ଓଡ଼ିଶା ରାଜ୍ୟ ମୁକ୍ତ ବିଶ୍ୱବିଦ୍ୟାଳୟ, ସମ୍ବଲପୁର, ଓଡ଼ିଶା
Odisha State Open University, Sambalpur, Odisha
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DIPLOMA IN MANAGEMENT

DIM-4

Marketing and Retail Management

Block

4

Retailing

Unit – 1

Retail Management: An Overview

Unit – 2

Retailing Mix

Unit – 3

Concept of Merchandising and Planning Process

Unit – 1
Retail Management: An Overview

Learning Objectives

After completion of the unit, you should be able to:

- Explain the meaning, concept and definition Retailing and Retail Management.
- Identify the Theories of Retailing
- Describe the Concept of Organized and Unorganized Retailing.
- Understand Scope of Retailing
- Know the Functions and Importance of Retailing.

Structure

1.1 Introduction

As you know Retailers are responding to broad demographic and life-style trends in our society, such as the growth in the elderly and minority segments of the U.S. population and the importance of shopping convenience to the rising number of two-income families. As you can see it is to develop and implement an effective strategy, retailers need to know why customers shop, how they select a store, and how they select among that store's merchandise.

A retailer's primary competitors are those with the same format. Thus, department stores compete against other department stores and supermarkets compete with other supermarkets. This competition between retailers with the same format is called intratype competition. To appeal to a broader group of consumers and provide one-stop shopping, many retailers are increasing their variety of merchandise. Variety is the number of different merchandise categories within a store or department. The offering of merchandise not typically associated with the store type, such as clothing in a drug store, is called scrambled merchandising. Competition between retailers that sell similar merchandise using different formats, such as discount and department stores, is called intertype competition. Increasing intertype competition has made it harder for retailers to identify and monitor their competition. In one sense, all retailers compete against each other for the dollars consumers spend buying goods and services. Since convenience of location is important in store choice, a store's proximity to competitors is a critical factor in identifying competition. Management's view of competition also can differ, depending on the manager's position within the retail firm. The CEO of a retail chain may view competition from a much broader geographic perspective as compared to a specific store's manager or a departmental sales manager within the store.

1.2 Definitions

A retailer, or merchant, is an entity that sells goods or commodities in small quantities directly to consumers, through various distribution channels with the goal of earning a profit. For some context, retail is the sale of goods for use and consumption by the purchaser. In the case of large retailers like Wal-Mart and Target, the items they sell are purchased from a manufacturer or wholesaler and sold to the end user at a marked up price. That's usually where the retailer's profit comes from: That markup. But the term "retailer" doesn't just apply to large stores; another example of a retailer is the small family-operated pharmacy in your town or your local grocery store. In general, retailers don't manufacture the goods they sell. There are some exceptions to that rule, of course, but usually the retailer is just the final link in a supply chain that gets a product to a customer. The difference between retailers and wholesalers is that while retailers sell directly to consumers, wholesalers sell their goods to other businesses.

1.3 Distribution Process and Retailing

The importance of distribution channels is analysed both for individual economic operators, i.e. groups and for the aggregate national economy. These types of analyses start with the share of big firms and groups, both on national and international levels. This is the case of relationships between different economic operators within value creation chains. This is why earlier concepts of the role and importance of commerce in national economy are losing their importance.

Distribution channels are defined and classified. Their development is explained and new possibilities of their development in contemporary conditions are indicated. In this sense, a variety of distribution channels exists, as well as the contemporary understanding of managing supply chains and value creation networks.

In its broadest sense, when it refers to the whole economic system, distribution is the allocation of income and assets within one society. In business economics, distributions relates to the allocation of goods to the recipients. In general, distribution includes all activities that enable the transfer of material and/or economic power over tangible and/or intangible goods from one economic subject to another.

Domschke and Schield thus emphasise: “Distribution encompasses a system of all activities that are related to the transfer of economic goods between manufacturers and consumers. It includes such a coordinated preparation of manufactured goods according to their type and volume, space and time, so that supply deadlines can be met (order fulfilment) or estimated demand can be efficiently satisfied (when producing for an anonymous market)”(Domschke & Schield, 1994).

Distribution systems are usually divided into:
(a) acquisition distribution system
(b) logistic, i.e. physical distribution system.

G. Specht has pointed out that this division is not completely accurate, since both of these subsystems exhibit certain common starting points. According to this author, acquisition distribution system management includes the management of distribution routes, i.e. distribution channels. Logistic distribution system is focused on bridging the space and time by transportation and storage, as well as order processing and shipment, supply logistics, i.e. the movement of materials (compare Specht, 1988, 34-35).

The term “distribution channels” can at the moment be replaced by the term “marketing channel”. “Marketing channel” as a more complex term has been used in the USA since the 1970s, because the intermediaries include not only those who participate in the physical flow of a product from the manufacturer to the end user, but also those that have a role in the transfer of product ownership, as well as other intermediary institutions that participate in the value distribution from production to consumption (Tipurić, 1993, 15-16).

Therefore, it is assumed that there are three types of marketing channels (Kotler & Keller, 2008, 26): communication channels, distribution channels and service channels.

Distribution or marketing channels are systems of mutually dependent organisations included in the process of making goods or services available for use or consumption. Moreover, a marketing channel is "the external contactual organization that management operates to achieve its distribution objectives.

Supply Chain Management

It is the retailer’s responsibility to gauge customers’ wants and needs and work with the other members of the supply chain – distributors, vendors and transportation companies – to make sure the merchandise that customers want is available when they want it.

In a simplified supply chain, manufacturers ship merchandise either to a distribution center operated by a retailer or they ship directly to stores.

Supply chain management refers to a set of approaches and techniques firms employ to efficiently and effectively integrate their suppliers, manufacturers, warehouses, stores, and transportation intermediaries.

Retailers have increasingly taken a leadership position in their respective supply chains. As a result of their position in the supply chain, retailers are in the unique position to collect customer purchase information customer by customer, transaction by transaction. This information can be shared with suppliers to plan production, promotions, deliveries, assortments, and inventory levels.

A. Strategic Advantage

Not all retailers can develop a competitive advantage from their information and supply chain systems. Achieving this advantage requires a substantial financial investment as well as the coordinated effort of employees and functional areas throughout the company.

When retailers do develop a competitive advantage from these systems, as Wal-Mart has, the advantage is sustainable – it is very difficult for competitors to duplicate.

B. Improved Product Availability

An efficient supply chain has two benefits for customers: (1) fewer stockouts and (2) tailored assortments. These benefits translate into greater sales, higher inventory turnover, and lower markdowns for retailers.

1. Reduced Stockouts

- A **stockout** occurs when an SKU that a customer wants is not available.

In general, stockouts have short-term and long-term effects on sales and profits.

2. Tailored Assortments

- Another benefit provided by information systems that support supply chains is making sure the right merchandise is available at the right store.

Retailers use sophisticated statistical methods to analyze sales transaction data and adjust store assortments on a wide range of merchandise on the basis of customer demand characteristic's of the store's local market.

C. Higher Return on Investment

* One measure of retailing performance is the ability to generate a target return on investment (ROI).

* Net profit margin is improved by increasing the gross margin and lowering expenses.

- An information system coordinating the buying staffs and vendors could allow the retailer to take advantage of special buying opportunities and obtain items at a lower cost, thus improving the gross margin.

- Retailers can lower operating expenses by coordinating deliveries, thus cutting transportation expenses.

- With more efficient distribution centers, merchandise can be received, prepared for sale, and shipped to stores with minimum handling, further reducing expenses.

- Sophisticated inventory management systems can allow the retailer to carry relatively little backup inventory to stay in stock.

With a lower inventory investment, total assets are also lower, so the asset and inventory turnovers are both higher.

II. Information Flows

* The flow of information is complex in a retail environment.

* As the transaction takes place, the merchandise **Universal Product Code (UPC)** is scanned and a sales receipt is generated for the customer. Purchase information is recorded in the POS terminal and sent to the buyer/planner. The planner uses this information to plan additional purchases and make markdown decisions.

* The sales transaction data are also sent to the distribution center. When the store inventory drops to a specified level, more merchandise is shipped to the store and the shipment information is sent to the retailer's computer system so the planner knows the inventory level left in the distribution center.

* When the inventory drops to a specified level, the planner communicates with the vendor regarding the purchase order for the merchandise. At this point they often negotiate shipping dates and terms of purchase.

* The planner communicates with the distribution center to coordinate deliveries from the vendor and to the stores, check inventory status, and so on.

* When the manufacturer ships the product to the distribution center, it sends an **advanced shipping notice (ASN)** to the distribution center. An ASN is a document that tells the distribution center what specifically is being shipped and when it will be delivered.

When the shipment is received at the distribution center, the planner is notified and then authorizes payment to the vendor.

III. The Physical Flow of Merchandise -- Logistics

* **Logistics** is that part of the supply chain process that plans, implements, and controls the efficient, effective flow and storage of goods, services, and related information from the point of origin to the point of consumption in order to meet customers' requirements.

* Merchandise flows from:

1. Vendor to distribution center

2. Distribution center to stores

3. Alternatively, from vendor directly to stores.

Sometimes merchandise is temporarily stored at the distribution center; other times it is immediately prepared to be shipped to individual stores. This preparation may include breaking shipping cartons into smaller quantities that can be more readily utilized by the individual stores (breaking bulk), as well as tagging merchandise with price tags or stickers, UPC codes, and the store's label.

Distribution Centers versus Direct Store Delivery

* Retailers can use a distribution center or direct store delivery, depending on merchandise characteristics and the nature of demand.

* To determine which distribution system – distribution centers or direct store delivery - is better, the retailer must consider the total cost associated with each alternative versus the customer service criterion of having the right merchandise at the store when the customer wants to buy it.

* Advantages of using a distribution center are: (1) more accurate sales forecasts, (2) the retailer's ability to carry less merchandise in the individual stores, which results in less inventory investment system-wide, (3) easier to avoid running out of stock or having too much stock, and (4) since distribution centers are better equipped to prepare merchandise for sale, it is more cost-effective to store merchandise and get it ready for sale than in individual stores.

* Distribution centers are not viable for all retailers. If a retailer has only a few outlets, then the expense of a distribution center is probably unwarranted. Also, if many outlets are concentrated in metropolitan areas, then the merchandise can be consolidated and delivered by the vendor to all the stores in one area. In some cases, it is quicker to get merchandise to stores by avoiding the extra step of using a distribution center. This is particularly important for perishable goods (meat and produce), high-fashion items, or fads since shelf life is limited.

What type of retailer should use a distribution center? Retailers with wildly fluctuating demand at a store level, stores that require frequent replenishment, stores that carry a relatively large number of items or order in less than full-case quantities, and retailers with a large number of outlets that are not geographically concentrated within a metropolitan area would all benefit from using a distribution center.

1.4 Retailing and Retail Management

What is Retail?

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

- *Phillip Kotler*

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

Functions of a Retailer

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

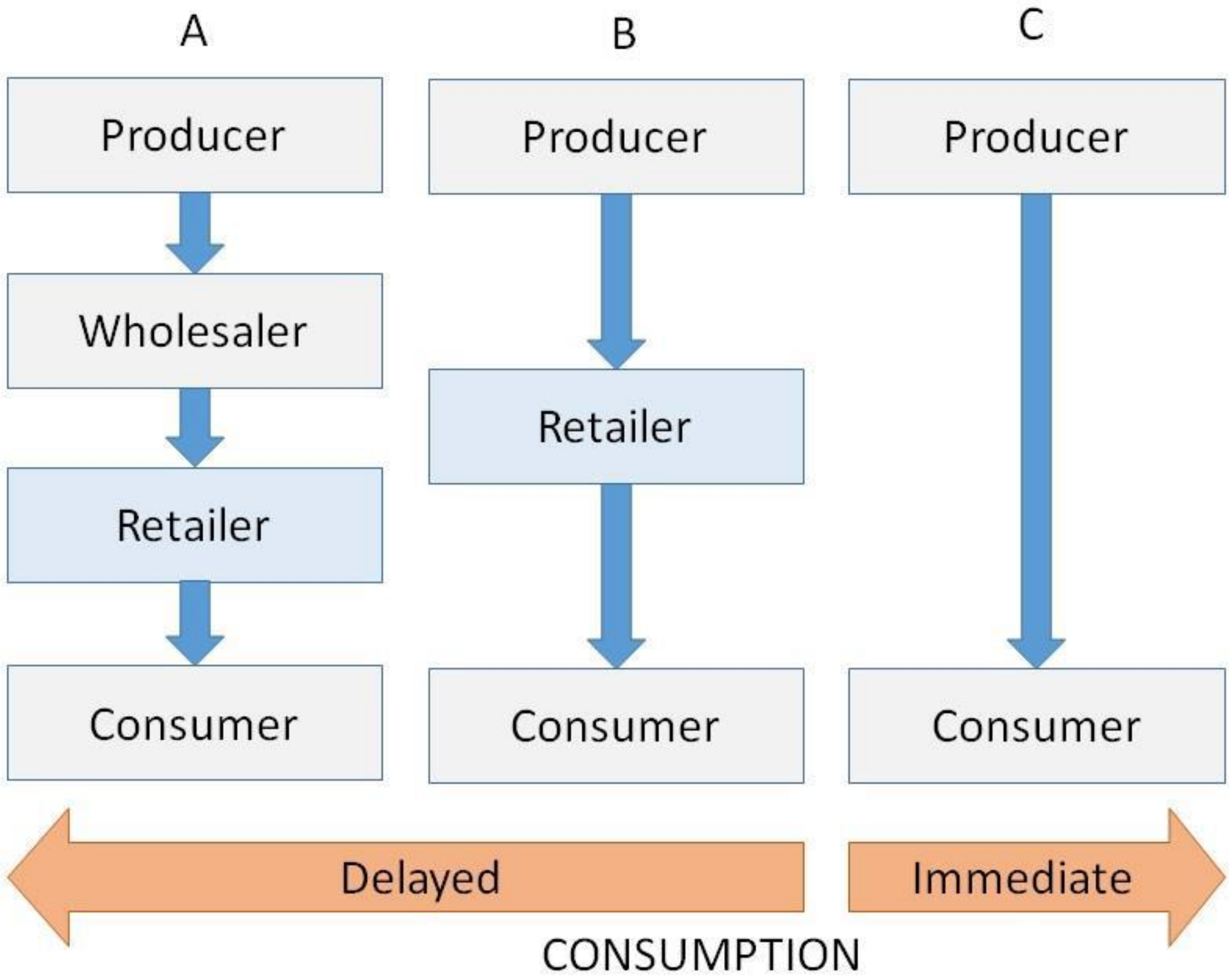
 A retailer does not sell raw material. He sells finished goods or services in the **form** that customer wants.

 A retailer buys a wide range of products from different wholesalers and offers the best products under one roof. Thus, the retailer performs the function of both **buying** and **selling**.

 A retailer keeps the products or services within easy reach of the customer by making them available at appropriate **location**.

Retail in Marketing Channels

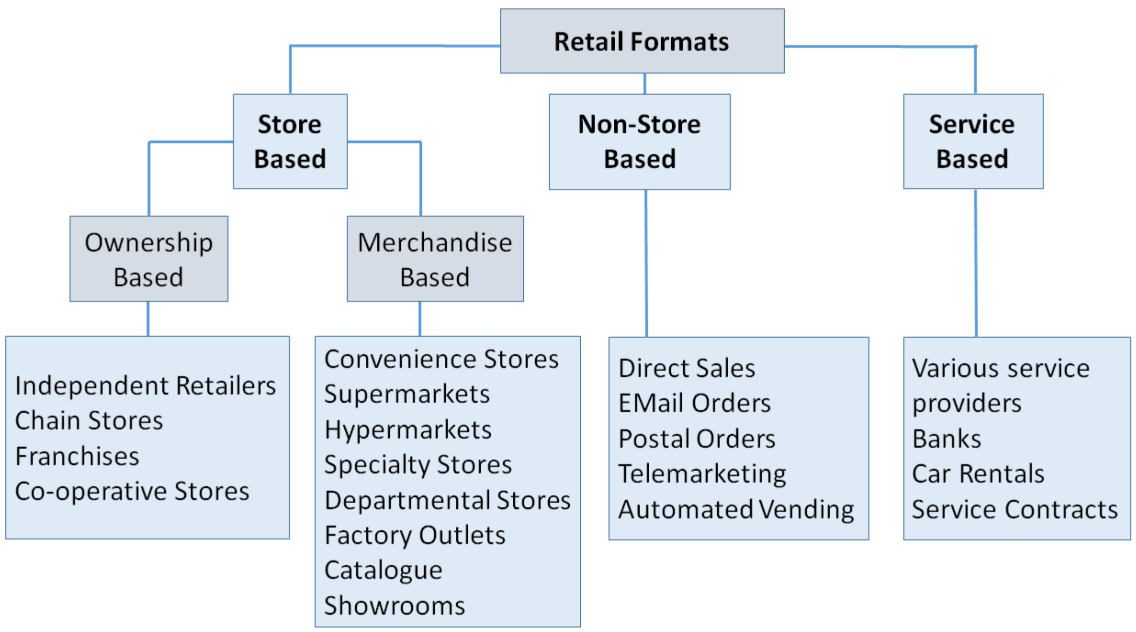
With industrialization and globalization, the distance between the manufacturer and the consumer has increased. Many times a product is manufactured in one country and sold in another. The level of intermediaries involved in the marketing channel depends upon the level of service the consumer desires.



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

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

Classification of Retailing Formats The retailing formats can be classified into following types as shown in the diagram:



Ownership Based Retailing

Let us see these retailers in detail:

- **Independent Retailers:** They own and run a single shop, and determine their policies independently. Their family members can help in business and the ownership of the unit can be passed from one generation to next. The biggest advantage is they can build personal rapport with consumers very easily.

For example, stand-alone grocery shops, florists, stationery shops, book shops, etc.

- **Chain Stores:** When multiple outlets are under common ownership it is called a chain of stores. Chain stores offer and keep similar merchandise. They are spread over cities and regions. The advantage is, the stores can keep selected merchandise according to the consumers' preferences in a particular area.

For example, Westside Stores, Shopper's Stop, etc.

- **Franchises:** These are stores that run business under an established brand name or a particular format by an agreement between franchiser and a franchisee. They can be of two types:

  - Business format. For example, Pizza Hut.
  - Product format. For example, Ice cream parlors of Amul.

- **Consumers Co-Operative Stores:** These are businesses owned and run by consumers with the aim of providing essentials at reasonable cost as compared to market rates. They have to be contemporary with the current business and political policies to keep the business healthy.

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

Merchandise Based Retailing

Let us see these in detail:

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

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

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

For example, Food Bazar and Tesco.

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

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

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

For example, Gautier Furniture and Croma from India, High & Mighty from UK.

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

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

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

For example, Nike, Bombay Dyeing factory outlets.

- **Catalogue Showrooms:** These retail outlets keep catalogues of the products for the consumers to refer. The consumer needs to select the product, write its product code and handover it to the clerk who then manages to provide the selected product from the company's warehouse.

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

Non-Store Based (Direct) Retailing

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

For example, Amway and Herbalife multi-level marketing.

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

- **Mail Orders/Postal Orders/E-Shopping:** The consumer can refer a product catalogue on internet and place order for purchasing the product via email/post.

- **Telemarketing:** The products are advertised on the television. The price, warranty, return policies, buying schemes, contact number etc. are described at the end of the Ad. The consumers can place order by calling the retailer's number. The retailer then delivers the product at the consumer's doorstep.

For example, Asian Skyshop.

- **Automated Vending/Kiosks:** It is most convenient to the consumers and offers frequently purchased items round the clock, such as drinks, candies, chips, newspapers, etc.

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

Service Based Retailing

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

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

1.5 Theories of Retailing

Expressed simply, the core theme of retail change theories has been to provide some explanation of the patterns and drivers of change that impact upon the dominant retail formats, the nature of their businesses, their outlets and their trading activities. These theories share a common view that change within retailing is cyclical – and is therefore deterministic and predictable. These theories suggest that retailers follow a sequential pattern of evolvement and development that provides little or no opportunity for deviation. Consequently, the theories infer that retailers have little or no scope for strategic choice. Their advancement is pre-meditated and inevitable.

Brown (1987, 1995) has provided perhaps the most extensive and challenging critique of the various theories of retail change and he questions the extent to which these rigid expectations of retail evolvement reflect an environment that is by its very nature unpredictable, unstable, fragmented and constantly varying. Brown rightly questions their appropriateness in general terms and his reservations will be used to critique the core perspectives of these theories later. However, while mindful of these potential limitations, it is important to note that other researchers see some value in reviewing longitudinal patterns of retail development in order to gain some insight into trends and opportunities within the sector. McGoldrick (2002) noted Hollander's (1986) view that taking a longer term view is advantageous and while history may not repeat itself, it will suggest both questions and useful answers with respect to the nature of retail change.

We will now discuss the three cyclical theories of retail change: the Wheel of Retailing; the Retail Accordion; and the Retail Life Cycle.

1.5.1 The Wheel of Retailing

First proposed by Professor Malcolm P. McNair in 1958, the purpose of the Wheel of Retailing was to suggest a cyclical pattern for retail business development. The essence of McNair's hypothesis is that new types of retailers begin life at the lowest end of the retail price, status and margin spectrum. From this low price positioning, they change and become more sophisticated in their activities and complex in their organization and ultimately begin to 'trade-up' in terms of their pricing policy, selling methods and service provision. They achieve this shift upmarket through investments in store environments and by selecting bigger and better locations and through the diverse scrambling of their product and service provision. As a result of these significant investments, these retailers become high operating cost businesses. The final stage of their evolvement (as predicted by the theory) is that these retailers mature to become high-cost, high-price, inefficient businesses. At this stage, these once flexible and efficient businesses become vulnerable to the innovations and cost-efficiencies of newer, more agile low-price entrants.

Brown (1988) provides a clear representation of the Wheel of Retailing as consisting of three distinct phases – Entry, Trading-up, Vulnerability. Further, as Figure 1.5.1 illustrates, Brown proposes that each phase is characterized by distinct management activities and priorities.

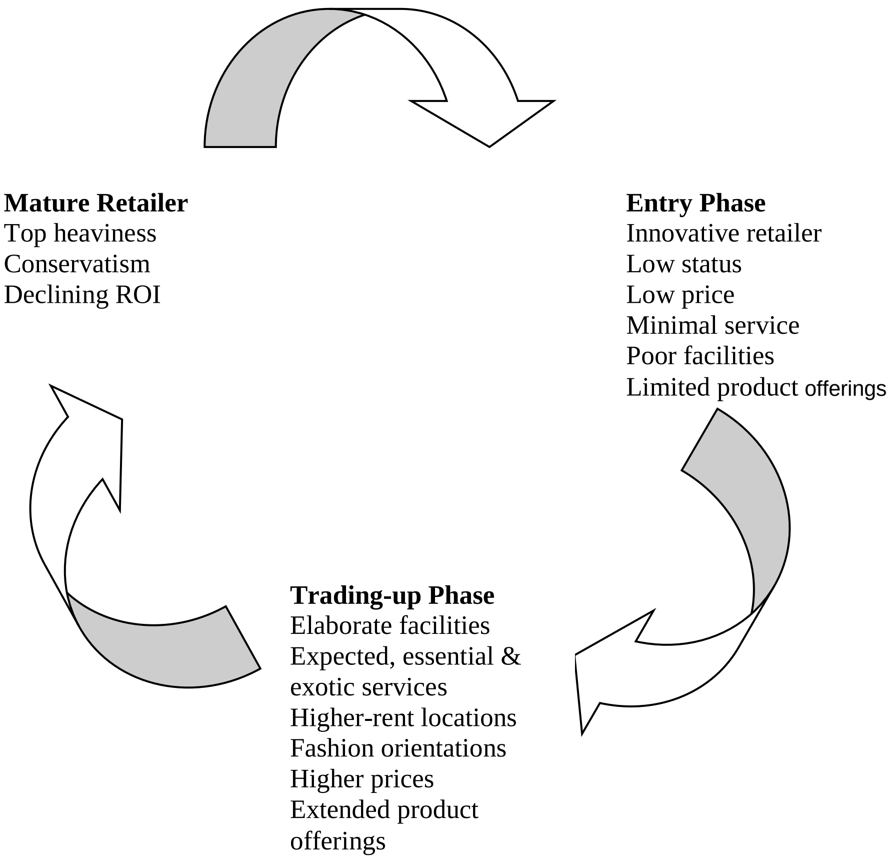


Figure 1.5.1 The Wheel of Retailing (Brown, 1988)

In his analysis of McNair's theory, Hollander (1960) acknowledged many examples which conform to this pattern of retailer development. In particular, he noted that department-store merchants, who originally emerged as strong low-price competitors to specialist retailers, themselves became vulnerable to discount houses and supermarket competition. However, as a caveat to the supporting evidence, Hollander also questioned whether the expectation of an increase in operating expenses and a decrease in profitability was indeed inevitable and possible to demonstrate from external evidence. He noted some difficulties associated with the verification methodology – such as the ease by which access could be gained to historical retail expense information due to the scarce and fragmented nature of data sources. Furthermore, such data is usually published on an aggregate basis and as such may mask significant divergent tendencies.

Yet, setting aside the difficulties associated with verifying the theory, Hollander did identify six dimensions which may precipitate the cyclical forms of retail developments as espoused by the Wheel of Retailing. These were as follows:

1.*Retail personalities*. New types of retail businesses are founded by aggressive, highly cost-conscious entrepreneurs who make every penny count and who have no interest in providing unprofitable frills. However, as these entrepreneurs increase in age and wealth, their cost control vigilance deteriorates. Further, their successors may be less competent and they (or their successors) may be less able to manage costs effectively and less dexterous in responding to environmental changes. This change and deterioration in management results in a movement along the wheel.

2. *Misguidance*. Retailers are seduced by the power of supplier advertising and marketing persuasion to install overly elaborate facilities and undertake unnecessary modernizations. This results in a shift towards a higher, more expensive market positioning.

3. *Imperfect competition*. Based upon the premise that most retailers would prefer to avoid direct price competition – principally to avoid damaging retaliation from competitors – they instead seek to compete through service improvements, particularly in terms of selecting better locations. Through, what Hollander described as ‘a ratchet process’, retailers – across all sectors – appear almost predisposed to provide more elaborate services at increasingly higher margins.

4. *Excess capacity*. Linked to the above, as more retailers enter the market, available demand is spread thinly. As McGoldrick (2002) suggests, in order to avoid suicidal price-cutting, retailers opt instead for non-price competition which typically involves the development of additional service provision.

5. *Secular trend*. As markets become more affluent, opportunities emerge for retailers to trade-up their offer in response to the aspirations of their customers. This results in a shift of the wheel through the provision of additional services and higher-margin goods.

6. *Illusion*. Rather than supporting the premise of the Wheel of Retailing, Hollander suggests that the trend towards the extension of ranges through merchandise scrambling may in fact create an incorrect illusion of trading-up – when the reality is that the margins on the original merchandise may remain unchanged.

1.5.2 Retail Accordion

The third of the three important theories of retail change is the Retail Accordion. Proposed by Hollander (1970) as a means of understanding the oscillations of prominent retailing formats, it proposes that domination by wide-assortment retailers is subsequently followed by domination by narrow-line specialized sellers. McGoldrick (2002) argued that this theory is clearly evident in the evolution of retailing within the USA. He noted that in the early settlements, the general stores offered comprehensive assortments to locals, but as settlements grew in scale and Sophistication more specialist and sophisticated retailers emerged. These specialists subsequently lost ground to department store operators that offered a wide merchandise assortment to a new urbanized customer base. But these wide assortment sellers in turn lost market share to specialised chains who responded better to the particular needs of a more demanding customer. These specialist retailers, in an attempt to retain customer loyalty through the provision of convenience and choice, extended their offering, and so retailers, such as supermarkets and drug store operators, began to sell merchandise categories that were not typically associated with their particular format type. However, as these specialist retailers became more general in their offer, they became susceptible to the impact of other retailers with a particular focus within a product category.

While the Retail Accordion Theory recognizes the wide-narrow-wide pattern of the dominant retailing forms within a market, it has little or no value for the purposes of predicting or explaining future retailing developments. The theory does not offer any insights as to why one form inevitably gives way to another – nor does it explain why that format should return to dominate at some future point. Instead it serves only to illustrate the predominance of particular formats at specific points in time.

What the model fails to recognize, if applied to the experience of a particular business, is the capability of certain firms to operate wide and narrow formats concurrently. Leading retailers, such as Tesco, Marks and Spencer, The Limited and The Gap have developed a variety of formats and brands which cover a range of different narrow and wide segments. For example, Tesco operates six different formats within the UK market. These range from small local stores – often attached to petrol stations – which trade as One Stop. These outlets, which are, on average, 1,300 square feet, serve to provide essential (often described as distress) products to customers on a 24/7 basis. Tesco Extra stores are typically at least 70 times bigger and cover the majority of consumer goods categories, including foods, clothing, electrical goods, furniture and entertainment.

1.5.3 Retail Lifecycle

McGoldrick (2002) recognized that the Wheel of Retailing was inadequate in two fundamental areas. Firstly, because of its particular focus upon changes in costs and margins as the sole basis for understanding format evolution, it fails to accommodate the existence of those retailers that enter the market, from the outset, as premium/luxury firms with a high margin position. Nor does it allow for these retailers to retain their high profitable, high cost, high price positioning indefinitely. Secondly, he notes that given the sequential nature of the 'Wheel of Retailing' framework, it is unable to accommodate the speed, diversity and variability of modern retailing developments.

Davidson et al. (1976) proposed in an article in the *Harvard Business Review* an alternative theory of retail development in the form of the Retail Life Cycle. Paralleling the phases and strands of Levitt's (1965) Product Life Cycle, this version for retailing proposes that businesses follow a four-stage pattern of development: Introduction, Growth, Maturity and Decline.

A number of business and trading characteristics are particular to each stage. As retailers enter the introductory stage – motivated by the desire to bring some innovation or novelty in the market – they operate with few competitors. At this first stage, they enjoy a rapid sales growth but gain only low or moderate levels of profitability. The next is the growth stage – where rapid sales increases not only generate uplifts in profitability, they also attract the interest of competitors who likewise will seek to make gains in the new area/sector. The maturity stage follows, and this is when the sector is populated with the largest number of competitors and as a result, price competition increases and profitability levels reach a plateau. Finally, the decline stage sees the emergence of agile, often indirect, competitors in the market – and with the onslaught of such high levels of competitor challenge, the retailer faces the double difficulty of declining sales and reduced profitability.

As McGoldrick (2002) noted, the Retail Life Cycle theory has been applied to both specific retail business and to general retail formats. In terms of the latter, Davidson et al. (1976) provide some interesting observations with respect to the life cycle gestations of a range of retail formats in the USA. Noting the time taken for each format to reach its peak and then to fall into decline, American department stores were found to have reached their maturity stage after 80 years, while variety stores peaked after 45 and discount department stores within 20 years. Other than identifying the gestation of each of the formats, these observations also highlight the fairly rapid contraction in the sustainability and viability of retail formats in recent years.

Looking specifically at examples of the Retail Life Cycle at the retailer level, the decline of Woolworths in the UK provides a clear application of the Retail Life Cycle theory. Established in Liverpool in 1909, as a subsidiary of the American retailer F.W.Woolworth that had been founded 30 years earlier in Pennsylvania, Woolworths entered the UK with an innovative trading, product and pricing formula. With most items costing three pence, and none over sixpence, their product assortment was large and included children's clothes, haberdashery, stationery, toys and of course, pic'n'mix sweets. The business gained a significant cost advantage from the scale economies obtained from its American parent and this enabled Woolworths to sell china and glassware basics at far cheaper price than their British competitors. Significantly, Woolworths were the first variety store retailer to adopt a self-service layout plan. Rather than every product being 'sold' to a customer by an assistant, the Woolworths approach was to allow customers to browse, self-select, purchase and leave.

Woolworths in the UK really accelerated in terms of growth in the mid-1920s – with a new store opening every month across the country. Their British success led the parent company to float a 15 per cent stake in their British subsidiary on the London Stock Exchange in 1931.The floatation was so successful that the company was able to pay 90 cents for every dollar invested as an exceptional dividend to all of its shareholders. The emergence of the post-war baby boomers provided a new consumer category – the teenager – and this brought new and important spending power into the company. With their interest in music, magazines and fashions, the company extended their offer to become the leading entertainment/leisure retailer in the country.

Having been acquired from its American owners in 1982 by Paternoster stores, (a forerunner of the Kingfisher Group), a variety of strategies was deployed in order to resuscitate growth after a sharp decline in the late 1980s. However, by the early 1990s, the company faced formidable competition from specialist firms, such as HMV and Superdrug who offered a more authoritative brand and product offering within Woolworths' core product areas. Further, the rise and expansion of food retailers, particularly Tesco and Asda, into non-food areas meant that Woolworths was further undermined by the huge scale, competitive pricing and convenience offered by these important retailers. New ventures, such as Big W, were launched by the company. This large store format sought to compete head-on with the major food retailers on edge and out-of-town locations. However, without a food offer, these stores failed as destination centres for the more affluent, car-travelling customer and their non-high-street location meant that these stores were inaccessible for the traditionally older and poorer Woolworths customer.

The company was demerged from Kingfisher to become Woolworths Group plc on the London Stock Market in 2001.With an opening (modest) share price of 32p, their shares peaked at 55p in April 2005. However, with relentless price, brand and product competition, company performance withered and their shares fell into constant decline from January 2008. Share dealing was eventually suspended on 26 November 2008. A Woolworth ordinary share was now worth 1.2p. Unable to secure a buyer in December 2008, all 800 stores were closed just short of the company's 100th anniversary of UK trading.

Woolworths provides a competent example of Davidson et al.'s (1976)'s Retail Life Cycle. A once innovative business that pioneered new retail formats, helped create and shape new customer segments and which became part of the very fabric of the British high-street landscape, it eventually fell foul of the twin pressures of the changing consumer and more efficient and enticing competitors.

It is perhaps to oversimplify the history and situation of all failed retailers to explain their demise simply by relying upon the Retail Life Cycle. However, the theory does provide at least some indication of how retailers typically evolve and develop. However, as was identified previously with respect to the Wheel of Retailing, the Retail Life Cycle theory does not accommodate those retailers that are able to sustain demand and increase profitability over protracted periods of time. In particular, luxury retailers, like Louis Vuitton and Cartier, have been able to achieve consistently strong growth and profit performance. Nor does the Life Cycle theory recognize that a retailer may, through brand repositioning and business re-engineering, enhance the long-term sustainability of their business. The theory assumes that retailers are passive victims of the vagaries of market change and competitor action. There are a sufficient number of examples of retailers who have successfully reinvented, repositioned and re-engineered their organizations to significantly grow their businesses to prove that the inevitable decline predicted by the Retail Life Cycle is not necessarily the case.

Perhaps the more significant value of the Retail Life Cycle theory is its application to the evolvement of retail formats in general. Davidson et al. (1976) emphasize the shortening of the life cycle for retailing formats. More recent work by Burns et al. (1997) suggested that earnings for new formats/concepts would be likely to stagnate within a decade after launch. The truncation of retail life cycles has important implications for retailers and McGoldrick (2002) suggested that retailers must carefully consider the implications of long-term investments in expensive, inflexible and confining property assets. Further, the life cycle encourages retailers to adopt a portfolio approach to brand management and so provide for a coherent balance of risk, cost and opportunity. Perhaps, most importantly, contemporary applications of the Retail Life Cycle indicate that in the future retailers must recognize that an acceptable return on investment must be secured within an ever-decreasing timescale.

1.6 Organized vs. Unorganized Retailing

Unorganized retailing refers to the traditional formats of low cost retailing for example, the local kirana shops, owner manned general stores, paan-bidi shops, convenience store, hand cart and pavement vendors. Traditional or unorganized retailing continuous to be the back bone of the Indian retail industry, with traditional retailing contributing to over 95% of total retail revenues. The prototypical 'baniya' outlets or the corner store comprise a key part of Indian retail store formats mostly run as small family business. The unorganized retailing comprises of 'mom and pop' stores or 'kirana' stores. These are very small shops located near the residential areas, popularly known as kirana shops. The unique marketing preposition of this store is location advantage. These shop owners in order to retain their customer can even go their customer's house to get orders. Trading hours are flexible and the retailer to consumer ratio is very low due to the presence of several kirana stores in the locality. Credit facility varies from store to store and customer to customer. Customers' reliability and relation with the shop kipper is enough to avail credit facility. Branding is not a criterion to attract the customers, as customers prefer low-priced products. More than 99% customers are price sensitive and not quality or brand sensitive at the same time they are brand conscious also. Further retailer's suggestions and recommendation regarding any product or service plays a significant role in the customer's purchase decision. More than 99% of retailers function in less than 500 Sq. Ft of area. The pricing was done on ad hock basis or by seeing the face of customer. More than 99% customers are price sensitive and not

quality or brand sensitive at the same time they are brand conscious also. Traditionally, retailers procure merchandise from whole seller in bulk and sell in small quantities to the ultimate customer. All the merchandise was purchased as per the test & fancies of the proprietor.

ORGANIZED vs. UNORGANIZED RETAILING.

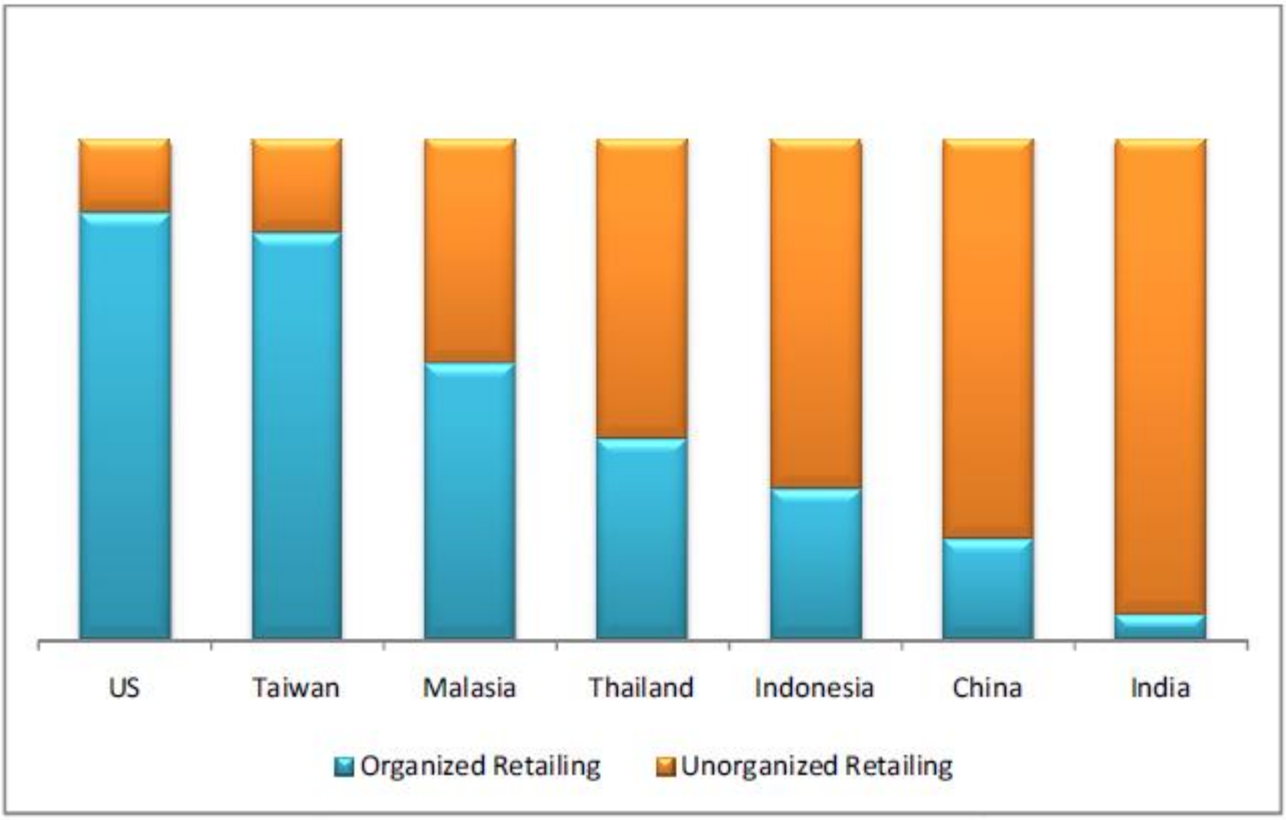
Traditionally small Kirana shops are Omni present in rural as well as urban India. Small shops are having inseparable affinity with the local people and depends on the integrity will sell the goods on credit also. Daily wage earners will purchase provisions out of their daily earnings. Salaried people also purchased either on cash or credit. Hence, small shop owners are familiar with every face in that locality. "Repeated business is a always business" since local customer will visit these small shops regularly, unorganized retail business is thrilling. The FICCI report on "Wining with intelligent supply chains" says that retail sector in India is highly fragmented with over 12 million unorganized retailers across the country. More than 80% of these outlets are small family business using household labour.

With the entry of Organized retailers over the last few years, the share of Organized market has been growing rapidly to reach near about 5% of the total retail market. India is moving the retail sector at a fast pace.

With the share of 95% of unorganized retailing, the sector is considered as an avenue for self directly depends on this sector. Retailers are purchasing produces from the farmers in the season and sell throughout the products they will relay on whole seller or distributor and take their margin.

Table – 1.6

Organized V/S Traditional Retail



In the present economic scenario Government is giving priority to privatize all the possible works and now to get Government job is searching for water in dessert. When avenues are narrowed day by day unemployed youth are desperately trying to stand on their own legs and small shops are among the several option available to them. Thus small shops in both rural and urban area are occupying significant status. Low capital, small space, reasonable prices, quality provisions, satisfactory services, personal attention\ are the successful pillars for small shops. All these shops are in the unorganized sector and having impact on Indian society.

Many companies are grasping the situation and due to the economic reform, retail is a facing competition from both domestic and international Organized retail giants. Corporate world has understood that the level of economic activity can be calibrated by the level of money supply. Since quality of work life is improved, standards of living are also refining. Due to government policies money is flowing in the society and people are willing to purchase modern articles.

In recent time big Organized retailer like Big bazaar, Reliance retail, ITC ltd. Etc. establish its retail store throughout the country and some of them expand its category like fruit, vegetable and FMCG retail and wholesale business by opening new outlets in rural areas also. These are the hyper markets which provide multiple services under one roof. Rising disposable income(especially among the middle class people) increasing consumer base in urban area, and a potentially strong rural consumer market will fuel this growth in the near future. India has been rated as the most attractive emerging retail market in the world for the third time in succession. The retail sector is expected to grow rapidly to reach US $ 30 billion by 2010-11 driven by the increasing number of nuclear families, working women, greater work pressure, easy accessibility and convince.

1.7 Scope of Retailing

The word 'Retail' is derived from a French word with the prefix re and the verb tailer meaning "to cut again". Evidently, retail trade is one that cuts off smaller portions from large lumps of goods. It is a process through which goods are transported to final consumers. In other words, retailing consists of the activities involved in selling directly to the ultimate consumer for personal, non-business use. It embraces the direct-to-customer sales activities of the producer, whether through his own stores by house-to-house canvassing or by mail-order business.

Manufacturers engage in retailing when they make direct-to-consumer sales of their products through their own stores (as Bata and Carona shoe companies, D.C.M. Stores, Mafatlals and Bombay Dyeing) by door-to-door canvass, or mail order or even on telephone. Even a wholesaler engages in retailing when sells directly to an ultimate consumer, although his main business may still be wholesaling.

A retailer is a merchant or occasionally an agent or a business enterprise, whose main business is selling directly to ultimate consumers for non-business use. He performs many marketing activities such as buying, selling, grading, risk-trading, and developing information about customer's wants. A retailer may sell infrequently to industrial users, but these are wholesale transactions, not retail sales. If over one half of the amount of volume of business comes from sales to ultimate consumers, i.e. sales at retail, he is classified as a retailer. Retailing occurs in all marketing channels for consumer products.

Importance of Retailing

The retailer is an intermediary in the marketing channel because he is both marketer and customer, who sells to the last man to consume. He is a specialist who maintains contact with the consumer and the producer; and is an important connecting link in a complex mechanism of marketing. Though producers may sell directly to consumers, such method of distributing goods to ultimate users is inconvenient, expensive and time consuming as compared to the job performed by a specialist in the line. Therefore, frequently the manufacturers depend on the retailers to sell their products to the ultimate consumers. The retailer, who is able to provide appropriate amenities without an excessive advance in prices of goods is rewarded by larger or more loyal patronage.

Economic Justification for retailing

All middlemen basically serve as purchasing agents for their customers and as sales specialists for their suppliers. To carry out those roles, retailers perform many activities, including anticipating customer's wants, developing assortments of products, acquiring market information and financing.

It is relatively easy to become a retailer. No large investment in production equipment is required, merchandise can often be purchased on credit and store space can be leased with no 'down payment' or a simple website can be set up at relatively little cost. Considering these factors, perhaps it's not surprising that there are just over a 6 million retail outlets operating across the Indian cities from north to south and from east to west. This large number of outlets, many of which are trying to serve and satisfy the same market segments, results in fierce competition and better values for shoppers.

To enter retailing is easy; to fail is even easier! To survive in retailing, a firm must do a satisfactory job in its primary role - catering to consumers. Rama Subramaniam the former head - retail segment Spensors described a successful retailer as a "merchant who sells goods that won't come back to customers who will". Of course, a retail firm also must fulfill its other role - serving producers and wholesalers. This dual role is both the justification for retailing and the key to success in retailing.

GENERAL SERVICES

The general services which a retailer provides are:

1. The retailer anticipates the wants of the consumers and then supplies them the right kind of goods at reasonable price. His job is to make the consumers buying as easy and convenient as possible i.e. he acts as a consumers' agent.

2. He performs the service of bulk-breaking i.e. dividing large quantities into small units, such as individual cans, bottles, boxes, wrappers, packages, appropriate for consumer use.

3. He offers a large assortment of merchandise, of suitable size, colour, design, style and seasonal items-ranging from domestic utensils, household requisites to speciality goods.

4. He creates time and place utility by storing the products in off season and by transporting these goods to the places where they can be readily available as and when needed by the consumer.

5. He also assumes risks by guaranteeing the goods he sells to the consumer.

6. He also offers free delivery of goods, credit on open accounts, free alteration, liberal exchange facilities, instructions in the use of goods, revolving credit plans, and long term installment programmes.

7. He adds to the convenience and ease of consumer purchasing by offering convenient shopping locations, market informations and other services such as free parking privileges, lessons on product use and a multitude of other facilities may be offered and found sufficiently desired to result in increased patronage.

8. He helps the producers in distributing their products by using advertisement display and personal selling.

9. The level of retail sales is one of the most useful barometers of the nations economic health. For example when sales of cycles pick-up, sales of steel and components also increase, as does employment and thus increasing purchasing power. But when sales go down, manufacturers cut back production, unemployment increases and retail sales also goes down.

1.8 Store vs. Non-Store Retailing

Important categories under which the retail stores can be broadly classified are as follows:

Retail stores can be broadly classified into two categories, i.e. store based retailers and non-store based retailers.

A. Store based retailer:

Store based retailer is again classified,

I. On the basis of ownership:

1. Independent retailer:

An independent retailer is one who owns and operates only one retail outlet. Such stores can be seen under proprietorship. The individual retailer can easily enter into a retail market. The owner is assisted by local staff or his family members. These kinds of shops are passed from one generation to other generation.

The independent retailer maintains a good relationship with the customers. Small scale retail business: Single owners can easily start and manage small business units profitably with the help of one or two assistants. It can be a grocery store, stationery shop, or a cloth store, etc.

2. A chain retailer:

When two or more retail outlets are under a common ownership it is called a retail chain. For example: One of a number of retail stores under the same ownership and dealing in the same merchandise. It is called chain retailing.

Chain Stores are groups of retail stores engaged in the same general field of business that operate under the same ownership or management, chain stores are retail outlets owned by one firm and spread nationwide. For example, Van Heusen, Food world, Shopper's stop etc.

3. Franchise:

A franchise is a contractual agreement between franchisor and a franchisee in which the franchisor allows the franchisee to conduct a business under an established name as per the business format. In return the franchisee has to pay a fee to the franchiser. For example: Pizza hut, McDonalds, etc.

4. Leased Department:

These are also known as Shop in Shops. When a section or a department in a retail store is rented to the outside party it is called leased department. The licensor permits the licensee to use the property and in turn the licensee pays a fee to the licensor for using his property.

5. Consumer Co-operatives:

A consumer co-operative is a retail organisation owned by its member customers. The objective is to provide commodities at a reasonable price. For example: Sahakari Bhandar, Apna Bazaar etc.

II. On the Basis of Merchandise offered

1. Departmental Stores:

A departmental store is a large scale retail institution that offers several products from a pin to plane such as clothing, grocery etc. Retail establishment that sells a wide variety of goods.

Departmental stores are the largest form of organized retailing today, located mainly in metro cities, in proximity to urban outskirts. They lend an ideal shopping experience with an amalgamation of product, service and entertainment, all under a common roof. Examples include Shoppers Stop, Piramyd, Pantaloon.

2. Convenience stores:

These are relatively small stores located near the residential area. They offer limited line of convenient products such A ` store is a small store or shop that sells items such as candy, ice-cream, soft drinks, lottery tickets, cigarettes and other tobacco products, newspapers and magazines, along with a selection of processed food and perhaps some groceries, etc.

Such stores enable the customers to make quick purchase and offer them few services. They stock a limited range of high-turnover convenience products and are usually open for extended periods during the day; Prices are slightly higher due to the convenience premium.

3. Super Market:

These are retail organisations that provide low cost high volume self-service operation to meet consumer requirements. Most of the super market charge lower price. Example: Subhiksha.

They are the large self-service outlets, catering to varied shopper needs. These are located in or near residential high streets. A supermarket, also called a grocery store, is a self-service store offering a wide variety of food and household merchandise, organized into department.

It is larger in size and has a wider selection than a traditional grocery store and it is smaller than a hypermarket or superstore. Supermarkets usually offer products at low prices by reducing their economic margins.

3. Hyper Market:

A hypermarket is a superstore which combines a supermarket and a department store. Hyper markets are huge retail stores that offer various products such as clothes, jeweler, stationery, electronic goods at cheaper price. Example: Big Bazaar, Star Bazaar, Giant Stores etc. They focus on high volume.

4. Specialty stores:

A specialty store is a store, usually retail, that offers specific and specialized types of items. They offer a narrow product line that concentrates on specialised products such as jeweler, fabrics, furniture etc. Customer service and satisfaction are given due importance.

For example, a store that exclusively sells cell phones or video games would be considered specialized. A specialty store specializes in one area.

B. Non-Store Retailing:

A direct relationship of the retailer with his customer is on the basis of non-store Retailing. In India around twenty percent of retail sale is from non-store. The proportion of non store is growing steadily.

It is classified as under:

1. Direct Selling:

Direct selling is a retail channel for the distribution of goods and services. There is no fixed retail location. In direct selling there is a direct contact of the retailer with his ultimate customers.

It is highly an interactive form of retailing. Products like cosmetics, jewellery, food items are sold in such manner. The retailers visit home place or work place of the customers to sell the products. It is also known as network marketing where the products and services are sold face to face.

2. Mail order:

It is a retail format in which offerings are communicated to the customers through a catalogue, letters or brouchers. Such retailing is suitable for specialty products. The buyer places an order for the desired products with the merchant through a telephone call or website. Internet and online payment options, has made shop from home easier.

3. Tele Marketing:

It is a form of retailing in which the products are advertised on television. Details about the product in regard to its features, price, warranty, direction to use etc. are mentioned and explained. Phone numbers are provided due to which customers can make a call and place an order for the product.

4. Automatic Vending:

This is a form of non store retailing in which the products are stored in a machine and dispensed to the customers when they deposit cash. Vending machines are placed at convenient and busy locations like air ports, shopping malls, working place etc. This machine primarily contains products like chocolates, snacks and drinks etc.

5. Electronic retailing:

It is also called as e-tailing or internet retailing. It is a retail format in which products are offered to the customers through internet. The customers can evaluate and purchase the products from their homes or office place. This kind of retail is gaining importance in recent years.

1.9 Functions and Importance of Retailing

Marketing offers useful insights and perspectives on the world of consumers—organizational consumers and personal consumers—as well as the different types of marketplaces in which marketers and consumers interact and exchange value: consumer markets, business markets, reseller markets, governmental markets and global markets. Marketers, both in the business marketing and consumer marketing domain, seek to gain a deep understanding of the world of consumers and to acquire mastery over the three critical marketing activities that define and offer a finer evaluation of it as a value chain process. The marketing value chain is commonly understood in terms of three sets of activities or components with consumers at its centre. There are three activities that are crucial to the marketing value chain: understanding and identifying consumers, connecting and communicating with consumers and delivering value solutions to consumers.

Retailing is defined as a set of distribution and value-creating activities by the brand owner to sell and distribute a product or service to consumers for their personal, individual or family use. Retailing is both a marketing channel for delivering value solutions as it is a business activity on a global scale. Retailing is thus a distribution and value-creating activity that offers easy access to a variety of product assortments to the consumer, freedom of choice, and high levels of customer service, often is a personalized way. Retail management is the art and science of acquiring and retaining customers through an understanding of the retail customer, retail market segmentation, retail mix strategies (site location decisions), buying and merchandising, store layout and design, and pricing, promotion, and communications.

A retailer, or retail business is a person, agent, agency, company, or organization which is instrumental in reaching the product, merchandise, or services to the ultimate consumer.

Functionalities

Four type of business activities or functions performed by store retailers that increase the value customers receive from the purchase of retail products at stores: (1) sorting or arranging assortments, (2) breaking bulk, (3) holding inventory and (4) providing services. Store retailers are businesses that operate from a fixed point-of-sale location to attract a high volume of walk-in-customers. Store retailers provide access to convenience value of purchase by offering extensive displays of merchandise and aggressive in-store sales promotion campaigns. A store, or retail store is a place, real or virtual, where the shopper comes to buy products and services. Sales transactions occur at a store.

The global retailing sector has expanded robustly with consumers spending rising significantly. The aggregate retail revenue of the top 250 retail corporations exceeded US$ 4 trillion in 2011. In 2011, the revenue margins of the world's 250 top retailers rose 5.1 percent over the previous year's 5.3 percent growth. More than 80 percent of the top 250 retailers also increased increase retail revenue significantly with these corporations posting 3.8 percent a composite net profit margin in 2011. There has also been an improvement in the in profitability with these top 250 retail corporations posting a composite return on assets of 5.9 percent in 2011, up from 5.8 percent in 2010.The average size of the top 250 retailers in 2011, as measured by retail sales, exceeded US $17 billion, where the 5.1percentwas the composite year-over-year retail revenue growth and the composite net profit marging stood at 3.8 percent in the same year. Growth opportunities for many of the world's largest retailers continue to be driven by global expansion. Consequently, in 2011, 23.8 percent of the top 250 retailers' composite retail revenue was generated in foreign markets, up minorly from 23.4 percent in 2010. Also, the top 250retailers operated in an average of nine countries compared with 8 countries in2010.

The economy contribution of the retail industry India is significant. Recent estimate put the size of the retail industry in India at US$ 470 billion, contributing to around 25 percent of value to the national gross domestic product of the India is further expected to grow to US$675 billion in size by 2016 at a compounded annual growth rate of 7.5 percent. The retail industry in India is also significant as an job creator and employs over 7 percent of the total workforce, or two million persons. India as a retail market has one of the highest densities of shops per population with 15 millions mall retail outlets (14 shops per 1000 persons).Food and grocery is the largest retail category with sales in the unorganized sector retail business currently estimated at US$ 325 billion, and accounts for over 70percent of the total retail market in India in this year. The organized retail segment for food and grocery is estimated at US$ 9 billion and accounts for35percentof all organized retail market sales.

Theoretical models in retailing essentially allow a retailer to understand the retail geography surrounding a retail store, and this is based on three key indicators: destination travel—spatial interaction between retail zones, traffic, stores and shoppers; settlement and land-use patterns in retail trading areas; and shopper habits.

International retailing has expanded phenomenally in recent years, and global retailers are growing beyond the geographical boundaries of the home countries from where they originated. International retailing has radically changed the methods by which consumer products are distributed, delivered, and marketed globally. International retailers have emerged as strong, global players in markets and have redefined the operating environment in the retail markets that they enter through their retailing practices. The influence of international retailers is most evident in the marketplace and, more importantly, in the development of global, intercontinental supply chains. International retailers have succeeded in establishing long and complex supply chains across markets and are able to leverage considerable buying power, even while contributing significantly to the development of a supplier network. International retailing strongly establishes operations and consumer relationships in newer markets.

Store-based international retailers are classified on the basis of merchandise into four categories: (1) single brand outlets (2) multi-brand outlets (3) exclusive brand outlets, and (4) retail chains. These four categories of international, store-based retailers offer value to shoppers through (1) carefully crafted store design and atmospherics, (2) unmatched levels of customer service, (3) unique and exciting merchandise assortments, and (4) pricing offerings that extend great value in exchange of product purchase and ownership.

There are many opportunities for professionally qualified managers in rewarding careers in retail. Three broad categories of careers in organized sector retailing in India: 1. customer-facing, or front-end functions 2.back-end, or support functions and 3. functional area-specific functions. Apart from hiring professionally qualified managers who are graduates from premium business schools there are numbers of other routes to a career in the retail industry. The large head count hirings are carried out at the junior level of store operation and entry level front line positions are filled by assistants and executives in shop floor sales and customer support. It is a normal practice for retailers to hire students who have completed middle school or high school education (School Leaving Certificate and Senior School Leaving Certificate Examination). Many large retail employers conduct in-house training programs to prepare workers for positions of higher responsibility.

The bulk of hiring of professional qualified managers takes place only in two functional areas that impact revenue—store operations and buying and merchandising roles. These back-end jobs in retail are further broadly categorized under the following functional areas: 1. Store operations 2. Buying and merchandising 3. Visual merchandising 4. Supply chain management and information technology 5. Marketing and branding 6. Human resources and 7. Finance.

1.10 FDI in Indian Retail Sector

The spectacular and unprecedented growth of FDI in the global economic landscape over the last two decades has made it an integral part of the development strategy of both the developed and developing nations. It acts as a major catalyst in the development of a country through up-gradation of technology, managerial skills and capabilities in various sectors. Rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. FDI in the retail can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers (farmers). Oppositions have raised concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development. The present paper focuses on the overview of the Indian retail sector along with the opportunities of expansion of FDI in retail in India and the major challenges that it faces.

Widespread liberalization and deregulation of financial markets, cross-border mergers and acquisitions (M&As), increasing role of investors willing to invest abroad, rapid advances in modern telecommunication and computer network – have all resulted in a tremendous upsurge of international capital flows in India, particularly private capital flows, as compared to official capital flows over the last two decades. Among the various forms of foreign investment, foreign direct investment (FDI) flows are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depends on the performance of projects financed by the investors. In fact, FDI provides a win – win situation to both the host and the home countries. The „home‟ countries want to take the advantage of the vast markets opened by industrial growth. On the other hand the „host‟ countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. Moreover, in order to overcome the deficiencies of all kinds of resources viz. financial, capital, entrepreneurship, technological know- how, skills and practices, access to markets- abroad - in their economic development, developing nations accepted FDI as a sole visible panacea for all their scarcities.

Economic development, rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. With high economic growth, per capita income increases; this, in turn, leads to a shift in consumption pattern from necessity items to discretionary consumption. Furthermore, as the economy liberalizes and globalizes, various international brands enter the domestic market. Consumer awareness increases and consumers tend to experiment with different international brands. The proliferation of brands leads to increase in retail space. Retail modernization in India depicts a similar story.

According to A.T. Kearney‟s Annual Global Retail Development Index (GRDI) for the year 2012, India has been placed at fifth rank (after Brazil, Chile, China and Uruguay) on the basis of retail investment attractiveness. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. Being encouraged by India's growing retail boom many multinational companies also started to enter India's retail market. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $660 billion by 2015. FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers, and suppliers (farmers). Opposition to liberalizing FDI in this sector raises concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development.

The objective of our study is to analyze the current retail scenario in India, investigate the controversial views of the various stakeholders and evaluate the likely challenges and threats of FDI in both single and multi-brand retail in India.

Evolution of Indian Retail Industry It is interesting to focus on the evolution of the retail sector in India. Historically they evolved as a source of entertainment (in the form of village fairs, melas etc.) which was within the rural reach. Later on these were transformed Mom and Pop/ Kirana stores which are of traditional variety neighborhood shops. Then came the government supported PDS outlets, khadi stores, cooperatives etc. Finally shopping malls, supermarkets, departmental stores etc has brought a great revolution to the Indian retail market (figure-1.10.1).

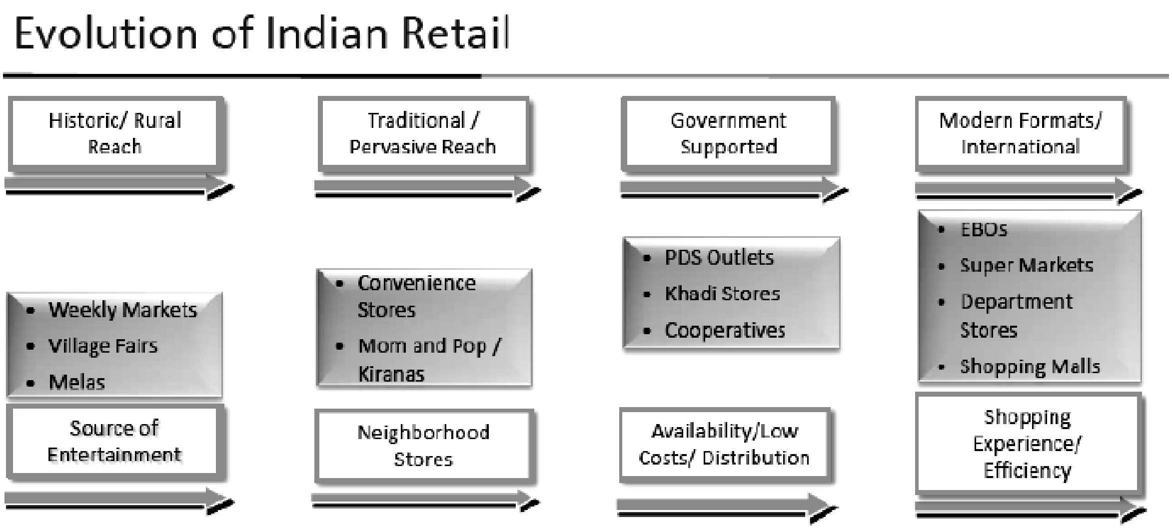


Figure 1.10.1

Types of Retailing in India

(a) Single Brand- Single brand implies that foreign companies would be allowed to sell goods sold internationally under a „single brand‟, viz., Reebok, Nokia and Adidas. FDI in „Single brand‟ retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

(b) Multi Brand- FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous "kirana" store. The approval for single and multi brand includes a set of riders for the foreign investors, aimed at ensuring that the foreign investment makes a genuine contribution to the development of Indian infrastructure and logistics, at the same time facilitating integration of small retailers into the upgraded value chain.

While the minimum capital requirement of US$ 100 million is unlikely to be an issue for the large foreign players vying to enter India in the supermarket/ hypermarket segment, it could make it difficult for foreign investors planning to enter specialty formats such as music, mobile, electronics goods, among others, as these formats require relatively lower investments. Further, the approval requirements from State Governments could limit the cities that FDI backed retailers can operate in. The current opposition raised by a number of political parties, if persists, may pose a major roadblock in the entry of the foreign retailers in India. Besides restricting the number of cities these retailers can operate in, it could also lead to problems in creating supply chain efficiency.

Rationale Behind Allowing FDI in Retail Sector

FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity. Permitting foreign investment in food-based retailing is likely to ensure adequate flow of capital into the country, & its productive use in a manner likely to promote the welfare of all sections of society, particularly farmers and consumers. It would also help bring about improvements in farmers" income & agricultural growth and assist in lowering consumer prices inflation.10 Apart from this, by allowing FDI in retail trade, India will significantly flourish in terms of quality standards and consumer expectations, since the inflow of FDI in retail sector is bound to pull up the quality standards and cost-competitiveness of Indian producers in all the segments. It is therefore obvious that we should not only permit but encourage FDI in retail trade. Indian Council of Research in International Economic Relations (ICRIER) has projected the worth of Indian retail sector to reach $496 billion by 2011-12 and ICRIER has also come to the conclusion that investment of „big" money (large corporate and FDI) in the retail sector would in the long run not harm interests of small traditional retailers.

Entry Options for Foreign Players Prior to FDI Policy (2006)

Although prior to Jan 24, 2006, FDI was not authorized in retailing, most general players had been operating in the country. Some of entrance routes used by them have been discussed in sum as below:-

(a) Franchise Agreements: It is an easiest track to come in the Indian market. In franchising and commission agents" services, FDI (unless otherwise prohibited) is allowed with the approval of the Reserve Bank of India (RBI) under the Foreign Exchange Management Act. This is a most usual mode for entrance of quick food bondage opposite a world. Apart from quick food bondage identical to Pizza Hut, players such as Lacoste, Mango, Nike as good as Marks as good as Spencer, have entered Indian marketplace by this route.

(b) Cash And Carry Wholesale Trading:

100% FDI is allowed in wholesale trading which involves building of a large distribution infrastructure to assist local manufacturers. The wholesaler deals only with smaller retailers and not Consumers. Metro AG of Germany was the first significant global player to enter India through this route.

(c) Strategic Licensing Agreements:

Some foreign brands give exclusive licenses and distribution rights to Indian companies. Through these rights, Indian companies can either sell it through their own stores, or enter into shop-in-shop arrangements or distribute the brands to franchisees. Mango, the Spanish apparel brand has entered India through this route with an agreement with Piramyd, Mumbai, SPAR entered into a similar agreement with Radhakrishna Foodlands Pvt. Ltd.

(d) Manufacturing and Wholly Owned Subsidiaries:

The foreign brands such as Nike, Reebok, Adidas, etc. that have wholly-owned subsidiaries in manufacturing are treated as Indian companies and are, therefore, allowed to do retail. These companies have been authorized to sell products to Indian consumers by franchising, internal distributors, existent Indian retailers, own outlets, etc. For instance, Nike entered through an exclusive licensing agreement with Sierra Enterprises but now has a wholly owned subsidiary, Nike India Private Limited.

Current Position and FDI Norms in Indian Retail In 2010, the Indian retail market was valued at $435 billion of which the share of modern retail was 7 per cent. The sector is expected to grow to $535 billion by 2013 with the share of modern retail at 10 per cent. In 2007, India was ranked the twelfth largest consumer market and it is expected to be the fifth-largest consumer market by 2025 after the US, Japan, China and the UK (McKinsey & Company 2007). In 2010, India attracted the largest number of new retailers among emerging and mature markets (CBRE 2011). According to study conducted by ICRIER, total retail business in India will grow at 13% annually, from US $322 billion in 2006-07 to US $590 billion in 2011-12 and further US $1 trillion by 2016-17 (figure-1.10.2)

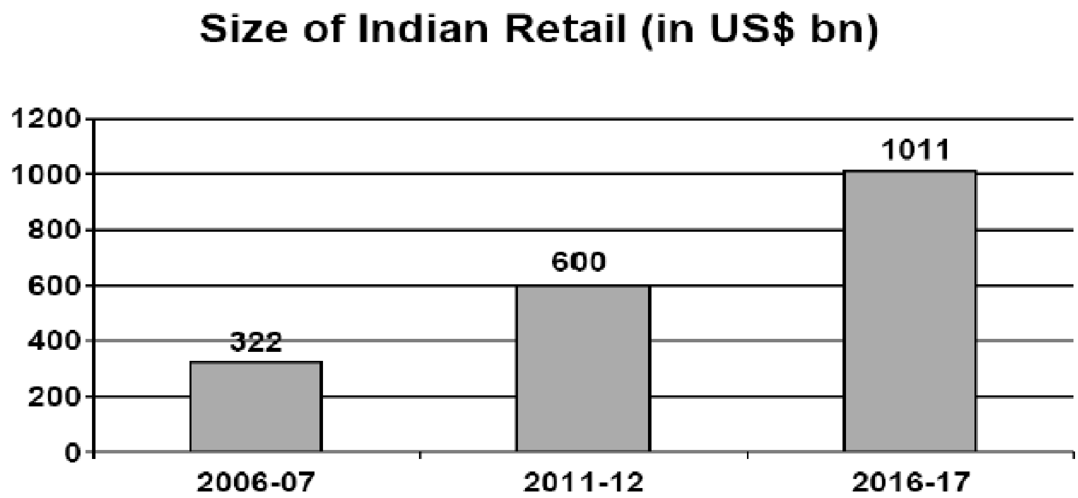


Figure 1.10.2

Being aware of the large market, growing consumerism and brand-consciousness and to provide a greater fillip to high economic growth, in 1997, the Indian retail sector witnessed the first footprints of FDI with 100% FDI being permitted in cash & carry wholesale trading under the government approval route, subsequently brought under the automatic route in 2006.

As a step ahead, FDI in single brand retail was permitted to the extent of 51% in 2006, while FDI in multi-brand retail remained prohibited till recently. Despite changes in consumer behaviour and retail modernization, India is one of the few countries where FDI was prohibited in multi-brand retail (until 2011), primarily to protect the traditional mom-and-pop retailers. This policy restricts global low-cost multi-brand retailers such as Wal-Mart, Tesco and Metro AG from catering directly to Indian consumers. Within the country, there has been significant debate on whether FDI should be allowed in multi-brand retail. In July 2010, the Department of Industrial Policy and Promotion (DIPP) released a Discussion Paper on *'Foreign Direct Investment (FDI) in Multi-Brand Retail Trading'* to facilitate discussion and debate on whether FDI should be allowed in multi-brand retail and, if so, what conditions should be imposed on FDI. Although a number of issues have been discussed in the Discussion Paper, the implications of the liberalization for Indian consumers have not been discussed.

The Economic Survey of 2010-11 mentioned that a phased opening of FDI in multi-brand retail is likely to benefit the consumers, but did not state the exact benefits. In July 2011, a Committee of Secretaries (CoS) had cleared the proposal to allow up to 51% FDI in multi-brand retail, which has been approved by the Union Cabinet in November 2011, albeit with a few riders to set up the supply chain and reduce inflation. The Union Cabinet has also approved increasing the FDI limit in single brand retail to 100% with government approval. While no parliamentary approval is needed for the decision, State Governments have the prerogative to disallow the same in their respective states.

As a part of the economic liberalization process set in place by the Industrial Policy of 1991, the government of India opened up the retail sector to FDI through a series of steps:

- 1995 – World Trade Organization's (WTO) General Agreement on Trade in Services (GATS) which included both wholesale and retail trade in services came into effect.

- 1997 – FDI in cash and carry (wholesale) allowed up to 100% under the government approval route.

- 2006 - FDI in single brand retail was permitted to the extent of 51%; FDI in cash and carry brought under automatic route.

- 2011 – 100% FDI in single-brand retail permitted with government approval; 51% FDI in multi-brand retail with few conditions.

Opportunities Of FDI in Retail in India

Market liberalization, a growing middle-class, and increasingly assertive consumers are sowing the seeds for a retail transformation that will bring more Indian and multinational players on the scene. India is tipped as the second largest retail market after China, and the total size of the Indian retail industry is expected to touch the $300 billion mark in the next five years from the current $200 billion. But the recent debate has centered on the issue of whether FDI in retail in India will be a "boon or a bane". Many studies and surveys were conducted to analyze the impact of FDI in retail sector in various segments of the economy. According to a policy paper prepared by the Department of Industrial Policy and Promotion (DIPP, 2010), FDI in retail must result in backward linkages of production and manufacturing and spur domestic retailing as well as exports. According to the World Bank, opening the retail sector to FDI would be beneficial for India in terms of price and availability of products. While FDI in multi-brand retail has been opposed by several in the past citing fears of loss of employment, adverse impact on traditional retail and rise in imports from cheaper sources like China, adherents of the same indicate increased transfer of technology, enhanced supply chain efficiencies and increased employment opportunities as the perceived benefits.

Key Perceived Opportunities The following may be regarded as major perceived benefits of allowing FDI in retail in India:

1. Capital Infusion- This would provide an opportunity for cash-deficient domestic retailers to bridge the gap between capital required and raised. In fact FDI is one of the major sources of investments for a developing country like India wherein it expects investments from Multinational companies to improve the countries growth rate, create jobs, share their expertise, back-end infrastructure and research and development in the host country.

2. Boost Healthy Competition and check inflation- Supporters of FDI argue that entry of the many multi-national corporations will obviously promise intensive competition between the different companies offering their brands in a particular product market and this will result in availability of many varieties, reduced prices, and convenient distribution of the marketing offers.

3. Improvement in Supply Chain- Improvement of supply chain/ distribution efficiencies, coupled with capacity building and introduction of modern technology will help arrest wastages (in the present situation improper storage facilities and lack of investment in logistics have been creating inefficiencies in food supply chain, leading to significant wastages).

4. Improvement in Customer Satisfaction- Consumers in the organized retail will have the opportunity to choose between a numbers of internationally famous brands with pleasant shopping environment, huge space for product display, maintenance of hygiene and better customer care. There is a large segment of the population which feels that there is a difference in the quality of the products sold to foreign retailers and the same products sold in the Indian market. There is an increasing tendency to pay for quality and ease and access to a “one-stop shop” which will have a wide range of different products. If the market is opened, then the pricing could also change and the monopoly of certain domestic Indian companies will be challenged.

5. Improved technology and logistics- Improved technology in the sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail shops in India,. Further, transportation facilities can get a boost, in the form of increased number of refrigerated vans and pre-cooling chambers which can help bring down wastage of goods.

6. Benefits for the Farmers- Presumably, with the onset of multi-brand retail, the food and packaging industry will also get an impetus. Though India is the second largest producer of fruits and vegetables, it has a very limited integrated cold-chain infrastructure. Lack of adequate storage facilities causes heavy losses to farmers, in terms of wastage in quality and quantity of produce in general, and of fruits and vegetables in particular. With liberalization, there could be a complete overhaul of the currently fragmented supply chain infrastructure. Extensive backward integration by multinational retailers, coupled with their technical and operational expertise, can hopefully remedy such structural flaws. Also, farmers can benefit with the “farm-to fork” ventures with retailers which helps (i) to cut down intermediaries ; (ii) give better prices to farmers, and (iii) provide stability and economics of scale which will benefit, in the ultimate analysis, both the farmers and consumers.

7. Creation of More And Better Employment Opportunities- The entry of foreign companies into Indian Retailing will not only create many employment opportunities but, will also ensure quality in them. This helps the Indian human resource to find better quality jobs and to improve their standard of living and life styles on par with that of the citizens of developed nations.

1.11 Emerging Trends in Retailing

Retailing today is the fastest growing sectors in the global economy and is under transition phase; not only in South Asian countries like India and China but throughout the world. The increased popularity of organized retailing is mainly because of the consumers’ changing behavior. This change has become possible due to double income families, breakup of joint family concept, changing lifestyles and favorable demographic patterns. Today consumers prefer to shop at places where they can get grocery, food, entertainment and others daily routine items under one roof. This has made retailing the most attractive sector of the Indian economy.

Following are the recent trends that have stood out in recent years and continue to grow further:

1. New retail formats and combinations are emerging and have opened a new world of opportunities for Indian youth. Due to huge amounts of new investments and decreasing charm for ‘kirana’ stores, the

retail sector is expected to grow. Bank branches, bill counters, saloons, internet cafe have opened in the malls. The ‘cash and carry’ activities are expected to grab majority of attention.

2. Internet age, increased computer awareness and shrinking usage charges have made people enabled buy things online resulting in growth of non-store retailing. Retailers are informing about new arrivals/fresh stock through e-mails, television, SMS and telephones to which anyone can respond to through toll-free 16 digit numbers.

3. Specialty stores like ‘Reliance Digital’, ‘Music World’ ‘Metal Junctions’, ‘Nokia World’ and ‘Pantaloons’ have their presence in most of the malls in the country. Departmental stores have given way to malls, having a mixture of large and small retailers offering varied brands for each and every section of the society.

4. Sales promotion channels are increasingly becoming professional and targeting differently to different lifestyle groups. Newer and newer promotional techniques are emerging. Event managers are hired and visual merchandising professionals are consulted.

Today retailers are not sticking to traditional methods of promoting a sale but personal selling door-to-door selling, free home delivery and payment through plastic money have emerged and is being widely used. Use of advanced technology is not the matter of affordability but is the reason for survival. Retailers are using computers, electronic devices, check out scanning systems, tag guns, vending machines, money counters and digital signage to enhance store’s productivity. CCTVs, cameras, sensors and theft alarms are being used to prevent store theft.

5. Today retail organizations are not only targeting big cities but are considering tier II and tier III cities like Jaipur, Pune, Shimla, Karnal, Panipat, Coimbatore, Baroda, Chandigarh etc also. The South Indian states are one step ahead when it comes to shopping in the supermarkets for day-to-day needs and also have been influencing other states where supermarkets are being established.

However, the main center of organized retailing is undeniably Chennai, which once was considered as a ‘conservative’, ‘traditional’ and cost-sensitive’ market. The success of Chennai as retail hub has surprised all but list of factors contributed to its success. Reasonable real estate prices, double household income, increased presence of MNCs and industrial boom has led to the emergence of new residential societies resulting in increased purchasing power and demands for day- to-day goods under one roof.

6. Use of Plastic Money:

Use of credit and debit cards for buying merchandise is relatively a new phenomenon but is gaining popularity immensely. Credit and debit cards are commonly known as ‘plastic money’. Today, especially in metros, retail spending is mainly done by plastic cards, accounting for over 45 percent and is likely to touch 65 percent over the next five years.

7. Distance – No bar:

Thanks to increased public transportation, better roads, highways and an overall improvement in the transportation infrastructure that has enabled customers to visit from one place to another smoothly than ever before. Now for want of quality goods, a customer can travel several kilometers to reach a particular store.

8. Partnerships and tie-ups among retailers, real estate developers, brands, franchisees, and financers have become the fashion of the day to spread risk related to huge investments and uncertainty.

9. The government infrastructure support, relaxation on foreign direct investments further has accelerated the growth of Indian organized retail sector. Consequently, the shopping malls are coming up throughout the country in a big way.

10. Sophisticated customers:

Due to Internet revolution, customers are becoming conversant about the products they are interested in buying. For example, over thirty percent of Indian consumers collect information from the Internet about prices, features, guarantee/warranty options before visiting any store for the actual purchase.

This is particularly true in case of automobiles, cell phones, consumer electronics, hotel bookings, travel packages etc. This suggested the retailers that they need to respond to varying consumer needs and growing assortment.

11. The gap between organized and unorganized (traditional 'kirana' shopping) retailing is coming close due to mall revolution and increasing Indian middle class in terms of size and income. According to a study conducted by 'Deloitte Haskins and Sells', one of the four largest accounting firms in the world, Indian retailing is growing at a faster pace as was expected from it and could constitute 25% of the total retail sector by 2011.

The study further reveals that new malls, increased disposable income and easy access to credit facilities have led to organized retailing to record all time high rate of growth of 50% per annum in 2007. The traditional 'kirana' stores by introducing modern retailing concepts such as self service, free home delivery system, credit facility and other value added services have been trying to reshape themselves.

12. Need for retailing skills:

Undoubtedly, retailing in India is still in nascent stage. The success of organized retailing is yet to be proved. The success will be felt once an equitable stage is achieved. This requires enough store size, traffic flow, and revenue earned, but besides these factors, retailers have started concentrating on recruiting qualified and trained retail staff.

Following are the areas where specialized skills are increasingly felt:

(a) Managing Merchandise:

Inventory management, vendor selection, presenting merchandise, pricing the merchandise, planning and implementing merchandise assortments.

(b) Store operations and management:

Layout, inventory management, buying, store keeping, customer relationship, objections handling, visual merchandising.

(c) Strategic management:

Strategic planning, targeting, positioning marketing, site location, building and creating sustainable advantage.

(d) Administration:

Marketing, finance, human resource and so on.

1.12 Let’s Sum-up

All over the world, retailing is undergoing a process of evolution and is poised to undergo dramatic transformation. With special reference to India, the retail sector employs over 10 percent of the national work force but is characterised by a high degree of fragmentation with over 5 million outlets, 96 percent of whom are very small with an area of less than 50 m2. The retail universe doubled between 1986 and 2006 and the number of outlets per 1000 people at an All India Level increased from 4.9 in 1988 to 14.8 in 2006. Because of their small size, the Indian Retailers have very little bargaining power with manufacturers and perform only a few of the flows in marketing channels unlike in the case of retailers in developed countries. The corner grocer or the 'Kirana' Store is a key element in the retail in India due to the housewifes unwillingness to go long distances for purchasing daily needs. Although convenience and merchandise were the two most important reasons for choosing a store, the choice inertia varied across product categories. Convenience was indicated by consumers as the most important reason in the choice of groceries and fruit outlets, chemists and life style items while merchandise was indicated as the most important in durables, books and apparel.

Retailing is the sale of goods and services to ultimate consumers for personal, non-business use. Any institution may engage in retailing, but a firm engage primarily in retailing is called a retailer. Retailers serve as purchasing agents for consumer and as sales specialists for producers and wholesaling middleman. They perform many specific activities such as anticipating consumers' wants, developing product assortments and financing.

1.13 Key Terms

Generating sales, Excellent product knowledge, Merchandising, Housekeeping, Inventory

1.14 Self-Assessment Questions

Q. Why are retailers in the limited assortment supermarket and extreme value discount store sectors growing so rapidly?

Q. Why do retail managers need to consider ethical issues in making decisions?

Q. Any retailer's goal is to get customers in its store so that they can find the merchandise that they are looking for and make a purchase at this location. How could a sporting goods retailer ensure that the customer buys athletic equipment at its outlet?

1.15 Further Readings

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1.16 Model Questions

Q. A family-owned used book store across the street from a major university campus wants to identify the various segments in its market. What approaches might the store owner use to segment its market? List two potential target market segments based on this segmentation approach. Then contrast the retail mix that would be most appropriate for the two potential target segments.

Q. How does the buying decision process differ when shopping on the Internet compared with shopping in a store in terms of locations/sites visited, time spent, brands considered, purchases made and level of satisfaction with the purchase decision?

Q. From your perspective, what are the benefits and limitations of purchasing a home entertainment system directly from a number of component manufacturers rather than from a retailer?

Unit – 2
Retailing Mix

Learning Objectives

After completion of the unit, you should be able to:

- Explain the meaning of Retailing Mix
- Understand the Purpose of Retailing Mix
- Describe the components of Retailing Mix

Structure

2.1 Introduction

The concept of Marketing Mix was first pioneered by Prof. Neil H Borden (In the Late 1940s). But the famous 4P's of Marketing namely, Product, Price, Place & Promotion, were devised by Gerome McCarthy (1960), These remain widely used by marketers and practitioners around the world. Though a lot of empirical work lacks in the field of marketing mix, but several studies confirm that the 4Ps Mix is indeed the trusted conceptual platform of practitioners dealing with tactical/operational marketing issues (Sriram & Sapienza, 1991). Retail marketing includes some additional, distinctive aspects that the Marketing Mix also fails to address. The authors in the previous literature have agreed that the 4Ps of marketing are not enough & do not present an adequate platform for planning of marketing activities in this domain. Most researchers suggest replacing the mix with new concepts or adding new elements to it. Personnel, Physical evidence & Process are factors contributing to unique customer experience as basis of differentiation and retention (Constantinides, 2006). According to Lazer and Kelley (1961)

Retail Marketing Mix includes all the goods and services a store is able to offer to its consumers and also all the programmed efforts of the managers that adapt the store to market environment. Over the years, different authors have proposed different elements of the retail Marketing Mix.

Hansen (1990) proposed nine elements of the marketing: Location; Assortment; Product, especially Private Labels; Store Layout; Price; Sales Financing; Sales Promotion; Customer Service; Customers' Complaints Management. Berekoven (1995) defines, ten retail marketing elements: Assortment; Commercial Brands; Quality and Quality Assurance; Service; Price; Advertising; Sales Promotion; Store Layout and Merchandising; Sales Force; Location. More recently, Müller-Hagedorn (2005) considers only six policies (Location; Assortment; Price; Promotion Planning; Sales Force; In-Store-Management). The most popular elements of retail marketing mix are Product, Price, Place, Promotion, Personnel, Physical evidence & Process.

2.2 Definitions

Retail mix is a marketing plan that responds to a set of varying factors, such as location, pricing, personnel needs and offered services and goods. A **retail mix** plan targets strategies to attract customers and influence their purchasing ability.

The retail mix is the combination of business attributes in several key areas, including location, product mix, store layout and design, communication and customer service. In general, companies operate in standalone stores or in enclosed malls. The product mix includes the variety and assortment of products and services you offer. Store layout and design includes the setup of your stores, the visual presentation and product placement. Communication refers to the methods of promotion you use in marketing. With regard to service, retailers typically provide low, moderate or high levels of service.

Retailing is a major business format in which you sell goods and services directly to end consumers. While the types of retail providers are virtually limitless, several common principles contribute to successful development of a profitable retail business. The approach a retailer takes in applying these core principles impacts the nature of the operation.

Retail mix is a marketing plan that responds to a set of varying factors, such as location, pricing, personnel needs and offered services and goods. A retail mix plan targets strategies to attract customers and influence their purchasing ability. Retail mix also includes signage, placement of goods within the location and price discounts.

According to The Open University, four basic concepts are at the core of retail marketing. They are identified as the four P's: product, pricing, place and promotion.

Product choice is driven by the target customer base. Choosing what to sell, how to organize the inventory and display details are central to product decisions. Basic pricing strategy includes anticipated cost of goods, advertising, employee salaries and freight costs. A carefully constructed mark-up policy lets the customer find value and satisfaction in the final retail price. A retail business and its outlets should be placed in locations that attract the intended target customer, such as malls, a brick-and-mortar free-standing building or in a grouped downtown shopping atmosphere. Customer awareness is easily achieved through advertising because it quickly reaches its intended recipient. Simple websites on the Internet reach global markets and establish another dimension of consumers. Promotion is also accomplished when employees are engaged and knowledgeable regarding the product line.

2.3 Purpose of Retailing Mix

Retailing mix refers to the various features of retail strategy planning. Also often called "the 6 Ps," retailing mix details a retail business' approach to its products, promotion efforts, personnel, presentation, place and price. Retailing mix helps a business define its strategy and carry out operations according to its goals.

Address Customer Needs

Be definition, a retail business deals with identifying and meeting the needs of end consumers of products or services. As such, the business has to plan its strategy based on the needs of its target market. In developing the retailing mix, the business has to define its customers and find out how to anticipate and satisfy their needs. In this way, the retailing mix approach forces a business to place its customers in the center of its strategy development.

Formulate Strategy

When developing a strategy based on the retailing mix approach, business managers have to consider all the significant factors that define the business, including products, personnel, promotion, presentation, place and price. Retailing mix provides a structure that retail business managers can use in planning business strategy, so they don't overlook any of the six features. The retailing mix approach helps business managers consider how to use each of these factors in meeting the needs and desires of customers.

Coordinate Operations

By developing the retailing mix before carrying out business operations, business managers provide a plan for all employees to follow. This way, the different parts of the business don't work haphazardly without following a definite plan. The retailing mix helps coordinate the efforts in all departments and at all levels of the business, so every person works toward the same goal, targeting their products and services at the same market segment.

Respond to Competition

When developing the retailing mix, a business may consider other companies working in the same industry and targeting the same market segment. The business may analyze how its competitors address each factor of the retailing mix and compare its strategy to the competitors. This way, the business can fashion its retailing mix in response to the strategies of its competitors. For example, if a competitor reduces its price points for certain products, the business may consider providing discounts to compete with the other company.

Retailer operators develop strategies in a number of ways. However, three major elements contribute to the broad strategy a retailer implements: target market, retail format and sustainable competitive advantages. Target market is the total marketplace, and the specific breakdown of market segments you promote your business to. Retail format includes the channels through which you sell, including stores, the Internet, catalogs, kiosks and mobile devices. It also encompasses the types of products and services you offer. Sustainable advantages are strengths you can leverage for an extended period that competitors have difficulty copying.

Merchandising is a major business process for retailers. It includes buying, inventory planning and management, and visual presentation in stores. Retailers collaborate closely with suppliers throughout the supply chain management process to ensure inventory is always in stock, but costs to maintain inventory aren't excessive. Visual merchandising in stores also is important. This element includes visually appealing window displays, effective signage and aesthetically pleasing product displays.

The long-term success of a retail business often is tied to the level of customer service provided and the ability of the retailer to retain loyal customers. Customer service includes greeting customers, answering questions, making product recommendations, resolving complaints and offering advice. Customer retention involves efforts to motivate customers for repeat business. Many retailers manage loyalty programs that reward top customers for routine, consistent purchases over time. Retaining core customers is much more efficient than constantly losing customers and having to replace them.

2.4 Six Components of Retailing Mix

Retail marketing is the range of activities undertaken by a retailer to promote awareness and sales of the company's products. This is different from other types of marketing because of the components of the retail trade, such as selling finished goods in small quantities to the consumer or end user, usually from a fixed location. Retail marketing makes use of the common principles of the marketing mix, such as product, price, place, promotion, personnel and presentation. A study of retail marketing at university level includes effective merchandising strategies, shopping and consumer behavior, branding and advertising. Retail marketing is especially important to small retailers trying to compete against large chain stores.

Theoretical Framework & Hypotheses

Theoretical Framework & Hypotheses Based on the Review of literature, certain such parameters were identified for the purpose of this study. The basic purpose of this study was to identify the importance of such parameters for different retailers. There are certain desired retail attributes of the customers from the retail stores (Carpenter & Moore, 2009). It has also been observed and is quite true to some extent that the managers and the customers evaluate the importance of various store choice factors alike (Hansen T. , 2003), hence an effort is made to identify the associative importance of different attributes for different retail formats. Past literature has proved that the same set of factors differ in their importance for various retailers (Balija, 2010). It has been hypothized that these retail formats associate either High, Medium or Low importance to these attributes. The respondents were asked to rate these factors on a five point likert scale. There were 11 parameters identified for the purpose of this study. The section below mentions the various hypothesis for different retail formats.

2.4.1Products

The cornerstone of the retail marketing definition is the product. In the retail environment, merchandise is classified according to the category into which it falls. These categories include hard or durable goods such as appliances, furniture, electronic goods and sports equipment; food; and soft goods or consumables. Soft goods include clothing, furnishings, cosmetics, paper goods and other items with a typical life span of three years or less. For example, in a small business selling handmade crafts, the products would likely all fall under a single category.

Product Mix

(i) Quality

Quality is a one of the most important dimension of any retail organization. Department Stores have a high focus on quality, They emphasize more on the quality of products rather than price (Williamson, 1986). Hypermarkets keep a large assortment of products that are both of good and average quality, their national brands are of high quality, while the private labels are of moderate quality (Zentes & Schramm-Klein, 2007). Hence, they give moderate emphasis on the quality of their products. Specialty Stores offer high quality products, that are hard to find in other stores. The selection of products in a speciality store is considered exclusive, i.e. things consumers buy to have some luxury in their lives. (Skallerud, Korneliussen, & Olsen, 2009). Convenience Store retailers 'have committed to fresh, high-quality food as their driving focus' (Longo, 2007) having a high focus on the quality of products.

H1a.1: Quality has High importance for Department Stores
H1a.2: Quality has Moderate importance for Hypermarkets
H1a.3: Quality has High importance for Specialty Stores
H1a.4: Quality has High importance for Convenience Stores

(ii) **Length of Assortment**

Department Stores associates high importance to the length of assortment. For them it is important to provide variety to attract more and more customers (Arnold,1997). Similarly Hypermarkets lay high emphasis on the number of products they keep in their stores (Castro & Dı´az, 2004). The Length of assortment at specialty store is generally not that broad. They stock limited variety of products which can neither be considered broad nor narrow (Skallerud, Korneliussen, & Olsen, 2009). The convenience Stores owing to their smaller size as compared to other retailers, have a limited assortment of merchandize.

H1b.1: Length Of Assortment has High importance for Department Stores
H1b.2: Length of Assortment has High importance for Hypermarkets.
H1b.3: Length Of Assortment has Moderate importance for Specialty Stores
H1b.4: Length Of Assortment has Moderate importance for Convenience Stores

(iii) In-Store Services
Customer service satisfaction depends on how well the service customers receive match their expectations (Austin, 1992). Department Stores provide services like gift wrapping, clean washrooms, child care facilities etc. Hence Department stores have a high emphasis on In-store services (Boon & Lin, 1997). Hypermarkets and Convenience Stores they both have average or moderate emphasis on the various instore services provided to the customers (Zentes & Schramm-Klein, 2007). Specialty stores associate high importance to in-store services (Gagliano & Hathcote, 1994)

H1c.1: In-Store Services has High importance for Department Stores
H1c.2: In-Store Services has Moderate importance for Hypermarkets.
H1c.3: In-Store Services has High importance for Specialty Stores
H1c.4: In-Store Services has Moderate importance for Convenience Stores

2.4.2 Price

Pricing is a major aspect of any retail marketing strategy. The price of merchandise helps to define the methods of retail marketing employed, as well as the target market, store location and retail format used to sell it. Pricing in the retail environment is based on fulfilling objectives such as covering the cost of sales and overhead, and in accordance with the four basic retail pricing strategies. These are everyday low pricing, high/low pricing, competitive pricing and psychological pricing. In a small retail business such as selling handcrafts, pricing may be based purely on the cost of sales, because overhead costs, if they exist, are minimal.

Price MIX

(iv) Price Competition

Prices and promotional activities may affect the image that customers have from the stores (Srivastava and Lurie, 2004). Department stores have moderate focus on price competition. They are not as aggressive with prices as compared to their counterparts like discount stores etc (Chong, 1996). Hypermarkets have a very high emphasis on product pricing to increase sales volume (Cataluna et.al. 2005). Specialty Stores offer excusive products and hence a consumer visits it irrespective of the high prices (Skallerud, Korneliussen, & Olsen, 2009). Since the convenience stores focus more on convenience, rather than price, Price of the product has moderate importance for a convenience store.

H1d.1: Price Competition has Moderate importance for Department Stores
H1d.2: Price Competition High importance for Hypermarkets.

H1d.3: Price Competition has Low importance for Specialty Stores
H1d.4: Price Competition has Moderate importance for Convenience Stores

2.4.3 Place

The place where retail marketing occurs helps to define the process. A retail operation can be store-based retail or non-store, according to the Internal Revenue Service's Retail Industry Handbook. More than 90 percent of U.S. retail stores are small, single-store, owner-managed operations; however, these generate less than 50 percent of sales from retail stores countrywide. A definition of retail marketing includes the places where it occurs, such as in-store, online and points of sale. This also applies to non-store operations such as retail sales taking place from the business owner's home.

Place MIX

(v) Location

Department store customers have been researched to associate moderate or high importance on convenience of location as compared to a specialty store, where the location is a lesser important factor (Schiffman, Dash, & Dillon, 1997). Hypermarkets are generally located outside city centers (Castrillo, Forn, & Mira, 1997). Location is an important factor for convenience stores, since they focus on consumer convenience and so does their name signifies, they are generally located in residential areas that are easily accessible to the consumers (Wood & Browne, 2007).

H1e.1: Location has High importance for Department Stores
H1e.2: Location has Low importance for Hypermarkets.
H1e.3: Location has Moderate importance for Specialty Stores
H1e.4: Location has High importance for Convenience Stores

(vi) Big Floor Space
Department Stores are generally big in size. They range from as small as 30,000 sq ft. to as big as 60,000 - 70,000 sq ft. Hence a big floor space is very important for these stores. ***Hypermarkets*** have been defined as those with retail store sizes between 60,000 to 100,000 sq. ft. (Roslin & Noraini, 2002). Hypermarkets are the largest of all retail formats everywhere. Size plays a big role in the success of specialty stores. Specialty Stores are small in size as compared to other formats of retail. Their size vary greatly depending upon a number of factors like locality, customers, assortment etc (Carneghi, 1981). Convenience Stores are very small in size. They range from just 2000 - 4000 sq. ft. (Zentes & Schramm-Klein, 2007).

H1f.1: Big Floor Space has High importance for Department Stores
H1f2: Big Floor Space has High importance for Hypermarkets.
H1f.3: Big Floor Space has Low importance for Specialty Stores
H1f.4: Big Floor Space has Low importance for Convenience Stores

2.4.4 Promotion

Retail marketing relies heavily on the promotional aspect of the marketing mix, as can be seen by the number of print advertisements for consumer goods such as clothing, food and furniture. Promotions take place in both traditional media such as television, print, outdoor billboards and radio, as well as new media such as the Internet. The choice of promotional channels is influenced by factors such as the competitive retail environment, the profit margin on sales and the budget available for promotion purposes. The success of retail marketing is defined by the success of the business in selling its merchandise. Promotion may be more difficult for small businesses, because of their lower advertising budgets, but social media provides a low-cost method of promotion.

Promotion MIX

(vii) Product Promotion

Department Stores lay high emphasis on product promotion. Department stores have recorded the highest percentage increase in loyalty card usage among consumers in the USA (Berry, 2013). Even Hypermarkets also emphasize a lot on Product Promotion by heavily using channels like newspapers, flyers and coupons (Zentes & Schramm-Klein, 2007). Specialty Stores emphasize moderately on retail promotions by means of mass media of promotion, rather they use medias like social networking sites or sites like youtube etc for this purpose (Walters, 1988). Conveniene stores have very little to moderate promotions for their stores (Zentes & SchrammKlein, 2007)

H1g.1: Product Promotion has High importance for Department Stores
H1g2: Product Promotion has High importance for Hypermarkets.
H1g.3: Product Promotion has Moderate importance for Specialty Stores
H1g.4: Product Promotion has Low importance for Convenience Stores

(viii) Loyalty Programs

Department Stores try to strengthen their customer services programs and their relationship management through various means (Noordhoff, Pauwels, & Odekerken-Schröder, 1990). Loyalty programs is one such dimension to it. Department Stores have reported to have increased in usage by consumers in the USA (Jeff Berry, 2013). Hypermarkets extensively focus on loyalty programs. These programs provide data on the shopping behaviour of customers and are helpful for the hypermarkets. while, the convenience stores neither have the scale nor technology for implementing loyalty programs (Wood & Browne, 2007). Specialty stores have a moderate emphasis on loyalty programs. The literature does not report much on the use of loyalty programs at specialty stores.

H1h.1: Loyalty Programs has High importance for Department Stores
H1h.2: Loyalty Programs has High importance for Hypermarkets.
H1h.3: Loyalty Programs has Moderate importance for Specialty Stores
H1h.4: Loyalty Programs has Low importance for Convenience Stores

2.4.5 Personnel

It is the people working for you determine the level of service or value you provide to customer. Be is selling function, service, support or communication. These are people that are differentiators as compared with the competition whether it is pre-sales, sales or post-sales activities.

Personnel MIX

(ix) Personnel Management

The role of an employee is more important at a **Department store** as the customers often need assistance while shopping and hence more emphasis is paid on personnel management, while the same research empirically investigated that **convenience stores** require less of such kinds of assistances and hence a lesser emphasis on personnel Management (Bianchi, 2009); Similarly it was researched that the competence and friendliness of workers was an equally important factor rated by customers and retailers alike, emphasizing on the importance of personnel management in **specialty stores** (Hansen, 2003). Since instore service is an important aspect of **hypermarkets**, there has to be a keen attention on personnel management, as employees are large in number at hypermarkets (Zentes & Schramm-Klein, 2007).

H1i.1: Personnel Management has High importance for Department Stores

H1i.2: Personnel Management has High importance for Hypermarkets.
H1i.3: Personnel Management has High importance for Specialty Stores
H1i.4: Personnel Management has Moderate importance for Convenience Stores

2.4.6 Presentation /Physical Evidence

It is the physical evidence that portrays the image of the business and key drivers. Presentation of the stores, websites, premises, offices, delivery vans, warehouses, uniforms etc plays crucial role in associating customer with your brand. It very important to ensure that the image portrayed is consistent with the product and services being offered.

Physical Evidence MIX

(x) Ambience/Display Department stores are nicely decorated and well organized stores with a high focus on the Ambiance of the store (Greenley & Shipley, 1992);(Jones). A lot of time is devoted to enhance the visual merchandising of these stores. It refers to arrangement of merchandise and Displays. Specialty Stores centre their focus on product display as the consumers use it as an indication of the quality of product and form perceptions about the store image (Gagliano & Hathcote, 1994). The architecture of Hypermarket is cost effective with a simple store design and a functional oriented store atmosphere, while convenience stores have average looking store atmospherics owing to their limited scale of activities (Zentes & Schramm-Klein, 2007).

H1j.1: Ambience/Display has High importance for Department Stores
H1j.2: Ambience/Display has Moderate importance for Hypermarkets.
H1j.3: Ambience/Display has High importance for Specialty Stores
H1j.4: Ambience/Display has Low importance for Convenience Stores

2.5 7th P – Profit

Retail profit can be understood in different ways, but a simple explanation is that it is the difference between units purchased by the retailer and the units sold. This is a very simple explanation, and understanding exactly how a company reports profits, if profits are made, can be much more complex. What constitutes costs or expenses and what constitutes money made often depend on the specific retailer, though there are a few guidelines that most companies follow, especially when they report profits to any form of tax agency.

The type of retail profit described in the first sentence of this article is inadequate when determining the profit a company is actually making. This is because retailers have other expenses that exist outside of the purchase of goods they'll sell to customers. They have to own or rent storefronts, consume electricity, pay employees, maintain property and account for property loss from situations like theft. While it's possible to get a sense of gross retail profit just by subtracting the cost of items sold from their cost to the retailer, the figure isn't very meaningful without taking these other expenses into account.

A more complex way of evaluating retail profit is to look at total net sales and then subtract all other expenses from them. Here, even net sales means something different than total sales. Net sales also account for any items than have been returned and that are damaged and unsalable, or haven't yet been sold again. This figure is much more accurate, representing what money was actually made.

In an accounting of net retail profit, a comparison of the specific items sold and all the money that is contributed toward running the business give a true sense of whether a store is actually making money. A profit is only made if net sales exceed expenses — when they don't, this is considered a loss instead of a profit.

Calculating actual retail sales can get much more complicated because retailers often invest money in items that they haven't yet sold. It may be one thing to subtract cost of items from their sale price, but sometimes items don't sell well or are discounted below their original sale price, and are a loss when sold. If retail stock doesn't move quickly, stores can end up using sharp discounts and clearances, and though this helps move the stock, it may not create any form of profit.

Retail profit can also be viewed as one of the ways retailers determine what to carry and how to price what they carry. The goal is always to make profit, because only then can a retailer stay in business. Smart retailers have to determine how to minimize expenses and price items to sell so that profit is maximized. In addition to this, they usually use reports on past profits to set goals for future profit percentages they wish to achieve.

2.6 Let's Sum-up

The various communication devices are used to educate, inform and generate awareness about the merchandise and the services offered by the retailer. These efforts also aim at building store image. The most common modes used for promotion are advertising, sales promotion, personal selling, public relations and publicity.

Retailers usually employ a combination of various elements of promotion mix to achieve promotional and business objectives. The degree and the nature of usage of each of the promotion methods depend on the objectives of the retail firm, product, market profile and availability of resources. Small retailers generally depend on point-of-purchase material provided by the companies which provide the merchandise.

Promotion mix employed by the retailers should be compatible with the desired store image, provide scope for modification if need arises and fit within the budget allocation. Therefore, various retail promotion methods can be compared on the basis of degree of control, flexibility, credibility and cost associated with them.

2.7 Key Terms

Retail Marketing Mix, Retail formats, Hypermarkets, Specialty Stores, Department Stores.

2.8 Self-Assessment Questions

Q. Why is store location such an important decision for retailers?

Q. Which factors do retailers consider when evaluating an area of the country to locate stores? How do retailers determine the trade area for a store?

Q. Why would sewing pattern manufacturers such as Simplicity, Butterick and McCall's print a price of $12.95 (or more) on each pattern and then two times a year offer patterns for sale at $1.99 each? How could this markdown influence demand, sales and profits?

2.9 Further Readings

- Arnold, S. (1997). Shopping habits at Kingston department stores: wave III: three years after Wal-Mart's entry into Canada. Kingston: Queen's University School of Business.

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- Bajaj, C., Tuli, R., & Srivastava, N. (2005). Retail Management. Oxford University Press.

- Baker, J., Parasuraman, A., Grewal, D., & G.B.Voss, &. (2002). The influence of multiple store environment cues on perceived merchandise value and patronage intentions. Journal of Marketing , 120 - 141.

2.10 Model Questions

Q. How does the mall near you home or university combine the shopping and entertainment experience?

Q. Consider a big city that has invested in an urban renaissance. What components of the gentrification project attract both local residents and visiting tourists to spend time shopping, eating and sightseeing in this location?

Q. Amazon.com started as an Internet retailer selling books. Then it expanded to groceries, DVDs, apparel, software, travel services, and basically everything under the sun. Evaluate these growth opportunities in terms of the probability that they will be profitable businesses for Amazon.com. What competitive advantages does Amazon.com bring to each of these businesses?

Unit – 3
Concept of Merchandising and Planning Process

Learning Objectives

After completion of the unit, you should be able to:

- Explain the meaning of Merchandising
- Understand the Key Elements of Merchandising
- Know the Process of Merchandising Planning
- Describe the Merchandise Types and Classification Hierarchy

Structure

3.1 Introduction

Merchandise management is a key component of store management strategy and is a strategic decision taken by the retailer that involves assigning significant resources in terms of investments to ensure that the store retains its long term advantages over competition in a target retail market. The first set of retail buying plans relate to the system of managing product categories of a manufacturer brand in a store is called a merchandise budget, or merchandise plan. The merchandise budget is referred to as a financial plan that indicates how much capital will be needed by the retailer to be spent each month to support store sales through the acquisition cost of product inventories in order to support the desired inventory turnover. Retailers deploy two methods to develop financial budgets for a merchandise plan for a store: top-down and bottom-up planning. The financial budgets allocate working capital to stores and departments within store that is required to buy merchandise from suppliers well in advance of the selling season.

While target market analysis and competition analysis are inputs used by the retailer to formulate the merchandise mix of a store, a model stock plan is a plan that maintains adequate merchandise in the store by combining merchandise lines and respective breadth, depth and consistency of items. It is a planned composition of merchandise lines which characterizes the mix of merchandise available based on expected store sales by indicating product lines, colours, and size distribution (SKUs) and the model stock plan is a commonly used methods across all organized store format of retailing as it specifies the exact characteristic of the merchandise in terms of attributes.

Merchandise acquisition, control and handling are three components of a typical retail supply chain. Supply chain management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across the supplier's supplier and the customer's customer of the retailer. Supply chain management is an integrating function with the primary responsibility for linking major business functions and business processes of the retailer into a cohesive and high-performing business model. It includes logistics management activities (transportation, warehousing and inventory) as well as manufacturing operations, and it drives the coordination of processes and activities with and across marketing, sales, product design, finance and information technology.

3.2 Definitions

The core function of retailing is to offer and sell merchandise. The terms 'merchandise' is unique to retailing as is 'merchandising' and tend to be often used as adaptive definitions. Merchandise comprises of two categories: product range and merchandise assortment. Merchandise or merchandising is related to the promotional activities manufacturers that bring about in-store displays, or identify the product and product line decisions of retailers. A critical business decision of a retailer is to plan and decide on the merchandise mix and the quantity of products to be purchased from vendors or suppliers. Merchandise management is defined by the American Marketing Association as "the analysis, planning, acquisition, promotion and control of merchandise sold by a retailer.

Merchandise management is the process by which a retailer attempts to offer the right quantity of the right merchandise in the right place at the right time while meeting the company's financial goals.

The merchandise management strategy of a retailer has three components: merchandise analysis, merchandise planning and merchandise control. A key aspect of merchandise management is merchandise mix management. The merchandise mix represents the full range of product categories which a retailer offers to target consumers: consumer electronics; home furniture; impulse: snacks, biscuits, chocolate; home appliances; toys; apparel; and food.

3.3 Concept of Merchandising

Merchandise management activities are undertaken primarily by buyers and their superiors, divisional merchandise managers (DMMs) and general merchandise managers (GMMs).

Retail buyers manage a portfolio of merchandise inventory. They buy merchandise they think will be popular with their customers. Like investment bankers, they use their retailer's information system to monitor the performance of their merchandise portfolio – to see what is selling and what is not.

Buyers need to be in touch with and anticipate what customers will want to buy, but this ability to sense market trends is just one skill needed to manage merchandise inventory effectively. Perhaps an even more important skill is the ability to continually analyze sales data and make appropriate adjustments in prices and inventory levels.

Merchandise Management Overview

A. The Buying Organization

Every retailer has its own system for grouping categories of merchandise, but the basic structure of the buying organization is similar for most retailers.

1. Merchandise Group

***** The highest classification level is the **merchandise group**. Each merchandise group is managed by a general merchandise manager (GMM), who is often a senior vice president in the firm. Each of these GMMs is responsible for several departments.

***** The second level in the merchandise classification scheme is the **department**. Departments are managed by divisional merchandise managers (DMMs).

***** The third level in the merchandise classification scheme is the **classification**. A classification is a group of items targeting the same customer type.

***** The next lower level in the classification scheme is the **category**. Each buyer manages several merchandise categories.

***** A **stock-keeping unit (SKU)** is the smallest unit available for inventory control, usually indicating size, color and style.

B. Merchandise Category – The Planning Unit

***** The merchandise category is the basic unit of analysis for making merchandising management decisions.

***** A merchandise category is an assortment of items that customers see as substitutes for one another.

***** Retailers and their vendors may have different definitions of a category.

***** Some retailers may define categories in terms of brands.

1. Category Management

***** Whereas department stores, in general, manage merchandise at the category level, supermarkets and other general merchandise retailers traditionally have organized their merchandise around brands or vendors.

***** Managing merchandise within a category by brands can lead to inefficiencies because it fails to consider the interdependencies between SKUs in the category.

Managing by category can help ensure that the store's assortment includes the "best" combination of sizes and vendors – the one that will get the most profit from the allocated space.

2. Category Captain

* Some retailers turn to one favored vendor to help them manage a particular category. Known as the **category captain**, this supplier forms an alliance with a retailer to help gain consumer insight, satisfy consumer needs, and improve the performance and profit potential across the entire category.

* The category captain works with the category manager/buyer to make decisions about product placement on shelves, promotions, and pricing for all brands in the category.

* A potential problem with establishing a category captain, however, is that vendors could take advantage of their position.

C. Evaluating Merchandise Management Performance -- GMROI

* A good measure for evaluating a retail firm is ROI. Return on investment is composed of two components, asset turnover and net profit margin.

* However, ROI is not a good measure for evaluating the performance of merchandise managers because they do not have control over all the retailer's assets or all the expenses the retailer incurs.

* Merchandise managers only have control over the merchandise they buy, the price at which the merchandise is sold, and the cost of the merchandise.

* The financial ratio that is important to plan and measure merchandising performance is a return on investment measure called gross margin return on inventory investment (GMROI). It measures how many gross margin dollars are earned on every dollar of inventory investment.

* GMROI is a similar concept to return on assets, only its components are under the control of the buyer rather than other managers.

* GMROI = Gross margin percentage X
  Sales-to-stock ratio

* Also, GMROI = $\frac{\text{Gross Margin}}{\text{Average Inventory, at cost}}$

* Average inventory in GMROI is measured at cost, because a retailer's investment in inventory is the cost of the inventory, not its retail value.

* GMROI combines the effects of both profits and turnover. It is important to use a combined measure so departments with different margin/turnover profiles can be compared and evaluated.

* GMROI is used as a return on investment profitability measure to evaluate departments, merchandise classifications, vendor lines, and items. It's also useful for management in evaluating buyers' performance since it can be related to the retailer's overall return on investment .

1. Measuring Sales-to-Stock Ratio

* Retailers normally express sales-to-stock ratios (and inventory turnover) on an annual basis rather than for part of a year. (If the sales-to-stock ratio for a three-month season equals 2.3, the annual ratio will be reported as four times that number, 9.2)

The most accurate measure of average inventory is to measure the inventory level at the end of each day and divide the sum by 365. Most retailers can use their information systems to get accurate average inventory estimates by averaging the inventory in stores and distribution centers at the end of each day.

Managing Inventory Turnover

* Inventory turnover and the sales-to-stock ratio help assess the buyer's performance in managing this asset.

* Retailers want to achieve a high inventory turnover, but just focusing on increasing inventory turnover can actually decrease GMROI.

* Buyers needs to consider the trade-offs associated with managing their inventory turnover.

3.4 Key Elements of Merchandising

Over recent weeks we have been sharing aspects of how to successfully plan merchandise for retailers. By now you should have a much better appreciation of the importance of a merchandise plan for retail success and how various elements of putting the plan together affect the outcome and value of the plan. We have been discussing a simple plan and there are many other important parts to a truly professional plan.

The output of the plan must be both communicated and understandable. That means the report format is critical to success. The best plan that is not understandable or is not used poses a critical break in the chain linking data to success. A simple format might simply have an Open To Buy budget, sales forecast and inventory target for each category listed for each of the next 12 months.

1. **Open To Buy**

Using an Open to Buy budget is the most important discipline that that we work to with Management One retail clients. When you know the following data:

Sales forecast
Target inventory
Value of opening inventory
Value of stock to be received
Closing inventory target

The math is simple:
Value of opening inventory + Value of stock to be received less Sales less Value of closing inventory
= Open To Buy budget

Open To Buy is the heart of a merchandise plan but there is a lot more information that is needed so that the right decisions can be made. The plan is the beginning but the results and profit are the goal.

2. **Sales Forecast**

Developing an accurate sales forecast depends on a number of factors:
- Trending analysis of data from the POS system. Every time a customer pays you for an item, they are telling you something. Gathering those bits of information and putting them in the right product classifications is critical.

- Environmental dynamics surrounding the store. Every store has a different market and that market is affected in different ways by what is happening. There are many variables involved in each market.

- What is happening in the store and the input of the staff. Independent specialist retailers are close to the market and the store. They know what events are happening. They know when they are implementing a motivational programme for staff that should boost sales. They know when the road will be dug up in front of the store. These inputs are key to modifying the forecast for accuracy. Combining all three is what makes a good plan and that’s what we do every month for over 500 independent retailers to help them grow more profitable and cash rich businesses.

3. **Inventory Target**

We arrive at the right target stock level through the Stock to Sales ratio (S/S). Multiplying the target sales by the S/S ratio will give you the target inventory level. Why is this important? Because from this you can create an accurate Open to Buy budget for each category in your store. This is one of the ways that you can increase the number of times you turn your stock in a year. The greater the stock turn, the greater the profit and cash flow.

A professional merchandise plan will have a lot of added valuable information included in the report. A dashboard tracking performance and of other key performance indicators (KPI) is very helpful for buyers, managers, owners and investors. A key is to get the most important KPI and not overload the report with so much extraneous data that the report becomes crowded and useless. The KPI should include the information needed to track experiments in changing prices, merchandising and marketing.

Reports must be understood by buyers to prepare their assortment plans and budgets and then use the plan to execute when they go to trade shows. There is a lot of information contained in a good merchandise plan. Acquiring the expertise to analyse the information and apply it correctly to the buying, sales and operations is important to success. The merchandise plan must balance within the report and also match the financials. Data input must be accurate, calculations must be precise, reports must be concise, analysis must be accurate, action items identified correctly, implementation must be continuous and accountability occurs by going through the entire process monthly.

Merchandise planning is not a trivial process. The best retailers would not go to the trouble or expense if it was not critical to their success. The best marketing tool is an accurate merchandise plan. The best motivational tool for managers to keep the sales staff on track is an accurate merchandise plan. The best tool for buyers to know how much to buy, when to land the goods and how to move them out during the season is an accurate merchandise plan.

3.5 Buying vs. Merchandising

Today's professional buyer faces more challenges than ever before. While yesteryear's professional buyers were required to address numerous problems and make decisions that would maximize profits for the companies they represented, the breadth and depth of those problems pale in comparison with what the buyers of today must confront each and every day.

Although it is true that traditional retailers have been in existence for more than one hundred years, off-price merchants have joined the scene to offer another type of shopping, and catalogs have become a major force in retailing; the competition of the past was nothing like it is in today's retail arena. In addition to the continuous growth in all of these retailing endeavors, e-tailing, or electronic retailing, has added yet another challenge for buyers to address.

Today's buyer—whether a traditional buyer, an off-pricer, a discounter, or a Store Is the Brand company that features only its own private-label merchandise—must continue to satisfy the needs of those who enter the brick and mortar operation. Many buyers will have to take on additional roles to merchandise the inventories of the off-site businesses that include catalogs and Internet Web sites, both of which are making enormous strides in reaching their markets. Some will have to address the specific needs of those who buy on the home shopping networks.

In trying to find the best possible merchandise for each of these retail ventures, buyers will continue to make use of the many outside specialists available to them. These market specialists include resident buying offices, fashion forecasters, and retail reporting services. Each offers a different type of assistance that can make the buyer's challenges more manageable.

Anyone who has pursued a career oriented toward merchandising fully understands that the challenges demanded of him or her are significant. These individuals are on the firing line each and every day. The decision making required of the merchandisers must be accurate so that the company represented can turn an acceptable profit.

Within the ranks of the merchandising division of the major stores are the general merchandise manager, several divisional merchandise managers, and a host of buyers. It is the buyer who has the ultimate responsibility for selecting merchandise from the vast number of resources available for purchasing. When a consumer examines a variety of shoe styles for his or her own use, the ultimate decision may be difficult to make. Of course, the choice is a personal one, with no considerations other than self-satisfaction. When the professional buyer makes the final selections, personal satisfaction is not of paramount importance. Customer satisfaction and company profitability are the only barometers by which the purchases are judged. Thus it is apparent that a great deal of the fate of the company is in the hands of the buyer.

Of course, the buyer is only one player on a team of many. Just as the lead actor in a theatrical production is not solely responsible for the success of the production or the star athlete the only one who makes the team victorious, it is generally a team effort that makes or breaks the ultimate goal. In retailing, the proper management of other activities in the store such as customer service, advertising and promotion, and special events also contributes to the organization's success. Buyers alone cannot make the retailer's dream come true.

Today competition is greater than it has ever been. Not only are stores of all kinds expanding in numbers that were never thought possible, but off-site outlets such as catalogs, home shopping networks, and Internet Web sites are also reaching consumers with a multitude of wares in ever-increasing numbers. For retail operations housed in stores, along with these other outlets, the buyer's role becomes even more important. It is the merchandise that is most important for all of these businesses, and only the buyer can satisfy the needs of the consumer by making the correct choices.

Let's see an example.

What is the difference between merchandiser and buyer in the fashion industry?

First, the basic explanation: a fashion buyer decides what the store stocks up on, while the merchandiser decides how they are displayed.

What Exactly Each One Does

A **fashion buyer** is in charge of selecting the items the store will sell. Working as one, you'll be in charge of:

● Staying on top of fashion trends

● Predicting what customers will want at the outlet you work for

● Buying stock, and tracking merchandise and shipping

You can start out as a trainee buyer and move on to become an industry mogul who dictates the fashion business—think Meryl Streep in *The Devil Wears Prada*.

Merchandisers, on the other hand, work to create an appealing store experience for customers. Here, you'll:

● Design the way your store is set up, designing the arrangement to create a conducive environment for buying

● Improve the shopping experience for buyers, in a bid to drive up sales

At certain establishments, a fashion buyer may have a hand in the merchandising, while merchandisers can also be put in charge of studying trends. Merchandising sometimes involves buying responsibilities as well; as a merchandiser, you may find yourself buying stock to fill your company's inventory requirements.

Some employers may combine these duties into one single job title too.

Skills Required

Fashion buyers:

● Fashion, and a knowledge of trends

● Math, to buy within the store's preferred price range

● People skills—you'll need to interact with managers, suppliers, and merchandisers

Merchandisers:

● Fashion and business skills

● An understanding of the target demographic, and how to arrange products to encourage sales

● The marketing skills, and physical ability (at least in the lower rungs), to set up merchandise in the store

3.6 Merchandising Planning Process

First, buyers forecast category sales, develop an assortment plan for merchandise in the category, and determine the amount of inventory needed to support the forecasted sales and assortment plan.

Second, buyers develop a plan outlining the sales expected for each month, the inventory needed to support the sales, and the money that can be spent on replenishing sold merchandise and buying new merchandise. Along with the plan, buyers or planners/assorters decide what type and how much merchandise should be allocated to each store.

Third, having developed a plan, the buyer negotiates with vendors and buys the merchandise.

Buyers continually monitor the sales of merchandise in the category and make adjustments.

These decisions are not necessarily made sequentially. Some decisions may be made at the same time or in a different order than described above.

Types of Merchandise Planning Processes

***** Retailers use two distinct types of merchandise management planning systems for managing (1) staple merchandise and (2) fashion merchandise categories.

*	**Staple merchandise categories**, also called **basic merchandise categories**, consist of items that are in continuous demand over an extended time period. The number of new product introductions in these categories is limited.

*	Sales of staple merchandise are relatively stable from day-to-day so it is relatively easy to forecast demand, and the consequences of making mistakes in forecasting are not great.

*	Because the demand for basic merchandise is predictable, merchandise planning systems for staple categories focus on continuous replenishment.

*	**Fashion merchandise** consists of items that are only in demand for a relatively short period of time. New products are continually introduced into these categories, making the existing products obsolete.

*	Forecasting the sales for fashion merchandise categories is much more challenging than for staple foods. Buyers for fashion merchandise categories have much less flexibility in correcting forecasting errors.

*	Due to the short life cycle of fashion merchandise, buyers often do not have a chance to reorder additional merchandise after an initial order is placed.

*	**Seasonal merchandise** categories consist of items whose sales fluctuate dramatically depending on the time of year. Both staple and fashion merchandise can be seasonal categories.

*	Retailers buy seasonal merchandise in much the same way that they buy fashion merchandise.

3.7 Factors affecting the Merchandising Planning Process

Retail merchandising consists of the planning, buying and selling of goods and products that retailers will then sell to their customers. It's a critical part of successfully managing both in-store and e-Commerce operations, yet it's also one of the most challenging and least understood aspects. Each part of the merchandising equation – planning, buying and selling – needs to be carefully executed, or the retailer may end up losing profit margins and not utilizing product properly.

There are four critical factors that influence merchandising functions and processes. Retailers must consider all four elements as they plan their merchandising initiatives – it's pivotal that they remember that merchandising does not function in isolation.

**1.	Size of the retail operation**

How big is the retailer in question? Is it a small operation with a single eCommerce website, or is it a major retail conglomerate with stores worldwide and websites in every language? As one would expect, these two dramatically different businesses would have vastly different retail merchandising approaches.

First and foremost, merchants should determine who is in charge of merchandising tasks. In a small retail operation, the owner might take the helm for this responsibility. However, as merchants expand into different departments, stores and even brands, product management becomes more complex and the number of people involved in inventory purchasing will likely grow.

There are other factors involved as well. For example, a multi-store chain may opt to have buying processes done at a regional or local level, or have all stores stock product based on national trends. Individual purchasers at stores may have more say or less, depending on the size of retail operations. Size of the store is a critical element that needs to be considered in the merchandising process.

2. Separation of duties

Separation of duties is common in mid-size and large retail operations. Often, buying, planning and selling may be separate tasks and responsibilities for a variety of reasons, from security to specialization.

When the same person isn't taking care of all three parts of the merchandising equation – buying, selling and planning – retailers need to consider how that could impact overall merchandising efforts. Of course, smaller merchants are likely to put all these duties on a single person, so it's crucial that merchants take into account who is doing what at their companies.

3. Shopping channel

Another key consideration of merchandising is the shopping channel. Nowadays, consumers have a number of options when it comes to how they want to shop – online, through television, in-store, via mail catalogs, etc.

While merchants should offer all of these options to customers, it's pivotal they have the merchandising strategy in place to support this initiative. For example, mail order catalogs need to be planned well in advance, because production of these materials can take weeks or even months depending on the quantity needed. On the flipside, web-based initiatives can be executed in near real-time.

For many merchants, filling a niche is important. Whether retailers are known for low prices, unique products or any other trademark, it's important that they take into account how channel can impact merchandising efforts.

Merchandising is an important task to get right, with a study from Retail Systems Research concluding that 70 percent of respondents believe merchandising and inventory management are critical to the success of retailers. Managers should use all the tools at their disposal to make the merchandising process as streamlined as possible.

STORE LAYOUT, DESIGN, AND VISUAL MERCHANDISING

Retailers attempt at maximizing the synergy between the tactical cues, messages, and suggestions that communicate with the shoppers so as to create and heighten the retail shopping experience to new levels of appeal. The store environment has a significant impact on shopper behaviour, which propels retailers to make considerable investments in store design, atmospherics, and merchandise presentation.
Atmospherics refers to the physical environment of the store or the point of purchase settings and design elements of a store such as space, lighting, acoustics, air quality, décor, comfort, scents and cleanliness impact on a shopper's mood and thus contribute to influence shopping behaviour and enhancing the retail experience of the customer.
Retail atmospherics comprises of four components:

1. Exterior atmospherics or external store elements.
2. Interior atmospherics or internal store elements.
3. Store layout.
4. Visual merchandising.

Store layouts have varying layouts and floor plans depending on the type of merchandise they display. The grid layout, which makes use of the spatial logic and traffic flow pattern of the 'straight floor plan' is most appropriate as a layout design option for stores requiring economical floor space management designs. The gird layout enhances space floor economy and turnover as it allows retailers to stock and

display large groupings of product assortments even while ensuring that it facilitates planned shopping behavior among customers who can easily locate and buy products on their shopping list.
Visual merchandising plays a key role in promoting product categories and assortments displayed in the selling space. Visual merchandising is the presentation of a store and its merchandise displays through the use of fixtures, merchandise presentation and store space management techniques and in ways that will entice and attract the attention and interest of potential customers to the store. In other words, visual merchandising focuses on the presentation of merchandise in a visually appealing manner in order to sell it. Visual merchandising has three major components: display (includes signages, fixtures and planogramming), merchandise presentation and store space management (product placement and adjacency).
While layout and signage ensure that shopper traffic is guided through the store, feature areas are central to the effectiveness of display and comprise the placement of merchandise. Feature areas or areas inside a store's shop floor that are specially designed to hold and present store merchandise and serve as sections that attract and shoppers to cluster around merchandise. Feature areas include the following store displays:

- Freestanding displays
- Point-of-purchase display
- End caps
- Promotional areas
- Walls
- Windows

The selling area in a store that is, the space inside a store as well as the space available to display merchandise on shelves, fixtures and in feature areas is constrained and hence scare. The constraints of available space inside a store requires a store-based retailer to follow store space management that allocates store space to merchandise categories and brands on display and the location of merchandise departments and categories in the selling area of the store. The objectives of store space management as a tool method of enhancing selling space productivity are:

- To achieve a high productivity of retail store space and a strong return on investment by an optimal utilization of space
- To enhance the presentation and display of merchandise for maximum visibility in the feature areas and on shelves and fixtures to obtain effective shopper movement and circulation in the selling area of a store
- To align and integrate the merchandise display, the shopper and the shop floor sales persons in a manner that is appealing, rational, exciting and compatible

Store space management, or retail space management importantly complements store design efficiencies and is a store operations variable that contributes significantly to profitability by ensuring optimal floor space allocation of merchandise categories and store inventory to deliver convenience value to customers and improved sales margins for store managers.
Two types of established retail space performance measures often are used by store-based retailers to calculate the productivity of retail space relative to inventory and stock-in-hand, which are as follows:

- Sales per square foot
- Sales per linear foot

Store space allocation is a component or space management and achieves the distribution of the optimal amount of space to the right merchandise categories and brands and in close alignment that accurately matches the variations in shopper demand for merchandise products in the store.

3.8 Role of Merchandisers

Merchandisers are responsible for ensuring that products appear in the right store, or on a website, at the appropriate time and in the correct quantities. This involves working closely with the buying teams to accurately forecast trends, plan stock levels and monitor performance.

A garment export unit generally has many departments like stores, cutting, production, packing, checking etc., in which Merchandising department a linking device of all.

The job of a merchandiser is to co ordinate with the entire department in the office as well as the customers.

Merchandiser meets the buyers and collects the details of their requirements etc., to develop the relationship with the customer.

A spec sheet (specification sheet) of the garment with sketch, measurement (will be mentioned before or after wash measurements.) and description is received from the buyer with or without sample .A general format of the spec sheet contains the sketch of the garment on the left side and the measurement on the right side. Descriptions of the stitching method, placement and design of embroidery or printing, additional accessories, color and type of buttons, threads etc. are mentioned at the back side. Additional sheets are added if the garment had more detailed work to do. Wash care label details are mentioned. Type, size, color and shape of the buttons are given. Placement of labels, prints, embroidery are given .Packing instructions are also given in this sheet which includes type, color size of the carton, marks and numbers to be printed on it, poly bags size and details printed on it, clips ,boards, tissue papers, required fold etc., Wash required for the garments will also be mentioned.

Detailed study is made from the spec sheet and the raw materials required for sample making is ordered by the merchandiser which includes fabric, thread, buttons, zips, labels, etc., The color and quality of the things ordered is approved by the merchandiser. Also the merchandiser should contact printing unit, dyeing unit, embroidery unit to make samples of printing, dyeing, embroidery respectively. This is also approved by the merchandiser with the suggestion of the customer.

Sometimes garments will be dyed after stitching, care should be taken while ordering raw materials for this, since the accessories should not catch dying color. Also the thread used to stitch these garments must be choosy, depending upon the buyers¶ request whether to get the dying color or not. Ready to dye thread should be used if the thread should be dyed after stitching.

Sample pieces are made and sent to the buyer for approval. The corrected samples are made and sent if the buyer required the same. After the sample is approved by the buyer or even before that, costing sheet is prepared by the Merchandiser. In costing sheet ,the price of the fabric, accessories, prints etc per garment is listed and the price is fixed by adding margin. This cost is got approved from the Manager or the person concerned and quoted to the buyer.

Purchase order (PO) is received from the buyer which includes-

- PO no/date

- Buyer/Consignee

- Garment unit

- The description of the garment

- L/C date- Last date within which shipment to be reach the destination

.- Sign and seal

- Order validity date

- Speck sheet

After receiving PO from the buyer merchandiser issues BOM (bill of material) for the fabrics.

PRODUCT PLANNING AND MERCHANDISE MANAGEMENT

Retail product management forms the key activity in the retail value chain of delivering unmatched convenience value to the shopper and is the critical strategic dimension that links the retail marketer to the consumer segment seeking the product assortments on offer. A related dimension of product management in the context of retailing is the management of retail brands and their offering either as manufacturer brands or private label brands. Retail product management determines the profitability of store operations, impacts costs of sourcing merchandise, and converges on the criticality of satisfaction of consumer needs even while unleashing the value of the segmentation strategy of the retailer. Merchandise management, a set of techniques that focus on the planning and controlling of the retailer's inventories of stock is central to the sale of store merchandise to the shopper, and impacts store sales, revenue, and the long-term marketplace sustainability of the retail enterprise.

Product and merchandise management are key strategies of retail management and drive sales and profitability for a marketer. These key activities are the foundations of a retail business as these denote cost and profit implications for the retailer and require the marketer to meticulously plan the merchandise mix and merchandise budget, which impact on the financial profitability of the store.
Product planning, or product management in retail management is a key operational activity and is defined as decisions at the store level related to inclusion and removal of product assortments from a retailer's product range or portfolio.

A product range is the total offering by a retailed defined in terms of width and depth. The width of the portfolio, also referred to as product categories is expressed in terms of the variety or different product categories of the offering. Depth of the portfolio is understood in terms of the choice of stock keeping units or product items representing product and brand variety within a product category. The depth of the product range on display in the store will ensure that a large number of price points can be covered by the retailer often extending to several thousands of single product items across multiple product categories.

Retailers offer two brand alternatives to shoppers in stores: national, or manufacturer brands and private label, or store brands. National brands are products that are manufactured and marketed by a manufacturer, and sold to multiple retailers The manufacturer is responsible for designing the merchandise and manufacturing the brands for sale with a great deal of consistency in quality and appeal to the target group of consumers. Retailers, on their part, are immensely benefited by vending manufacturer brands in their stores. It is common for manufacturers to promote and market retail products in the durable and non durable categories under an umbrella or family brand associated with the firm and likewise a sub brand that is associated with the product. A retailer's store brand is a valuable, intangible asset as it resonates and connects with shoppers on the strength of its brand equity. A retail brand refers to the totality of all retail outlets of a retailer which identified by the consumer on the basis of a unique label or name, symbol or logo

The core function of retailing is to offer and sell merchandise. The terms ‘merchandise’ is unique to retailing as is ‘merchandising’ and tend to be often used as adaptive definitions. Merchandise comprises of two categories: product range and product assortment. Product range is the total offering by a retailer and is defined in terms of the width and the depth of the variety, or different product lines of the retail offering. Product assortment is usually not synonymous with the term, ‘product range’ and specifically refers to the number of stock keeping units, or the smallest unit of store inventory within a single product category. Merchandise or merchandising is related to the promotional activities manufacturers that bring about in-store displays, or identify the product and product line decisions of retailers. A critical business decision of a retailer is to plan and decide on the merchandise mix and the quantity of products to be purchased from vendors or suppliers. Merchandise management is defined by the American Marketing Association as “the analysis, planning, acquisition, promotion and control of merchandise sold by a retailer.

Simply put, merchandise management is a process that controls merchandise investments, that is the cost of acquiring product ranges and assortments of a retail operation in order to ensure the offer of the right quantity of the right merchandise in the right place and at the right time to meet the store’s financial goals. The merchandise management strategy of a retailer has three components: merchandise analysis, merchandise planning and merchandise control.

The second component of the merchandise budget of a retailer is the inventory plan, or inventory management plan. The inventory management plan provides information to the store manager on sales velocity, inventory availability, ordered quantity, inventory turnover, sales forecast and the quantity to order for a specific SKU.

Simply put, the inventory plan specifies the stock support levels of merchandise in a store for a specific sales period.

Merchandise planning is compromised by important factors such poorly developed financial budgets for merchandise planning (top-down planning and bottom-up planning), faulty selling space allocations to merchandise on display (range planning and space planning), low sales volumes (poor stock runs) and adverse impact of the market environment (consumers, competitors, suppliers).

Retailers deploy two methods to develop financial budgets for a merchandise plan for a store: top-down and bottom-up planning. The financial budgets allocate working capital to stores and departments within store that is required to buy merchandise from suppliers well in advance of the selling season.

Evaluating merchandise performance, or merchandise handling is based on accounting and SKU-level control of store-level merchandise and inventory. Financial merchandise planning and management is a useful metric in evaluating merchandise performance. Financial merchandise planning and management is a method of evaluating store-level merchandise performance by determining the number of product lines and product categories are purchased by the retailer and time intervals of reordering—in stipulated quantities. Financial merchandise management has two components: (a) planning and monitoring a retailer’s financial investment in merchandise, or merchandise control at a store and over a particular time period or ordering cycle (also known as ‘dollar’ control or investment), and (b) controlling the quantities of the number of SKUs that a retailer handles during a particular time period or ordering, which is also known as unit control, or inventory control. Obviously, decisions related to merchandise investment or ‘dollar’ control are finalized and determined before assortment or unit control decisions on store-level inventory.

Buying merchandise is a sub process of merchandise acquisition and refers to the function of procuring merchandise and also involves vendor selection. In other words, buying merchandise from suppliers is an end-to-end process of processing, receiving, and storing merchandise, pricing and marking the inventory, arranging displays and on-floor assortments, customer transactions, delivering goods, reverse logistics and controlling pilferage. The buying function comprises of three types of retail buying situations: 1. New Task. 2. Modified Re-buy. 3. Straight Re-buy.

Merchandise acquisition, control and handling are three components of a typical retail supply chain. Supply chain management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across the supplier's supplier and the customer's customer of the retailer. Supply chain management is an integrating function with the primary responsibility for linking major business functions and business processes of the retailer into a cohesive and high-performing business model.

It includes logistics management activities (transportation, warehousing and inventory) as well as manufacturing operations, and it drives the coordination of processes and activities with and across marketing, sales, product design, finance and information technology. In other words, merchandise acquisition, control and handling are processes of a retailers supply chain that form part of the buying and merchandising components of a retailer's supply chain and include involve the integration of information, transportation, inventory, warehousing, material handling and packaging activities.

3.9 Merchandise Types

The six types of merchandise identified below play a specific and beneficial role to the profitability of your store. And any retailer who wants to survive in today's marketplace needs to consistently carry all six types.

1. The Destination Merchandise

Why do customers come to your store? What product do you sell that motivates customers enough to pass two or three other stores to come to yours instead? This destination merchandise elevates you above the competition. It may be a product no one else sells or a product that's far better than what your competitor sells. In am nay cases, it is a limited edition item. But even if it's regular stock, what do you carry that you competition ignores?

2. The Image Enhancer

This type of merchandise wows customers and heightens their impression of your business. All retailers should maintain a level of at least 10% of this type of merchandise as part of its overall inventory mix. Note that while customers are wowed by these products, they don't necessarily buy them; which is why you want to keep the amount low and controllable.

Image-enhancer merchandise is necessary to creating the wow factor that generates word-of-mouth advertising among your customers.

3. The Transaction Builder

When customers buy a transaction-builder item, they are required to purchase several more products. For example, if someone buys a gallon of paint, they'll need to buy a brush, a roller, a drop cloth, and all the other accessories required to use the paint.

Therefore, the store owner can give away the price of the paint and have huge margins on the accessories. Look for ways to incorporate more transaction-building merchandise throughout your store. And consider bundles for these types of merchandise as well to help maintain your margins.

4. The Traffic Builder

What products do you carry that attract customers to your store over and over again? What products do you carry that keep customers in your store longer? While traffic builders are usually merchandise, they might also be features in your store, like interactive displays. These kinds of products and features create buying frenzies among consumers.

5. The Profit Generator

This is the merchandise you sell on high margins. Of course, customers don't define these products as "profit generators," but they should always be included in the mix of merchandise you sell. Consider buying closeouts from your vendors so you can get higher margins, but still show a discount to the customer.

6. The Turf Protector

Retailers typically don't enjoy carrying this type of merchandise, but they must in order to do business. For example, a travel stop may hate carrying diesel fuel needed by large trucks. They don't make money on the fuel, they make money on the other products and services they offer in the store, like showers. But no one will come into the store if the retailer doesn't sell the diesel fuel. This is proof that the products you sell may not be products you personally like, so start thinking in terms of what will bring customers in your store.

3.10 Merchandising Classification Hierarchy

Merchandise hierarchy is a business tool designed to allow easy understanding of where responsibility lies relating to merchandise. For example, the hierarchy lets a retailer know who to contact regarding certain pieces of merchandise. It is also a tool designed to provide a way to categorize the merchandise and allow for easy analysis of sales data.

Store

The first level of the merchandise hierarchy is the store. Before merchandise can be sold, either in a brick-and-mortar location or an online store, the customer needs to reach that destination. This means the store is the most important level of the merchandise hierarchy. Without getting customers to the store location, sales of the merchandise do not occur. Examples of the first level of the merchandise hierarchy are Wal-Mart, Target, K-Mart or Amazon.com.

Department

The second level of the merchandise hierarchy is the department level. When the customer arrives at the store, specific departments contain the merchandise. For example, if a customer enters the store and needs an extension cord, he goes to the hardware department. Once in the hardware department, the customer proceeds to the next level of the merchandise hierarchy.

Classification

The third level of the merchandise hierarchy is the classification of the item. So, if a customer in the hardware department needs an extension cord, she goes to the extension cord area of the department.

Under the classification of extension cords, several different kinds await, leading to the next level of the merchandise hierarchy.

Sub-Classification

Sub-classification is the fourth level of the merchandise hierarchy. When the customer sees the extension cords, he realizes there are indoor extension cords and outdoor extension cords. If he needs an indoor extension cord, he goes to the next level of the hierarchy.

Styles

The fifth level of the hierarchy is the style of the merchandise. In this case, the customer sees there are 4-foot extension cords, 6-foot extension cords and 10-foot extension cords. Needing a 6-foot extension cord, she moves to the final level of a six-level merchandise hierarchy.

Pricing

The last level of the merchandise hierarchy is the pricing level. The customer finds three different 6-foot extension cords available and makes his decision based on the price points.

Level Management

Another advantage to merchandise hierarchy is management of different areas of the hierarchy. For example, having one manager oversee the hardware department allows for merchandise to be ordered when stocks are low. In addition, based on the information provided in the merchandise hierarchy, the manager can determine which extension cords sell well and which extension cords remain on the shelves. This allows for discounting of the nonselling extension cords in order to stimulate sales.

3.11 Let's Sum-up

Retail Merchandising refers to the various activities which contribute to the sale of products to the consumers for their end use. Every retail store has its own line of merchandise to offer to the customers. The display of the merchandise plays an important role in attracting the customers into the store and prompting them to purchase as well.

Merchandising helps in the attractive display of the products at the store in order to increase their sale and generate revenues for the retail store.

Merchandising helps in the sensible presentation of the products available for sale to entice the customers and make them a brand loyalist.

3.12 Key Terms

Merchandising, Supply Chain, Management, Retailer, Buying, Agents

3.13 Self-Assessment Questions

Q. Variety, assortment, and product availability are the cornerstones of the merchandise planning process. Provide examples of retailers that have done an outstanding job of positioning their stores based on one or more of these issues.

Q. As the athletic shoe buyer for Sports Authority, how would you go about forecasting sales for a new Nike shoe?

Q. Calculate GMROI and inventory turnover given annual sales of $20,000, average inventory (at cost) of $4,000 and a gross margin of 45%.

3.14 Further Readings

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3.15 Model Questions

Q. When you go shopping in which product categories do you prefer private labels or national brands? Explain your preference.

Q. What are the advantages and disadvantages of manufacturer’s brands versus private-label brands? Consider both the retailer's and customer's perspectives.

Q. Why have retailers found exclusive private labels to be an appealing branding option? Choose a department store, a discount store, and a grocery store. What exclusive private-label brands do they offer? How are they positioned in relation to their national brand counterparts?

Self Assessment Questions

Unit 1 Answers

1. Both limited assortment supermarkets and extreme value discount stores focus on relatively limited merchandise offerings at highly appealing (low!) prices. The retail formats are able to offer their extremely low prices through maximizing efficiency. By reducing extras and service offerings, as well as managing a relatively low merchandise assortment, these retailers are able to provide consumers with the “thrill of the hunt” for amazing deals.

2. As do all managers in today’s business world, retail managers must consider the ethical implications of the decisions that they make. These considerations go steps beyond the legal aspects of a situation to determine appropriate behaviors and the choice between right and wrong courses of action. Special consideration must be given to the effects of these decisions on the profitability of the manager’s firm and the welfare of the firm’s customers, employees and communities. Fortunately, many retail firms have developed codes of ethics to provide guidelines for employees in making the ethical decisions they face. These policies provide a clear sense of what the individual firm considers to be right or wrong.

3. A sporting goods retailer can ensure that a customer buys athletic equipment in their store by helping customers decrease their information search. In general, retailers want to reduce the information search of

customers when they are in the store. The sporting goods retailer needs to limit the necessary information needed to make a decision to the information in the store so that the customer will make a purchase decision in the store. To do this, the retailer should first provide a good selection of merchandise so customers can find something to satisfy their needs within the store. Second, retailers should hire an educated staff to provide the needed information to customers when deciding on their equipment. Third, retailers should provide special services to reduce the decision process. This could include the availability of credit and delivery. Lastly, retailers could provide everyday low pricing to increase the chance that customers will buy in their store and not search for a better price elsewhere.

Unit II Answers

1. Location decisions are particularly important because of their high-cost, long-term commitment and impact on customer patronage. Location is typically one of the most influential considerations in a consumer's store choice decision. Further, location decisions have strategic importance because they can be used to develop a sustainable competitive advantage.

2. The best areas for locating stores are those that generate the highest long-term profits for a retailer. Some of these factors include: (1) economic conditions, (2) competition, (3) strategic fit of the area's population with the retailer's target market, and (4) the costs of operating the stores. Retailers determine trade area by identifying primary, secondary and tertiary trade zones. The primary trading area is the area from which the shopping center or store derives 50-70 percent of its customers. The secondary trading area is the area generating 20-30 percent of its customers and the tertiary trading area includes remaining customers who shop at the site but come from far away. The appropriate definition of the three zones should be based on customer's driving time. Some retailers use distance rather than driving time for this determination as it is easier to collect this information.

3. Sewing patters are marked down twice a year to move inventory and make space for new designs. The seasonal nature of patterns can impact demand. Some consumes will wait for a sale and the stock up. Others will be excited to see what's new and purchase patters at full price.

Unit III Answers

1. Costco has a wide variety of merchandise where you can find 4000 carefully chosen products. The assortment within each category, however, is narrow.

Amazon.com has a great assortment of books, music, video, and several other categories of merchandise. Although they have been adding categories, they are still far from a one-stop Internet shop.

The Gap is strong on product availability for their basic merchandise. They don't want to be out of any size of jeans or khakis. You can even special-order out-of-stock or hard to find sizes.

2. As the athletic shoe buyer for Sports Authority, you are dealing with a staple merchandise category. Sales of athletic shoes should prove to be relatively steady over time for Sports Authority. Because your sales are relatively constant from year to year, you can use historical sales figures to project likely sales to come from Nike's new shoe as a starting point for further evaluation. As the athletic shoe buyer you must be careful to take into account factors such as openings and closings of stores, price for the shoes relative to the category, special promotions or placements of the shoes that will impact sales in the category or for this particular Nike shoe.

3. GMROI = Gross margin % x Sales-to-stock ratio

GMROI = 45% x (20,000 ÷ 4,000)

.45 x 5 = 2.25

Inventory turnover (IT) =(1 – Gross margin percentage) x Sales-to-stock ratio

IT = (1 - .45) x 5

IT = .55 x 5 = 2.75