope of retailing
- discuss the functions of retailing/retailer
- distinguish retailers from wholesalers

1.1. Introduction

Retailing is a convenient, convincing and comfortable method of selling goods and services. Retailing, though as old as business, trade and commerce has now taken new forms and shapes. Retailing is buying and selling both goods and consumer services. In this unit, the definition of and concepts related to retailing, functions of retailing and the operating characteristics distinguishing retailers from wholesalers will be discussed.

1.2. Concepts and definition

There are many approaches to understanding and defining retailing; most emphasize retailing as the business activity of selling goods or services to the final consumer. We have defined retail as: *any business that directs its marketing efforts towards satisfying the final consumer based upon the organization of selling goods and services as a means of distribution.*

The concepts assumed within this definition are quite important. The final consumer within the distribution chain is a key concept here as retailers are at the end of the chain and are involved in a direct interface with the customer. However, the emphasis on final consumer is intentionally different from that on customer: a consumer is the final user of a purchase whereas a customer may have bought for his or her own use, as a present or as part of an own business activity. Purchases for business or industrial use are normally not retail transactions. Additionally, retailing includes more than the sale of tangible products, as it involves services such as financial services, hair cutting or dry cleaning.

Retailers are often referred to as ‘middlemen’ or ‘intermediaries’. This suggests they occupy a middle position, receiving and passing on products from producers and wholesalers to customers. This is accomplished by the addition of service and the provision of the store in a convenient location to provide a successful channel of distribution. The key objective for any successful channel is to ensure availability of the right product, in the right quantity, at the right time via the right channel. All marketing channel decisions need to be related to ensuring the customer is a focal point for the selection and display of stock so as to make the sales operation as effective as possible.

The actual term ‘retailing’ is thought to be derived from the old French word ‘*retailer*’ which means ‘a piece of’ or ‘to cut up’ (Brown, 1992). This implies the breaking-of-bulk function of the retailer – that is, the acquiring of large amounts of the products they sell and dividing them up into smaller amounts to be sold to individual consumers.

Thus a retailer carries out a specific service and this should not be confused with the wholesaler. Retailers and wholesalers are different in nature and perform distinct functions.

Some specific differences that characterize a retailer are listed below:

1. The retailer’s interface with the customer is predominately service based, often with social interaction and interpersonal sales techniques masking the sophistication of computer-based ordering, stocking and transaction systems.

2. Retailers sell small quantities of items on a frequent basis unlike wholesalers who sell in bulk but on a less frequent basis.
3. Retailers attempt to provide convenience in terms of location, payment and credit facilities, range of merchandise, after-sales service, etc.
4. Retailers offer selection – an assortment of merchandise related to the target market in order to provide choice.
5. Retailers set up in business to trade with the general public whereas wholesalers may restrict the general public from purchasing from their warehouses.
6. Retailers normally charge higher unit prices than would a wholesaler.
7. A retailer's pricing policy tends to be simpler than that of the wholesaler, with less use of a discounting structure.
8. The retailer bears a different kind of risk to the manufacturer and wholesaler.

1.3. Functions of Retailing

Retailers are crucial players in the emerging market scenario. Large brands are running first to get into the desired retail formats to cater to the growing middle class customers. Retailers perform various functions like providing assortments, sorting, breaking the bulk, rendering services, bearing risk, serve as a channel of communication, transportation, advertising and holding inventory. They significantly contribute towards increasing the product value and satisfying the consumers. Following are the functions of a retailer/retailing:

a) Providing assortments: Offering an assortment enables customers to choose from a wide selection of brands, designs, sizes, colors, and prices in one location. Manufacturers specialize in producing specific types of products.

If each manufacturer had its own stores that only sold its own products, consumers would have to go to many different stores to buy groceries to prepare a single meal. Retailers offer assortment of multiple products and brands for consumer convenience.

b) Sorting: Manufacturers make one single line or multiple product lines and will always prefer to sell their entire output to few buyers to reduce their costs. Final consumers

will prefer to choose from a large variety of goods and services and then usually buy in smaller quantities. Retailers have to strike a balance between demands of both the sides, by collecting a combination of goods from different producers, buying them in large quantities and selling them to individual consumers in smaller quantities. The above process is called sorting and under this process, the retailer undertakes activities and performs functions that add value to the products and services while selling them to consumers.

- c) *Breaking Bulk:*** Retailers offer the products in smaller quantities tailored to individual consumers and household consumption patterns. This reduces transportation costs, warehouse costs and inventory costs. This is called breaking bulk.
- d) *Rendering Services:*** Retailers render services that make it easier for customers to buy and use products. They provide credit facilities to the customers. They display products, which attract the customers. Retailers keep ready information on hand to answer queries of the customers. They provide services by which the ownership can be transferred from manufacturer to the end consumers with convenience. They also provide product guarantee from owner's side, after sales service and also deal with consumer complaints. Retailers also offer credit to consumers and develop hire purchase facilities to enable them to buy a product immediately and pay the price at their ease. Retailers also fill orders, promptly process, deliver and install the product at customer point. Retail sales people answer the customer complaints and demonstrate the product for the customer to evaluate before making a choice. They also help in completing a transaction and realizing the sale.
- e) *Risk Bearing:*** Retailers bear a different kind of risk to the manufacturers and wholesalers. Even the customers can come back to the retail point and return the product. In that case, the risk of product ownership many times rests with the retailers. Many companies have buy back schemes and return schemes whereby the retailers can always return the unsold items to the manufacturer.

- f) Holding Inventory:** A major function of retailers is to keep inventory so that products will be available for consumers. Thus, consumers can keep a much smaller inventory of products at home because they can easily access more from the nearby retailers. Retailer's inventory allows customers instant availability of the products and services.
- g) Channel of Communication:** Retailers are the bridge between the manufacturer or his representative and the end customers. They serve as a two-way channel of communication. The manufacturer collects customer choice and preference data and provides information about existing and new products through the retailers. The point of purchase displays provide serve as advertisements that provide information about new products and many times retailers inform the consumers about likely date of availability of a product or entry of variants into the market. The shoppers get a chance to learn about products and services from the stores and even acquire trial habits by seeing others buying a product or service in the store. The manufacturer too collects customer data, data on gaps in demand and supply cycles and customer satisfaction from retail points.
- h) Transportation:** Retailers also help in transport and advertising function. The larger assortments are transported from wholesaler's point to retailers point by retailer's own arrangements and many times, the retailer delivers the goods at final consumer's point. So, retailers provide assistance in storage, transportation and pre-payment merchandise. The percentage that a retailer gets from the sale price depends on the number of functions that the retailer does for the manufacturer.

1.4. Importance of Retailing

Retailers provide a number of important services to both customers and wholesalers.

A. To Customers:

- A Retailer ensures ready stock availability of goods for the customers in sufficient quantities and sells the goods to the customers as per their quantity specifications.

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

B. To Wholesalers:

- Retailers are a valuable source of information and feedback for the wholesalers who in turn pass on the same information to the producers of the products. Crucial information related to the changes in the buying preferences of the customers, their experience with the usage of the products, feedback on the prices and quality of the products is passed on to the wholesalers. This helps in improving the existing services and in customizing the product solutions as per the requirements of the customers.
- A retailer absorbs most of the burden of the wholesaler and also of the manufacturer by selling the goods in small quantities to the customers. The wholesalers are relieved from the burden of maintaining direct touch with the customers and managing the entire gamut of activities involved in convincing the customers for purchasing their products.

- Retailer supports the wholesaler by acting as a channel for distributing the goods to the customers.
- Retailer acts as the point of contact between the customer and the wholesaler. Retailers are responsible for creating and improving the demand for various products by taking care of the display and merchandising activities.
- Retailers act as a major source of funding for the wholesale trade by placing the orders and making payments in advance to the wholesalers for those goods.

1.5 Retail versus Wholesale

Wholesalers sell in large bulk quantities, without worrying about many of the aspects of retailing that consumers expect like visual merchandising. Wholesalers do not want to deal with a large number of end-user customers. Rather, their goal is to sell large quantities to a small number of retailing companies. It is rare for a wholesaler to sell goods directly to consumers. The big difference between wholesale and retail is in the price. The retail price is always more than the wholesale price. The reason for this is because the added cost of selling merchandise to end-user customers - labor, rent, advertising, etc. - is factored into the pricing of the merchandise. The wholesaler doesn't have to deal with such expenses, which allows him to sell goods at a lower cost.

The main difference between retail and wholesale trade is summarized below.

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

1.6. Summary

- Retailing in simple term can be defined as “Retailing is the business activity of selling goods and services to the final consumer”. Retailing can be defined as the business products and services to consumers for their own use. It has its origin in the French word, retailer meaning ‘to cut a piece off’.
- The term retailing applies not only to the selling of tangible products like loaves of bread or pairs of shoes, but also to the selling of service products.
- Retailing, one of the largest sectors in the global economy, has become the most active and attractive sector of the last decade.
- Retailers perform various functions like providing assortments, sorting, breaking the bulk, rendering services, bearing risk, serve as a channel of communication, transportation, advertising and holding inventory. They significantly contribute towards increasing the product value and satisfying the consumers.
- This unit also addresses the question of how retail sale is different from wholesale

1.6 Self Assessment Questions

True/false questions

- 1 Retailing is the business activity of selling goods and services to the final consumer.
- 2 Retailers offer the products in smaller quantities tailored to individual consumers and household consumption patterns.
- 3 A major function of retailers is to keep inventory so that products will be available for consumers.
- 4 Providing transportation service is not as a function of retailers.
- 5 Retailers undertake activities and perform functions that add value to the products and services while selling them to consumers.

Short answer questions

- 1 Define retailing and enumerate the characteristics that differentiate a retailer from wholesaler.
- 2 Briefly explain the functions of a retailer/retailing.
- 3 Outline the importance of retailers to wholesalers and consumers.
- 4 Explain how sorting by the retailer helps you as a customer.

1.7 Answers for Self Assessment Questions

True/false questions

1. True
2. True
3. True
4. False
5. True

Short answer questions

1. Refer section 1.2
2. Refer section 1.3
3. Refer section 1.4

4. Refer section 1.3

Unit II: The Competitive Behavior of Retail Institutions

2.0. Objective

2.1. Introduction

2.2. The Nature of Marketing Channels

2.3. Retailer Marketing Decisions

2.4. The Competitive Strategies of Retailers

2.5. Summary

2.6. Self Assessment Questions

2.7 Answers for Self Assessment Questions

2.0. Objective

After studying this unit, you should be able to:

- Explain nature of marketing channels
- Describes retailer marketing decisions
- Know competitive strategies of retailers

2.1. Introduction

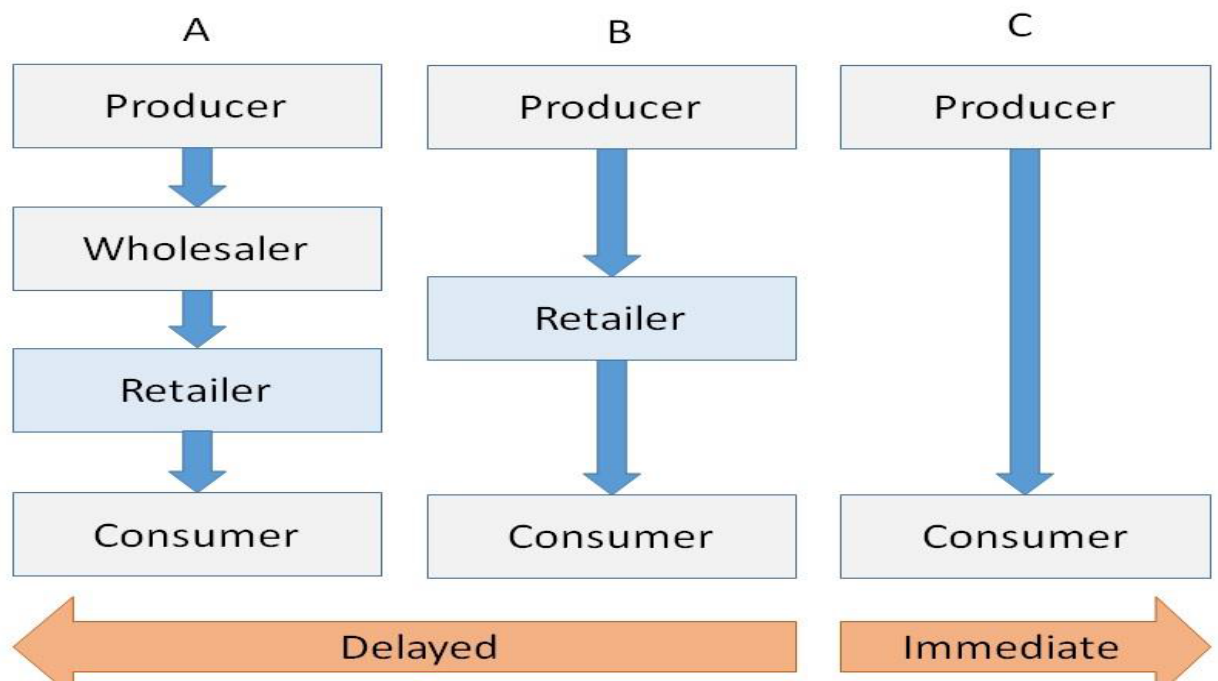
Distribution is one of the most important concerns of marketers today. There would be little economic utility and even less satisfaction if manufacturers created new items but gave no thought about how to get them to the consumer. If a marketing system works well, it provides for the four basic utilities isolated by economists: time, place, possession, and form. In other words, the system arranges for producing and having goods available when and where they are wanted, that is, in retail stores. The completed retail sales transaction then provides possession utility.

This unit discusses the nature of marketing channels. It describes retailer marketing decisions. It also explains the competitive strategies of retailers

2.2. The Nature of Marketing Channels

Most producers use third parties or intermediaries to bring their products to market. They try to forge a distribution channel - a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user.-' The channel of distribution is therefore all those organizations through which a product must pass between its point of production and consumption.

The levels of intermediaries involved in the marketing channel depend upon the level of service the consumer desires.



Why do producers give some of the selling job to intermediaries? After all, doing so means giving up some control over how and to whom the products are sold. The use of intermediaries results from their greater efficiency in making goods available to target markets. Through their contacts, experience, specialization and scale of operation, intermediaries usually offer the firm more than it can achieve on its own.

From the economic system's point of view, the role of marketing intermediaries is to convert the assortments of products made by producers into the assortments wanted by consumers. Producers make narrow assortments of products in large quantities, but consumers want broad assortments of products in small quantities. In the distribution channels, intermediaries buy the large quantities of many producers and break them down into the smaller quantities and broader assortments wanted by consumers. As such, intermediaries play an important role in matching supply and demand.

A marketing channel performs the work of moving goods from producers to consumers. It overcomes the time, place, and possession gaps that separate goods and

services from those who would use them. Members in the marketing channel perform a number of key functions and participate in the following marketing flows:

- **Information:** the collection and dissemination of marketing research information about potential and current customers, competitors, and other actors and forces in the marketing environment.
- **Promotion:** the development and dissemination of persuasive communications about the offer designed to attract customers.
- **Negotiation:** the attempt to reach final agreement on price and other terms so that transfer of ownership or possession can be effected.
- **Ordering:** the backward communication of intentions to buy by the marketing channel members to the manufacturer.
- **Financing:** the acquisition and allocation of funds required to finance inventories at different levels of the marketing channel.
- **Risk taking:** the assumption of risks connected with carrying out the channel work.
- **Physical possession:** the successive storage and movement of physical products from raw materials to the final goods.
- **Payment:** buyers paying their bills through banks and other financial institutions to the sellers.
- **Title:** the actual transfer of ownership from the organization or person to another.

These functions and flows are listed in the normal order in which they arise between any two channel members. Some of these flows are forward flows (physical, title, and promotion); others are backward flows (ordering and payment); and still others move in both directions.

The question is not whether these functions need to be performed – they must be – but rather who is to perform them. All of the functions have three things in common: they use up scarce resources; they can often be performed better through specialization; and they are shiftable among channel members. To the extent that the manufacturer performs the functions, the manufacturer's costs go up, and its prices must be higher. When some functions are shifted to middle men, the producer's costs and prices are lower, but the middle men must add a charge to cover their work. If the middle men are more efficient

than the manufacturer, the prices faced by consumers should be lower. Consumers might decide to perform some of the functions themselves, in which case they should enjoy lower prices. The issue of who should perform various channel tasks is one of relative efficiency and effectiveness.

Marketing functions, then, are more basic than the institutions that at any given time perform them. Changes in channel institutions largely reflect the discovery of more efficient way to combine or separate economic functions that must be carried on to provide meaningful assortments of goods to target customers.

In some distribution channels, the manufacturing, wholesaling, and retailing activities are performed by independent firms, but most distribution channels have some vertical integration.

Vertical Integration means that a firm performs more than one set of activities in the channel, such as investments by retailers in wholesaling or manufacturing. **Backward Integration** arises when a retailer performs some distribution and manufacturing activities, such as operating warehouses or designing private label merchandise. **Forward Integration** is when a manufacturer undertakes retailing activities, such as Ralph Lauren operating its own retail stores.

For example, most large retailers – such as Safeway, Wal-Mart, Lowe's – engage in both wholesaling and retailing activities. They buy directly from manufacturers, have merchandise shipped to their warehouses for storage, and then distribute the merchandise to their stores.

2.3. Retailer Marketing Decisions

Retail marketing decisions in the area of target market, product assortment and services, price, promotion and place are discussed in the following paragraphs.

Target Market Decisions

A retailer's most important decision concerns the target market. Until the target market is defined and profiled, the retailer cannot make consistent decisions on product assortment,

store décor, advertising messages and media, price levels, and so on. Some stores are able to define their target market quite well. Many retailers, however, do not clarify their target market or are trying to satisfy too many markets, satisfying none of them well.

A retailer should carry out periodic market research to check that it is satisfying its target customers.

Product Assortment and Services

Retailers have to decide on three major "product" variables: products assortment, service mix, and store atmosphere. The retailer's product assortment must match the shopping expectations of the target market. In fact, it becomes a key element in the competitive battle among similar retailers. The retailer has to decide on product assortment width (narrow or wide) and depth (shallow or deep). Another product assortment dimension is the quality of the goods. The customer is interested not only in the range of choice but also in the quality of the product.

Retailers must also decide on the services mix to offer customers. The old "mom and pop" grocery stores offered home delivery, credit, and conversation services that today's supermarkets have completely eliminated. Some of the major services that full service retailers can offer. The services mix is one of the key tools of non price competition for differentiating one store from another.

The store's atmosphere is a third element in its product arsenal. Every store has a "feel", one store is dirty, another is charming, a third is palatial, a fourth is somber. The store must embody a planned atmosphere that suits the target market and leans them toward purchase. A funeral parlor should be quiet, somber, and peaceful, and a discothque should be bright, loud, and vibrating. The atmosphere is designed by creative people who know how to combine visual, aural, olfactory, and tactile stimuli to achieve the desired effect.

Price Decision

The retailer's prices are a key competitive factor and reflect the quality of goods carried and services offered. The cost of merchandise is the basis for their pricing, and their ability to buy intelligently is a key ingredient in successful retailing. Retailers can often

make as much money through smart buying as through smart selling. Beyond this, they must price carefully in a number of other ways.

Promotion Decisions

Retailers use the normal promotional tools – advertising, personal selling, sales promotion, and publicity – to reach consumers. Retailers advertise in newspapers, magazines, radio, and television. The advertising is occasionally supplemented by hand-delivered circulars and direct-mail pieces. Personal selling requires careful training of the sales people in how to greet customers, meet their needs, and handle the doubts and complaints. Sales promotion may take the form of in store demonstrations, trading stamps, grand prizes, and visiting celebrities. Publicity is always available to retailers who have something interesting to say.

Place Decision

The retailer's choice of location is a key competitive factor in its ability to attract customers. For example, customers primarily choose a bank that is nearest to them. The problem breaks down into selecting regions of the country in which to open stores, then particular cities, and then particular sites.

Large retailers must wrestle with the problem of whether to locate several small stores in many locations or larger stores in fewer locations. Generally speaking, the retailer should locate enough stores in each city to gain visibility and distribution economies. The larger the individual stores, the greater their trading area to reach. Firms use a variety of methods to assess locations, including traffic counts, surveys of consumers shopping habits, analysis of competitive locations, and so on.

2.4. The Competitive Strategies of Retailers

A **retail strategy** is the overall plan guiding a retail firm. It influences the firm's business activities and its response to market forces, such as competition and the economy. Any retailer, regardless of size or type, should utilize these six steps in strategic planning:

- 1 Define the type of business in terms of the goods or service category and the company's specific orientation (such as full service or "no frills").
- 2 Set long-run and short-run objectives for sales and profit, market share, image, and so on.
- 3 Determine the customer market to target on the basis of its characteristics (such as gender and income level) and needs (such as product and brand preferences).
- 4 Devise an overall, long-run plan that gives general direction to the firm and its employees.
- 5 Implement an integrated strategy that combines such factors as store location, product assortment, pricing, and advertising and displays to achieve objectives.
- 6 Regularly evaluate performance and correct weaknesses or problems when observed

Retailers develop their strategy for sustaining a competitive advantage in a market situation characterized by intensified competition. In such a situation, there is growing pressure on retailers to perform so that they must measure or evaluate their performance

A retail strategy includes identification of the following:

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

1. Strategies for Effective Market Segmentation

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

Concentration (Niche) Strategy

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

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

Multi-segment Strategy

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

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

2. Strategies for Market Penetration

Market penetration strategies include the following:

Price Penetration

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

Aggressive Promotion

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

High Product Distribution

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

3. Growth Strategies

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

Ansoff's Matrix

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

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

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

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

2.5. Summary

Retailers are the most visible and accessible channel members to consumers. They are an important link in the marketing channels because they are both marketers and customers of producers and wholesalers.

The most important channel functions and flows are information, promotion, negotiation, ordering, financing, risk taking, physical possession, payment, and title. These functions are more basic than the particular retail and wholesale institutions that may exist at any time.

Companies need to find new ways of creating differential advantage by providing better service levels than their competitors. Retail competition has increased because services and goods are available from a wide range of channels and manufacturers are creating technically satisfactory goods that require little after-sales service.

Retail marketing decisions include target market, product assortment and services, price, promotion and place decisions.

The retail strategy statement includes an identification of a target market and the retail format (its offering) to be directed toward that target market. The statement also needs to indicate the retailer's methods to build a sustainable competitive advantage.

The strategic planning process consists of a sequence of steps, including

- Defining the type of business in terms of the goods or service category and the company's specific orientation (such as full service or "no frills").
- Setting long-run and short-run objectives for sales and profit, market share, image, and so on.
- Determining the customer market to target on the basis of its characteristics (such as gender and income level) and needs (such as product and brand preferences).

- Devising an overall, long-run plan that gives general direction to the firm and its employees.
- Implementing an integrated strategy that combines such factors as store location, product assortment, pricing, and advertising and displays to achieve objectives.
- Regularly evaluating performance and correcting weaknesses or problems when observed

A retail strategy includes identification of the following variables:

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

2.6. Self Assessment Questions

True/false questions

1. The use of intermediaries results from their greater efficiency in making goods available to target markets.
2. Payment as a channel function involves a forward flow.
3. A marketing channel performs the work of moving goods from producers to consumers.
4. Until the target market is defined and profiled, the retailer cannot make consistent decisions on product assortment, store décor, advertising messages and media, price levels, and so on.
5. Increasing product or service promotion on TV, print media, radio channels, e-mails, pushes away the customers and drives them to view and avail the product or service.

Short answer questions

1. Define marketing channel; describe the functions and flows.
2. Contrast forward integration and backward integration.
3. Briefly explain the retailer marketing decisions.
4. Outline the steps involved in strategic planning.

2.7 Answers for Self Assessment Questions

True/false questions

1. True
2. False
3. True
4. True
5. False

Short answer questions

1. Refer section 2.2
2. Refer section 2.2
3. Refer section 2.3
4. Refer section 2.4

Unit III: The Buying Behavior of Consumers

3.0. Objective

3.1. Introduction

3.2. Consumer Behavior in the Retail Context

3.3. Factors that affect consumer decision making

3.4. Customer's Buying Behavior Patterns

3.5. Types of Buying Decisions

3.6. Buying Decision Process

3.7. Summary

3.8. Self Assessment Questions

3.9. Answers for Self Assessment Questions

3.0. Objective

After studying this unit, you should be able to:

- Understand consumer behavior in the retail context
- Know the factors that affect consumer decision making
- Explain customer's Buying Behavior Patterns
- Describe the types of buying decisions
- Know the buying decision process

3.1. Introduction

Consumers' product and service preferences are constantly changing. Marketing managers must understand these desires in order to create a proper marketing mix for a well-defined market. So it is critical that marketing managers have a thorough knowledge of consumer behavior. Consumer behavior describes how consumers make purchase decisions and how they use and dispose of the purchased goods or services. The study of consumer behavior also includes factors that influence purchase decisions and product use.

This unit in general focuses on consumer buying behavior. It explains how customers process information and make decisions about what stores to patronize, what channels to use, and what products and services to buy. It also describes the stages customers go through when making purchase decisions and the factors that influence their buying process.

3.2. Consumer Behavior in the Retail Context

It is important to realize that management cannot be effective unless it has some understanding of the way in which retail consumers make decisions and act in relation to the consumption of retail products. There is, therefore, a need to understand the different ways in which consumers choose and evaluate alternative retail services. While the term ‘consumer’ would seem to indicate a singular concept of demand, the reality is that there is a wide diversity of consumer behavior – with decisions being made for a range of reasons. We need to study consumer behavior to be aware of:

- the needs as well as the purchase motives of individuals;
- how demographic change may affect retail purchasing;
- the different effects of various promotional tactics;
- the complexity and process of purchase decisions;
- the perception of risk for retail purchases;
- the different market segments based upon purchase behavior;
- how retail managers may improve their chance of business success based upon understanding what is required as part of the retail experience, and how customers react to that experience process based upon all the retail marketing approaches utilized.

Many variables will influence the way consumption patterns differ. These will change based upon the different types of retailers in the marketplace and the way individuals have learnt to approach purchase opportunities. The variations are countless and this makes it more practical to deal with general behavioral principles which are often discussed within a framework that includes the disciplines of psychology, sociology and economics.

According to the consumer needs the retailer's evolve the best possible mix to attract the target consumer. The shopper's response to retail marketing mix has an impact on the firm's success in the long run. Individual consumers consider each element of retail marketing mix in relation to their culture, attitude, previous learning and personal experiences. The consumer is influenced intrinsically by his/her needs, motives, perceptions, and attitudes and extrinsically such as family social class the culture and economic factors which affect his behavior. These elements would help the retailers to place their retail marketing mix with their respective target segments.

It is important to know what and from where the shoppers shop and the reasons that prompt their shopping behavior. Consumers buy products. Successful products are those that provide the tangible or intangible features necessary to realize the consumer's expectations of benefits.

3.3. Factors that affect consumer decision making

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

1. Cultural Factors

Cultural factor divided into:

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

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

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

2. Social Factors

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

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

Family: Family members can strongly influence buyer behavior. The family is the most important consumer buying organization society and it has been researched extensively.

Marketers are interested in the roles, and influence of the husband, wife and children on the purchase of different products and services.

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

3. Personal Factors

It includes:

Age and Life cycle Stage: People change the goods and services they buy over their lifetimes.

Tastes in food, clothes, furniture, and recreation are often age related. Buying is also shaped by the stage of the family life cycle.

Occupation: A person's occupation affects the goods and services bought. Blue collar workers tend to buy more rugged work clothes, whereas white-collar workers buy more business suits.

A company can even specialize in making products needed by a given occupational group. Thus, computer software companies will design different products for brand managers, accountants, engineers, lawyers, and doctors.

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

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

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

4. Psychological Factors

It includes these Factors:

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

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

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

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

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

1. Low Price

Most of the consumers are price conscious. In present scenario the consumer look for value or value for money. Bundle of benefits with affordable price. Price reductions; cost savings, promotional offers like buy one get one free can persuade an unintended

purchase. Before stepping into the shop consumer decides his budget to spend on purchases. If he gets more products within the budgets, he feels very happy. Present day unorganized market is playing a vital role. Due to the private labeled brands the customer can get it with low price. In most cases the attitude of the consumer remains towards the price and not towards the quality.

2. Mass Distribution

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

3. Self-service

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

4. Prominent Store Display

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

5. Low-marginal Need for an Item

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

6. Small Size and Light-weight

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

7. Ease of Storage

If the consumer does not have the space for the item, the potential impulse purchase could be eliminated. If the storage efforts outweigh the benefit or advantage of the item, the impulse to purchase the item will be discarded.

3.4. Customer's Buying Behavior Patterns

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

a) Place of Purchase

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

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

b) Product Purchased

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

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

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

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

c) Time and Frequency of Purchase

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

- Weather
- Season
- Location of customer

The frequency of purchase mainly depends on the following factors:

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

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

d) Method of Purchase

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

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

e) Response to Sales Promotion Methods

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

The promotional methods include:

Displays: Consumer products are packaged and displayed with aesthetics while on display. Shape, size, color, and decoration create appeal.

Demonstrations: Consumers are influenced by giving away sample product or by showing how to use the product and its benefits.

Special pricing: Unit's special price under some scheme or during festive season, coupons, contests, prizes, etc.

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

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

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

3.5. Types of Buying Decisions

In some situations, customers spend considerable time and effort selecting a retailer and evaluating alternative products—going through all the steps in the buying process described in the preceding section. In other situations, buying decisions are made automatically with little thought. Three types of customer decision-making processes are extended problem solving, limited problem solving, and habitual decision making.

1. Extended Problem Solving

Extended problem solving is a purchase decision process in which customers devote considerable time and effort to analyzing their alternatives. Customers typically engage in extended problem solving when the purchase decision involves a lot of risk and uncertainty. Financial risks arise when customers purchase an expensive product or

service. Physical risks are important when customers feel that a product or service may affect their health or safety. Social risks arise when customers believe a product will affect how others view them.

Consumers engage in extended problem solving when they are making a buying decision to satisfy an important need or when they have little knowledge about the product or service. Due to the high risk in such situations, customers go beyond their internal knowledge to consult with friends, family members, or experts. They may visit several retailers before making a purchase decision. Retailers stimulate sales from customers engaged in extended problem solving by providing the necessary information in a readily available and easily understood manner and by offering money-back guarantees. For example, retailers that sell merchandise involving extended problem solving provide information on their Web sites describing the merchandise and its specifications, have informational displays in their stores (such as a sofa cut in half to show its construction), and use salespeople to demonstrate features and answer questions.

2. Limited Problem Solving

Limited problem solving is a purchase decision process involving a moderate amount of effort and time. Customers engage in this type of buying process when they have had some prior experience with the product or service and their risk is moderate. In such situations, customers tend to rely more on personal knowledge than on external information. They usually choose a retailer they have shopped at before and select merchandise they have bought in the past. The majority of customer purchase decisions involve limited problem solving.

Retailers attempt to reinforce this buying pattern and make it habitual when customers are buying merchandise from them. If customers are shopping elsewhere, however, retailers need to break this buying pattern by introducing new information or offering different merchandise or services.

One common type of limited problem solving is **impulse buying** or **unplanned purchasing**, which is a buying decision made by customers on the spot after seeing the

merchandise. Retailers encourage impulse-buying behavior by using prominent point-of-purchase (POP) or point-of-sale (POS) displays to attract customers' attention. Retailers have long recognized that the most valuable real estate in the store is at the point of purchase.

3. Habitual Decision Making

Habitual decision making is a purchase decision process involving little or no conscious effort. Today's customers have many demands on their time. One way they cope with these time pressures is by simplifying their decision-making process. When a need arises, customers may automatically respond with, "I'll buy the same thing I bought last time from the same store." Typically, this habitual decision-making process occurs when decisions aren't very important to customers and involve familiar merchandise they have bought in the past. When customers are loyal to a brand or a store, they engage in habitual decision making.

Brand loyalty means that customers like and consistently buy a specific brand in a product category. They are reluctant to switch to other brands if their favorite brand isn't available. For example, loyal Coca-Cola drinkers won't buy Pepsi, no matter what. Thus, retailers can satisfy these customers' needs only if they offer the specific brands desired.

Brand loyalty creates both opportunities and problems for retailers. Customers are attracted to stores that carry popular brands, but because retailers must carry these high-loyalty brands, they may not be able to negotiate favorable terms with the suppliers of the popular national brands. If, however, the high-loyalty brands are private-label brands (i.e., brands owned by the retailer), retailer loyalty is heightened.

Retailer loyalty means that customers like and habitually visit the same retailer to purchase a type of merchandise. All retailers would like to increase their customers' loyalty, and they can do so by selecting a convenient location, offering complete assortments of national and private-label brands, reducing the number of stockouts, rewarding customers for frequent purchases, or providing good customer service.

3.6. Buying Decision Process:

The buying decision process is the decision-making process used by consumers regarding market transactions before, during, and after the purchase of a good or service. It can be seen as a particular form of a cost–benefit analysis in the presence of multiple alternatives.

Common examples include shopping and deciding what to eat. Decision-making is a psychological construct. This means that although a decision cannot be "seen", we can infer from observable behavior that a decision has been made. Therefore, we conclude that a psychological "decision-making" event has occurred. It is a construction that imputes commitment to action. That is, based on observable actions, we assume that people have made a commitment to effect the action. There are six stages to the consumer buying process:

1 Problem Recognition

Put simply, before a purchase can ever take place, the customer must have a reason to believe that what they want, where they want to be or how they perceive themselves or a situation is different from where they actually are. The desire is different from the reality – this presents a problem for the customer.

However, for the marketer, this creates an opportunity. By taking the time to “create a problem” for the customer, whether they recognize that it exists already or not, you’re starting the buying process. To do this, start with content marketing. Share facts and testimonials of what your product or service can provide. Ask questions to pull the potential customer into the buying process. Doing this helps a potential customer realize that they have a need that should be solved.

2 Information Search

Once a problem is recognized, the customer search process begins. They know there is an issue and they’re looking for a solution. If it’s a new makeup foundation, they look for foundation; if it’s a new refrigerator with all the newest technology thrown in, they start looking at refrigerators – it’s fairly straight forward.

As a marketer, the best way to market to this need is to establish your brand or the brand of your clients as an industry leader or expert in a specific field. Methods to consider include becoming a Google Trusted Store or by advertising partnerships and sponsors prominently on all web materials and collaterals. Becoming a Google Trusted Store allows you to increase search rankings and to provide a sense of customer security by displaying your status on your website. Increasing your credibility markets to the information search process by keeps you in front of the customer and ahead of the competition.

3 Evaluation of Alternatives

Just because you stand out among the competition doesn't mean a customer will absolutely purchase your product or service. In fact, now more than ever, customers want to be sure they've done thorough research prior to making a purchase. Because of this, even though they may be sure of what they want, they'll still want to compare other options to ensure their decision is the right one.

Marketing to this couldn't be easier. Keep them on your site for the evaluation of alternatives stage. This not only simplifies the process, it establishes a trusting customer relationship, especially during the evaluation of alternatives stage.

4 Purchase Decision

Somewhat surprisingly, the purchase decision falls near the middle of the six stages of the consumer buying process. At this point, the customer has explored multiple options, they understand pricing and payment options and they are deciding whether to move forward with the purchase or not. That's right, at this point they could still decide to walk away.

This means it's time to step up the game in the marketing process by providing a sense of security while reminding customers of why they wanted to make the purchase in the first time. At this stage, giving as much information relating to the need that was created in step one along with why your brand, is the best provider to fulfill this need is essential. If a customer walks away from the purchase, this is the time to bring them back. Retargeting or simple email reminders that speak to the need for the product in question can enforce the purchase decision, even if the opportunity seems lost. Step four is by far the most

important one in the consumer buying process. This is where profits are either made or lost.

5 Purchase

A need has been created, research has been completed and the customer has decided to make a purchase. All the stages that lead to a conversion have been finished. However, this doesn't mean it's a sure thing. A consumer could still be lost. Marketing is just as important during this stage as during the previous. Marketing to this stage is straightforward: keep it simple. Test your brand's purchase process online. Is it complicated? Are there too many steps? Is the load time too slow? Can a purchase be completed just as simply on a mobile device as on a desktop computer? Ask these critical questions and make adjustments. If the purchase process is too difficult, customers, and therefore revenue, can be easily lost.

6 Post-Purchase Evaluation

Just because a purchase has been made, the process has not ended. In fact, revenues and customer loyalty can be easily lost. After a purchase is made, it's inevitable that the customer must decide whether they are satisfied with the decision that was made or not. They evaluate. If a customer feels as though an incorrect decision was made, a return could take place. This can be mitigated by identifying the source of dissonance, and offering an exchange that is simple and straightforward. However, even if the customer is satisfied with his or her decision to make the purchase, whether a future purchase is made from your brand is still in question. Because of this, sending follow-up surveys and emails that thank the customer for making a purchase are critical.

3.7. Summary

- While the term 'consumer' would seem to indicate a singular concept of demand, the reality is that there is a wide diversity of consumer behavior – with decisions being made for a range of reasons.

- Cultural, Social, psychological, and personal factors influence consumer purchase decisions. Cultural factors are coming from the different components related to culture or cultural environment to which the consumer belongs. Social factors are forces exerted by other people and include reference groups, family, roles and status. Personal factors are forces unique to an individual consumer and include demographic factors, lifestyle, situational factors, and an individual's involvement in purchase. Psychological forces are internal to individuals that affect purchase behavior and include motivation perception, learning, attitudes, and personality.
- The stages in the decision-making process include need recognition, information search, evaluation of alternatives, choice of alternatives, purchase, and post purchase evaluations. Retailers can influence their customers at each stage.
- The importance of the stages depends on the nature of the customer's decision. When decisions are important and risky, the buying process is longer because customers spend more time and effort on the information search and evaluation of alternatives. When buying decisions are less important to customers, they spend little time in the buying process and their buying behavior may become habitual.

3.8. Self Assessment Questions

True/false questions

1. Retailers do not come in direct interaction with the consumers.
2. The needs, tastes, and preferences of the consumer for whom the products are purchased drives the buying behavior of the customer.
3. Most of the consumers are price conscious.
4. In high-involvement products, the consumer may be influenced by some in-store promotional activity.
5. Personal factors are forces unique to an individual consumer and include demographic factors, lifestyle, situational factors, and an individual's involvement in purchase.

Short answer questions

1. What are the variables in the personal factors that affect consumer decision making.
2. Identify and briefly explain the three types of customer decision-making process.
3. Explain the consumer decision making process in brief.

3.9. Answers for Self Assessment Questions

True/false questions

1. False
2. True
3. True
4. False
5. True

Short answer questions

1. Refer section 3.3
2. Refer section 3.5
3. Refer section 3.6

Unit IV: Organization Management: Organizing and Staffing the Retail Firm

4.0. Objective

4.1. Introduction

4.2. Human Resource Management in Retailing

4.3. Factors Influencing Designing of Organizational Structure

4.4. Forms of Retail Organization

4.5. Retail Organization Design Issues

4.6. Human Resource Functions in Retailing

4.7. Summary

4.8. Self Assessment Questions

4.9. Answers for Self Assessment Questions

4.0. Objective

After studying this unit, you should be able to:

- Explain the management of human resource in retailing.
- Understand the various classification of retailing.
- Know retail organization design issues
- Describe human resource functions in retailing

4.1. Introduction

Retailing is very different from other industries. As in any other services industry in retail human aspect is of prime importance. With technological advances there have been changes in retail environment. However this has only increased the importance of human resources. While you visit a store big or small, role of the individual who helps you buy your stuff is immense.

This unit focuses on organization and management of retail firm. It explains the management of human resource in retailing. It discusses the different types of retail outlets. It also describes design issues in retail organization. Finally, it briefly explains human resource functions in retailing

4.2. Human Resource Management in Retailing

Retailing is the human centric industry. Customers come to the store not only because of the ambience or reasonable price or the quality and range of products. They value the interaction with store personnel. Moreover it is this human factor which gives valuable input to the store management about the specific requirements of the customers. A proper human resource planning saves vital financial resources in the form of prevention of embezzlement, fraud and also shoplifting. All these factors make the human resource management an essential element of the overall retail strategy for any retail organization.

The first step in effective human resource management in retail is to look into the organization of the store. One must look into the tasks to be performed in the retail distribution channel. Thereon the tasks are to be grouped into different jobs. These jobs can be further classified into various classes. Finally one can form an organization chart and integrate various jobs therein.

With the growing pace of retailing the rate of growth of retail malls and markets may have even exceeded the population growth. However, keeping up with the pace of retail growth, no such development in the growth of training facilities for prospective retail employees has taken place. This poses the biggest challenge for the human resource management department of any retail organization.

4.3. Factors Influencing Designing of Organizational Structure

While designing an organizational structure some important considerations need to be kept in mind as:

- a) Scope of Operations:** With such difference in volume of transactions the job requirements are also different. Manpower planning accordingly changes. For larger chains it's essential that the manpower is well qualified to handle such large scale operations.
- b) Nature of Merchandise:** It is very important constituent of the human resource planning process. The type of merchandise a store deals with has direct implications on the type of skill sets needed.

For instance a retailer selling readymade clothes will need people who are proficient in understanding customer's clothing needs and offer the best possible alternatives. However in a leather shoes and leather accessories outlet such persons will be needed who have at least preliminary knowledge about leather especially footwear.

- c) ***Type of Organization:*** It depends upon the organizational structure, requirement for human resource changes. A retail organization can have a host of departments like Sourcing, Marketing, Accounts warehousing on a functional basis. It can also have divisions based on various products it deals with.

4.4. Forms of Retail Organization

Broadly, retailing is classified into store retailing and non store retailing. Although most retailing is done in retail stores, in recent years non-store retailing has grown tremendously.

4.4.1 Store Retailing

Retail stores come in all shapes and sizes. They can be classified by one or more several characteristics like amount of service, product line, relative prices, control of outlets, and store cluster.

i) Retailers Classified by Amount of Service

Different products require different amount of service and customer service, and customer service preference vary.

- a) *Self-service retailers:* in such retailer stores, customers are willing to perform their own "locate-compare-select" process to save money. Self-service is the basis of discount operations and typically is used by sellers of convenience goods (such as supermarkets) and nationally branded, fast moving shopping goods (such as catalog show rooms).
- b) *Limited service retailers:* these type of retailers provide more sales assistance because they carry more shopping goods about which customers need information. Their operating costs are higher resulting from higher process.

- c) *Full service retailers*: sales people assist customers in every phase of the shopping process. They carry usually more specialty goods for which customers like to be "waited on". They provide more liberal return policies, various credit plans, free delivery, home serving, and extras such as lounges and restaurants. More services result in much higher operating costs, which are passed along to customers as premium price.

ii) ***Retailers Classified by Product Line***

Retailers can also be classified by the length and breadth of their product assortment.

- a) *Specialty stores*: these retail stores carry a narrow product line with deep assortment within that line (i.e., a number of product items). Specialty stores should not be confused with specialty goods. In a sense, specialty stores may carry any category of consumer goods, not just specialty goods. Specialty stores can be classified further by the narrowness of their product lines. For example:
- a clothing store is a single line store
 - men's clothing store is a limited line store
 - men's custom shirt store is a super specialty store.
- b) *Department stores*: department stores are retailers that carry a wide variety and deep assortment, offer considerable customer services, and are organized into separate departments for displaying merchandise.

A department store is organized into departments selling men's, women's, and children's clothing and accessories; home furnishings and furniture; toys and games, consumer electronics such as TVs, VCRs, and stereos; and kitchen ware and small appliances.

Each department within the store has a specific selling space allocated to it, a cash register to transact and record sales, and sales people to assist customers. The department store often resembles a collection of specialty shops.

Department stores are often looked to as the retailing leaders. They usually lead in customer services – including credit, merchandise return, delivery, fashion shows and Christmas displays. They also are leaders because of their size.

- c) *Supermarkets*: they are large stores specialized in groceries with self service and wide assortments. Supermarkets introduced self-service, provided a very broad product assortment in large stores, and emphasized low price by reducing high cost services. Profits came from large volume of sales and not from high markups.

Supermarkets offer few customer services. Most of them emphasize prices. However, nowadays, they are improving their facilities and services to attract more customers. Typical improvements are better locations, improved décor, longer store hours, check cashing, delivery and even child care centers.

- d) *Convenience stores*: provide a limited assortment of merchandise at a convenient location and time in a neighborhood.

Convenience stores provide an opportunity for consumers to make fill-in purchases quickly, without having to search through a large store and wait in long checkout lines. Due to their small size and high turnover, convenience stores typically receive deliveries every day.

Since the principal benefit provided by convenience stores is convenience, they only have to offer a limited assortment and variety and can charge higher prices than supermarkets.

- e) *Superstores, combination stores and hypermarkets*: they differ from conventional supermarkets by size and assortment. They are larger than the conventional supermarkets.
- *Superstores*: are larger versions of the supermarket. They are almost twice the size of regular supermarkets and carry a large assortment of routinely purchased food and non-food items. They offer such services as dry cleaning, post offices, photo finishing, check cashing, bill paying, lunch counters, car care and pet care.
- *Combination stores*: are usually even larger than superstores. They are combined food and drug stores. They are combined food and drug stores. They offer more

groceries and non-foods than a supermarket. Some combination stores are joint ventures between supermarkets and drug chains.

- Hyper stores: are even bigger than combination stores. They combine supermarket, discount, and warehouse retailing. They carry more than just routinely purchased goods, also selling furniture, appliances, clothing and many other things.
- f) *Service retailing*: service businesses are those businesses whose "product line" is actually a service. There is considerable growth in service retailing. Many organizations that offer services to consumers – such as banks, hospitals, health spas, doctors, legal clinics, and universities – traditionally have not considered themselves as retailers. Due to increased competition, these organizations are adopting retailing principles to attract customers and satisfy their needs.

Some service retailers provide services in the customer's home, while others provide services in an office, often located in a strip shopping center.

iii) Retailers Classified by Relative Prices

Retailers also can be classified according to the prices they charge. Most retailers charge regular prices and normal quality goods and customer service. Some offer higher quality goods and services at higher prices.

- a) *Discount stores*: discount stores sell standard merchandise at lower prices by accepting lower margins and selling higher volume. A true discount store regularly sells its merchandise at lower prices, offering mostly national brands, not inferior goods.
- b) *Off-price retailers*: off-price retailers buy less than regular wholesale prices and sell at less than retail. They tend to carry a changing and unstable collection of higher-quality merchandise, often-leftover goods, overruns, and irregulars obtained at reduced price from manufacturers or other retailers.

There are three main types of off-price retailers. Namely: factory outlets, independents and warehouse clubs.

Factory outlets: are off-price operations that are owned and operated by manufacturers and they normally carry the manufacturer's surplus, discontinued, or irregular goods.

Independents: are either owned and run by entrepreneurs or are divisions of large retail corporations.

Warehouse clubs (wholesale clubs): sell a limited selection of brand name grocery items, appliances, clothing and other goods at deep discounts to members who pay annual membership fees.

- c) *Catalog showrooms*: catalog showrooms sell a wide selection of high-mark up, fast moving, brand name goods at discount prices by placing a complete catalog and a number of sample items in a showroom and the remaining inventory in an attached warehouse.

They offer a broad but shallow assortment of merchandise, low prices, and few customer services. They stress selected product lines, such as cameras, consumer electronics, jewelry, sporting goods, and gift items. Shoppers examine the samples and catalogs available in the showroom or they may have already received a catalog in the mail.

iv) *Retailers Classified by Control of Outlets*

- a) *Corporate chains/chain stores*: chain stores are two or more outlets that are commonly owned and controlled, have central buying and merchandising, and sell similar lines of merchandise. They appear in all types of retailing, but they are strongest in department stores, variety stores, food stores, drugstores, shoe stores, and women's clothing stores.

They achieve economies of scale through central buying for different stores, which allows them to take advantage of quantity discounts. They also have advantages in promotion and management – spreading the costs to many stores.

- b) *Voluntary chains and retailer cooperatives*: the growth of corporate chains has encouraged the development of both voluntary chains and cooperative chains.

Voluntary chains: are wholesaler – sponsored group of independent retailers that engage in-group buying and common merchandising. The wholesaler sponsor often provides training programs, computer and accounting assistance.

Cooperative chains: are retailer – sponsored groups formed by independent retailers to run their own buying organization and conduct joint promotion effort.

- c) *Franchise*: is a contractual association between a manufacturer, wholesaler, or service organization (a franchiser) and independent business people (franchisees) who buy the right to own and operate one or more units in the franchise system.

Franchising is based on some unique product or service, on a method of doing business, or on the trade name, goodwill, or patent that the franchiser has developed the franchise benefit from the experience, buying power and the image of the franchiser (the parent company). In return, the franchisee signs a contract to pay fees and commissions – and to strictly follow the franchiser rules.

- d) *Merchandising conglomerate*: they are corporations that combine several different retailing forms under central ownership and share some distribution and management functions. Diversified retailing provides superior management systems and economies that benefit all the separate retail operations.

v) ***Retailers Classified by Type of Store Cluster***

Most stores today cluster together to increase their customer pulling power and to give consumers the convenience of one-stop shopping. The main types of store cluster are central business district and shopping centers.

- a) *Central business district*: they are retail cluster with department stores, specialty stores, banks, and movie theaters. They are usually located in down towns.

- b) *Shopping centers*: they are groups of retail businesses planned, developed, owned and managed as a unit.
 - Regional shopping centers: the largest shopping centers containing between 40 and 100 stores attracting customers from wide area.
 - Community shopping centers: contain 15 and 50 retail stores. They normally contain a branch of a department store, supermarket, specialty stores, and sometimes a bank.
 - Neighborhood shopping centers: generally contain 5 – 15 stores. They are close and convenient for consumers. They usually contain a supermarket, perhaps a discount store and several service stores dry cleaner, self-service laundry, drugstore, video rental outlet, barber or beauty shop.

4.4.2 Non-Store Retailing

Although a large majority of retail transactions are made in store, a growing volume of sales is taking place away from stores. Retailing activities resulting in transactions that occur away from a retail store are termed non-store retailing. Non-store retailing includes direct selling, telemarketing, automatic vending and direct marketing. Each type may be used by producers and/or retailers.

i) Direct Selling

Direct selling is a personal contact between a sales person and a consumer away from retail store. The two kinds of direct selling are door to door and party plan.

- a) *Door to door*: this means going directly to the consumers' home. It gives consumers the opportunity to buy at home or another convenient non store location. However, with the changing roles of women i.e., women now working outside home, direct selling firms find new ways of making contract with

prospective customers. As the result office to office and house-sales parties appear in the place of door to door retailing.

- b) *Party Plan/Home Sales Parties*: in this plan, a host invites some friend to a party and will make a sales presentation. This creates a more favorable selling conditions than door to door as guest get to shop in a friendly, social atmosphere.

Direct selling provides the most aggressive form of retail promotion for the seller as well as the chance to demonstrate a product in the shopper's (rather than the seller's) environment. The drawback is that direct selling is the most expensive form of retailing due to higher costs for sales commission. This resulted in higher prices.

ii) Telemarketing

Sometimes called telephone selling, telemarketing refers to a sales person initiating contract with a shopper and also closing a sale over the telephone. It may rely on prospects who have requested information from the company or whose demographics match those of the firm's target market.

Many products that can be bought without being seen are sold over the telephone. Examples are magazine subscriptions, credit-card-membership etc.

Telemarketing allows customers to shop at house-usually placing order by telephone and charging the purchase to a credit card. Typically, catalogs let customers see the offerings. This can be real convenience to customers especially if desired products are not available at local stores.

iii) Automatic Vending

Automatic vending is selling and delivering products through vending machines. This type of retailing involves no personal contact between the buyer and seller.

Most products sold by automatic vending are convenience oriented or are purchased on impulse. They are usually well known brands with high rate of turnover. And the bulk of automatic vending sales has come from the "4 C's": Cold drinks, coffee, candy, and cigarettes. They are also used to sell good newspapers, food and snacks, cosmetics, audio tapes and even shoe shining services.

Vending machines are found everywhere in factories, offices, lobbies, retail stores, gasoline stations, airports, and train and bus terminals. However, automatic vending machines are expensive to buy, stock and repair relative to the volume they sell. And therefore prices of vended goods are higher.

iv) *Direct Marketing*

Direct marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response. It involves the use of non-personal media to contact customers who, in turn, purchase products without visiting a retail store.

To contact consumers, direct marketers use one or more of the following media, radio, TV, newspapers, magazines, catalogs, and mailing (direct mail) and computers.

Direct marketing allows sellers to focus efficiently on mini markets with offers that better match specific consumer needs. It provides many benefits to consumers as well. It saves them time, and it introduces them to new life style and a larger selection of goods. In general, direct marketing allows great selectivity to markets and provides convenient shopping for customers.

The major types of direct marketing are direct mail, catalog retailing and on line shopping.

- a) *Direct Mail*: companies mail consumers letters, brochures, and even product sample, and ask that orders be placed by mail.
- b) *Catalog retailing*: companies mail catalog to consumers or make them available at retail stores.
- c) *On line shopping*: shopping through interactive on line computer service two way systems that link consumers with sellers electronically. These services create computerized catalogs of products and services which enable consumers compare the brands, and then order one using a charge card all with out leaving home.

4.5. Retail Organization Design Issues

Two important issues in the design of a retail organization are

1. the degree to which decision making is centralized or decentralized and
2. the approaches used to coordinate merchandise and store management.

The first issue translates into whether the decisions about activities such as merchandise management, information and distribution systems, and human resource management are made by regional, district, or store managers or by managers in the corporate headquarters.

The second issue arises because retailers divide merchandise and store management activities into different organizations within the firm. Thus, they need to develop ways to coordinate these interdependent activities.

Centralization versus Decentralization

Centralization occurs when the authority for retailing decisions is delegated to corporate managers rather than to geographically dispersed managers; **decentralization** occurs when the authority for retail decisions is assigned to lower levels in the organization.

Retailers reduce costs when decision making is centralized in corporate management. First, overhead falls because fewer managers are required to make the merchandise, human resource, marketing, real estate, information system, and financial decisions. Second, by coordinating buying across geographically dispersed stores, the company can achieve lower prices from suppliers. The retailer can negotiate better purchasing terms by placing one large order rather than a number of smaller orders. Third, centralization provides an opportunity to have the best people make decisions for the entire corporation. For example, in a centralized organization, people with the greatest expertise in areas such as management information systems (MISs), buying, store design, or visual merchandise can offer all stores the benefit of their skills. Fourth, centralization increases efficiency. Standard operating policies developed at the corporate headquarters are applied to the stores, allowing store managers to focus on their core responsibilities. For example, corporate merchandisers perform considerable research to determine the best method of

presenting merchandise. They provide detailed guides for displaying merchandise to each store manager so that all stores have a consistent brand image throughout the country. Because they offer the same core merchandise in all stores, centralized retailers can achieve economies of scale by advertising through national media rather than more costly local media.

Although centralization has advantages in reducing costs, its disadvantage is that it makes it more difficult for a retailer to adapt to local market conditions. In addition to problems with tailoring its merchandise to local needs, a centralized retailer may have difficulty responding to local competition and labor markets. Because pricing is established centrally, individual stores may not be able to respond quickly to competition in their market. Finally, centralized personnel policies may make it hard for local managers to pay competitive wages in their area or hire appropriate types of salespeople.

However, centralized retailers are relying more on their information systems to react to local market conditions. For example, many retailers are now using merchandise and pricing optimization techniques. With specialized software packages, buyers can determine optimal pricing, markdowns, and size and quantity allocations on a store-by-store or region-by-region basis.

Coordinating Merchandise and Store Management

Small, independent retailers have little difficulty coordinating their stores' buying and selling activities. Owner-managers typically buy the merchandise and work with their salespeople to sell it. In close contact with customers, the owner-managers know what their customers want.

In contrast, large retail firms organize the buying and selling functions into separate divisions. Buyers specialize in buying merchandise and have limited contact with the store management responsible for selling it. While this specialization increases buyers' skills and expertise, it makes it harder for them to understand customers' needs. Three approaches large retailers use to coordinate buying and selling are improving buyers'

appreciation for the store environment, making store visits, and assigning employees to coordinating roles.

a) Improving Appreciation for the Store Environment

Some retailers have management trainees who work in the stores before they become buyers. Others utilize a mixed career path in which managers are encouraged to float between store and corporate assignments. This store experience helps corporate managers and buyers gain an appreciation for the activities performed in the stores, the problems salespeople and department managers encounter, and the needs of customers.

b) Making Store Visits

Another approach to increasing customer contact and communication is to have buyers and other executives visit the stores. The visits provide managers and buyers with a richer view of store and customer needs than they could get from reading impersonal sales reports or talking on the phone.

c) Assigning Employees to Coordinating Roles

Some retailers maintain people in both the merchandise division (planners and allocators who work with buyers) and stores who are responsible for coordinating buying and selling activities. Many national retail chains have regional and even district personnel to coordinate buying and selling activities.

In addition to developing an organization structure, HR management undertakes a number of activities to improve employee performance, build commitment among employees, and reduce turnover.

4.6. Human Resource Functions in Retailing

Human resource management has always been an issue for big retailers only. Wherever you go to the neighborhood grocery shop or cloth merchant or say a small restaurant the owner is the chief of operations. All the employees of that establishment report to him or her. All decisions whether strategic in nature or related to day-to-day operations are taken by the owner. The need for human resource management is actually felt by big retailers like shopper's stop, pantaloons, etc.

Any typical retail organization would commonly need the following human resource functions:

- Job analysis and job design
- Recruitment and selection of retail employees
- Training and development
- Performance management
- Compensation and benefits
- Labor relations

1. Job Analysis and Job Design

Each retail store needs to analyze the jobs to be offered to the prospects. The job analysis involves a process of finalizing the job content and based on the findings preparing a design for the job. It is the responsibility of the store to prepare the job design since, it is necessary from the new employee point of view. A well-prepared job design and job analysis helps in the recruitment process and thereon in training to achieve the required results.

The **job analysis** identifies essential activities and is used to determine the qualifications of potential employees. For example, retail salespeople's responsibilities vary from company to company and department to department within a store.

Retail employees in self-service stores such as supermarkets and full-line discount stores typically help customers find merchandise, bring out and display merchandise, and ring up sales. In contrast, employees who work in jewelry stores, high-end apparel departments, or furniture stores get involved in a selling process that begins with finding out what customers want and then proposing solutions. The skill level required for employees involved in selling high-involvement merchandise such as jewelry or a home entertainment system is much greater than that for employees who have limited interactions with customers.

Managers can obtain the information needed for a job analysis by observing employees presently doing the job and determining the characteristics of exceptional performers. Below are lists some questions that managers use when undertaking a job analysis of store employees. Information collected in the job analysis is then used to prepare a job description.

- How many salespeople will be working in the department at the same time?
- Do the salespeople have to work together in dealing with customers?
- How many customers will the salesperson have to work with at one time?
- Will the salesperson be selling on an open floor or working behind the counter?
- How much and what type of product knowledge does the salesperson need?
- Does the salesperson need to sell the merchandise or just ring up the orders and provide information?
- Is the salesperson required to make appointments with customers and develop a loyal customer base?
- Does the salesperson have the authority to negotiate price or terms of the sale?
- Does the salesperson need to demonstrate the merchandise?
- Will the salesperson be expected to make add-on sales?
- Is the salesperson's appearance important? How should an effective salesperson look?
- Will the salesperson be required to perform merchandising activities such as stocking shelves and setting up displays?
- Whom will the salesperson report to?
- What compensation plan will the salesperson be working under?

2. Task Analysis

This is one method of facilitating the listing of tasks. First the retailer or HR manager identifies tasks which are essential for the achievement of organizational goals. Thereon

it's defined that which employee positions will be responsible for those tasks. Finally standards of performance for each position are set.

3. The Task Analysis Process

For task analysis the first step can be termed as task identification. Here the retail manager is supposed to list all the tasks needed to run the business. It is necessary to take a decision regarding assignment of different tasks to different members of the channels of distribution. At all points of time you should bear in mind that customer is the central focal point while taking any such decisions. Once the identification of tasks is done the next logical step is turning the different tasks into job positions.

In this step various tasks are grouped under distinct heads which can then be converted into positions or designations. For this, each task can be broken into some tasks which in turn can lead to creation of positions. This means, the set of tasks or an individual task can be assigned to an individual person. For this we need to prepare what is known as a job description.

Job description is a document which states as to what are the exact requirements of a particular job. However in the present competitive scenario we need to keep in mind that the employees do not work with the narrow scope of job description. It is worth mentioning at this juncture because employees tend to limit their scope of work in line with the limitations of job description.

We have to keep in mind that in this competitive and dynamic world our job profiles can change overnight as per the requirements of the store. Job description is an iterative process. One should keep in mind that job description is an ongoing process. Once our job descriptions are ready we must fix the standards of performance for performance appraisals and evaluation.

This is the final step in task analysis where performance standards are to be developed for the different tasks which have been mentioned in the job description. Whenever we are fixing standards we must indicate the level of proficiency required to meet the quality and quantity expectations. This in turn helps us to identify as to what can be the training needs for a new employee or an existing employee. At the same time it guides the human

resource management department in giving reasonably logical feedbacks to the employees.

4. Training and Development

New developments are always taking place in the retail scenario. With the growth in retail the consumers are maturing by the passing of everyday. Retailing is the most dynamic field of business management. With such changes in the field employees of any retail store ought to learn and train themselves to meet the new challenges. This is one of the most important profiles of any HR department. Training and development can take place in various ways. An organization may like to give on-the-job training to the fresh incumbent whereas, the oldies may be sent for some advanced training to back up the vast experience which they already have.

5. Compensation and Benefits

The HR department of any retail business needs to have policy guidelines regarding compensation and miscellaneous benefits to be given to the employees. For this the HR department needs to know similar policies and guidelines in similar organizations. Benchmarking is very essential as far as compensation and benefits are concerned. Compensation and benefits at any point of time are the best way to satisfy the employees at the lower and middle level of management.

6. Labor Relations

The HR departments should know the rules and regulations with respect to labor relations. A harmonious labor relation always argues the efforts of an organization to achieve its goals. All regional organizations besides having an HR department also hire legal practitioners for consulting from time to time. This has become necessary since each state has got different set of rules for human resource management with some standard rules.

4.7. Summary

- In a retail environment, employees are most important resources that require proper management. This poses the biggest challenge for the human resource management department of any retail organization.
- In designing an organizational structure some important considerations need to be kept in mind. These include the scope of operations, nature of merchandize, and types of organization.
- Generally, retailing is classified into store retailing and non store retailing. Store retailing is done in retail stores while non-store retailing refers to retailing activities resulting in transactions that occur away from a retail store. Retailing outlets can be classified along various dimensions. Like retail stores classified by amount of service, by product line, by relative prices, by control of outlets and by type of store cluster. Non-store retailing includes direct selling, telemarketing, automatic vending and direct marketing.
- The two important issues in the design of a retail organization are the degree to which decision making is centralized or decentralized and the approaches used to coordinate merchandise and store management.
- Any typical retail organization performs a number of important human resource functions like job analysis and job design, recruitment and selection of retail employees, training and development, performance management, compensation and benefits, labor relations..etc

4.8. Self Assessment Questions

True/false questions

1. Customers come to the store not only because of the ambience or reasonable price or the quality and range of products.
2. There is no as such that much difference between department Store and supermarket.
3. Service retailers are those businesses whose "product line" is actually a service.
4. Retailers reduce costs when decision making is decentralized in corporate management.

Short answer questions

1. What is the importance of human resource management in retailing?
2. State the factors that affect design of organizational structure.
3. What is meant by non-store retailing?
4. Identify retailers classified by product line.
5. Outline the human resource management functions in retailing.

4.9. Answers for Self Assessment Questions

True/false questions

1. True
2. False
3. True
4. False

Short answer questions

1. Refer section 4.2
2. Refer section 4.3
3. Refer section 4.4.2
4. Refer section 4.4.1
5. Refer section 4.6

Unit V: Retail Mix Management: Implementing the Retail Mix

5.0. Objective

5.1. Introduction

5.2. Place strategy: Selecting Retail Sites

5.3. Product Strategy: Planning Merchandise Assortments

5.4. Price Strategy: Establishing the Retail Price

5.5. Promotions Strategy: Managing Retail Promotional mix

5.6. Summary

5.7. Self Assessment Questions

5.8. Answers for Self Assessment Questions

5.0. Objective

After studying this unit, you should be able to:

- Understand the importance of site and location to the success of a retail business.
- Explain the merchandizing process in retail product strategy.
- Explain the various approaches to pricing strategy.
- Know how a retail business manages its promotional mix.

5.1. Introduction

Marketing is an underlying philosophy that guides business activities, but how does a retailer do marketing? A retailer must engage in planning, research and analysis before implementing a marketing strategy. At the core of any retail marketing plan is the mix consisting of the four Ps (Product, Price, Place and Promotion) of marketing. It is the fundamental approach used by modern retailers in marketing their products.

This unit discusses in detail the four elements of retail marketing mix.

5.2. Place strategy: Selecting Retail Sites

Even though non store retailing is growing, most of the retailers are still selling from retail store space. Some of these retailers are very small single-store operators, and some are huge superstore discounters. Each location selected resulted from an effort to satisfy the needs of the particular market each was designed to serve. Whether it was the customer's need for convenience, their desire to do comparison shopping, the extent of the purchasing power in a market area, of the transportation facilities available, many factors together led to the development of different kinds of retail locations.

Retail stores should be located where market opportunities are best. After a country, region city or trade area, and neighborhood have been identified as satisfactory; a specific site must be chosen that will best serve the desired target market. Site selection can be the difference between success and failure. A thorough study of customers and their shopping behavior should be made before a location is chosen. The finest store in the world will not live up to its potential if it is located where customers cannot or will not travel to shop. The primary role of the retail store or center is to attract the shopper to the location. Alternatively, retailers must take the store to where the people are, either at home or in crowds. Examples of taking the store to where the crowds are include airport location, parks and vending machines.

Every retail store strives for its competitive advantage. For some stores, it is price. For others, it is promotional expertise or the special services that are offered. Despite any differences among the various stores that may be competing for the shopper's money location offers a unique asset for all stores because once a site is selected, it cannot be occupied by another store. This advantage, however, points to the importance of location analysis and site selection. Once a facility is built, purchased, or leased, the ability to relocate may be restricted for a number of years.

In short, location and site selection is one of the most important decisions made by a retail owner.

SITE EVALUATION AND SELECTION

Types of locations

There are three major types of location that we will discuss in this section:

- (I) the shopping center,
- (II) the business district, and
- (III) the free standing location.

I) Planned Shopping Centers

The expansion of suburbia brought with it planned residential developments. These new subdivisions were connected by many new city streets and thoroughfares along which retail businesses could be established. The notion of the planned shopping center was born. Developers could plan multi-store facilities that would serve the needs of these new neighborhoods with grocery, drug, and apparel goods. With the availability of large tracts of relatively cheap undeveloped land located many miles from the inner city, but close to these new living areas, large centers could be designed that would offer one-stop shopping to entire clusters of residential areas. The last thirty years witnessed the widespread development of multi-unit retail strip centers and the construction of multi-acre shopping malls/theme parks.

Several important issues surround the choice of locating a retail business in a planned shopping center. One important consideration is the nature of the business sharing leases space within the center. Recent research has shown that the image of your retail business will be either positively or negatively influenced by the types of business that surround you, a process that is called image transference.

The term shopping center has been evolving since the early 1950s. Given the maturity of the industry, numerous types of centers currently exist that go beyond the standard definitions. Industry nomenclature originally offered four basic terms:

(1) Neighborhood, (2) community, (3) regional, and (4) super regional. However, as the industry has grown and changed, more types of centers have evolved, and these four classifications are no longer adequate.

1. Neighborhood shopping center.

This type is designed to provide convenience shopping for the day-to-day needs of consumers in the immediate neighborhood. Roughly half of these centers are anchored by a super market, while about a third have a drugstore anchor. These anchors are supported by smaller stores offering drugs, sundries, snacks, and personal services. A neighborhood center is usually configured as a straight —line strip with no enclosed walkway or mall area, although a canopy may connect the store fronts.

The relatively small size of the strip center means that it offers a rather narrow array of convenience or speciality stores. It is best designed to serve individuals living in the immediate vicinity or frequent passersby who would see the stores in the center as being —convenient. The neighborhood strip center can be placed almost anywhere that land permits. Inter sections and main thoroughfares are the most popular sites.

2. Community shopping center.

A community center typically offers a wider range of apparel and other soft goods than the neighborhood center. Among the more common anchors are super markets, super drugstores, and discount department stores. Community center tenants sometimes include off-price retailers selling such items as apparel, home improvement/furnishings, toys, electronics, or sporting goods. The centre is usually configured as a strip, in a straight line, an —L, or a —U shape. Of the eight centers types, community centers encompass the widest range of formats. For example, certain centers that are anchored by a large discount department store refer to themselves as discount centers. Others with a high parentage of square footage allocated to off-prices. Retailers can be termed off-price centers.

3. Regional shopping center.

This type provides general merchandise, a large percentage of which is apparel, and services in full depth and variety. Their main attractions are its anchors: traditional, mass

merchants, or discount department store or fashion speciality stores. A typical regional center is usually enclosed, with an inward orientation of stores connected by a common walkway. Parking surrounds the outside perimeter.

A regional shopping centers provides full depth and variety in apparel, furniture, home furnishings, and general merchandise. Regional centers typically contain at least three large full line department stores supplemented by numerous apparel stores, shoe stores, house hold appliance stores, furniture stores, drug stores, and super markets. More recently off – price and discount anchors have appeared as mall operators respond to the need of retaining value – conscious shoppers.

A keep point of differentiation between the community and the regional center is the extent to which people are willing to drive from one city to another to patronize a regional center. In other words, the shopping alternatives that are available in a regional center must not be present in surrounding communities. This case is often encountered in large urbanized areas that contain multiple large-scale malls, each of which contains similar anchors. A retailer's decision to locate with in a regional mall is, again, dependent on the level of demand that is available given rental and utility costs.

4. Super regional shopping center

This is similar to a regional center but because of its larger size, a super regional center has more anchors, contains a deeper selection of merchandise, and draws from a larger population base. As with regional center, the typical configuration is an enclosed mall, frequently with multiple levels.

The super regional shopping center is the largest of the planned centers. It encompasses the largest, most complete assortments of goods and services backed by four or more department store in the 100,000-square – foot and larger class.

5. Fashion/speciality center

This type is composed mainly of upscale apparel shops, boutiques, and craft shops carrying selected fashion or unique merchandise of high quality and price. These centers need not be anchored, although sometimes restaurants or entertainment can provide the

draw of anchors. The physical design of the center is very sophisticated, emphasizing a rich décor and high quality landscaping. These centers usually are found in trade areas having high income levels.

II) Central Business District

The central business district (CBD) is a shopping area located in either the central downtown area or another area in the city with a concentration of businesses. Until the mid – 1970s, the CBD was the core for shopping in most cities. When cities were relatively compact and much smaller the largest share of retail shopping was done in this downtown area. The CBD contained the largest concentration of department stores. Clothing stores, jewellery stores, variety stores, and specialty stores. When the CBD was thriving, it made possible large scale comparative shopping for all types of merchandise. Ironically, the CBD was an early —mall concept in that stores were relatively close and comparison could be made easily. The downtown area also met the needs of out of town shoppers, who would frequently be visiting on business or staying in a downtown hotel.

Reuse and modernization of commercial buildings also promise to help the return of street level retail activity to downtown areas. A retailer must decide whether renovation of downtown building space is commercially feasible. The following attributes should be considered;

- a) easy access from street,
- b) abundance of foot and vehicular traffic,
- c) space and lighting for appropriate signage,
- d) physical dimensions required to support business use,
- e) a contiguous population that can correlate with the quality of shops and their brand name merchandise and the expected cost of goods, and
- f) the design enticements to help make the location a unique shopping experience.

III) Free standing locations

This type of retail store stands alone, physically separate from other retail stores. It does not enjoy the same benefits that shopping centers offer from the stand point that customer of a free standing store must have made a special trip to get there. Shoppers are not —just next door— and decide to walk in as they could in a mall or strip center. Freestanding locations constituted about 22 percent 32 of all retail space, and a recent survey of retailers shows that this category leads all others for future importance.

Drive in locations are special cases of freestanding sites that are selected for the purpose of satisfying the needs of customers who shop in their automobile. In some situations, the drive – in aspect of the retail business is only to supplement existing in – store sales, but the same requirements of all drive – in location apply. These sites are usually positioned along or decide heavy traffic arteries in neighbor hoods, city streets, or inner city through fares. Stores that rely totally on drive – in and walk up business, such as Fox Photo, are designed to offer extremely quick service and require a significantly smaller amount of space than more traditional park – and – shop stores. In fact, drive – in – only retailers often find that they can price competitively because of reduced overhead from smaller building and land size.

The total volume of passing traffic and the ease with which the traffic can enter and leave the store critically important to the sales potential of the entire establishment. The greater the density of traffic, the greater the potential amount of business that is likely to be derived. An automobile traffic count is absolutely necessary to identify suitable locations for drive-ins. Furthermore, it is important that this traffic count be separated into direction, or flow.

A traffic flow analysis may be described in terms of why a customer is making the trip: whether it is to or from work, for shopping, or for pleasure or recreation. For example, drive-in-services for a bank would more likely be utilized during work-to-home trips than the reverse. If the objective of a drive-window of a fast food chain was to increase breakfast food sales, then a home-to-work direction would be favorable. A work-trip customer may drop off cleaning on the way to work and stop for gas on the way home.

Customers on a shopping trip are more easily stopped if a location is positioned along the right side of a through fare. Not all shopping is done between home and work. This is particularly true if a drive-in is located between the customer's place of residence and a major shopping area. If there are a number of stores located in the general vicinity, the drive-in should be on the same side of the street as those stores. To attract recreation or pleasure trip shoppers, locations along a heavily travelled artery are best. The location should be convenient to enter and leave, adjacent to the incoming traffic.

Assessing Site Evaluation Criteria

The description of locations you have just read provides most of the ideas about the evaluative criteria for selection of a site. Putting all of the different ideas together and coming to a decision is the trick. There is no such thing as a —Perfect site.‖ Retailers must decide which attributes are the most important to their business.

Let's summarize the key criteria critical to the site selection decision

(1) Sales potential for the site. The demographic, economic, and competition factors and strategies by which management hopes to create a competitive advantage determine the estimate of sales for a site. Growth potential should be a basic consideration in the evaluation of the sales potential.

(2) Accessibility to the site. Automobile and public transportation access to the site and adequate parking may well be defining criteria. There may be a number of barriers to the target market seeing the site as accessible. The barriers may be geographical, such as mountains or rivers. They may be psychological, such as the perceived quality of the neighbor hoods that customers must travel through. Barriers are often man made, such as one way frontage roads, bridges, clover leafs, and long term public works construction projects.

(3) Pedestrian accessibility at the site. The site must provide reasonable actual and perceived access to the store. Traffic patterns within malls or on city streets can help or hinder pedestrian access. The storefronts can intimidate or encourage entry. Neighboring stores can bring potential customers near or drive them away. Have you ever watched

customers turn away when they have to try to get to a store through a group of teens waiting in line to get tickets to the movie in the mall?

(4) Synergies from nearby stores. We discussed image transference as either a help or a hindrance to drawing traffic to the store. There is cumulative attraction when business can draw more customers together than they could individually. That is why auto dealers will tend to locate where shoppers can visit each of them in a single trip. In a shopping center a group of complementary stores such as apparel and accessories benefit from being near one another. Stores that have similar retailing strategies on dimensions of merchandise quality and price lines, service quality and store atmosphere. Technology is providing new ways to fine-tune the site evaluation process in terms of the architectural fit with neighboring stores. How the store and its exterior design mesh with the neighboring stores is a concern. Advanced computer imaging allows the retailer to see how the storefront will look in the area before construction or moving begins.

(5) Site economics: Leasing and occupancy terms. The terms of the lease or purchase contracts have critical implications for the retailers. In a recent survey of retail managers, leasing options and terms were expressed as among their top concerns. Occupancy rates in the immediate or surrounding vicinity also have important implications to retail managers. For example, lower occupancy rates may improve your ability to negotiate a more favorable lease because the developer is anxious to fill vacant space; but low occupancy may signal poor access, poor market variables, or poor management relations with the center owner /developer. Furthermore, even if the vacant space; but low occupancy may signal poor economic viability in the market, too much vacancy can be an open door to a competitor. In fact, if the vacant space is sufficient, it can quickly be occupied by a competitor that you did not anticipate. The full range of the costs of occupancy must be considered. Local taxes, maintenance and up keep costs, renovation costs, utilities, as well as the cost to rent or own are all critical factors.

(6) Legal and political environment. Increasingly, the legal and political environment is an important consideration in site location decisions. Changes in zoning laws, taxing

districts, and road maintenance projects can threaten the long run viability of a specific site.

(7) Physical features. The physical features of the site and neighboring area must not be overlooked. Whether it is raw land or an existing building, the physical dimensions of the site must fit your needs. Gap, for example, has adopted a standard layout for all its stores to simplify shelving, checkout, stock room, and merchandise display needs. Consequently if a site will not accommodate this predetermined configuration it is abandoned. The size and shape of a site, visibility of a site for signs, age of surrounding buildings, traffic flows by time of day, traffic turning patterns, and number of traffic lanes has critical implications to factors such as access, number of cars that can be parked or room for future expansion. Condition of building or rental space, visibility from the street, disabled and delivery access, parking lot condition and size, and interior décor must also be considered. A site that is functional today may not be functional tomorrow as your business expands. As an area grows, you need to be able to access whether or not the existing streets, highways, and intersections will accommodate the expanded vehicular traffic. The close proximity of older buildings may suggest that furniture development is unlikely or that the area is suffering from economic decline. Close attention to zoning must be paid when evaluating the physical features of a proposed site.

5.3. Product Strategy: Planning Merchandise Assortments

Retail businesses, like all other businesses, exist with the aim of making a profit. The function revolves around planning and control. Planning is of great importance, because it takes time to buy merchandise, have it delivered, record the delivery in the company's records and then, to send the merchandise to the right stores.

Analysis is the starting point of merchandising planning. The person, who is to take the buying decisions for a retail organization, must be aware of the consumer needs and wants. An understanding of the consumer buying process is necessary. A part from this, a clear understanding is also necessary of what products are actually selling and where. Information on this can be obtained from sale records. An interaction with the sales staff is also needed, as they can offer valuable insights into conducted, magazine and trade

publications and trade associations are other sources of information. The information thus gathered needs to be analyzed. This analysis forms the basis of the sales forecast.

KEY ELEMENTS OF MERCHANDISING

According to Walters and Hanrahan, (Retail Strategy, Planning & Control), the Retailer must take strategic direction in the four key elements i.e. Merchandise Strategy, Communication Strategy, Customer Service Strategy, and Format and Environment Strategy. Let us learn them in detail.

Merchandise Strategy: A merchandise strategy is based on the concept of targeting the right people with the right merchandise at the right time at the right place. Here the right people mean the right customers the retailer wishes to target.

The right place implies that the store should have sufficient floor space and an appropriate ambience. Depending on the location of the store and the inhabitants, the retailer will offer the appropriate quality and the pricing of the merchandise.

Communication Strategy: Effective communication is very important for a successful merchandising. It requires an effective strategy – a coherent plan of action. It should take into account the goals and objectives of Retail Firm, the features of the Products and Services and the environmental condition.

The marketer makes an effort to persuade wholesale and retail channel members to stock and promote certain products. He/she tries to enforce that the consumer demands certain products or brands from retail channel members.

Customer Strategy: Customer satisfaction is the utmost important for a successful retail enterprise. A high-quality customer service must be provided on the reception desk itself. It requires excellent communication skills of the Retail staff. The employees must be patient while dealing with the customers. They should have excellent listening and telephone skills. They should be able to solve and prevent problems of the customers' soft skills. There should be mechanism of feedback from the customers.

Format and Environment Strategy: Retailers are making use of customer creativity, technology and processes to develop new strategies for store format. They are focusing to

delight customers by ensuring that the right products are delivered to store shelves. They are making effort in such a way that, the space is being managed well. At the same time, they should possess adequate right staff is deployed to provide an appropriate level of customer service.

From the above key elements, it is observed that Merchandise Strategy is going to be the most crucial one. This strategy will substantially influence the other three elements mentioned above. Whether it is to decide on communication or customer service or the store format and its ambience, all these three key elements will have to be taken into account. The above strategies will also facilitate to retain the loyalty of the customers.

PROCESS OF MERCHANDISING

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

Let us learn the steps involved in the process of merchandising. These steps are as follows:

Understanding consumer needs: The merchandiser should understand the different ways in which the consumer presently satisfies the need. Let us assume that the consumer has need for hair care. Based on the study the merchandiser may find that there are various ways in which the need is being satisfied. These may be hair soap, oil, lotion, shampoo, cream and dye. With the help of consumer survey the method/ product which is most in demand for satisfying the need is ‘shampoo’.

Identifying and sourcing of right merchandise: Further, the merchandiser may need to identify the right merchandise for shampoo. For example, in shampoo the merchandiser may find that there are three variants – herbal, medicinal, and regular.

The merchandiser based on the study of consumer feedback would like to know, which one is most in demand, or will help the retailer to serve the consumer needs. Suppose the merchandiser decides for ‘medicinal shampoo’. For medicinal shampoo, the merchandiser needs to identify the right suppliers/sources of this type of shampoo.

Planning the right assortment: Next the merchandiser has to decide on the different sub categorization. The sub-categorization can be made, based on the consumer need for medicinal shampoo. The shampoo may be used to treat different kinds of hair condition i.e. dull, oily, dry, normal, straight, and curly. Thus, the merchandiser must know based on past trend, experience or survey, the right quantities to be maintained under each sub-categorization. In other words, the assortment should cover needs of different hair conditions.

Planning distribution to different locations: Once the assortment is cleared then the merchandiser needs to work out the quantities to be dispatched to different distribution centers. The quantity dispatched should be based on the number of outlets in each location, the minimum stocks to be maintained, turnover ratio, the replenishment time, etc. The logistics for delivery of goods should also be taken into account.

Providing right quantities: Once the goods reach the different distribution points, the goods further needs to be sent to each of the outlets in the region. For this the retailer will take into account the consumer requirement in each of the stores based on previous sales trends or its own study of consumer needs. Thus, for each store its requirement in terms of different assortment is worked out and the goods are dispatched.

Deciding the price: Once the goods reach the store, the merchandiser needs to decide on the pricing of each of the products/items. Normally, the pricing is decided at the time of assortment stage itself. In case of certain retail chains the pricing may be left to the respective store managers also, the manager will work upon prices as per the guidelines from the chief merchandiser for the product category. The prices are decided based on the gross margin policy for each of the products.

Communicating offerings to target consumers: Once, the goods are on the floor of the shop, the merchandiser will work out the visual merchandising. He/she will communicate such strategy for the given store or group of stores. The merchandiser may provide certain props and signages to each of the store to communicate right messages and offerings to consumers. There could be advertisements in print media or TV or radio or hoardings etc., for giving mass publicity to the offerings.

Taking/understanding feedback of consumers: The merchandising team may decide to take feedback on different brands/items to know consumers reaction to pricing, quality, availability, display, after use effect etc. The feedback acts as a guideline for improving sourcing and assortment, so as to provide maximum satisfaction to consumers

MERCHANDISE TYPES

There are various types of merchandise or consumer goods used by end consumers.

Understanding these types will greatly help in determining the strategies that are suitable for selling each of these types. Consumer goods/merchandise fall into four subgroups as explained here below:

➤ **Routine or Convenience Products**

The features of routine or convenience products are:

- These are routine products like daily use items – which are bought and used in a routine manner.
- These products are purchased with a little effort as possible, frequently, and in small quantities.
- These are not high priced products but generally low priced ones.
- These products are purchased for their functional purpose.
- These products are available at numerable locations in variety of outlets.

➤ **Convenience products** can be further divided into staple goods, impulse goods, and emergency goods. Let us learn them.

Staple goods/merchandise are purchased on a regular basis and will include most food and grocery items.

Impulse goods are purchased out of impulse without any prior plan before entering the store. The product itself, its display, its packaging, and price are important elements in the sale of such merchandise.

Emergency goods are the items or merchandise that are needed due to certain emergency or unexpected need, and needed immediately. These items may be purchased at a higher price or at whatever available price. For example, a pain reliever or a headache relieving pill.

➤ **Shopping Products**

The features of shopping products are as follows:

- These are the products for which the consumer spends considerable time and effort to buy.
- Consumers are ready to shop around to compare features and prices of competing products before making a purchase.
- These are bought less frequently.
- These products are more expensive and are available at few select stores.
- These products need more of personal selling on the part of the store sales representative.
- These merchandise include TV, cars, home appliances, homes, etc

➤ **Specialty Products**

The features of specialty products are as follows:

- These products are very much important to consumers due to certain emotional associations with such products, and hence, they make special effort to find them.
- The consumers are unwilling to accept a substitute for the preferred product.
- Retailers play very important role in the sales of these products as they need to have sales representatives who have good product knowledge. They are ready to take certain extra efforts to understand the needs of its consumers.
- Thus, the marketers of these goods limit their distribution in order to ensure strong sales support at the store level.
- These include stereo equipments, large digital TV, musical instruments, some branded men's clothing.

➤ **Unsought Goods**

The features of unsought goods are as follows:

- These are the merchandise that consumers are not much aware of, and even if they are aware of have not considered buying them.

- For example, certain medical services or accident insurances, which are known to many consumers but are not sought for. Similar is the case with encyclopedias, which are known but not so much sought after.
- These goods need lot of publicity of convincing nature and good effort at personal selling level, as one generally finds with insurance selling agents.

5.4. Price Strategy: Establishing the Retail Price

Price is an integral part of the retail marketing mix. It is the factor, which is the source of revenue for the retailer. The price of the merchandise also communicates the image of the retail store to the customers. Various factors like the target market; store policies, competition and the economic conditions need to be taken into consideration while arriving at the price of a product.

- The first factor to be taken into consideration is the demand for the product and the target market. Who is this product meant for and what is the value proposition for the consumer. In some cases, the price of the product is linked to the quality. This is generally in the case of products like electronics, where a high priced product is perceived to be of good quality. On the other hand, for products like designer clothing, a certain section of the population may be willing to pay a premium price. Hence, it is very essential that the buyer is clear about the target market for the producer and the value proposition that they would look for.
- The stores policies and the images to be created also influence the pricing of a product. Retailers who want create a prestige image may opt for a higher pricing policy, while the retailer who wants to penetrate the market, may decide to offer a value for money proposition.
- Competition for the product and the competitor's price for similar product in the market also need to be taken into consideration. In case the product is unique and does not have any competition, it can command a premium prices on the other hand, in case there after a fair number of similar products in the market, the prices of such product need to be taken into consideration before fixing the price.

- The economic conditions prevalent at the times play a major role in the pricing Policy. For example, during an economic slowdown, prices are generally lowered to generate more sales. The demand and supply situation in the market also affects Prices. If the demand is more than the supply, prices can be premium, however, when supply is more than the demand, prices had to be economical.

There are various factors that affecting retail pricing. These include brand image, customer loyalty, product features and consumer behavior

The pricing objectives should be in agreement with the mission statement and merchandising policies of the retail organization.

ELEMENTS OF RETIL PRICE:

In order to arrive at the retail price, one needs to first consider the elements that go into the calculation of the price. The first element to be considered is the Cost of Goods, which is the cost of the merchandise and various other expenses that are involved in the movement of the goods from the manufacturer to the actual store. These expenses may be fixed or Variable. Fixed Expenses are those, which do not vary with the quantity of the sale or business done. Sop rents and head office costs fall into this category. The level of sales directly affects the variable expenses. Merchandise margins and the product mix, however, are variable, and their management can either enhance or destroy profitability.

The profit to be earned from the merchandises must be planned before fixing the retail price. The profit figure arrived at, can be expressed as a percentage of the retail price or as a percentage of the cost price.

Thus, the following formulae would apply:

Make Up Per cent (Based on Retail Price) = Mark Up in Birr / Retail Price **and,**

Mark Up Per cent (Based on Cost) = Mark up in Birr / Cost.

Let us under strand this concept with the help of the following illustration. Assume that the cost of the merchandise of an item is Br 200 and the mark up is Br 150. The mark up percentage based on the retail price would work out to 37.5%.

The retail price has been calculated as $200 + 150 = 350$.

Mark Up percentage on retail = $150 / 350 = 42.86\%$

Based on the cost price, the mark up percentage can be calculated as under:

Mark Up percentage on cost = $150 / 200 = 75\%$.

The mark up thus fixed is termed as the Initial Make Up. Rarely are all products sold completely at the fixed price. Reductions in price are often made and could be due to markdowns, employee discounts, customer discounts and / or shrinkage.

Markdowns are reductions in the original retail price. Markdowns are discussed in detail later in this chapter, in the section on adjustments to retail prices. Discounts offered to customers and employees who buy the products, also reduce the mark up percentage. Shrinkage includes loss of merchandise due to thefts, or damaged / soiled goods. All these costs reduce the profit margin and hence must be accounted for.

DEVELOPING A PRICING STRATEGY

The pricing strategy adopted by a retailer can be cost-oriented, demand-oriented or competition-oriented.

In **Cost-oriented pricing**, a basic mark up is added to the cost of the merchandise, to arrive at the price. Here, retail price is considered to be function of the cost and the mark up.

Thus, Retail Price = Cost + mark up

If this formula is rearranged, we get

Cost = Retail Price – Mark up and,

Mark up = Retail Price – Cost.

The difference between the selling price and the cost is considered to be the mark up and should cover for the operating expenses and the transportation, etc. Mark up percentages may be calculated on the retail price or on the cost. They are calculated as under.

Mark up % (at retail) = $(\text{Retail Selling Price} - \text{Merchandise Cost}) / \text{Retail Selling Price}$

Mark up % (at cost) = (Retail Selling Price – Merchandise Cost) / merchandise Cost

When the buyer is aware of the mark up percentages required and of the selling price, he can also work out the price at which he actually needs to procure the product.

Since it may not be possible to adopt a policy of maintaining a single mark up for a product category, the concept of a variable mark up policy can be followed. This allows the buyer to procure goods at varying price, but at the same time, maintain the margin that need to be earned, as some products may earn a higher margin as compared to other.

Demand-oriented pricing focuses on the quantities that the customers would buy at various prices. It largely depends on the perceived value attached to the product by the customer. Sometimes, a high priced product is perceived to be of a high quality and a low priced product is perceived to be of a low quality. An understanding of the target market and the value proposition that they would look for is the key to demand-oriented pricing.

When the prices adopted by the competitors play a key role in determining the price of the product, then competition-oriented pricing is said to follow. Here, the retailer may price the product on par with the competition, above the competitor's price or below that price.

APPROACHES TO A PRICING STRATEGY

Price lining do retailers use a term when they sell their merchandise only at the given prices. A price zone or price range is a range of prices for a particular merchandise line. A price point is a specific price in that price range.

The pricing strategies that can be followed include:

- a) **Market skimming** The strategy here is to charge high prices initially and then to reduce them gradually, if at all. A skimming price policy is a form of price discrimination over time and for it to be effective, several conditions must be met.
- b) **Market Penetration** This strategy is the opposite of market skimming and aims at capturing a large market share by charging low prices. The low prices charged stimulate purchases and can discourage competitors from entering the market, as the

profit margins per time are low. To be effective, it needs economies of scale, either in manufacturing, retail or both. It also depends upon potential customers being price sensitive about particular item and perhaps, not perceiving much difference between brands.

- c) **Leader pricing** Here, the retailer bundles a few products together and offers them at a deep discount so as to increase traffic and sales on complementary items. The key to successful leader pricing strategy is that the product must appeal to a large number of people and should appear as a bargain. Items best suited for this type of pricing are those frequently purchased by shoppers, e.g., bread, eggs, milk, etc.
- d) **Price Bundling** Here, the retailer bundles a few products together and offers them at a particular price. For example, a company may sell a PC at a fixed price and the package may include a printer and a web camera.
- e) **Multi-unit Pricing** In multi-unit pricing, the retailer offers discounts to customers who buy in large quantities or who buy a product bundle. This involves value pricing for more than one of the same item. For example, a retailer may offer one T-shirt for Br 255.99 and two T-shirts for Br 355.99. Multi-unit pricing usually helps move products that are slow moving.
- f) **Discount pricing** It is used as a strategy by outlet stores who offer merchandise at the lowest market prices.
- g) **Every Day Low Pricing** Every Day Low Pricing or EDLP as it is popularly known, is a strategy adopted by retailers who continually price their products lower than the other retailers in the area. A famous example of EDLP is Wal-Mart, who regularly follow this strategy.
- h) **Odd Pricing** Retail prices are set in such a manner that the prices end in odd numbers, such as Br 99.99 or Br 199, Br 299, etc.

The buyer may adopt either the cost-oriented or a demand-oriented approach for setting prices. In the **Cost-oriented method**, a fixed percentage is added to the cost price. This is determined by what mark up the retailer works on. Alternately, the demand-oriented

method bases prices on what price the customer expects to pay for the product. The price fixed here is based on the perceived value of the product. Ultimately, it is the planned gross margin, which needs to be achieved, and which is a major consideration while fixing the retail price.

ADJUSTMENTS TO RETAIL PRICE

Many a times, retail prices need to be adjusted to meet the conditions prevailing in the market. Adjustments to retail prices can be done by way of markdowns or by way of promotions. Markdowns are a permanent reduction in the price and this step may be taken as a result of slow selling of the product or as a part of a systematic strategy. Markdowns are usually done after a determined number of weeks in order to maintain a desired rate of sales.

Timely markdowns help improve the profit ability, increase the turnover and increase the profit. Markdowns may be necessitated due to wrong forecasting, overbuying, faulty selling practices or simply because the product is shop soiled or the odds and ends of a range are left at the end of a season.

The mark down percentage is calculated as follows:

Total mark down / total sales X 100

Promotions on the other hand, are a temporary reduction in the price, used to generate additional sales during peak selling periods. Prices may be reduced by a percentage (25 percent off) or to a lower sale price (Br. 99). High volume items, with a substantial initial markup, are usually selected for promotions.

Promotions may also include coupons, which may reduce the retail price by an amount or a percentage. With retail coupons, the retailer absorbs the reductions in the price.

5.5. Promotions Strategy: Managing Retail Promotional mix

Promotion is basically a communication process. This has become necessary as the process of selling is more complex today because products are more technical, buyers are more sophisticated, and the competition is more intense. Without proper flow of

information and effective communication from the producer to the consumer either along with the product or well in advance of the introduction of product into the market, no sale is possible today. The various promotion mix elements designed for this purpose are also referred to as —Communications Mix.

Need for Communication

When a company develops a new product, changes an old one, or simply wants to increase sales of an existing product, it must transmit its selling message to potential customers.

The process of communication is generally divided into Explicit and Implicit communications. The former one involves the use of language to establish common understanding among the people. Implicit communication is an ‘intensive interpretation of symbols’ and is basically a form of non-verbal communication. For example, when two foreigners meet, even though they are unable to communicate through a common language, they will exchange their views through meaningful symbols.

Promotion is an ‘exercise in information, persuasion, and influence’. Accordingly, promotion has come to mean the overall coordination of advertising, selling, publicity, and public relations. Promotion is a helping function designed to make all other marketing activities more effective and efficient. But sales promotion as such helps only the selling activity.

Elements of Promotion Mix

The marketing communications mix (also called the promotion mix) consists of five major tools:

- i. **Advertising:*** Any paid form of non personal presentation and promotion of ideas, goods, or services by an identified sponsor.
- ii. **Direct Marketing:*** Use of **mail, telephone** and other non personal contact tools to communicate with or solicit a response from specific customers **and** prospects.
- iii. **Sales Promotion:*** **Short-term incentives** to encourage trial or purchase of a product or service.

- iv. **Public Relations und Publicity:** A variety of programs designed to promote and / or protect a company's image or its individual products.
- v. **Personal Selling:** Face-to-face interaction with one or more prospective purchasers for the purpose of making sales.

The whole marketing mix, **not just the** promotional mix, must be orchestrated for maximum communication impact.

Steps in Developing Effective Communication:

We will now examine the major steps in developing a total communication and promotion program. The marketing communicator must (1) identify the target audience, (2) determine the communication objectives, (3) design the message, (4) select the communication channels, (5) allocate the total promotion budget, (6) decide on the promotion mix, (7) measure the promotion's results, and (8) manage and coordinate the total marketing communication process.

1. Identifying the Target Audience:

A marketing communicator must start with a clear target audience in mind. The audience could be individuals, groups, **particular** publics, or the general public. The target audience will critically influence the communicator's decisions on what to say, how to say it, when to say it, where to say it, and to whom to say it.

2. Determining the Communication Objectives

Once the target market and its characteristics are identified, the marketing communicator must decide on the desired audience response. The ultimate response, of course, is purchase and satisfaction. But purchase behavior is the end result of a long process of consumer decision making. The marketing communicator needs to know how to move the target audience to higher states of readiness to buy.

The marketer can be seeking a cognitive, affective, or behavioral response from the target audience. That is the marketer might want to put something into the consumer's mind, change the consumer's attitude, or get the consumer to act. Even here, there are different

3. Designing the Message

Having defined the desired audience response, the communicator moves to developing an effective message. Ideally, the message should gain attention, hold interest, arouse desire, and elicit action (AIDA model). In practice, few messages take the consumer all the way from awareness through purchase, but the AIDA model suggests the desirable qualities.

Formulating the message will require solving four problems: what to say (message content), how to say it logically (message structure), how to say it symbolically (message format), and who should say it (message source).

4. Selecting the Communication Channels:

The communicator must select efficient channels of communication to carry the message. Communication channels are of two broad types, personal & non personal. Within each are found many sub channels

(a) Personal Communication Channels

Personal communication channels involve two or more persons communicating directly with each other. They might communicate face to face, person to audience, over the telephone, or through the mail. Personal communication channels derive their effectiveness through the opportunities for individualizing the presentation and feedback.

A further distinction can be drawn between advocate, expert, and social channels of communication. Advocate channels consist of company salespeople contacting buyers in the target market. Expert channels consist of independent experts making statements to target buyers. Social channels consist of neighbors, friends, family members, and associates talking to target buyers.

Many companies are becoming acutely aware of the power of the "talk factor" or "word-of-mouth" coming from expert and social channels in generating new business. They are seeking ways to stimulate these

(b) Non Personal Communication Channels:

Non personal communication channels carry messages without personal contact or interaction. They include media, atmospheres, and events.

Media consist of print media (newspapers, magazines, direct mail), broadcast media (radio, television), electronic media (audiotape, videotape, videodisc), and display media (billboards, signs, posters). Most non personal messages come through paid media.

Events are occurrences designed to communicate particular messages to target audiences. Public relations departments arrange news conferences, grand openings, and sport sponsorships to achieve specific communication effects with a target audience.

Although personal communication is often more effective than mass communication, mass media might be the major means to stimulate personal communication. Mass communications affect personal attitudes and behavior through a two-step flow-of-communication process. "Ideas often flow from radio and print to opinion leaders and from these to the less active sections of the population"

5. Establishing the total promotion Budget:

One of the most difficult marketing decisions facing companies is how much to spend on promotion.

This it is not surprising that industries and companies vary considerably in how much they spend on promotion. Promotional expenditures might amount to 30to50% of sales in the cosmetics industry and only 10 to 20% in the industrial equipment industry. Within a given industry, low-and high-spending companies can be found. How do companies decide on their promotion budget? We will describe four common methods used to set a promotion budget.

Many companies set the promotion budget at what they think the company can afford. One executive explained this method as follows: "why it's simple.

This method of setting budgets completely ignores the role of promotion as an investment and the immediate impact of production on sales volume. It leads to an uncertain annual promotion budget, which makes long-range market communication planning difficult.

6. PROMOTION MIX

Demand of goods is to be created to sell the goods produced in the market be created. Without demand creation, no sale can be effected. It is a continuous process throughout the product life cycle. At introduction level utmost efforts are made to make a product

recognized by the customers. The demand once created, would have to be maintained and increased. Efforts for demand creation continue even in the declining stage. For this purpose, promotional activities are undertaken. A promotional mix involves three main activities: personal selling, advertising and sales promotion activities. Personal selling is direct or personal method of selling the product through salesmen or retailer. Advertising and sales promotion are impersonal methods of promoting the sales.

7. Measuring Promotion's Results:

After implementing the promotional plan, the communicator must measure its impact on the target audience. This involves asking the target audience whether they recognize or recall the message, how many times they saw it, what points they recall, how they felt about the message, and their previous and current attitudes towards the product and company. The communicator would also want to collect behavioral measures of audience response, such as how many people bought the product, liked it, and talked to others about it.

8. Total Marketing Communication

Management combines the four controllable into marketing strategy market, distribution promotion and price strategies. It involves establishing and maintaining communications with target markets and interview middlemen, through various marketing communications media-advertising, personal selling, point of purchase materials, packing and other media like samples and coupons.

The messages sent involve various aspects of the overall marketing strategy that might contribute to favorable buying response on the parts of middlemen and members of target market segment. Successful promotion comes about only through effective communication. Communication gap may be very harmful in the achievement of marketing goals.

5.6. Summary

A retailer must engage in planning, research and analysis before implementing a marketing strategy. At the core of any retail marketing plan is the mix consisting of the four Ps (Product, Price, Place and Promotion) of marketing.

Place decisions include where stores will be located, the number of stores, as well as store layout and design. Location is the most important ingredient for any business that relies on customers. It is also one of the most difficult to plan for completely. Location decisions can be complex, costs can be quite high, there is often little flexibility once a location has been chosen and the attribute of location have a strong importance on retailers overall strategy.

For retailers, some of the Product decisions include choices about what products to carry, how much assortment to offer, and which services to support.

Price is one of the four major strategy decision variables that a marketing manager controls. Pricing decisions affect both the number of sales a firm makes and how much money it earns. Price is what a customer must give up to get the benefits offered by the rest of a firm's marketing mix, so it plays a direct role in shaping customer value.

A company's total promotion mix—also called its marketing communications mix—consists of the specific blend of advertising, public relations, personal selling, sales promotion, and direct marketing tools that the company uses to engage consumers, persuasively communicate customer value, and build customer relationships.

5.7. Self Assessment Questions

True/false questions

- 1 The elements of the promotional mix include advertising, sales promotion, personal selling, and competitive advantage.
- 2 Markup pricing, adding an amount to cost to cover expenses and profit, is one of the most common pricing methods used by intermediaries to establish a selling price.

- 3 Despite any differences among the various stores that may be competing for the shopper's money location offers a unique asset for all stores because once a site is selected, it cannot be occupied by another store.
- 4 . The price of the merchandise also communicates the image of the retail store to the customers.
- 5 If a product is already known by customers, there is no as such a need to promote the product.

Short answer questions

1. Identify and explain the criteria critical to the site selection decision. 5.2
2. Describe elements of merchandizing.5.3
3. What are the common pricing strategies?
4. Explain elements of promotional mix

5.8. Answers for Self Assessment Questions

True/false questions

1. False
2. True
3. True
4. True
5. False

Short answer questions

1. Refer section 5.2
2. Refer section 5.3
3. Refer section 5.4
4. Refer section 5.5