

MBA

(DISTANCE MODE)

DBA 1737

**RETAIL MANAGEMENT - CONCEPTS
AND ENVIRONMENT**

**III SEMESTER
COURSE MATERIAL**



Centre for Distance Education

Anna University Chennai

Chennai – 600 025

Author

Dr. K. Chitra

Assistant Professor,
Department of Management Studies,
KCT Business School,
Kumaraguru College of Technology,
Coimbatore - 641 006.

Reviewer

Dr.H.Peeru Mohamed

Professor,
Department of Management Studies,
Anna University Chennai,
Chennai - 25

Editorial Board

Dr.T.V.Geetha

Professor
Department of Computer Science and Engineering
Anna University Chennai
Chennai - 600 025

Dr.H.Peeru Mohamed

Professor
Department of Management Studies
Anna University Chennai
Chennai - 600 025

Dr.C. Chellappan

Professor
Department of Computer Science and Engineering
Anna University Chennai
Chennai - 600 025

Dr.A.Kannan

Professor
Department of Computer Science and Engineering
Anna University Chennai
Chennai - 600 025

Prof. Dr. D. VISWANATHAN

B.E (Mech.), M.E. (Prod.), Ph.D. (Mech-Met.),
F.I.E., I.I.M., I.S.N.T., I.I.P.E., I.S.T.E.,

Vice-Chancellor



ANNA UNIVERSITY

CHENNAI 600 025 INDIA

Phone : +91-44-22351445

: +91-44-22353445

Fax : +91-44-22350397

e-mail : vc@annauniv.edu

April, 2008

FOREWORD

Let me at the outset express my hearty congratulations to all the students on the eve of themselves being promoted to higher semester.

Anna University Chennai, one of the world's leading Technological Universities has launched the distance mode of education with the prime objective of providing education to the deserving aspirants, who have been deprived of enhancing their professional competencies.

Response to distance education programme of Anna University Chennai is very encouraging from all stake holders – industries, individuals, professional bodies and others. This is evident from the number of applicants who belong to diverse clusters that include Information Technology, Manufacturing, Marketing, Medical, Administrative Services, Engineering and Consultancy etc.

In this background, the course materials have been prepared by experts, focusing on the theoretical and conceptual underpinning of the concerned subject matters along with practical exposure to the extent needed.

The Indian industries witness brand new challenges in terms of frequent new entrants from both within and outside the nation, technology upgradation at a faster rate, shorter product life cycle, increase in the customer expectations and the like.

This scenario demands our professionals to be empowered with world class managerial and technical inputs, so that they can render their best in the profession of their choice. The course materials prepared shall provide a strong platform to enable professionals to meet the challenges effectively.

Further keeping in mind the constraints of time and other resources of the enrolled students, the course materials prepared are intended to serve as ready reckoner to meet the academic requirements in a rewarding manner.

This endeavour of Anna University Chennai is to make abundant availability of value embedded human capital to the nation at large and there by enable India to be globally strengthened on multiple facets.

I wish the students all the very best.


(D. VISWANATHAN)

ACKNOWLEDGEMENT

The author has drawn inputs from several sources for the preparation of this Course Material to meet the requirements of the syllabus. The author gracefully acknowledges the following sources:

- Retail Management, Barry Berman & Joel R.Evans , Pearson Prentice Hall, New Delhi.
- Retailing Management, Michael Levy & Barton A Weitz, Tata McGraw-Hill Publishing Company Limited, New Delhi.
- Integrated Retail Management , James R. Ogden & Denise T.Ogden, Biztantra, New Delhi.
- Managing Retailing, Piyush Kumar Sinha & Dwarika Prasad Uniyal, Oxford University Press
- The Art of Retailing, A.J.Lamba, Tata McGraw-Hill Publishing Company Limited, New Delhi.
- Retailing Management , Swapna Pradhan, Tata McGraw-Hill Publishing Company Limited, New Delhi.
- Retailing , Roger Cox & Paul Brittain, Pearson Education, New Delhi.
- Consumer Behaviour, Leon G.Schiffman & Leslie Lazar Kanuk, Pearson Education, Delhi.
- Consumer Behaviour, David L Loudon & Albert J Della Bitta, Tata McGraw Hill Publishing Company Limited, New Delhi.
- Retail Management, Gibson G.Vedamani, Jaico Publishing House, Mumbai.
- <http://www.referenceforbusiness.com>
- www.euromonitor.com
- <http://retailindustry.about.com>
- <http://www.indiaonestop.com/retailing.htm>
- <http://www.atkearney.com>
- <http://www.indiabiznews.com/>
- <http://www.india-reports.com>
- <http://www.indianretailer.com>
- <http://retailindia.typepad.com>

In spite of at most care taken to prepare the list of references any omission in the list is only accidental and not purposeful.

K.CHITRA

Author

DBA 1737 RETAIL MANAGEMENT - CONCEPTS AND ENVIRONMENT

UNIT I RETAILING CONCEPTS

Definition of retailing – Characteristics of retailing – traditional and non-traditional retailing – Applications of information technology in retail management.

UNIT II RETAIL INDUSTRY

Global trend in retailing – Indian retail industry – Drivers to the growth of retail – macro and micro environmental influences – Creativity in retailing - Emerging trends and challenges.

UNIT III RETAIL FORMATS

Different types of retail formats – Choice of location – Store layout and designs – Positioning of retail shops – Retail store image – Retail service quality Management.

UNIT IV RETAIL MARKETING MIX

Merchandise management – Service retailing Vs. Product retailing – Retail branding - Pricing for retail – Promotion – Supply chain and logistics – Retail marketing strategies.

UNIT V RETAIL SHOPPERS BEHAVIOUR

Shopping process – Influences of shoppers' attitude, perception, personality and life style in retail shopping behaviour – Handling complaints – Delivering value to retail shoppers.

REFERENCES

1. Retail marketing – Malcolm Sullivan and Dennis Ad Cock – Thomson
2. Retail Management – A Strategic Approach – Barry Berman and Joel. R.Evans-Prentice Hall of India.
3. Integrated Retail Management – James R. Ogden and Denise J. Ogden – biztantra.

CONTENTS

UNIT I RETAILING CONCEPTS

1.1	INTRODUCTION	1
1.2	LEARNING OBJECTIVES	1
1.3	DEFINITION OF RETAILING	2
1.4	IMPORTANCE OF RETAILING	2
	1.4.1 Consumers' Perspective	3
	1.4.2 Contribution to the Economy	4
	1.4.3 Manufactures/Wholesalers Perspective	4
1.5	CHARACTERISTICS OF RETAILING	5
	1.5.1 Sales to Final Consumers	5
	1.5.2 Small Average Sales	5
	1.5.3 Impulse Purchases	5
	1.5.4 Consumers Preference to Visit Stores	5
1.6	TRADITIONAL AND NON TRADITIONAL RETAILING	6
	1.6.1 Size	6
	1.6.2 Location	6
	1.6.3 Ambience	6
	1.6.4. Assortment	7
	1.6.5 Knowledge of Consumer	7
	1.6.6 Home Delivery	7
	1.6.7 Cost	7
1.7	RETAIL MANAGEMENT PROCESS: AN OVERVIEW	7
	1.7.1 Retail Mission and Vision	8
	1.7.2 Situational Analysis	9
	1.7.3 Retail Strategy	10
	1.7.4 Target Marketing	10
	1.7.5 Selection of the Location	11
	1.7.6 Financial Operations Management	12
	1.7.7 Merchandise and Logistics Management	12
	1.7.8 Human Resource Management	12
	1.7.9 Retail Tactics	13
	1.7.10 Evaluation and Control	14

1.7.11	Retail Information System (RIS)	14
1.7.12	Laws and Ethics	15
1.8	APPLICATION OF INFORMATION TECHNOLOGY IN RETAIL MANAGEMENT	15
1.8.1	Information Technology and Store Operation	16
1.8.2	Customer Relationship Management	19
1.8.3	Merchandise Management	20
1.8.4	Supply Chain Management	21
1.8.5	Human Resources Management	22
1.8.6	Pricing and Promotion Management	23
1.8.7	Management Information System	24
1.8.8	Information Technology in Communication	24
1.9	ONLINE RETAILING	25

UNIT II

RETAIL INDUSTRY

2.1	INTRODUCTION	31
2.2	LEARNING OBJECTIVES	31
2.3	GLOBAL TREND IN RETAILING	31
2.4	INDIAN RETAIL INDUSTRY	55
2.5	DRIVERS TO THE GROWTH OF RETAIL	58
2.5.1	Increased market share	58
2.5.2	Market at the Bottom of the Pyramid	59
2.5.3	Explosion of Media	59
2.5.4	Change in the profile and lifestyle of consumers	60
2.5.5	Availability of quality retail space	60
2.5.6	Increased opportunities in non metros	61
2.5.7	Regulatory enablers aiding growth	61
2.5.8	Relaxation of FDI norms	62
2.5.9	Establishment of Supply chain	62
2.5.10	Entry of the corporate sector	62
2.5.11	New Entrepreneurs	63
2.5.12	Technology Impact	63
2.6	MACRO AND MICRO ENVIRONMENTAL INFLUENCES	63
2.6.1	The retailing Macro-environment	64

2.6.2	The retailing micro-environment	65
2.7	EMERGING TRENDS AND CHALLENGES	65

UNIT III

RETAIL FORMATS UNIT STRUCTURE

3.1	INTRODUCTION	77
3.2	LEARNING OBJECTIVES	77
3.3	TYPES OF RETAIL FORMATS	77
3.3.1	Ownership based classification	78
3.3.2	Store based classification	85
3.3.3	Non-store based classification	96
3.3.4	Other non traditional form of retailing	99
3.4	CHOICE OF LOCATION	101
3.5	STORE LAYOUT AND DESIGNS	112
3.6	POSITIONING OF RETAIL SHOPS	123
3.7	RETAIL STORE IMAGE	124
3.8	RETAIL SERVICE QUALITY MANAGEMENT	132

UNIT IV

RETAIL MARKETING MIX

4.1	INTRODUCTION	139
4.2	LEARNING OBJECTIVES	139
4.3	MERCHANDISE MANAGEMENT	140
4.3.1	Merchandise planning	141
4.3.2	Merchandise buying	146
4.4	RETAIL BRANDING	151
4.5	PRICING FOR RETAIL	158
4.5.1	Factors influencing pricing decisions	158
4.5.2	Steps in retail price strategy	160
4.6	PROMOTION	170
4.6.1	Planning a retail promotional strategy	170
4.6.2	Elements of retail promotion mix	175
4.7	SUPPLY CHAIN AND LOGISTICS	193
4.8	RETAIL MARKETING STRATEGIES	200

UNIT V
RETAIL SHOPPERS BEHAVIOUR

5.1	INTRODUCTION	205
5.2	LEARNING OBJECTIVES	205
5.3	SHOPPING PROCESS	206
5.4	INFLUENCES ON RETAIL SHOPPING BEHAVIOUR	218
	5.4.1 Personal factors	219
	5.4.2 Psychological	227
	5.4.3 Social factors	237
	5.4.4 Cultural factors	241
5.5	HANDLING COMPLAINTS	244
5.6	DELIVERING VALUE TO RETAIL SHOPPERS	248

UNIT I

NOTES

RETAILING CONCEPTS

1.1 INTRODUCTION

Thanks to development in the retail industry, it is now hard or even unimaginable to think of the time when human beings have to produce all their requirements by themselves. Retailing is not a new concept in India. It existed in ancient times when farmers produced food in excess of their requirement. The existence of Kirana format and other shops can be traced to the *Manusmriti* and Kautilya's *Arthshastra*. However consequent to the liberalization in the government policies regarding retailing the Indian retailing scenario is gaining increased attention from around the globe leading to a galloping transition. In view of the huge unexposed consumers awaiting to be served with the new retailing experience in terms of non traditional retailing, the retail scenario in India is sure to tread new horizons.

The contribution of retail industry to the country's development in terms of increased gross domestic product, employment opportunities, change in the standard of living and lifestyle of consumers etc has drawn more attention to the study of retailing. Retail Industry is facing a boom in one hand on account of the promising huge market size, on the other numerous challenges are posed. Global players are also showing increased interest in the Indian retailing industry vying to capture their share in the ever increasing market. Competition has set in leading to the survival of the fittest. The shoppers today are hard pressed for time and are attracted towards self service automated services and e-tailing. The customers' expectations are reaching new heights which should be served at a profit. This scenario, underlines the need for the study on retail management. Against the background this unit explores the basic concepts of retailing and provides a framework.

1.2 LEARNING OBJECTIVES

After reading this unit you will be able to:

- Understand the meaning, importance and characteristics features of retailing
- Differentiate between the features of traditional and non traditional retailing
- Describe the retail management process
- Explain the application of information technology in retail management
- Highlight the features and benefits of e-tailing

NOTES

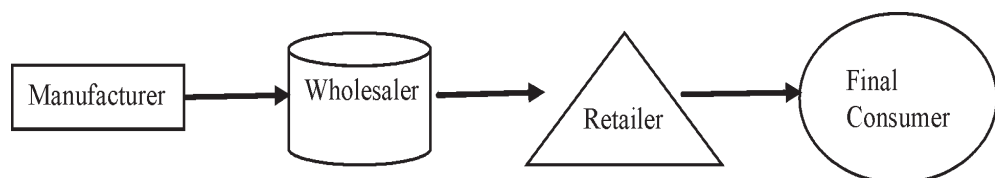
1.3 DEFINITION OF RETAILING

The word retail has its origin from the French word 'retailier' which means 'to break bulk' or 'to cut a piece off'. A retailer is a dealer or a trader who organize the availability of goods on a large scale and sells the same in small quantities to the ultimate consumer. Retailing is not only concerned with the tangible physical goods, it also includes intangible services. The services may be pure services or those accompanied with products. Retailing involves the sale of merchandise from a fixed location, such as a store for direct consumption by the customer. Thanks to the development of information technology, with the advent of e-tailing retailing is not confined to the availability of a fixed location.

Retailing encompasses of all activities involved in marketing of goods and services directly to the final consumer for their personal, family or household use. It should be noted that the sales should be to the 'final consumer' and not for resale purpose. Buyers' reason for buying distinguishes the retail sales from other types of sales. If a buyer buys a product for the purpose of resale at a profit it is a business sale and not a retail sale. Thus it should be understood that retail is the last stage in the process of process of moving the goods or services to the consumers. The process involves activities and steps needed to place the products made elsewhere in the hands of the customers. In the process retailers create value to the customers in terms of providing accessibility of location, convenience of timing, size, information and lifestyle support. Retailing can be defined as the set of business activities that adds value to products and services sold to the consumers for their personal or family use. The concept of retailing has moved from a distribution-oriented perspective where the emphasis is on the physical aspects of merchandise availability and supply chain to consumer-value oriented perspective.

1.4 IMPORTANCE OF RETAILING

Retail is the last stage in a channel of distribution. The channel of distribution includes all business and people involved in the physical movement and transfer of ownership from producers to the consumers. Retailers acts as the connecting link between the manufacturers, wholesalers and the consumers. A typical distribution channel is shown below;



Retailing provides the last mile connectivity and play a vital role in the value delivery system. The importance of retailing can be understood from the various services provided by the retailers while selling the products and services. In the process of selling the products the retailers perform a variety of services to the Wholesalers, Manufacturers, Consumers and to the economy. These aspects are dealt below;

1.4.1 Consumers' Perspective

The consumers are provided with the following array of services by the retailer;

- Consumers are offered with wide variety of products and choices in terms of brands, flavours, designs, sizes, colours and prices under one roof. They are saved from wasting time in searching for products /choices from various shops. Hence retail outlets are preferred by shoppers as all the products needed could be purchased at their convenience.
- Development of organized retailing has led to quality products of good standards. Stiff competition among the national and international brands of product and the competition among the retailers has led to increased quality of products at affordable prices. The end consumers are provided with more value for money.
- Consumers purchase the products required by them in smaller quantities. The number of transactions made by them is more but each transaction involves a smaller financial outlay. It is not possible for the consumers to reach the producers for smaller quantities. The retailers help the consumers by way of breaking the bulk into smaller lot. They purchase larger quantities from producers and wholesalers into convert them into smaller quantities as required by the final consumers. This makes it affordable and reachable for the shoppers.
- Retailers maintain a large assortment of inventories. Retailers enable the consumers to keep smaller quantities of all products as they can purchase their requirement whenever they need. This helps consumers to save the money which can be used otherwise.
- Retailers display the products in attractive manner such a way that the consumers can understand and select the products easily. They are also provided with additional information needed for making a purchase. Customer service executives are made available to help them in making choice. In view of tough competition, many retailers provide additional services like free pickup and drop to the retail shops, free home delivery, play station for children and the like.
- Retailing creates utilities for consumers in terms of values viz., functional, emotional, social, epistemic and conditional. Functional values are related to economic needs in terms of convenient opening hours, affordable prices, good quality etc. Emotional values address psychological needs for example the consumer may have an emotional attachment with the shop. Social values satisfy the needs for belongingness. For example people may visit a retail store to be a part of particular class in society. Epistemic values address the need for novelty and ego satisfaction. Conditional-values satisfy the need arising out of a particular condition like availability of extremely cheap products due to stock clearance/festival discounts etc.
- The development in organized retailing has made shopping a pleasure to the customers. The ambience created in the retail showroom relaxes the customers and rejuvenates them to the extent that it is termed as Shopping therapy.

NOTES

NOTES

1.4.2 Contribution to the Economy

- Retail sales in India amounts to \$180 billion contributing to 10-11% of the gross domestic product. The move towards organized retailing has led to increased standard of living of Indian consumers in terms of more value for money, convenience, increased social infrastructure and the like.
- Retailing is becoming highly competitive and challenging which enhances the need for employing skilled and creative manpower. The function of retail involves activities like arranging for finance, purchase goods/services, manage warehouse and distribution system, advertising, promotion, sale force management, market research etc. All these functions need manpower which enhances employment opportunities.
- Due to the policy liberalization huge amount of foreign direct investment is attracted towards our country contributing to the development of the nation. More money is invested for development of infrastructure which is a must for attracting investment from around the globe.
- Retailing provides opportunities for people wishing to start their own business. It enables people to become entrepreneurs and contribute their share in the economic development of the country.
- Retail industry requires millions of square feet for construction of malls and the related infrastructure. This will put into large areas of land into more effective utilization which will lead to real estate boom in the economy.
- Developing organized retailing would enable to attract large number of tourists as it happens in Dubai, Singapore and other countries. This will enhance the government revenues and popularize our country's brands across the world.
- Organized retailing can bring changes in the agricultural supply chain, remove the inefficiencies in distribution of consumer goods and improve the productivity.
- Large number of task related to retail management can be outsourced right from market research to identify the needs of customer to loyalty management. This will be a catalyst for augmenting our country's wealth.

1.4.3 Manufactures/Wholesalers Perspective

- The manufactures are provided with information regarding the consumers needs, wants, improvement expected by them in the products and the like. This enables the producer to have an insight regarding the consumers and synchronize their plans to meet the requirements of the consumers.
- The manufacturers need not waste the time and attention by focusing on the marketing their products to ultimate consumers. The retailers enable the producers to concentrate on production and thereby contribute to maximize their efficiency.
- The final consumers buy the products in smaller quantities and tend to have a number of transactions which is not feasible for the producers. Retailers help the producers by buying the quantities in bulk which also reduces the number of transactions and thereby the cost is minimized.
- The producers/wholesalers need not lock the money in terms of inventory as the retailers takes the burden of holding the stock until the consumers buy the same. The fund is available for investment in production or further trade. The cash flow is

smooth as the producers or wholesales sell in bulk and realize entire amount as against selling in small units to final consumers.

1.5 CHARACTERISTICS OF RETAILING

Retailing differs from other type of business on the basis of the following characteristic features;

1.5.1 Sales to Final Consumers

Retailing involves selling of goods/services to the final consumers. The final consumers are those who purchase the product/services for their own consumption and not for resale purpose. It comprises of families, individuals and /or households that plan to consume the products or services themselves. Selling the products to the final consumers can be done by the manufacturer themselves or by the retailers. In addition to selling to end users, some manufacturers/retailers sell products to other intermediaries, such as other businesses. These transactions are considered nonretail transactions.

1.5.2 Small Average Sales

The average amount of sales transaction for retailers is much less than for the manufacturers. This low amount of sales creates the need to tightly control the costs associated with each transaction such as the packaging/bagging, credit card transaction, sales personnel etc., Adding to this, the cost of advertisement and other promotional measures to increase the footfall are on the increasing trend. However the cost control is a tough task due to large number of transactions. Inventory management is also expensive due to many small transactions made to a large number of customers.

1.5.3 Impulse Purchases

An impulse purchase is an unplanned or otherwise spontaneous purchase. One who tends to make such purchases is referred to as an impulse buyer. A large percentage of the shoppers indulge in impulse buying. Impulse buying disrupts the normal decision making models in consumers' brains. The logical sequence of the consumers' actions is replaced with an irrational moment of self gratification. Impulse items appeal to the emotional side of consumers. The items bought on impulse need not be functional or necessary in the consumers' life. Marketers and retailers tend to exploit these impulses which are tied to the basic need for instant gratification. For example, a shopper in a supermarket might not specifically be shopping for sweets however, candy, gum, mints and chocolate are prominently displayed at the checkout aisles to trigger impulse buyers to buy what they might not have otherwise considered. Alternatively, impulse buying can occur when a potential consumer spots something related to a product that stirs a particular passion in them. Sale items are displayed in much the same fashion. Impulse buying can also extend to the "big ticket" items such as automobiles and home appliances.

NOTES

Many survey results reveal that a large number of consumers do not look at advertisement before shopping, do not prepare shopping list and make fully unplanned purchases. This indicates the importance of in-store displays and well-organized stores. Due to the large of unplanned purchases, the retailers ability to forecast, budget, order merchandise and have sufficient personnel on the selling floor is more difficult.

1.5.4 Consumers Preference to Visit Stores

Though e-tailing and other non store retail formats are gaining popularity, the consumers make most of the transaction in the stores. People like to shop in person, enjoying the shopping experience, prefer to touch, hold and feel the products, visit many stores and browse before making a decision. They are more comfortable in making paying in person and taking the purchase home with them. These features has to be given adequate importance by the retailers while planning the store location, store hours, designing the stores , parking lots, advertisement and the like.

1.6 TRADITIONAL AND NON TRADITIONAL RETAILING

Traditional retailing involves the store based retailing. It includes the corner kirana store formats. Thanks to the development in the retail scenario, the new face of retailing is emerging taking the form of malls and non-store based retailing. A detailed discussion on the various formats of traditional and non traditional retailing is dealt in Unit 3. The difference between traditional retailing and non traditional retailing are listed below;

1.6.1 Size

Traditional store based retailing is run with a relatively lesser square feet compared to the malls which operates on a large scale. Often malls are set in multiple thousands of square feet. The modern retailing also takes place in virtual space or cyber space without any brick and mortar or in the form of multichannel retailing.

1.6.2 Location

The small kirana shops are often located near the consumers' vicinity or household location. The modern retail stores may be located near the consumers' location. Mostly due to the escalation in the cost of real estate, it may be situated a bit away from the densely populated area.

1.6.3 Ambience

The traditional stores do not bother about providing amenities and ambience to the shoppers as they spend the minimum time in the shops. The modern malls are focusing more on providing shopping experience and hence ambience plays a major role. The design, decorum and the environment is artistically decorated so as to hold the attention of the

shoppers. The malls spend a lot of providing amenities right from parking lots to children play area so as to increase the footfall.

1.6.4 Assortment

Traditional retail shops may not have a large space to store a wide variety of products and brands. The modern malls offer depth and breadth in a range of products complete with unlimited choices and substitutes. Some specialized stores deal with a special product category but include variety in the same.

1.6.5 Knowledge of Consumer

Most of the Kirana shop owners know the customers by name and have a personal touch with the consumers and their family. Some times it may also lead to emotional bonding and loyalty. In modern retail formats, the customer may not come in touch with even a sales person. Thanks to automation, a customer can just walk in pick up the products and walk out without the need for any human intervention. Though database captures the shopping details and the personal profile of the customers, it lacks the human touch.

1.6.6 Home Delivery

The consumer can depend on home delivery of their purchases without much delay in case of traditional stores. In case of modern retailing though some stores offer home delivery, not all stores offer the same. In case of e-tailing the shoppers may have to wait for a longer time for the delivery of the products ordered.

1.6.7 Cost

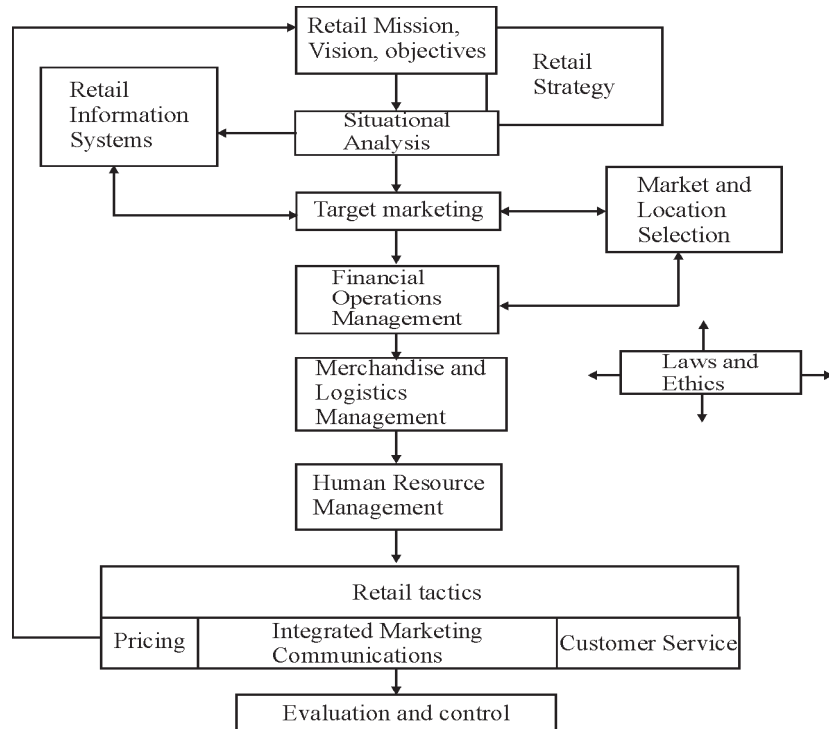
Normally consumers hold the perception that the products sold in malls and big shopping complex are costlier than the one's sold in the traditional store. They feel that the cost incurred in providing the ambience and shopping experience are loaded on the product, making them highly priced than the ones available in kirana stores. Sometimes the shoppers enjoy the ambience and do window shopping, gather information and go back to their corner stores for purchase of the product. This poses a serious threat to modern retailers leading to more foot fall but less revenue per square feet.

Apart from the above distinguishing features there are other aspects like the credit transaction, time spend in the stores, waiting time for billing , frequency of visits and the like.

1.7 RETAIL MANAGEMENT PROCESS : AN OVERVIEW

This section deals with the various task involved in planning and managing a retail business. The chart presents an overview followed by discussion;

NOTES



The flowchart above shows the activities in a sequential manner. However in reality it may not be so. A retail manager may work at different task illustrated above simultaneously.

1.7.1 Retail Mission and Vision

Deciding the *mission* is the first step to be undertaken in a retail business. The mission statement specifies the reason the organization is in business. It is much more than the corporate objectives, retail objectives or value statement. It provides answers to the following questions;

- Why the retail business is started?
- What is going to be done?
- What does the business stand for?

A good mission statement speaks of the retail organization's commitment to the customers, employees, shareholders and society. In order to be successful the mission statement should be understood and practiced by the employees. It should be the starting and the guiding point for all the decision taken by the organization. All the plans and process emanate from the mission statement.

A *vision* statement evolves from the mission and it focuses on the firm's future goals. A good vision statement contains

- A statement of the desired future for the retailer
- A reminder to the retailer as to why various activities are performed and towards what end?
- Values on which decision are to be made and business is to be carried on
- Provide information to make policies and take decisions

The vision statement enables the retailer to integrate the activities of all the departments and employees towards the organizations mission. It provides an understanding, motivation and inspiration for the employees. The vision statements should be updated regularly and communicated to everyone involved in the same. While creating the vision statement the retailers should be clear about the following aspects;

- The values to be held
- The end means towards which the organization should gear up its activities
- The retail climate to be set up
- The image to be projected to the customer, employees and share holders.

The retail *objectives* provide measurable statements. The main difference between objectives and vision is the latter is for a long term period whereas the objectives is a medium-length term and it provides measurable goals. Retail objectives should have the following characteristic features;

- The objective should have a time line or deadline so that the management can evaluate whether the objective is met within the set time.
- The objectives should be measurable and quantifiable which makes the evaluation and control possible.
- The objectives should be attainable. If an objective is set too high it will not be realistic to achieve the same and lead to frustration.

1.7.2. Situational Analysis

Once the mission, vision and objectives are finalized, the retail manager should assess the overall retail environment. This environmental scanning is needed to tune the business settings to the changing environment. Environmental scanning is a systematic process whereby the retailer acquires and uses information to assist the management in planning the future course of action. The environment should be scanned as it affects the potential operation and performance of the retail business.

The environment analysis should be done both at the macro and micro level. Macro environment includes the study of political, economical, social, technological, legal and competitive situations. The study of micro environment involves analyzing the forces within the organization affecting the business. Environment analysis should be done in a systematic manner. The five-step process can be used for the same;

NOTES

1. Identify the macro and micro environmental factors which are relevant for the retail business
2. Keep track of the changes in the identified environment
3. Evaluate the changes in terms of the nature, direction and magnitude
4. Analyze and project the impact and timing of the changes along with the potential consequences
5. Plan the strategies to be implemented to confront the changes in the environment.

The retailers can obtain the information regarding the macro environment from the newspaper, magazines, trade association, publication from conferences, seminars, trade shows, fairs, internet and other secondary sources. The details regarding the micro environment can be obtained from careful scrutiny of the internal records of the organization, observation and by interaction with people. The organization can also resort to survey involving collection of primary data. The retail manager should keep track of the mission, vision and objectives the retail business while identifying the environmental changes having impact on the overall retail operation.

1.7.3 Retail Strategy

The retail strategy provides a framework for current and future course of action and provides an insight into how the objectives will be achieved. The strategy is derived from the mission and vision. The retail strategy explains the way in which the organization's plan to satisfy the market place. The strategies must be dynamic and should be able to create or control the future environment, not just react to it. The strategic plan is prepared for a for a year, however it can be prepared for longer period of time ranging from five to ten years. While developing the retail strategy, the resources available in terms of the customers, capital resources and the human resources should be considered. The retail strategy addresses the methods through which the organization plans face the controllable and uncontrollable variables in the area of retail operation. Controllable variables are those areas of the retail operation that can be effectively controlled by the retail managers with proper plan. It includes all the management function, products offered, store locations, price, integrated marketing communication and the like. Uncontrollable variables include those aspects which cannot be controlled by the retail manager like the competitors policies, government regulations, legal aspects, technological developments, changes in the consumer preferences and the like.

1.7.4 Target Marketing

Consumers vary in their needs and behaviour. Hence a retailer has to decide the target market on whom his efforts would be concentrated upon. Target market refers to the set of consumers at whom the retailer aims the marketing strategies. Once the target market is decided the retailer must decide whether to design a mass marketing strategy aimed at the entire market or to design strategies aimed at different segment of the market.

Segmentation is the process of breaking up the target market into more controllable subgroups. It is process through which the heterogeneous market is divided into homogeneous segments. In case of mass marketing strategy, the retailer focuses on designing one unique marketing mix to try to capture the entire market. In segmented marketing approach the retailer divides the target market into groups called as segments and designs a unique marketing mix for each segment or the segment on which he would like to focus upon.

A segment should be decided based on various criteria such as the purchasing power and willingness of the target consumers, the size of the target market, the profitability and the potential for growth and the like. Once the segment is identified, the retailer should study the behaviour of the consumers in the target market so as to enable them to develop cost efficient retail marketing mix. Capturing information relating to four ICs viz., *demographics*, *geographics*, *psychographics* and *behaviouristics* would enable the retail marketers to develop customized strategies.

1.7.5 Selection of the Location

Selection of location is critical because of the complexity involved in decision making, the high costs of real estates, lack of flexibility once a site is selected and the impact of a site on the strategy. A good retail location can contribute in a greater way to the success of the retail business even if other strategy mix is not so effective. The selection of a store location includes a series of activities like evaluating the alternative trading areas, determining the best type of location, choosing a general site and finalizing a specific site. A trading area is the geographical area from which customers are drawn. The retailers can utilize the geographic information system (GIS) software to describe and analyze trading areas. Various factors should be taken into consideration in trading area analysis like the population characteristics, economic base characteristics, competition and the level of saturation.

The decision regarding the general location and specific site follows the selection of the trading area. There are three basic location types viz., an isolated store, unplanned business district, planned business district. An isolated store has no completion and characterized by low rent, flexibility, road visibility and parking and low real estate cost. It does not have much traffic and usually lacks a variety of shoppers. An unplanned business district is a shopping are with two or more stores located nearby. These shops have variety of goods, services and prices and are easily accessible. A planned shopping centre is centrally owned or managed and well balanced. The centre is popular due to extensive goods and services offerings, expanding suburbs, shared cost, attractive location parking facilities and the like. After the selection of general location, extensive analysis is made to evaluate the specific sites within it. Several criteria like the pedestrian traffic, vehicular traffic, parking facilities, transportation, store composition, the attributes of specific sites

NOTES

and the like should be considered. An overall rating is developed and the site scoring high is selected.

1.7.6 Financial Operations Management

Financial management is an important element contributing to the success or failure of the retail business. It has got an implication on areas viz., marketing strategies, human resources planning, logistics, consumer satisfaction, merchandise management and the like. The financial resources in the retail organization should be utilized in a justifiable manner in order to ensure adequate returns. Financial plan of a retail concern has got implications on the overall retail management plan. Specifically the decision making relating to the format of the retail outlet, size and physical layout of the store, allocation of sales space, warehouse space, inventory decisions etc. The retailer may have to prepare various statements to show the stakeholders how the business is run. This requires an understanding of the financial operations and the statements prepared. The decision regarding financial operations should be based on logical and scientific information. This will enable the retailer to allocate the resources in a highly efficient and effective manner.

1.7.7. Merchandise and Logistics Management

Merchandise management involves a number of salient decisions like the companies from which the products will be purchased, the assortments, the system to be followed for purchasing products, the process of evaluating the source of supply etc, Merchandising involves the concept of logistics. Logistics is concerned with the movement of the product and services from the point of production to the point of consumption. It is defined by the Council of Logistics Management as “that part of the supply chain process that plans, implements and controls the efficient, effective flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customers requirements.” Supply chain management is a strategic process and logistics is a tactical process. In order to arrive at an excellent logistical plan and an effective management system for supply chain the retailer should pay specific attention to the issues related to inventory, order processing and fulfillment, transportation, storage and warehousing.

1.7.8. Human Resource Management

Human resource management is a pertinent aspect requiring the attention of a retailer as it occupies a considerable percentage of the total cost of retail operation as well as they directly or indirectly contribute to the customer satisfaction. They may directly contribute by way of interacting with the shoppers leading to a pleasant shopping experience or indirectly by way of working in the back office. Human resource management involves recruiting, selection, training, compensating and supervising personnel in a manner consistent with organizations policies and strategy mix. Recruitment process involves generating job

applicants from various sources like educational institution, channel members, competitors, advertisement, employment agencies, unsolicited application, existing employees and the like. Selection involves through job analysis, job descriptions, interviews, testing, reference checking and physical examination. Pre-training and on the job training may be provided after selection. The training process involves identification of needs, deciding the methods and assessing the results. Employees may be compensated by direct monetary payments and by indirect payments. The direct compensation plans include straight salary, straight commission, salary plus commission and bonus. Indirect payments involve paid vacations, health benefits and retirement plans.

Personnel policies in retail setting are arrived based on the line of business, the number of employees, the location of the outlets and other factors. Human resource management in retail environment is characterized by a large number of inexperienced workers, long hours of working, highly visible employees, diverse work force and variable consumer demand. These factors contribute to the complication in the employee hiring, staffing and supervision. Often the retail unit requires a large number of employees and this leads to hiring of people with little or no prior experience. The prospective employees choose the job in retail environment mainly because the jobs are available near to the home and the retail positions like stock clerks, sales assistants and the like requires limited educational qualification and training. Poor performance, high labour turnover, lateness and absenteeism are some of the problems commonly witnessed in retail sector.

1.7.9. Retail Tactics

The strategy of a retail organization with respect to pricing, integrating marketing communication and the customer service are dealt below.

Pricing

Pricing has got an implication on the revenue generated by the retail organization. It also affects the overall objectives and other components of the retail strategy. A price plan should be integrated and responsive enough to provide good value to the shoppers. The retailer should take into consideration the factors affecting pricing decision. The price elasticity of demand, government restriction, competitors pricing policy, the shoppers purchasing power, the cost incurred and the like should be considered in fixing the price. The retail pricing objectives is fixed based on the sales, profits, return on investment or cash flow. Once the objective is fixed the pricing policy is outlined. The policy outlines the series of actions to be undertaken consistent with the retailer's image and oriented to the short and the long run. Once the objectives and policies are in place, an overall pricing strategy is developed. The strategy gives direction to all decision made regarding the pricing variable viz., when to use customary and variable pricing, one-price policies and flexible pricing, odd pricing, leader pricing, multiple-unit pricing and price lining.

NOTES

Integrating Marketing Communication

Integrated marketing communication includes all tactics utilized to inform, persuade, and remind the target market about any aspect of the retailer thorough advertisement, public relations, personal selling, sales promotion, direct marketing and cyber marketing. The plan for marketing communication must be integrated within itself and with other retail management variables. Objectives, strategies and short term plans should be designed to carry out the various communication mix in an effective manner.

Customer Service

Customer service includes anything a retailer provides in addition to the core product or service and adds value. The customer service tactics plays a crucial role in differentiating a retailer from the competitors. The customer service offering may range from basic to additional or luxury services. Basic services include providing convenient location, clean facilities, security and variety in product. Any services provided over and above the basic services are called as luxury services. It is not enough for a retailer to just develop a customer service, the feedback should be obtained from the customers so as to ascertain the satisfaction level. Excellent customer service leads to happy customers, increased sales and profits which in turn contributes to increasing the stakeholders satisfaction.

1.7.10. Evaluation and Control

The evaluation and control is not an isolated process. It has to undertaken in a continuous manner throughout the various steps in the retail management process. Evaluation refers to continuous monitoring of the retail plan to ensure that the activities are performed upto the expectations. The evaluation process involves assessing the various plans in terms of achieving the objectives. If the objectives are not achieved the reasons for the same are analyzed and alternative plans are arrived at. The retailers can also develop the contingency plans. The contingency plans consist of alternative strategies or tactics to achieve the objectives. The contingency plan is used in case of uncontrollable environmental changes. The retailer can make use of quantitative and qualitative techniques to enable evaluation and control. The retail information system and the financial statements can be used for evaluation and control. Due to high cost involved in retail business, the evaluation and control is a must and not an option. A retailer can depend on proactive measures rather than tackling the problems.

1.7.11. Retail Information System (RIS)

In the present information era, the retail information system is critical for survival of retailers. Retailers play a major role in collection of information as they the most direct contact with the shoppers. The retailer require data for developing new strategy or for modifying an existing one. Good data reduces the retailers' chance of making incorrect decision and thereby contributes to the success of the retailers. A retail information system anticipates the data needs of retail managers, continuously collects, organizes and stores

relevant data and directs the flow of information to decision maker. The RIS can be manual or electronic. Even small retailer will be able to purchase computer and hence most of retailers depend on electronic RIS. A good RIS provide data based on marketing research. The data can be primary or secondary. Primary data are collected specifically to address a particular problem whereas secondary data are already collected.

1.7.12. Laws and Ethics

The retail setting is subjected to control under many rules, laws and ethics. The retailer must be aware of these laws and rules for every geographical area in which it is functioning. In addition to the Central government regulation, the local rules and regulation and international laws should also be known if the retailer has global operations. Several laws affect retailing. Breaking the laws lead to consequences ranging from paying fine to imprisonment. The retail laws have impact on retail tactics like pricing, integrated marketing communication and customer service. Situational analysis is a major area where laws and ethics have serious implications. Ethics involve concepts of what is right and wrong and are often based on moral and religious beliefs. The ethical conflicts in retailing occur between profit and principles.

1.8. APPLICATION OF INFORMATION TECHNOLOGY IN RETAIL MANAGEMENT

Information technology has made its impact in all industries, more so in retail sector. Retailers face changes in multiple fronts. Fierce competition exists among retailers in attracting the customers as well as retaining them. To increase the sales revenue, the retailers should enhance the shopping experience differentiating the customer centric experience from other retailers and by providing value for the money paid. 'Value' is measured by the customers not only in terms of price, ambience and appearance, quality and information but also in terms of selection, convenience, service and entertainment. In this scenario information technology play a significant role in enhancing the value delivered to the consumers. Use of information technology enriches shopping experience by providing convenience, better service, and less waiting time.

Various technologies have been developed over a period of time which has made its impact on the retail business. Information technology in retail environment includes a wide range of technologies like software, hardware, networked connection, wi-fi etc. It also includes advances constructs such as data warehousing/mining, specialized solutions for customer management, supply chain management and the like. Application of information technology in managing the store operation, customer relationship management, merchandise management, supply chain management, human resources management, pricing and promotion management are discussed below. Further the role of Management Information System and Executive Information System are also presented.

NOTES

1.8.1. Information Technology and Store Operation

Store operation contributes to a significant proportion of the total cost. Stiff competition among the retailers have reduced the profit margin. Hence reducing the operating cost is a must to enhance the profit margin. Use of the following technologies in store operation will enable to reduce the cost and add value to consumers shopping experience.

1. Kiosks

Shopper today, are more time conscious. Longer queues for product selection or for assistance from sales person or for billing will surely lead to customer attrition. The use of interactive kiosks enriches the shopping experience. Interactive kiosks are increasingly preferred by people in airports where it is used for check-in services and also in banks. A kiosk is an ideal product for the retail sector also.

A kiosk is a small physical structure (often including a computer and a display screen) that displays information for people walking by. Interactive kiosks are self-contained computing terminals that provide access to on-demand information and transactions. Interactive kiosks are computers with touch-screen displays. It provides information access via electronic methods. In a retail setting the interactive kiosks displays various products available for sale by a single touch on the screen. The shoppers can use a retail kiosk as a pre-sales assistant by scanning an item's Universal Product Code (UPC) to learn about details, specifications, guidance, rebates and coupons. Through video kiosks the shoppers can identify the location of the product without moving around the store. This reduces the shopping time and frustration. With the kiosks to help the shoppers are less dependent on the sales assistants. It reduces the movement around the shop which will be beneficial for both the retailers and the shoppers. An modification of interactive kiosks is the frequent shopper kiosks. These are located near the entrance of the retail stores. The regular shoppers are provided with the frequent shopper card. On using the card the kiosks displays the customized set of products which are frequently purchased and the appropriate promotional strategy designed on the basis of the shopper's past purchases. Self service check out kiosks as used in airports will enable the shoppers to avail self service, create, update and print out registries using a single touch screen application. It allows customers to collect points, redeem rewards for discounts and saving or to receive special offers. The shoppers can just walk in, select the products, swipe the card and move out of the shop.

Kiosks enable the small retailers like mom and pop store to match the range of big stores without investing in space. Customers can order their merchandise through the kiosks and can collect it after some time. It can be used by the retailers for up-selling. This can be done by showing a consumer similar products with additional features and functionality. Product advertisements, store specials and promotions can be communicated to the customers through a kiosk by using it as a scrolling billboard or video player. In the case of music store chains, the kiosk can be used to help a buyer sample the CD by hearing the

song before purchasing the same. Kiosks can also help retailer to get the inventory status at other store locations by scanning the UPC. Stock situations can be entered immediately. Similarly, they can be used to view weekly work schedules. Kiosks can be successfully used as effective instruments for sales and employee education since they are interactive. Many retailers find value in utilizing interactive kiosks as part of a “clicks and mortar” strategy.

To summarize, kiosks can be used in retail environments to:

- Promote and provide access to store website
- Provide access to far more products than physical store can stock
- Enable online transactions through store website
- Gathering feedback and suggestions
- Act as a store/merchandise directory
- Allow access to gift registries
- Promote other store locations



2. Virtual Display Case

The virtual display case is a large-screen with rear-projection, video display and computer graphics system which shows realistic, three-dimensional images of shelves stocked with products. It is usually located near a store’s entrance and so as to enable the shopper to view and purchase a wider selection of items than could be carried in the store without moving around. The shoppers can see the three dimensional view of the product using a pair of 3-D glasses, available in a bin on the side of the display, to view the stereo images. The device has a hand-held controller and joystick that allows consumers to select between different product categories, zoom in on shelf displays and pick up products and examine them from any angle. When products are selected from the virtual shelf, they

NOTES

appear to float in space. To select a product for purchase, the consumers have to simply drop it into a simulated shopping basket.

3. Body Scanning

This technology is mostly used in apparel industry. The three dimensional technology helps shoppers in textiles to identify the dress which will fit them, try them on virtually and alter the same to suit their requirements or customize the outfit from the chosen dress material. This system uses video cameras that are attached to computer. The body measurements are taken from several angles and a three dimensional model of the shopper is created. Through 'virtual try on' the shopper can select the dress which he wishes to purchases and the computer shows the image of the shopper wearing the selected outfit. The measurements of the shopper can be used again by way of embedding the same in 'smart card'. Thus body scanning technology enables to enrich the shoppers experience in real in time stores or e-tail stores.

4. Personal Shopping Assistant



Personal shopping assistant is a handheld wireless device used in retail outlets. It acts as a virtual shop assistant and enables the customer to carry it around a store. Customers can use it to locate items, check pricing, options and availability, see related or complementary items, scan coupons and even use it for checkout process. The retailer can use it is an ideal platform for intelligent cross-promotion and pinpoint-targeted advertising.

5. Self-Scanning and Self-Checkout System

In conventional supermarkets, product selection is performed by the customers, and product checkout is performed by cashiers. Typically, a customer will walk up and down the aisles selecting products to buy and placing the selected products in the shopping basket. Once the customer has finished selecting products, the basket is taken over to a

checkout counter. The customer then unloads the selected products from the basket and places them on the checkout counter. Each item is then checked out by a cashier, typically using a barcode scanning system. Finally, each item is bagged, either by the customer, the cashier, or by another supermarket employee.

In this conventional shopping approach, the product selection process and the checkout process are performed serially (i.e., one after the other). As a result, the total time required to complete a shopping trip is the sum of the product selection time and the checkout time. Even under optimum conditions, when there are no queues at the checkout counters and the cashier operates quickly and efficiently, the checkout process can contribute a few minutes to the total shopping time. And when conditions are sub-optimum, (e.g., when there are long checkout queues, when a cashier is slow, and/or when a preceding customer has a problem) the checkout process can significantly extend the total shopping time.

In self scanning each customer picks up a portable, cordless scanning unit from a dispenser rack and uses this scanning unit to scan the selected products as they are placed in a shopping cart. When the customer has finished selecting products, the customer returns the handheld scanner to the rack. The rack then prints out a receipt for the items that were scanned by the handheld unit. The customer then takes this receipt to a human cashier, who accepts payment for the purchase. While portable scanners system can cut total shopping time by reducing the amount of time spent at checkout, portable scanner users may still have to wait in a queue for the human cashier to pay for their purchase. And although the time required to process each customer should be smaller than at conventional scanning checkout stations, the queue time can still be considerable.

A self checkout system includes a customer-operated portable terminal with a data reader, such as a barcode scanner, and a customer-operated self-checkout station with an automated payment-accepting subsystem. A self-checkout station reduces the checkout queue times without requiring additional manpower. It enables customers to identify and log selected products by themselves using a portable reading terminal, scan their selected products, and then pay for their purchase by themselves using either an automatic cash-receiving system or a magnetic credit/debit card reader.

1.8.2. Customer Relationship Management

Customer relationship management is ahead of the transactional exchange and facilitates the marketer to understand the customer's sentiments and buying habits so that the customer can be provided with products and services before he starts demanding. This is possible through the integration of four important components i.e. people, process, technology and data.

NOTES

It costs five times more to acquire a new customer than to retain one. In traditional retail environment, it was easy to retain customers as the retailers knew all their customers personally. They knew their preferences and what was happening in their lives. Armed with this knowledge, retailers were able to react quickly and market to each customer individually. They were able to build friendships interacting with their customers. Along the way of growing chains and building malls and promoting self-service, many retailers lost touch with their customers. Recognizing the value in customer loyalty, retailers are now seeking to reclaim personal relationships with their customers. Information technology aids retailers to keep track of customers.

Data related to consumers can be collected using the computers. The demographic profile of the consumers, their purchases in terms of volume and value, purchase frequency, preferences etc., could be assimilated. Data mining activities through CRM provides insights and knowledge about the retailers most valuable customers who result in maximum sales. The information obtained would enable the retailers to identify the most profitable consumer segment and design customized marketing strategies to retain them. Special offers, sales letters informing the choices available in their preferred product/category and other retail loyalty programs can be planned based on the available data. In case of credit card purchases relevant data as required by the credit card organization could be passed on to them. Customer life time value can be obtained based on which customized promotion can be offered.

The Data warehousing and data mining tools enables customer profiling and it provides the information needed to best understand patterns in customer behavior along multiple dimensions. It enables focused customer delivery & support based on customer's Segment. Information technology aids in budgeting and forecasting revenues/volume of sales for segmented customers and design strategic solutions for enhancing effectiveness of promotions & loyalty programs. This could be done by developing smart cards based solutions that could register customer transaction either by swiping them or bar code scanning them or keying the loyalty card number. Designing, delivering and accounting of E-coupon can be done in less time. By analyzing coupon usage and spending trends customized mailers can also be generated for each customer. All this will lead to customer retention leading to increased profitability and enhanced customer life time value.

1.8.3. Merchandise Management

Information technology enables *efficient stocking of merchandise*. If a retailer stocks huge merchandise it will lead to unnecessary locking of capital. At the same time, the retailer cannot disappoint the customers by having less/no stock. Data assimilation, processing and transmission of information could enable the retailer to keep track of the items purchased by the consumers on the basis of which sales analysis and stock replenishment decisions, re-order quantity and merchandising planning could be done. Technology can be used to

automatically create the purchase order based on the reorder requirements. Purchase orders can be generated automatically or manually. The information regarding the type of products, assortments etc can be given to the producers who can synchronize the production schedule according to the requirement. Various merchandising softwares are available which enables to efficiently manage the merchandise.

- General merchandise planning software enables to perform merchandise planning and forecasting, manage purchase order, do allocation, inventory and price management.
- Data warehouse enables to forecast the merchandise requirements. The software enables the retailer to prepare store-level demand forecasts by modeling all the factors that affect unit movement including seasonality, price, promotion, product life cycle and the like.
- Innovative softwares enables to make decisions regarding the products including the colour by viewing digital samples on a monitor without waiting for physical samples to arrive. It combines precise on-screen colour with image and texture to produce life-like product simulations as a substitute for physical samples. The software even simulates the color under various lighting conditions.
- Assortment software enables the retailer to plan the assortments in a better manner. The plan is based on the previous year data.
- Software programs are available to help the manufacturers and retailers deal with category management complexities. The programs enable to do space allocation base on sales, inventory turnover and profits at individual stores.
- Allocation software enables the chain stores of all sizes and types to allocate merchandise to stores. It helps to effectively execute the assortment to the store by providing decision support that enables to achieve the merchandising objectives.

1.8.4. Supply Chain Management

Retail companies are facing a number of challenges due to increasing complexity of supply chains. Retailers deals with a large number of products and assortments which requires an efficient supply chain management. Increased lead times, demand variability and supply disruptions are forcing companies to pile inventories thus leading to opportunity losses and higher cash conversion cycles. Demand forecasting has assumed critical significance in managing supply chains efficiently. Having an agile supply chain network that seamlessly connects demand, supply and product remains the top priority for retailers.

Supply Chain Management encompasses the planning and management of all activities involved in sourcing, procurement, conversion, and logistics management activities. It 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 retail companies. In a retail setting information technology can be broadly used to effectively perform

NOTES

transaction processing, supply chain planning and collaboration, and order tracking and delivery coordination.

Transaction processing stands for the use of IT for increasing the efficiency of repetitive information exchanges between supply chain partners. The exchanged information is typically related to tasks such as order processing, billing, delivery verification, generating and sending dispatch advices, and producing order quotes. In supply chain planning and collaboration, IT can be used for sharing planning-related information such as demand forecasts and other demand information, inventory information, and production capacity information with the intention of increasing the effectiveness of the supply chain. SCM, in order tracking and delivery coordination refers to the monitoring of individual orders or shipments with the aim of coordinating the delivery or conveying timely information of their location.

In a retail setting information technology enables to perform the following Supply Chain related activities in an effective manner;

- Where-to-make and what-to-make-or-buy decisions including contracting, locations, scheduling, and planning process definition.
- Aligning overall organizational strategy with supply strategy.
- Sourcing contracts and other purchasing decisions.
- Inventory decisions, including quantity, location, and quality of inventory.
- Transportation strategy, including frequency, routes, and contracting.
- Scheduling the payments to suppliers.
- Daily procurement and distribution planning, including all nodes in the supply chain.
- Demand planning and forecasting, coordinating the demand forecast of all customers and sharing the forecast with all suppliers.
- Sourcing planning, including current inventory and forecast demand, in collaboration with all suppliers.
- Inbound operations, including transportation from suppliers and receiving inventory.
- Outbound operations, including all fulfillment activities and transportation to customers.
- Order promising, accounting for all constraints in the supply chain, including all suppliers, manufacturing facilities, distribution centers, and other customers.

In order to service customers in a better manner efficient consumer response (ECR) is used. ECR involves re-engineering, re-designing and computerizing the supply chain. Technology plays a crucial role in making the supply chain more efficient and helps in implementing ECR.

1.8.5. Human Resources Management

The Human Resources functional area provides a critical component to any retail organization. Well trained and skilled associates are important to provide excellent customer service. Human resource management is often one of the last areas addressed in process improvement initiatives. However, often it is found that root causes of problems that occur

could be addressed through Human Resources activities. In addition to staffing, Human Resources must balance the need to offer competitive compensation packages with the realities of working on a retailer's budget. Information technology can be effectively used to perform the following HR related activities;

- Hiring/Staffing function can be performed easily irrespective of the location where the applicant is residing. The cost of advertisement, application processing, receiving and storing the applications etc is much lesser with the use of computers.
- Virtual training, online training, CD-ROMs and the like makes the training more user friendly. The training programmes can be customized to the requirement of various retail organization. Induction training to in-depth training can be delivered effectively using Computers. The trainees can be trained on one-to-one basis depending on their skill set.
- Performance linked incentives can be computed on an automated system and achievements can be tracked
- Communications with the employees can be made very quick and at less cost.
- Benefits and Compensation can be designed in a scientific manner.
- Maintaining the personal, productivity and other related information of the employees is made easier with the help of information technology. Maintaining employee database enables easier storage, retrieval and updation of information in an effective manner.
- Developing, maintaining and updating Pay role system is easier with the help of computers.
- Staff scheduling is very difficult in big retail organization. Technological innovations have made this task easier.

1.8.6. Pricing and Promotion Management

Retail organizations have to follow flexible pricing pattern for various products. Information technology enables to perform the same easily. The software for price management allows the retail back-end system to mark down prices for groups of items. For example in case of festivals a particular product category may be sold on a mark down price. The software enables to perform the process easier manner.

With the help of information computer aided programs, the retailers can plan the promotional event which may include the temporary price changes. The software will enable to track the sales of promoted items during the event, the profit generated and the like so as to enable scientific decision making. The promotion management also helps in segmenting the customers on various criteria and mapping customized promotional scheme so as to generate more sales.

NOTES

1.8.7. Management Information System

Management information system is a program that helps retail executives to identify and use key data for effective decision making and manipulate the same in any form they wish. The system would enable preparation of report which provides information to the retailers to manage the operations more effectively. For example the sales of various products in a category can be compared to find out the best selling product item. This will enable in placing orders, scheduling, space management etc. comparing the sales of previous years enables to track performance. The data from various chain stores/ departments can also be compared and analyzed to provide insight for objective decision making. Information can be provided in the form graphs and charts to help in easy understanding and to highlight pertinent data. Trends analysis, projections and 'what if' situations where the cause effect relationship among the variables can be easily tracked and reports can be generated. The reports can be an exception, interactive or an adhoc report. Exception reports highlight the items that requires immediate action for eg., a out-stock- report. Interactive reports enable to query the information needed. For example the sales related information can be acquired on the basis of branch, product, areas, date and the like. Adhoc reports are used to get information specific to a particular situation. The reports are requested on the fly and the format and criteria may be used only once. For example the information regarding the performance of a particular department in a specific product category on a specific day may be reported which may not be requested in future.

1.8.8. Information Technology in Communication

Large scale retailing is increasingly preferred by both retailers and the consumers due to inherit benefits. Malls with thousands and millions of square feet are attracting more footfall. However, communication both within the retail store and outside has become more important and challenging as the information to be exchanged is more dynamic. Internal communication within the various departments in the retail store can be made in an agile manner with the help of softwares like Lotus Notes. Various branches can also be networked and information can be shared without loss of time. Various applications like electronic data exchange, Data warehousing, data mining and the like would enable effective communication 24 hours a day and seven days a week. Electronic Data Interchange (EDI) is a form of computer- to- computer transmission of business information between the retailer and the vendor. Through the EDI the retailer will be able to transmit the data and other information to this vendors and vice versa all data relating to inventory, orders, payment etc in a minute. EDI is a two way communication tool that enables the retailers to place online orders, obtain order status and to make payment to their vendors. The vendors will also be able to provide invoices and intimate price changes etc. Use of information technology reduces the tedious paperwork and other mailing formalities. It reduces the costs, eliminates unnecessary time delays and minimizes the possibility of errors.

Thus the overall operational efficiency of the retail concern enhances with the use of information technology. It can be deployed to enhance the services provided to the manufacturer/wholesalers, suppliers, customers, employees and all concerned. Due to automation the time involved in each transaction made with the customers, suppliers etc can be reduced. The supply chain management can be performed more effectively. All this will contribute significantly in increasing the return per square feet.

1.9 Online Retailing

Electronic retailing, involves the selling of goods and services to the consumer market via the Internet, is also called online retailing, e-tailing, e-retailing and electronic commerce (EC) in the business-to-consumer (B2C) market. E-tailing in India is on the verge of gaining momentum. According to the Internet and Mobile Association of India (IAMAI) e-Commerce Report 2005, online shopping revenues were Rs. 5.7 billion in 2004-2005 and were expected to increase to Rs. 23 billion in 2006-2007. One of the key factors for the emergence and growth of online shopping in India is the higher penetration of personal computers (PCs) and increase in number of Internet users. According to IAMAI, the number of Internet users in India was expected to reach 100 million by the end of 2007 from an estimated 25 million in 2005. Some of the other important factors that facilitated the growth of online shopping was the increase in number of broadband Internet connections (1.3 million broadband subscribers as on March 31, 2006), the growing purchasing power of the middle class, limited personal time, increased use of credit and debit cards, and more importantly a large young population that spent a considerable amount of time online.

There is a shift in the attitude of people, who are more receptive to the experience of online shopping. Customers are increasingly becoming aware of the advantages of online shopping. The benefits from the consumers' perspective are listed below;

- On-line retailing offers a broad selection. The consumers can browse a vast number of alternatives before making a decision. Consumers need not undergo the problem of visiting many stores to compare the variety, price and the like.
- E-tailing offers more convenience to the shoppers as they have the opportunity to compare the features and price of various product brands, read consumer reviews, and make the purchase decision at a leisurely pace. Moreover it offers 24 hours 365 days shopping freedom.
- The online retailers offer more information that helps the consumers to make informed decisions. Like a sales assistant, the electronic channel can respond to consumers inquiries. The consumers can drill out any amount of information needed without having to face the impatience of the salesmen.
- The most significant benefit of the electronic channel is the ability to economically personalize the information for each customer. The product category which the customer is interested and the new arrivals, discounts and the like related to the customers preferences can be sent. The electronic channel has the potential for

NOTES

preparing an individually tailored catalog for the customer each time the customer goes shopping. This will enhance the shopping experience.

- Due to the economies of operating in web, the retailers will be able to price the merchandise at a lesser cost than the brick and mortar store. The consumers will be able to get products at a relatively cheaper price.
- Virtual communities, chat rooms and bulletin boards can be created to share information. This is a network of people who seek information, products and services and communicate with each other about specific issues. This will create a sense of belongingness among the customers and add to the image of the concern at no cost.

From the retailers perspective the following are the benefits of online retailing;

- It enables the retailers to project their presence and thereby add to the image.
- It enables to increase the sales volume by adding the online sales as a complimentary form to the traditional shopping methods.
- E-tailing enhances the geographical reach of the consumers. Location of the consumers is no more a constraint to sell the products. This non-geocentric approach will enable to reach wider spectrum of consumers.
- Unlike physical presence, retailers are not constrained by the space availability as they have visual density in the web. Visual density is all about virtual space utilization like space management in retail. The visual appeal attracts the browsers and makes them stay in the website for a longer duration.
- Online retailing enables the retailer to have an unlimited number of Stock Keeping Units (SKUs) on display. This is because of the unlimited virtual space.
- Tracking the shoppers and contacting them is easier in e-tailing environment. With the help of cookies the non-buyers who visit the site can also be traced.
- Online retailing is not faced with the threat of obsolescence. There is no carrying cost for the inventory.
- Providing and adding information in the electronic channel is much easier and cost effective rather than training entire group of salesmen. Moreover the information in online sites can be easily updated within a short time.
- Introduction of new products and demonstration of the features is easier on the web.
- More personalized services can be provided to attract and retain the customers.
- It enables to reduce conduct the retail business in a cost effective manner.
- Promotional offers and Interactive advertisement could be more attractively displayed in the web.

Online retailing in India is very minimal and at the nascent stage. Like the brick and mortar stores, facing the problem of converting the footfall into fruitful transactions, e-tailing is also having the problem of converting the clicks. Some of the problems of E-tailing is listed below;

- There are a large number of consumers base who are not connected to net. The websites however attractively designed will not be reached by them.
- Unlike some countries, Indian consumers pay for the time on the web. This limits the time spend by them in surfing. Also the downloading capacity is a major constraint which makes many shoppers to quit browsing.
- The key hurdle for the growth of online retailing is the issue of credit card fraud. The payment mechanism is viewed by consumers with suspicion.
- Indian consumers like to touch and feel the product before they buy. The personalized customer service and the emotional experience enjoyed in the case of brick and mortar is not available in online retailing environment.
- For many consumers, shopping is a relaxing and a pleasant past time experience. They would not be willing to sacrifice the same by way of online shopping.
- Online shoppers are not willing to make payment using credit card details on the net. The security and privacy issues are posing serious threats to e-tailing.
- Some of the other challenges for online retailers are assessment of online customer behavior, managing the supply chain and logistics in order to avoid delays, making up for the ambient shopping experience in physical formats, establishing brand recall, establishing consistency in pricing across channels, and managing purchase returns.

Key Factors for a Successful e-Tailing

Some of the new entrants to e-tailing includes Pantaloon Retail (India) Limited (PRIL). It has launched its online retail arm, futurebazaar.com on January 02, 2007. This marked the entry of India's leading retail chain into the online retail segment. Tata Indicom, a mobile and Internet service provider, entered the online retail market with its website, www.i-choose.in, to provide online mobile connection services. The retail division of Godrej & Boyce Mfg. Co. Ltd. (G&B) had also launched an online portal that offered its customers all the consumer durable products that were available at Godrej's 'Lifespace' retail stores. Prior to the entry of these new players, the e-commerce market in India had established firms the e-commerce market in India had established firms like, Rediff.com, Fabmall.com, Baazee.com, eBay.in, indiatimes.com, etc., which had achieved fair success in creating a brand recall among online customers. However for many e-tailers the websites have remained as 'telling' sites rather than 'selling' sites. In order to be ensure a profitable existence the following aspects should be considered;

- Indian shoppers are in the threshold of trying out the e-buying. Hence a well known brand name and brand image would attract them. In a brick and mortar retail setting a retailer competes with other retailers in the local area. However the retailers' electronic channel competes with innumerable URL which is growing every minute.
- The reputation of the retailer is a very important aspect in e-tailing. The shopper cannot see the merchandise before buying, they have to depend on the retailers reputation. The shoppers should trust the retailer to provide a secured credit card

NOTES

payment, deliver good quality product as described in the web and ensure privacy of transactions.

- The unique benefit of e-tailing is the ability to customize the information presented to each customer based on their needs and preferences. Hence the retailer should have the access to information about the preferences and past behaviour of the customers.
- The retailer should provide opportunity for the shoppers to do multiple items shopping of complimentary merchandise. This will reduce the shopping cost and enrich the shopping experience as the customer gets to know the complimentary products which can be bought along with what they are looking for.
- Comparison in terms of price and variety offered is easy for a online shoppers. Hence in order to attract and retain consumers, the e-tailer should offer unique merchandise in the electronic channel. To ensure uniqueness the retailer can opt for private label brands, co-brands, prepackaged assortments and the like.
- The websites should be designed keeping in mind the constraints of the e-shopper in terms of money and time. The multimedia usage could enrich the page content and visual appeal, however it will also increase the downloading time. Ease of navigation and sensory experiences play an important role in stimulating purchase, promoting multi item purchase and encouraging repeat visits. Hence website design plays a major role in the success of e-tailer.
- The e-tailers' should take adequate measures to alleviate the perceived risk of e-shopping. The perceived risk is related to the credit card payment and potential privacy violations. Though the usage of encryption and other sophisticated technology provides safety, it is not convincing the suspicious customers. The retailers can resort to measures of collecting payment on delivery of products in person or through other measures to reduce the risk of payment. The ability of retailers to collect information regarding the purchase history, personal information, search behaviour on the net and the like should be tackled by retailer by earning the trust and confidence of the consumers.
- Keeping in mind the psychology of the consumers to touch and hold the products, the e-tailer should carefully choose the products to be sold in the online mode.

SUMMARY

The unit on retail concepts has provided an overview of retailing and its importance from the consumers, wholesalers and the nation's perspective. The salient characteristics features of retailing are listed along with the difference between traditional and non traditional retailing. An overview of the various dimensions of the retail management process is presented. The application of Information technology in retailing is discussed. The factors contributing to success of online retailing is also highlighted.

Equipped with the conceptual skills, the next unit explores the trend in retailing, key drivers to the growth of retail, challenges ahead and the macro micro environmental influences on the retail grown in India.

HAVE YOU UNDERSTOOD?

- Explain the importance of retailing and its contribution from the consumers, manufacturers and the nation's perspective.
- Discuss the salient characteristics features of retailing.
- Enumerate the application of information technology in retailing.
- Highlight the future of online retailing in the Indian context. What factors will contribute to the success of e-tailing.

NOTES

NOTES

UNIT II

NOTES

RETAIL INDUSTRY

2.1 INTRODUCTION

With the background knowledge on the meaning of retailing, functions and application of Information technology in retail management, this unit proceeds to equip the reader with an understanding of the retail industry. Retail sector in India is blooming with the liberalization, Privatization and Globalization measures undertaken by the Government. Thanks to the policy makers, the burgeoning retail sector contributes to a greater extent in providing employment opportunities and enhancing the economic growth of the country. Against this setting it is necessary to understand the contribution of retail sector in other countries. This unit presents the reader with an outline of the trend in retailing in United States, Asia and Europe. Further the trend in Indian retailing sector is explored which will enable the readers to have a comparison with the global trend. The key drivers propelling the growth of retail sector is highlighted. The micro and macro environmental issues and challenges ahead the retail sector is also briefed. In a nutshell this unit aims to provide the framework of retail sector in India and across the globe.

2.2 LEARNING OBJECTIVES

After reading this unit you will be able to understand:

- The global retailing scenario
- The current status of retailing in India
- The key drivers to the growth of retail
- The macro and micro environmental influences on retailing
- Emerging trends and challenges in retail industry

2.3 GLOBAL TREND IN RETAILING

The global retail industry has traveled a long way from a small beginning to an industry where the world wide retail sales alone is valued at \$ 7 trillion (*Source: 2003 Global Retail Report, Deloitte Touche Tohmatsu*). The top 200 retailers alone account for 30% of worldwide demand. Retail sales being generally driven by people's ability (disposable income) and willingness (consumer confidence) to buy, compliments the fact that the money spent on household consumption worldwide increased 68% between 1980 and 2003. The leader has in-disputably been the USA where some two-thirds or \$ 6.6 trillions out of

NOTES

the \$ 10 trillions American economy is consumer spending. About 40% of that (\$ 3 trillions) is spending on discretionary products and services. Retail turnover in the EU is approximately Euros 2000 billion and the sector average growth looks to be following an upward pattern. The Asian economies (excluding Japan) are expected to grow at 6% consistently till 2005-06.

On the Global Retail Stage, little has remained the same over the last decade. One of the few similarities with today is that Wal-Mart was ranked the top retailer in the world then and it still holds that distinction. Other than Wal-Mart's dominance, there's little about today's environment that looks like the mid-1990s. The global economy has changed, consumer demand has shifted, and retailers' operating systems today are infused with far more technology than was the case six years ago.

The latter half of the 20th Century, in both Europe and North America, has seen the emergence of the supermarket as the dominant grocery retail form. The reasons why supermarkets have come to dominate food retailing are not hard to find. The search for convenience in food shopping and consumption, coupled to car ownership, led to the birth of the supermarket. As incomes rose and shoppers sought both convenience and new tastes and stimulation, supermarkets were able to expand the products offered. The invention of the bar code allowed a store to manage thousands of items and their prices and led to 'just-in-time' store replenishment and the ability to carry tens of thousands of individual items. Computer-operated depots and logistical systems integrated store replenishment with consumer demand in a single electronic system.

Some facts about global retail scenario is present below:

- The US\$ 9 trillion Retail industry is one of the world's largest industries and still growing. 47 of the Global Fortune 500 companies & 25 of Asia's Top 200 companies are retailers.
- Even as the developing countries are making rapid strides in this industry, organized retail is currently dominated by the developed countries with the USA, EU & Japan constituting 80% of world.
- Retail is a significant contributor to the overall economic activity the world over: the total Retail share in the World GDP is 27% while in the USA it accounts for 22% of the GDP. The share of organized Retail in the developing markets ranges between 20% to 55%.
- Traditionally, local players tend to dominate in their home markets. Wal-Mart, the world's leading retailer, has about 8% of the US\$ 2,350 billion market in the USA. Similarly, Tesco has a market share of about 13% in the US\$ 406 billion UK market.
- The main value propositions that most large retailers use are a combination of low price, 'all-under-one-roof' convenience and 'neighborhood' availability.
- The share of organized and unorganized retailing is shown below;

NOTES

	1999	2002	2005
Total retail (US \$Billion)	150	180	225
Organized retail (US \$Billion)	1.1	3.3	7
% share of unorganised retail	0.7	1.8	3.2

(Source: CSO, MGI Study)

Top global retailers

According to Deloitte Touche Tohmatsu’s 2006 Global Powers of Retailing. US-based retailers represent 36% of companies in *Top 250 Global Retailers* ranking. Increased dollar-based sales and the international reach of European retailers has played a role in their relative increases versus the US-only strategy of many US retailers.

Top 20 global retailers by retail sales (financial year 2004)							
Rank	Company name	Origin	Sales*	Rank	Company name	Origin	Sales*
1.	Wal Mart Stores Inc.	US	285,222	11.	Schwarz Unternehmens Treuhand KG	DE	42,793
2.	Carrefour S.A.	FR	89,568	12.	Rewe-Zentral AG	DE	42,782
3.	The Home Depot Inc.	US	73,094	13.	ITM Développement International (aka Intermarché)	FR	41,721
4.	Metro AG	DE	69,781	14.	Albertsons	US	39,897
5.	Tesco plc	UK	62,505	15.	Walgreen Co.	US	37,508
6.	Kroger	US	56,434	16.	Groupe Auchan S.A.	FR	37,373
7.	Costco Wholesale Corp.	US	47,146	17.	Lowe’s Cos. Inc.	US	36,464
8.	Target Corp.	US	45,682	18.	AEON Co., Ltd	JP	36,345
9.	Koninklijke Ahold N.V.	NL	44,793	19.	Safeway, Inc.	US	35,823
10.	Aldi GmbH & Co. oHG	DE	42,906	20.	Sears, Roebuck & Co.	US	35,718

NOTES

The growth in retail sector is largely due to the buoyant global economy in many parts of the world, although economic stagnation in Continental Europe weakened the performance of retailers headquartered there. In particular, big increases in home prices in some markets boosted consumers' perception of wealth and stimulated retail spending. The report identifies the following key trends in the industry:

- The increasing size and market penetration of the largest retailers is having a significant macro-economic impact. Intensifying competition among these major players is driving prices down and giving value-seeking consumers unprecedented power.
- Mergers and acquisitions activity produced considerable movement in the ranks beyond the top 10 retailers. However, sales growth usually came at a price. Earnings were hit hard by integration and conversion costs, and companies have struggled to extract maximum value from their acquisitions.
- Food-related stores outnumber other types of retailers. Nearly 60 percent of the Top 250, and 9 of the top 10 retailers, sell food, with most operating a variety of formats including supermarkets, hypermarkets/supercenters, hard discount stores, cash & carry/warehouse clubs, and convenience stores.
- Most of the 50 fastest-growing retailers can be found in the lower half of the Top 250. Only 15 are among the top 100 largest retailers, with Schwarz Group at 11th place, the only one whose entry into the top 10 appears imminent—illustrating the growing importance of hard discounters in the global retail arena.

RETAILING IN UNITED STATES

Retail is the second-largest industry in the U.S. by number of businesses and number of employees. Retail sales in the U.S. were up about 3.8% in 2007, to \$4.49 trillion (Plunkett Research estimate). The 2007 growth was driven partly by higher gasoline costs as well as by deep price discounting during the Christmas season by mass merchandisers and year-long discounting by automobile dealers. Retail sales in 2007 were affected by several factors:

1. Sales of both new and existing homes slowed dramatically. While homes themselves are not counted in retail sales figures, buyers of these homes are a significant force at retail stores where they purchase furniture, appliances, linens, consumer electronics and garden supplies to fill up their new residences. Likewise, builders and remodelers are a strong factor in retail sales, when they purchase supplies, materials, appliances, etc. at retail outlets. The 2006-2007 slowdown in building and remodeling led to reduced sales at home centers such as Home Depot.
2. Another factor was interest rates on home mortgages: From 1998 through part of 2006, Americans were refinancing their existing home mortgages in record-setting numbers. In doing so, they took advantage of very low mortgage interest rates. Many homeowners also increased the balance on their mortgages, taking advantage of rapidly rising home values that increased their borrowing power. Borrowing against home equity lines of credit was also high, and much of that money went to

retail purchases. Homeowners were spending this cash windfall freely, driving up retail sales in many categories. However, by the second half of 2006, the slowing real estate market, along with higher mortgage rates, had a negative effect on retail sales.

3. Another major negative impact was the growing number of homes that were and are going into foreclosure as their owners are unable to meet monthly payments. Many of these foreclosed homes are part of the subprime mortgage fiasco that is rocking financial markets, where borrowers have poor credit or inadequate income. Also, a large portion of foreclosed homes are those subject to rising monthly payments due to adjustable rate mortgages.
4. The sale of gasoline at the pump is included in retail sales figures. Extremely high prices per gallon for gasoline have shown up as growth of total retail sales in America. At the same time, consumers have been forced to allocate a larger portion of their household budgets for gasoline, electricity and heating oil, leaving fewer dollars left over for discretionary retail spending.

Unfortunately, consumers will be forced to retrench in 2008. Current economic trends will be tough on retail customers. They will have fewer discretionary dollars left in their budgets after they face the challenges of high prices for energy, health care, food, insurance and mortgage interest rates.

Negative factors that will impact the retail sector in 2008:

- The increasing size and market penetration of the largest retailers is having a significant macro-economic impact. Intensifying competition among these major players is driving prices down and giving value-seeking consumers unprecedented power.
- Mergers and acquisitions activity produced considerable movement in the ranks beyond the top 10 retailers. However, sales growth usually came at a price. Earnings were hit hard by integration and conversion costs, and companies have struggled to extract maximum value from their acquisitions.
- Food-related stores outnumber other types of retailers. Nearly 60 percent of the Top 250, and 9 of the top 10 retailers, sell food, with most operating a variety of formats including supermarkets, hypermarkets/supercenters, hard discount stores, cash & carry/warehouse clubs, and convenience stores.
- Most of the 50 fastest-growing retailers can be found in the lower half of the Top 250. Only 15 are among the top 100 largest retailers, with Schwarz Group at 11th place, the only one whose entry into the top 10 appears imminent—illustrating the growing importance of hard discounters in the global retail arena.

Meanwhile, competition among retailers has never been tougher. A retailer without a significant competitive advantage doesn't stand a chance. Superstores are battling each other on every major corner while direct marketers (including catalogs and online sites) are stealing customers from stores. Online selling at deep discounts is even making immense

NOTES

inroads into major consumer purchases such as jewelry. For example, discount Internet-based diamond seller Blue Nile is enjoying booming sales.

Meanwhile, competition among retailers has never been tougher. A retailer without a significant competitive advantage doesn't stand a chance. Superstores are battling each other on every major corner while direct marketers (including catalogs and online sites) are stealing customers from stores. Online selling at deep discounts is even making immense inroads into major consumer purchases such as jewelry. For example, discount Internet-based diamond seller Blue Nile is enjoying booming sales.

Direct selling through online retailers, catalog companies and home-shopping television channels continues to increase. Sales via the Internet rose dramatically in 2006, up an estimated 20% according to Jupiter Research. Sales in 2007 were projected by Jupiter Research to increase by 16%, to a total of \$116 billion. Analysts at eMarketer projected growth of online retail sales at 21% during 2007, to a total of \$131 billion. These figures do not include sales of travel online, which is about \$85 billion. Growth is being driven by two factors. First, the number of fast Internet connections in the U.S. leapt to about 80 million by the end of 2007. These connections make buying online faster and more interactive. Next, there's the savvy marketing of online giants like Amazon.com (with more than \$10 billion in annual revenues), as well as the e-commerce efforts of traditional retailers such as J.C. Penney and Wal-Mart. Likewise, the sale of merchandise via television home-shopping channels racks up several billion dollars in annual sales. Companies engaged in this activity include the Home Shopping Network and QVC, Inc.

U.S. Retail Industry Overview				
	Amount	Unit	Year	Source
Total Retail Sales in 2007 ¹	4,495	Bil. US\$	2007	PRE
Total Retail Sales in 2006 ¹	3,904	Bil. US\$	2006	Census
Total e-Commerce Retail Sales in 2007	131	Bil. US\$	2007	eMarketer
Total e-Commerce Retail Sales in 2006	122	Bil. US\$	2006	Census
Motor Vehicle & Parts Dealers	901	Bil. US\$	2006	Census
Furniture & Home Furnishings	121	Bil. US\$	2006	Census
Electronics & Appliance Stores	109	Bil. US\$	2006	Census
Bldg. Materials & Garden Equip. & Supplies Dealers	359	Bil. US\$	2006	Census
Food & Beverage Stores	542	Bil. US\$	2006	Census
Health & Personal Care Stores	224	Bil. US\$	2006	Census
Gasoline Stations	404	Bil. US\$	2006	Census
Clothing & Accessories	215	Bil. US\$	2006	Census
Sporting Goods, Hobby, Book & Music Stores	87	Bil. US\$	2006	Census

NOTES

General Merchandise Stores	552	Bil. US\$	2006	Census
Miscellaneous Store Retailers	119	Bil. US\$	2006	Census
Nonstore Retailers	270	Bil. US\$	2006	Census
Food Services & Drinking Places	426	Bil. US\$	2006	Census
Annual Disposable Personal Income per Capita, 2006	32,115	Bil. US\$	2006	BEA
Annual Disposable Personal Income per Capita, 2007	33,940	Bil. US\$	2007 ²	BEA
Total Exports of Goods	1,037	Bil. US\$	2006	ITA
Total Imports of Goods	1,855	Bil. US\$	2006	ITA
Number of U.S. Shopping Centers ³	90,786		2006	ICSC
Sales at Shopping Centers	2.25	Tril. US\$	2006	ICSC
Sales per Square Foot	329	US\$	2006	ICSC
% Increase from Previous Year	6.4	%	2006	ICSC
¹ Does not include food service sales. ² Annualized as of the third quarter.				
³ Methodology has changed to reflect a count of actual properties, as opposed to an extrapolation based on a database count of larger properties.				
PRE = Plunkett Research estimate	BEA = U.S. Bureau of Economic Analysis			
ICSC = International Council of Shopping Centers	ITA = International Trade Association			
Census = U.S. Census Bureau				

Source : www.plunkettresearch.com

RETAILING IN ASIA

Asia/Pacific markets are expected to see growth in retail sales, with Indonesia taking the lead. Retail sales in Indonesia are estimated to reach 236.4 trillion Rupiah, representing a 16.0% year-on-year growth. The outlook for China continues to be bullish, with year-on-year growth forecasted at 12.0%. Other markets with strong growth include the Philippines, Malaysia and Hong Kong, with year-on-year growth expected to reach 13.7%, 6.9% and 5.8% respectively.

While continued growth in retail sales is expected across the region, the source of growth varies significantly between markets. While Indonesia’s central bank’s efforts in subduing inflationary pressures and easing lending rates is anticipated to help boost consumption, strong labor market conditions and rising incomes are expected to continue to bolster household consumption for China. The MasterIndex of Retail’s forecast for the second half of 2007 is shown in the table below.

NOTES

	Forecast for 2nd half of 2007	
	Retail Sales Forecast	Year-on-Year Growth
Australia*	A\$97.3 billion	6.20%
China***	4476 billion yuan	12.00%
Hong Kong*	HK\$110.9 billion	5.80%
Indonesia***	236.4 trillion rupiah	16.00%
Japan*	61.4 trillion yen	0.63%
Korea*	74.6 trillion won	4.50%
Malaysia***	40.8 billion ringgit	6.85%
New Zealand*	NZ\$18.5 billion	4.80%
Philippines***	540.9 billion peso	13.70%
Singapore**	SG\$16.7 billion	3.60%
Taiwan*	NT\$1638 billion	2.30%
Thailand***	567.8 billion baht	3.30%

(*excludes hospitality, catering and auto sales) (**excludes hospitality and catering, includes auto sales) (***) includes wholesale, hospitality, catering, auto sales)

PHILIPPINES

The real GDP growth rate for Philippines in 2008 is expected to shed 0.4 percent to 6.6 percent. Overseas remittances (having grown by about 20.0 percent in 2007) will likely moderate on the back of a weaker US economy where over half of the country's remittances are derived. Real private consumption growth in 2008 will dip by about 1.4 percent to 3.5 percent against 2007.

However, improved labor market conditions (the unemployment rate is expected to trend downwards from 7.0 percent in 2007) will support household consumption in the upcoming 12 months. Furthermore, despite the strengthening of the peso by about 20 percent against the US dollar over the last 2 years, exports growth will remain robust, posting a slightly higher growth rate of 8.0 percent (up 1.0 percent from the previous year);

this will partially offset the dip in Philippines's domestic demand. The service sector is also expected to remain buoyant in 2008, growing at a steady rate of around 7.4 percent (relatively unchanged from 2007). The inflation rate is expected to nudge upwards by around 3.8 percent against 2.9 percent in 2007, remaining within the government's target range of 4.0 to 5.0 percent.

Retailing achieved another positive performance in 2005 with current value growth at 6% over the previous year, just marginally slower than the 7% growth achieved in 2004 over the previous year. A more robust growth was not realised as high oil prices resulted in increased costs for transport and electricity in 2005. A still anemic economic situation made Filipino consumers more cautious with their spending budgets during the year.

On one hand, leading modern retailers, mostly local companies, continued to encourage the positive growth of retailing with the building of new malls. These host stretches of new outlets in the outskirts regions of Metro Manila and the southern provinces in the country, thus capturing a wider consumer base. On the other hand, traditional independent retailers still dominate retailing and their rather stable performance in 2005 constrained growth.

Non-grocery retailers strengthens with product extensions but grocery retailers still on top

The value growth of non-grocery retailers improved by half a percentage point in 2005 over the previous year to approach 5% growth. This occurred as leading non-grocery retailers, particularly health and beauty retailers and clothing and footwear retailers, strategically extended their product lines to include grocery items, so as to conveniently accommodate the needs of consumers and boost consumers' loyalty to their brands. This move may be perceived as a reactionary response to grocery retailers' move to include sales of non-grocery products in their outlets, particularly through the hypermarket channel. In 2005 hypermarkets expanded in outlets more aggressively, with leading retailers such as Super Shopping Market Inc and Rustan taking a leading role in promoting the hypermarket concept to mass consumers.

Nevertheless, grocery retailers still managed to fare fastest out of all types of retailers in 2005 at just below 8% current value growth, despite the performance being slower than the previous year. With most Filipinos still belonging to lower- to middle-income groups, their low disposable income renders them to still focus their spending on daily necessary items, classified under grocery products. Nevertheless, the rise of non-grocery retailers continued in 2005, although still not strongly enough to unseat the dominance of grocery retailers.

outlets, whether shopping for everyday items such as food, or less essential offerings such as cosmetics or clothing.

NOTES

Foreign retailers growing in presence through joint ventures and franchising

Throughout the review period, a number of foreign retailers entered the country and successfully penetrated retailing in the Philippines. Some notable foreign brands are Watson's Personal Care Store Philippines Inc's Watson's, Robinsons Convenience Stores Inc's Ministop and Rustan Marketing Specialists Inc's Marks & Spencer. Since the deregulation of retailing law was implemented in 2000, the Philippines opened its doors to foreign investors.

However, with the long established dominance of local retailers in the country and the strong grip of local conglomerates, such as SM, Robinsons and Rustan, these foreign investors opted to either set up joint venture companies with these giant local retailers or to franchise their brands to be marketed by local players. With more knowledge of local retailing, these local retailers successfully introduced and popularised foreign retailers' brands to mass Philippine consumers.

Formidable SM Group spreads its wings

As the country's largest mall developer and retailer, owning over 20 SM malls with further plans to open four new malls in 2005 and 2006, SM Investment Corp is unstoppably expanding its businesses throughout the country and across the Asian region. SM Investment Corp is the publicly listed company of the unofficial entity SM Group, whose revenues are largely generated from rental leases of its mall areas and retail sales generated from its retailing operations, namely SM Department Store, SM Supermarket, Super SM Hypermarket and numerous other retail subsidiaries and affiliates. Retail sales from 26 SM Department Store outlets are reported to account for two thirds of the company's total revenue, which in 2005 jumped by over 20% in current value terms.

In 2005, SM Investment Corp moved more aggressively in expanding its banking network and acquired higher stakes in the country's largest conglomerate company, San Miguel Corp. However, even through its several subsidiaries, SM Investment Corp is still unable to secure the top position as retailer in Philippines. This honour continued to belong to Mercury Drug Corp in 2005, a local retailer that focuses mostly in chemists/pharmacies.

Slower growth forecast with price increase of consumer goods

Retailing in the Philippines is likely to see a slower growth during the forecast period, particularly within the first half, with estimated constant value growth at less than 5%, compared to 7% constant value growth during the review period. An unstable political situation is expected to continue, with growing discontent over President Gloria Arroyo. This is likely to keep the economic situation uncertain and work against retailing growth. High oil prices are likely to weaken the purchasing power of most consumers as well, resulting in consumers tightening their budgets. Furthermore, the Philippine government's continuing struggle to relieve its heavy national debt by implementing austere fiscal measures

is likely to overshadow overall economic growth in the country throughout the forecast period.

INDONESIA

Value sales in the Indonesian retail environment continued to grow in 2007, but at a slightly lower rate than the previous year. The impact of the skyrocketing prices of fuel and basic necessities since late 2005 was still felt throughout 2007, with the purchasing power of lower-income consumers not yet fully recovered. More consumers restrained retail spending and allocated their disposable income to non-retail consumption, such as housing, medical expenses, education, and even automotive purchases. Given this condition, retailers' efforts in offering price discounts and applying lower price increases due to a lower inflation rate failed to improve volume growth significantly in 2007, resulting in decelerating value growth of retailing as a whole.

2007 sees flurry of new retailing concepts

Various new concepts were seen across the retailing industry in Indonesia throughout 2007, as modern retailers attempted to stimulate growth by sparking consumer interest. Grocery retailers such as Matahari Supermarket and non-grocery retailers, including Disc Tarra and The Body Shop, renovated and refurbished their stores to create a more exciting shopping ambience to enhance the customer experience. Meanwhile, a new hybrid of supermarkets and convenience stores – referred to as “midi-markets” – was introduced by Orange Mart and Alfa Midi in 2007. As non-store retailers sought to increase demand, 2007 also saw abundant new product development by prominent direct selling companies such as CNI, Oriflame and Nu Skin. While these activities prompted tighter competition among modern retailers, they provided even more challenges for the traditional retailers.

Local retailers provide more competition to multinationals

Competition among retailers became more intense in 2007, with local retailers being more aggressive in catching up with multinationals. Two prominent local retailers, Ramayana and Agis, announced plans to acquire Alfa Retailindo and Electronic Solution respectively in 2007. In addition, several domestic players, such as Alfamart, Indomaret, Kimia Farma and Furnimart, continued to aggressively expand their outlets via franchising agreements. Meanwhile, local direct selling companies such as CNI and Capriasi invested heavily in mass media promotional activities to improve customer awareness of their products.

Non-store retailing outshines store-based retailing due to low base

Non-store retailing continued to outshine store-based retailing in terms of value growth in 2007, largely attributed to its rise from a low base. Despite still limited popularity compared with established grocery retailing, non-store retailing holds potential, as an increasing number of companies ventured into direct selling and gained success over the review period. In

NOTES

addition, more university students became direct selling members in the search for additional income. Moreover, non-store retailing – especially direct selling – continued to meet the needs of the increasingly busy middle- to upper-income consumers in urban areas.

Healthier outlook expected in long term

Unfavourable economic conditions which have weakened consumer purchasing power are expected to persist in the short term, with consumers prioritising non-retail consumption. Growth may also be affected by the uncertainty caused by the Indonesian general election to be held in 2009. It is feared that the election may affect political and economic stability in the country if it is followed by demonstrations and riots, which would likely hinder retail sales early in the forecast period. Nevertheless, as the economy is expected to strengthen again in the second half of the forecast period, the industry is predicted to fulfill its still immense potential. As competition among modern retailers is expected to be more intense in coming years, consumers will benefit from the price promotions and value-added benefits offered by these modern retailers.

MALAYSIA

Malaysia - MasterCard Worldwide forecasts slower growth in retail sales for Malaysia at 6.7% to achieve RM40.5 billion in the first half of 2008. The 6.7% includes wholesale, hospitality, catering and auto sales and actual y-o-y growth for the first half of 2007 was 11.8%. According to MasterCard, Malaysia's real GDP is expected to slow down from its previous year's growth rate of 5.7% to a softer 4.8% in 2008, due to a moderation in real private consumption growth (down 1.1% to 7.9% from 2007). However, greater government spending on infrastructure and development projects and reforms will help support economic activity.

The Malaysian retailing industry posted stronger growth in 2007. This was largely due to higher private demand, a pay hike for civil servants, the successful Visit Malaysia Year 2007 campaign and strong expansion of new retail outlets. Moreover, the development of new shopping malls, as well as the extension of existing shopping centres, also helped strengthen the local retailing scene. As such, retailing in Malaysia continued to register stronger growth towards the end of the review period, further boosted by favourable growth in the economy.

Visit Malaysia Year 2007 a major boost for retailing

In 2007, retailing witnessed another year of faster value growth, with one of the main reasons being the success of the Visit Malaysia Year 2007 campaign. The campaign was launched by the Malaysian Government in conjunction with the nation's 50th anniversary of independence, with the target of bringing in 20 million tourists into Malaysia. The rising number of tourist arrivals contributed to a livelier retailing environment in 2007. According to data published by Ministry of Tourism Malaysia, tourism shopping accounted for over a

quarter of overall tourism earnings in 2006. While figures for 2007 have yet to be released at the time of writing, the amount is certain to be a boost for the retailing industry during the year.

Fragmented landscape with more entrants crowding environment

The local retailing industry was highly fragmented throughout the review period, and became even more competitive with an increasing number of retailers. For instance, shopping centre extensions have seen various new labels such as Massimo Dutti opening their first outlet in Malaysia by 2007. In addition, international players already entering the market during the review period also continued to open more outlets to strengthen their presence in the country, such as Tiffany & Co, which opened a second store at The Pavilion in Kuala Lumpur in 2007.

Store-based retailing dominates

In Malaysia, retailing continues to be dominated by store-based retailing up to 2007, as the concept of non-store retailing is far less established. There is still a huge number of grocery retailers, especially small independent grocers, but also non-grocery retailers throughout Malaysia. Nonetheless, non-store retailing posted faster value growth than store-based retailing in 2007 as Malaysians become more familiar and accepting of the concept. Direct selling achieved the best performance of overall non-store retailing up to 2007, with easier acceptance of the concept across all Malaysian income groups, compared with Internet retailing or vending.

Stronger performance to be backed by improving economy

The outlook for retailing in Malaysia is positive and healthy, with one of the main factors behind anticipated growth being the country's expected continuous economy improvement. The government is expected to be more supportive of the industry, thus attracting more players willing to invest in new outlets, larger selling space and allocating greater budgets to marketing activities due to rising consumer confidence. Moreover, the retailing industry in Malaysia is not yet fully developed. Hence, new brands and new formats are expected to surface continuously in coming years. As a result, the Malaysian retailing industry is expected to have a promising future, with most areas likely to notch a positive performance.

Hypermarkets see strong growth

Malaysian consumers are increasingly making their everyday purchases through hypermarkets, attracted by their wide range of products at low prices. Furthermore, small retailers and street vendors use hypermarkets to buy their stock, which they then sell on to end consumers. With restrictions implemented by the government on the locations of these large outlets, hypermarkets and supermarkets in Malaysia are deepening their penetration

NOTES

of areas outside the major cities. While this is appealing to a growing number of Malaysians as they enjoy easier access to these stores, there are concerns that these giant outlets will have an adverse effect on the overall retail environment in the country. The government is observing the situation, and may take further action to prevent hypermarkets becoming dominant. For example, in recent years the Malaysian Government revised its foreign ownership laws to moderate the rapid growth of supermarkets and hypermarkets in the country.

24-hour hypermarket plans thwarted

The review period saw Tesco begin 24-hour hypermarket opening in Malaysia's affluent Klang Valley region, in what it claimed to be an effort to meet consumer demand for round-the-clock opening. However, the Malaysian Government forced the company to revert to standard trading hours, fearing an adverse effect on smaller establishments. While there was fierce debate regarding the possible negative impact of 24-hour hypermarket opening in Malaysia, there is no indication that it will return in the near future. In 2005, only 7-Eleven convenience stores opened on a 24-hour basis in the country.

Convenience stores remain important

In order to compete with the increasing strength of supermarkets and hypermarkets, smaller retailers in Malaysia are increasingly focusing on offering a high level of customer service. The convenience store channel, comprising players such as 7-Eleven, represents the modern equivalent of the traditional mom-and-pop store. While this channel is still in the early stages of development in Malaysia, they are proving increasingly popular among consumers, particularly younger Malaysians. The 24-hour opening of some convenience store outlets is particularly appealing in busy urban areas. In addition, an increasing number of service stations include forecourt convenience stores. This is an important development due to the high level of car ownership in the country.

Internet retailing still in its infancy, direct sales growing

The majority of Malaysian consumers enjoy shopping, and like to physically experience the products they are considering before making a purchase. Visiting a mall in Malaysia is widely considered to be a leisure activity, and continued to increase in popularity throughout the review period. This, coupled with concerns regarding the security of Internet transactions, serves to undermine the potential for online sales in the country. Home shopping via catalogues, for example, also remains negligible for similar reasons. Meanwhile, alternative selling channels such as direct sales are growing in importance as the Malaysian government has relaxed the laws governing the entry and conduct of direct sales businesses in the country. For the foreseeable future Malaysian consumers will continue to prefer to visit retail outlets, whether shopping for everyday items such as food, or less essential offerings such as cosmetics or clothing.

CHINA**NOTES**

Despite the intensified competitive environment, China's retail industry retained strong growth in 2006 thanks to its dynamic economic strength. Most of the urban regions are facing declining profit margins as more and more large retail outlets opened. While retailing in first tier cities is slowing down in terms of net profit growth as demand is reaching its peak, the second tier and third tier cities are showing great potential demand, thus attracting leading players to expand into those areas.

International retailers aim for further penetration

Rapid expansion has given domestic retailers not just dramatic increase in turnover and fixed assets, but also poor cash flow and signals of bankruptcy due to their low efficient management and underdeveloped logistic systems. For international retailers, this is the golden time to make further breakthroughs in China's retail environment. During 2006, many leading international retailers made their move of further penetration into China's second and third tier cities. Wal-Mart and Carrefour are two leading retailers that speeded up their penetration into second tier cities where the domestic retail chains can no longer maintain their stronghold.

Mergers and acquisitions lead to further consolidation

In order to compete in the intensified environment, both domestic and international retailers are accelerating their pace of expansion through mergers and acquisitions and 2006 was a year of big deals. Gome, the biggest durable goods retailer in China, acquired one of its closest competitors Yongle. Wal-Mart is expected to close an acquisition deal with Trust-Mart. Home Depot made its move on one of China's leading home improvement retailers Home Way. Best Buy Co Inc has acquired a majority stake of Jiangsu Five Star Appliance Co Ltd, which is a very influential regional durable goods retailer.

Government puts more efforts on regulating the market

2006 was a busy year for the Ministry of Commerce: loosening restrictions on opening small outlets for international retailers, tightening the control on opening large hypermarkets, and releasing official regulation in order to balance the relationship between retailers and suppliers. All the moves and new regulations reflect the great concern of the government for the retailing industry in China. In first tier cities, retailers have been expanding at excessive speed and the industry has already shown signs of over competition, whereas in less developed regions, the retail environment is still waiting for further exploration. Therefore, regulating and guiding the direction of the retail industry has been a top priority for the state government.

NOTES

Competition is squeezing profit margin

Competing on price is the last thing that retailers want to rely on. However, there are many obstacles that retailers have yet to conquer. Most of the suppliers are medium and small sized regional manufacturers who have little power in penetrating into other regions/provinces due to local protectionism and logistic costs. Hence, all the retailers have to source locally and bear with razor-thin profit margins. Moreover, as the whole country does not have much of modern retailing experience, recruiting and training is becoming the greatest task, and to keep trained staff from leaving the company is even harder. Despite all the difficulties, the nation's dynamic spending activities have given all the confidence the retailers need to become actively involved in China's retail industry.

TAIWAN

The overall retail industry in Taiwan was estimated to be worth NT\$2.2 trillion by the end of 2005, up 25% in current value terms over the review period. Although accounting for less than 6% of total retail sales, non-store retailing was the most dynamic, recording current value growth of 97% between 2000 and 2005. Store-based retailing, which accounts for the bulk of sales in Taiwanese retailing, continued to grow over the review period, achieving growth of 23% in current value terms.

Competition pushing grocery retailers to expand business boundaries

The growing authority of hypermarkets in retailing is threatening the overall retail industry. Hypermarkets are driving competitors and other retailers beyond their traditional scope of business. Convenience stores have successfully expanded their businesses into foodservice and handling services for third parties, while hypermarkets themselves have moved into non-grocery retailing.

Price competition leading to quality trade off

Demand for lower prices has pushed retailers to compete on price. Heavy discounting is starting to result in cheap products, sometimes leading to poor and even unsafe product quality. Despite this, consumers continue to demand cheap products but are now seeking improved quality.

Limited space availability restrains outlet expansion

One of the biggest restraints on the major retail players in recent years has been the lack of available space in key retail and urban areas. Taiwan's overall small physical size, combined with a very high population density, means it is increasingly difficult for retailers to acquire space for large-scale outlets. This, in turn, has hampered growth and new industry developments.

7-Eleven and RT Mart the most innovative retailers in 2005

The two most innovative players within the industry have been 7-Eleven and RT Mart. The two companies have been responsible for new developments that have attracted industry attention. 7-Eleven launched a Hello Kitty magnet campaign, which resulted in sales greatly exceeding expectations. RT Mart, on the other hand, has been exploring new business concepts, including RT Mart Express, a drive-thru hypermarket outlet, and RT Mart City Classic, an upmarket urban hypermarket outlet.

Homeshopping trend falters as a new consumer breed emerges

Eastern Home Shopping Network, Taiwan's pioneer and leader in developing the homeshopping channel in recent years, has started to experience a slowdown in growth. The novelty of homeshopping appears to be wearing off, and the channel overall has begun to show signs of stalling. Despite faltering growth, demand for homeshopping remains positive, with hopes resting on a new kind of consumer segment that has begun to emerge. According to industry sources, these groups include high-income workers, people working long hours or those working night shifts.

Slower growth forecast

Retailing in Taiwan is very well developed and likely to enter a sluggish growth phase between 2005 and 2010, recording a constant value CAGR of 2%. Although the novelty of non-store retailing is expected to falter over the forecast period, due to its small sales base and popular product lines that reflects current demand, this channel is likely to remain the fastest growing by the end of 2010. With anticipated constant value growth of almost 65%, internet retailing is expected to be the most dynamic channel over the forecast period.

JAPAN

Despite the prospect of economic recovery, Japanese retailing still faced considerable challenges in 2005. Overall consumer spending remained sluggish, while price deflation continued as competition between retailers intensified. Major retail chains continued to expand by opening new outlets, especially in suburban areas. In their efforts to stay competitive, an increasing number of retailers developed business models that blurred the boundaries between different retail formats. This fuelled competition within and between individual retail channels. Despite these conditions, retailing in Japan still managed to register a slight increase in current value sales in 2005. This was largely due to strong performances by convenience stores, health and beauty retailers and internet retailing. Their positive development demonstrated that, regardless of whether economic conditions are poor or favourable, retailers must constantly adapt to meet the changing needs of consumers. Japan has the second highest GDP in the world, and its retailing market retains much potential, provided that retailers can tap into rapidly changing consumer lifestyles and align their strategies to meet new demands.

NOTES

Strong convenience stores performance supports the development of grocery retailers

Grocery retailers constituted 32% of total Japanese retailing current value sales in 2005, and its development was driven largely by the strong performance of convenience stores. Convenience stores was one of the few retail channels to benefit from changes in shopping patterns arising from consumer lifestyle and demographic trends during the review period. With their extended opening hours, large numbers of outlets and wide ranges of pre-cooked and ready-to-eat food products, convenience stores chains are greatly appreciated by busy Japanese consumers, for whom convenience is a very important factor in purchasing decisions. Convenience stores continued to thrive in 2005 on the back of expansion by chained players and greater demand for pre-cooked packaged food products. In addition, convenience stores operators were very much to the fore in developing new business models. For example, many players modelled their convenience stores outlets on ¥100 discount stores outlets, which continued to attract consumers despite growing competition from other retail formats.

Meanwhile, grocery retailers also saw a shift away from independent grocers towards chained supermarkets and convenience stores outlets. While supermarkets was particularly affected by intense price competition in 2005, the expansion of chained players meant that supermarkets outlets became more accessible to greater numbers of consumers. Moreover, supermarkets operators were quick to respond to changing consumer needs by offering more convenient pre-cooked food products in smaller packaging sizes, and this also helped them to stay afloat amidst increasing price competition.

Non-grocery retailers benefits from strong parapharmacies/drugstores performance

Non-grocery retailers was badly hit by Japan's poor economic performance towards the end of the review period. Major non-grocery retailers chains, particularly those in department stores and mass merchandisers, struggled to increase current value sales in the face of sluggish consumer spending. However, non-grocery retailers as a whole still managed to show a slight increase in current value sales in 2005, mainly thanks to strong performances by parapharmacies/drugstores and, to a lesser extent, clothing and footwear retailers. Parapharmacies/drugstores developed positively as major players pursued aggressive expansion strategies. An underlying factor supporting the expansion of parapharmacies/drugstores chains is growing health awareness amongst Japanese consumers, as well as an ageing population. Together, these two factors are fuelling consumer demand for health and beauty related products. While parapharmacies/drugstores was also characterised by fierce price competition in 2005, this was offset somewhat as many players diversified their operations. This trend saw parapharmacies/drugstores outlets encroach onto the territory

of other retail formats, most notably supermarkets, by expanding their offerings to include packaged and pre-cooked food products and everyday grocery items.

Clothing and footwear retailers meanwhile benefited from the growing popularity of speciality outlets selling private label products in both lower and higher price segments. Price-conscious consumers were increasingly attracted to clothing and footwear retailers outlets selling low-priced private label products, such as those in the Uniqlo chain. Upmarket multinational chains also found strong support among Japanese consumers, and many took the opportunity to open their own stand-alone outlets outside of traditional locations like shopping malls and department stores outlets.

Non-store retailing shines as consumer lifestyles grow increasingly busy

Non-store retailing was one of the brightest spots within Japanese retailing overall in 2005. Sluggish performances by vending and direct selling were more than offset by strong current value sales growth for internet retailing and homeshopping. Within the latter, greater demand for TV homeshopping services made up for the declining popularity of the mail-order homeshopping format. Internet retailing and homeshopping benefited from the further development of communications infrastructure, most notably the proliferation of broadband internet services, 3G (third-generation) mobile phones and satellite and cable TV. All of this allowed more and more Japanese to do their shopping outside of traditional opening hours, something widely appreciated given the increasingly busy nature of consumer lifestyles.

Forecast performance

With signs of economic recovery on the horizon, Japanese retailing is expected to see a corresponding revival over the forecast period. Internet retailing, convenience stores and parapharmacies/drugstores will continue to be the key drivers of constant value growth overall, though increasing competition within and from other retail formats mean they may not develop as rapidly as was the case over 2000-2005. Another important factor in driving constant value sales will be strategic realignments by retail operators. If successful, merger and acquisition activities could help to revitalise Japanese retailing by creating new business models and niches that appeal to a wider variety of consumers. This will be especially important, as retailers will have difficulties in boosting constant value sales by relying on traditional strategies alone given Japan's declining population.

EUROPEAN RETAILING

The French grocery giant Carrefour continues as the largest retailer in Europe. The integration of Promedès and a series of other acquisitions has strengthened its position. Integrations of a number of European acquisitions by Ahold has catapulted the Dutch grocer from 20th place to 13th, based solely on its European operations. UK market leader Tesco is now the number two retailer in Europe according to a new report from

NOTES

Retail Intelligence. The new edition of *The European Retail Rankings* shows that the UK grocer has overtaken the previous number two in Europe, Intermarché.

The European Retail Rankings shows how the dynamic wholly-owned businesses - Carrefour, Tesco, Auchan, Sainsbury and Ahold - are growing while the voluntary groups - Intermarché, Rewe and Leclerc - are losing ground. The report argues that it will be those retailers with control over the whole retail chain from supplier through to customer who will lead European retailing forward.

Food Retailers

Carrefour is the number one grocer with sales in excess of •51bn representing a 5.8 percent market share. The fastest growing retailer among the top 10 food retailers in Europe is Tesco, with sales up 19 percent last year. In the Top 20, Ahold has forged ahead by increasing sales more than 50 percent through the acquisition of ICA.

Of the top 20 food and drink retailers in Europe, the UK's Somerfield appears to be the only one in a serious long term decline, with sales falling significantly in both 1999 and 2000. Retail Intelligence believes that its poor performance is due both to the strength of its competitors and a merger of weakness with Kwik Save.

Clothing Retailers

Marks & Spencer has overtaken C & A as the number one clothing retailer in Europe, despite the announcement that it would close its mainland European stores. The two leading clothing retailers in Europe, M&S and C&A, have suffered in recent times, losing market share to smaller, more nimble clothing specialists who are better able to adapt to changing fashions on the high street in terms of product and in terms of in-store environment.

Europe's Top 20 Retailers

Rankings	Company	Origin	
1999	2000		
1	1	Carrefour	fr
3	2	Tesco	uk
2	3	Intermarché	fr
4	4	Rewe	de
5	5	Edeka	de
6	6	Metro	de

NOTES

7	7	Aldi	de
9	8	J Sainsbury	uk
8	9	Auchan	fr
10	10	E Leclerc	fr
11	11	Kingfisher	uk
12	12	Wal-MartEurope	us
20	13	Ahold	nl
15	14	Lidl&Schwarz	de
14	15	Karstadt/Quel	de
16	16	Casino	fr
18	17	Safeway	uk
19	18	Marks&Spencer	uk
13	-	Tengelmann	de
17	-	Otto	de

Source: Retail Intelligence, September, 2001.

UNITED KINGDOM

Fears of an over-heating housing market as well as rising utility bills, interest rates, and mortgage payments in the UK made for a more challenging retailing environment in 2006, particularly compared to the years of strong growth between 2002 and 2004. During this period massive rises in house prices fuelled both the economy and retailing sales. While 2005 had already marked a slow-down, 2006 continued to be a difficult year for retailers, especially those in the non-grocery sector.

Supermarkets take over market share

However, grocery retailers, particularly the large supermarket chains, fared well in 2006 and further boosted their non-food offer, thus encroaching on the territory of more specialised retailers. While Tesco Plc made a big push into non-store retailing with the launch of a catalogue for non-food items alongside its on-line grocery shopping service, J Sainsbury Plc added an organic clothing range to its offer, to name only two examples. As more and more news emerged about market leader Tesco reaching new records of market share and more independent retailers closed down on the high street, this increasingly turned into a political discussion as well.

NOTES

Competition Commission starts another inquiry

The UK retailing market was shaken up by investigation into anti-competitive practices in 2006. Difficulty obtaining planning permission for new supermarket sites was felt to be a barrier to entry for new entrants, reinforcing oligopolistic tendencies. Furthermore, it is feared that the enormous buying power of the leading supermarket chains could distort competition. The outcome of the inquiry may have a significant impact on the UK retailing sector, as, unlike earlier reviews, the Commission has power to act on its findings this time.

Discounters pick up the pace

Discounters used the less favourable economic environment to improve its rather meagre presence in the UK by expanding the number of outlets and moving its offer upmarket. This was also helped by the fact that consumers increasingly combined bargains with purchases of indulgent products or luxuries, in what has also been described as “schizophrenic” shopping behaviour. The result is that the traditional structure of up or downmarket is diminishing in what is traditionally a class-conscious society.

Retailers position themselves to cater for ethically-conscious consumers

Ethical or environmental shopping became a big theme for both retailers and consumers in 2006. Although this trend has its roots in things like organic and free-range foods, it has expanded into other non-grocery areas like clothing. Retailers needed to be more concerned about their “green” image. This includes concepts of fair trade, sustainability and “food miles”, which bring together the related concepts of locality and seasonality. Consumers increasingly care more about where products come from, providing retailers with an additional dimension in which to distinguish themselves.

Internet retailing the biggest growth sector

Non-store retailing clearly outperformed store-based retailing once again as the on-line channel gained growing popularity among British consumers. The UK is already among the leaders in terms of internet retailing in Europe, but growth is far from abating. Again, supermarket chains were behind this rate of growth especially through grocery sales, but also established high street retailers used existing customer loyalty to generate on-line sales in tandem with a high street brand. Especially during the run-up to Christmas in 2006, consumers were shunning the high street to take advantage of the convenience of homeshopping.

GERMANY

After years of a sluggish economy, high unemployment, and depressed consumer spending levels, 2006 marked a turnaround for the German economy. With reforms of recent years and the World Cup euphoria helping to improve the mood among Germans,

one study taken during the summer 2006 confirmed that consumer confidence was reaching a five-year high. Unsurprisingly, retailing, which is closely linked to the economic performance, also recorded above average growth rates compared to earlier years of the review period.

A Challenging Environment for Retailers

Nonetheless, the lengthy economic unrest has left behind consumers' love for discounters. Germans have become accustomed to paying rock bottom prices for their groceries, and the discounter channel continued to see growth in 2006. Consequently, retailer margins remain very low in Germany and it is very difficult for any player to succeed. Wal-Mart's withdrawal from Germany certainly proves this point. The company made headlines when it announced to exit Germany a little more than ten years after its entry and sold its outlets to competitor Metro in July 2006.

Convenience and Organic Big Trends

The two main trends to be observed in German retailing centre around convenience and organic products. The convenience aspect becomes evident in different areas, ranging from grocery retailers starting to open convenience store formats in locations such as train stations to changing consumer shopping preferences with regards to where they can buy things most comfortably. Most important, however, is the surge in internet sales as consumers are increasingly turning to the comforts of their own home to do their shopping.

The health and wellness trend, which has surfaced in nearly all areas of fast moving consumer goods, has resulted in a growing number of organic supermarkets in Germany. According to industry sources, organic grocery retailers are predicted to be one of the fastest growing areas in store-based retailing, albeit from a small base. Generally, all grocery retailers – discounters in particular – could be seen to expand their ranges of organic products in 2006.

The Battle Between Grocery and Non-grocery Retailers

As the percentage of retail sales spent on food continues to decrease, grocery retailers have long taken on to selling non-food items to the detriment of specialist retailers and department stores. With regard to this trend, however, a turning point seems to have been reached. Discounters are starting to reach some limits with regards to pushing their non-food offer. Instead, they can increasingly be seen to take on services such as holiday packages and mobile phone contracts, and further expansion is more likely to stem from those areas.

NOTES

Moderately Optimistic Forecast

It is expected that the overall recovery of the German economy may continue over the next few years, which should positively influence retailing. Unemployment levels have been reported to fall, so that a growing working population can add further impetus to growth. However, VAT in Germany is to increase by three percentage points from January 2007 with the aim of helping to reduce the country's government budgetary deficit. Some analysts believe the impact could dampen growth in the short term.

FRANCE

With the regulation that limits the number of openings and the selling areas in France over the past decade, the grocery landscape has remained relatively static in terms of diversification of players. Most of them have tried to find ways of expansion in order to continue to grow by diversifying their offer. Price wars have occurred from time to time, led by the big main players.

Cheap alternatives part of the French retailing landscape

In most areas of activity, discounters have settled down in France, mainly in grocery retailing, but also in other store-based retailing, showing the growing interest for cheaper prices. However, the model has limits that the current players may have reached in 2005. Private label products have been definitively included as common products alongside branded ones in consumers' "baskets". Retailers have been focusing on extending their ranges of private label products in terms of offering different levels of quality in order to meet consumer demand for good quality at low prices. However, consumers have become increasingly fickle, which makes it difficult to anticipate how retailers' offerings will evolve.

Retailing fragmented overall

Despite the presence of retail giants such as Carrefour in grocery retailing, Decathlon, part of the Mulliez group, in sport goods retailing, or La Redoute (PPR) in homeshopping and internet retailing, retailing in France remains relatively fragmented overall. Smaller retailers still accounted for more than 50% of value sales in 2005, and an enormous 91% of the number of outlets. This reflects the ongoing importance of the small retailers in France, especially in certain areas such as clothing and footwear and furniture and furnishings stores. In the longer term, there will however undoubtedly be a significant tendency towards concentration, but it remains to be seen how quickly this will take place or how far it will go.

Non-grocery retailers challenged

While most areas in non-grocery retailing performed relatively poorly in 2005, most retailers have been the target of the growing diversification of grocery retailers, impacting

on their sales. Non-grocery retailing is also more fragmented than the grocery retailing industry, with fewer giant players, although this allows the industry to feature international players. The evolution of non-grocery retailing will also depend on the competition from non-store based retailers.

Internet – a new way of shopping

Non-store based retailing was boosted by the dramatic expansion of internet sales in 2005. The number of households equipped with broadband internet at an affordable price has sustained the development of internet value sales. Most industries benefited from this recent way of selling, even if the retailer has a bricks-and-mortars presence. The internet has allowed retailers to diversify in terms of reaching new customers. It is also, albeit slowly, changing the way some people shop for certain products.

Potential for growth

The retailing industry has been maturing in almost all of its varied formats in France, from store-based to non-store based retailers. Retailers have been challenged by internet retailers and are trying to rejuvenate their image or find new areas for development. Given the dynamism of this industry, it is expected to witness new retailing ideas and new concepts of shopping over the forecast period.

2.4 INDIAN RETAIL INDUSTRY

Retail sector in India is highly fragmented and organized retailing is at very nascent stage. India is the country having the most unorganized retail market. In the name of retailing, the unorganised retailing has dominated the Indian landscape so far. According to a report by Ernest and Young there are about 12 million retail outlets spread across the country and more than 80% of this is run by small family business. It is a family's livelihood, with the shop in the front and house at the back, while they run the retail business. More than 99% retailer's function in less than 500 square feet of shopping space. It is considered as one of the easiest way to generate self employment as it requires less investment. Consequently India has one of the largest retail densities in the world at 6%. India's peers such as China and Brazil took 15 to 20 years to raise the share of organized retailing from 5 % to 20 % and 38% respectively. India is also moving in the path with a faster pace.

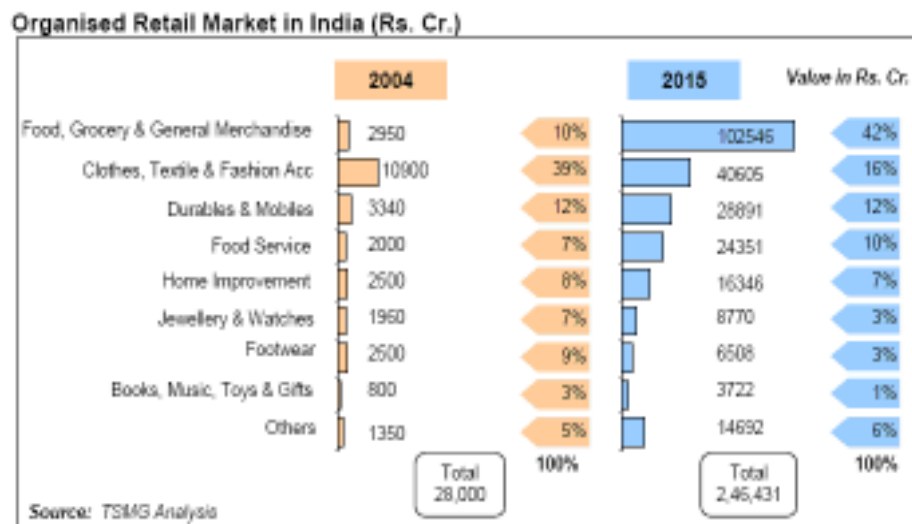
The retail industry in India is undergoing a major shake-up as the country is witnessing a retail revolution. The old traditional formats are slowly changing into more complex and bigger formats. Malls and mega malls are coming up in almost all the places be it – metros or the smaller cities, across the length and breadth of the country. Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer. Indian retailers need to advantage of this growth and aiming to grow, diversify and introduce new formats

NOTES

have to pay more attention to the brand building process. The emphasis here is on retail as a brand rather than retailers selling brands. The focus should be on branding the retail business itself. The overall retail market in India is likely to grow at a CAGR of 5.5% to 1,677,000 Cr in 2015. As on 2003 the share of organized market is only 4% in India as against 85 % in USA.

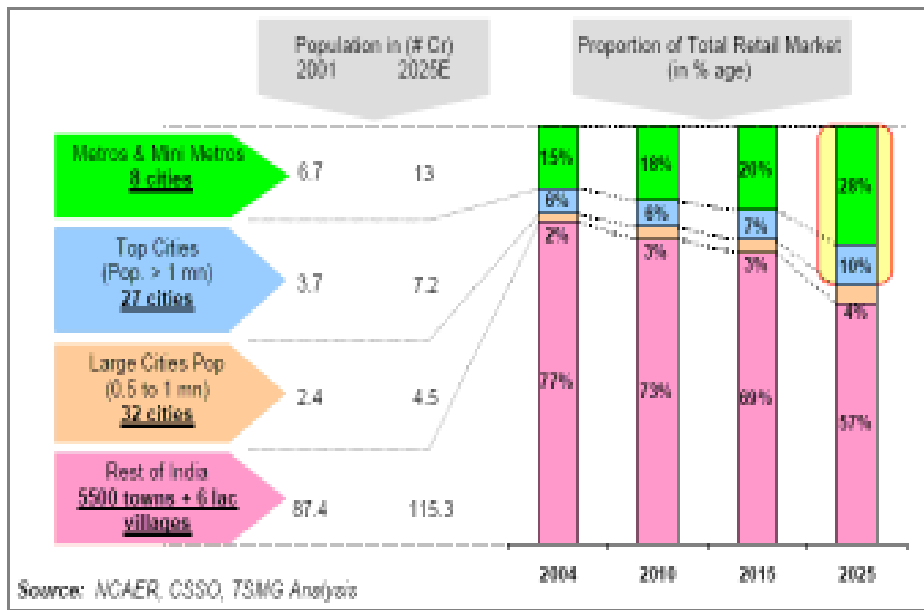
Country	% Share of Organized Trade (2003)
India	4%
China	17%
Poland	20%
Indonesia	30%
Russia	33%
Brazil	35%
Thailand	40%
Malaysia	55%
USA	85%

As per the estimate of TATA Strategic Management Group the organized retail market is expected to grow much faster at a CAGR of 21.8% to Rs. 246,000 Cr by 2015 thereby constituting 15% of the overall retail sales. The top 5 organized retail categories by 2015 would be food, grocery & general merchandise, apparel, durables, food service and home improvement.



Tata SMG estimates that the share of 35 towns with current population greater than more than one mn in the overall population of India would grow much faster from 10.2 % today to reach 14.4% by 2025. Simultaneously, the share of these towns in the overall retail market would grow from 21% to 40% by 2025.

NOTES



It is estimated that 70-80% of trade could be in the organized sector. The opportunities in smaller towns and rural India are estimated to be smaller and fragmented compared to the larger towns.

The Indian retail scene has witnessed too many players in too short a time, crowding several categories without looking at their core competencies or having a well thought out branding strategy. The growth rate of super market sales has been significant in recent years because greater numbers of higher income Indians prefer to shop at super markets due to higher standards of hygiene and attractive ambience. With growth in income levels, Indians have started spending more on health and beauty products. There seems to be a considerable potential for the entry or expansion of specialized retail chains in the country. The Indian durable goods sector has seen the entry of a large number of foreign companies during the post liberalization period. A greater variety of consumer electronic items and household appliances became available to the Indian customer. Intense competition among companies to sell their brands provided a strong impetus to the growth for retailers doing business in this sector. Increasing household incomes due to better economic opportunities have encouraged consumer expenditure on leisure and personal goods in the country. There are specialized retailers for each category of products (books, music products, etc.) in this sector. Another prominent feature of this sector is popularity of franchising agreements between established manufacturers and retailers. A strong impetus to the growth of retail industry is witnessed by economic boom and driver of key trends in urban as well as rural India.

New retail stores have traditionally started operations in cities like Mumbai and Delhi where there has been an existing base of metropolitan consumers with ready cash and global tastes. The new perspective to this trend is that new entrants to the retail scenario should first enter smaller cities rather than focusing entirely on the metro's. Spending power

NOTES

in India is not concentrated any more in just the 4 metros (Delhi, Mumbai, Chennai, Kolkata). Smaller but upcoming cities like Chandigarh, Coimbatore, Pune, Ahmedabad, Baroda, Trivandrum, Cochin, Ludhiana, Simla etc will fast be catching up to the metro's in their spending capacity.

Cities in south India have taken to the supermarket style of shopping very eagerly and so far the maximum number of organized grocery and department stores are in Chennai, Bangalore and Hyderabad. The north has a long way to go to come up to par. International stores now prefer to gauge the reaction of the public in these cities before investing heavily in a nation-wide expansion. Milou, the Swiss children's wear retailer, recently opened up its first store in Chennai, bypassing Delhi and Mumbai. Besides the urban market, India's rural market has just started to be seen as a viable option and companies who understand what the rural consumer wants will grow to incredible heights. The bulk of India's population still live in rural areas and to be able to cater specifically to them will mean generating tremendous amounts of business. Business, specifically retail business must focus on the most important factor in the Indian mind-set 'Value for Money'. Indian consumers are ready to pay almost any amount of money for a product or service as long as they feel they are getting good Value for Money.

A retail concern entering India cannot have just one game plan to apply to the entire country as the people, their tastes, the lifestyle, the budgets etc are all too divergent. International entrants must enter each market specifically focusing only on that area to be successful.

- Metros: Delhi, Mumbai, Chennai and Kolkata
- Second rung but will soon outpace metros: Hyderabad, Bangalore, Ahmedabad, Gurgaon, Pune, Baroda
- Small and developing fast: Chandigarh, Coimbatore, Trivandrum, Faridabad, Ludhiana, Cochin, Simla, Mysore.

2.5 DRIVERS TO THE GROWTH OF RETAIL

India has a huge market size in terms of population. The challenge lies in identifying the key drivers that steer the Indian consumer's perception and in turn the shopping behaviour. The retailer who identifies a right consumer with right proposition is sure to succeed. The key to successful retailing lies in understanding the consumers. The key drivers of retail growth as identified by Ernst and Young Ltd and others are presented below:

2.5.1 Increased market share

Disposable incomes of middle class population is expected to rise at an average of 8.5% per annum till 2015. India has 209 million households, of which the 6 million classified as 'rich' have annual incomes of over USD 4700 and 75 million classified as 'consuming'

NOTES

have annual incomes between USD 1000-4700. Over half of these ‘rich’ families live in Delhi, Mumbai and Bangalore, and spend around USD 18 billion annually. 62% of the market for premium products in India is also concentrated in these three cities. 85% of India’s retail market is also concentrated in the country’s 8 largest cities. An estimated 1 million households at the top of India’s income map constitute the ‘super-rich’ in the country. Growing by 20% every year, this segments’ buying behaviour is in line with its corresponding international segments. This segment is worth targeting for high-end premium products.

Map of India's income classes			
	1994-95	1999-00	2005-06
<ul style="list-style-type: none"> ▪ RICH (Annual income > US\$ 4,700) Benefit Maximisers: Own cars, PCs 	1 million households	3 million households	5 million households
<ul style="list-style-type: none"> ▪ CONSUMING (US\$ 1,000- 4,700) Cost-benefit optimizers: Have bulk of branded consumer goods, 70% of two-wheelers, refrigerators, washing machines 	29 million households	55 million households	75 million households
<ul style="list-style-type: none"> ▪ CLIMBERS (US\$ 500-1,000) Cash-constrained benefit seekers: Have at least one major durable (mixer, sewing machine/television) 	48 million households	66 million households	78 million households
<ul style="list-style-type: none"> ▪ ASPIRANTS (US\$ 350-500) New entrants into consumption: Have bicycles, radios, fans 	48 million households	32 million households	33 million households
<ul style="list-style-type: none"> ▪ DESTITUTES (Less than US\$ 350) Hand-to-mouth existence: Not buying 	35 million households	24 million households	17 million households

An consumer outlook study conducted by KSA Technopak, reveals that the consumer spending is on the raise. In 2002 the consumer spending went up by 9.6 %. The growth implies an increase in the market opportunity for retailers. The also reveals that savings and investment has gone up substantially. Indians with an ability to spend over USD 30,000 a year (PPPterms) on conspicuous consumption represent 2.8% of the entire population. With a population base of 1.07 billion people, this number amounts to 30 million people, a market next only to USA, Japan and China.

2.5.2 Market at the Bottom of the Pyramid

The real driver of the Indian retail sector is the bottom 80% of the first layer and the upper half of the second layer of the income map presented above. This segment of about 40 million households earns USD 4,000-10,000 per household and comprises salaried employees and self-employed professionals. This segment is expected to grow to 65 million households by 2010 and is currently the key driver behind explosive growth in passenger car sales.

2.5.3 Explosion of Media

There has been an explosion in media kick started by the cable explosion. The cable explosion has accelerated to a point where there are more cable connections than the telephones in Indian homes and about 70 channels are being aired at all times. This media

NOTES

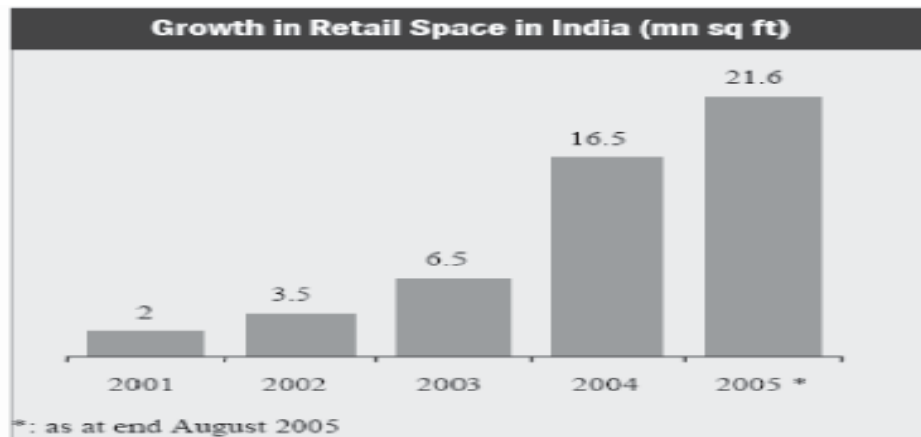
bombardment has exposed Indian consumer to the lifestyles of more affluent countries. This exposure has raised the aspirations and expectations regarding the shopping experience and shopping behaviour. Further the availability of broadband connections would encourage the shoppers to try new shopping methods which will enhance the retail market share.

2.5.4 Change in the profile and lifestyle of consumers

The Indian consumers' lifestyle and profile is evolving rapidly. India has one of the youngest populations in the world with 54% of the population below the age of 25. Discretionary spending has increased and the number of high income households has grown year on year since 1995-96. There is an increasing shift from price consideration to design and quality. At the same time, the new Indian consumer is not beguiled by retailed products which are high on price but commensurately low on value or functionality. There is an easier acceptance of luxury and an increased willingness to experiment with mainstream fashion. This results in an increased tendency towards disposability and casting out -from apparel to cars to mobile phones to consumer durables. The self-employed segment of the population has increased along with increasing population of working women and new job opportunities in emerging service sectors such as IT-enabled services, retail, food services, entertainment and financial services. This has driven growth in consumption, especially mobile phones and two and four-wheelers. Retail loans have doubled in the last three years to reach USD 38.7 bn by 2005. Credit friendliness, drop in interest rates and easy availability of finance have changed mindsets. Capital expenditure (jewellery, homes, cars) has shifted to becoming redefined as consumer revenue expenditure, in addition to consumer durables and loan credit purchases.

2.5.5 Availability of quality retail space

Availability of retail space has been one of the key deterrents for the advancement of modern retail formats in India. However, in the last three years, real estate in the organized retail sector has seen some positive changes, largely due to the attractively high rental yields of 10-15 %, which is 5-8% higher than residential property. The ratio between yield on property development and its financing cost has also turned positive due to the sharp fall in interest rates during 2001-04. India should see a marked improvement in warehousing as well as the quality of malls and shopping centers with the increase in the availability of retail space



2.5.6 Increased opportunities in non metros

The top 6 Indian cities -Mumbai, Delhi, Chennai, Kolkata, Bangalore and Hyderabad -are the darlings of India's exploding economy. They represent 6% of the population, but contribute 14% of India's GDP. They are the centers of business, finance, politics and the emerging sunrise industries such as IT, pharma and ITeS, which have put India on the global map. These cities are also the barometer of India's economic development and most foreign investors have flocked here.

Besides the 6 metros, India has 61 other cities with populations greater than 0.5 million -these cities represent 80% of India's population and contribute about 14% to the country's GDP. Even though the 6 metros have the greatest concentration of India's wealth, the other 61 cities have consistently outpaced the metros in growth rates since 1995. These cities are witnessing higher incomes and a fundamental change in consumer mindset. Increasing awareness levels in Tier II cities are eroding the earlier difference between metros and Tier II cities in terms of 'urban aspirations'. International brands increasingly relying on Tier II cities to drive growth are Nokia, Pizza Hut, Ford, Reebok and Adidas.

2.5.7 Regulatory enablers aiding growth

The decision regarding Government's policy have been favourable for the growth of retail industry. For example in Mumbai, the Government is releasing unused textile mill land for retail development. In Delhi the Government has released large tracts of land for retail development. Consequently, at 40%, the Delhi & NCR region has the highest mall density in India. The other State Governments are also becoming conscious of the easy collection of revenues from land sales and tax from retail development on otherwise useless land. At the same time, while it is difficult to get quality real estate in central locations largely due to private holdings, old regulations and zoning laws, the future will see land and rent reforms driving development in these areas as well. High rental yields will also ensure stronger negotiations between developers and local government bodies.

NOTES

2.5.8 Relaxation of FDI norms

The procedures for FDI in retail are simplified so as to avoid multiple layers of approvals required in some activities. Till now, Government approval was required for FDI in wholesale cash and carry trading and FDI beyond 51% in export trading. To facilitate easier FDI inflow, FDI up to 100% is allowed under the automatic route for cash and carry wholesale trading and export trading. FDI up to 51% is allowed with prior Government approval for retail trade in 'Single Brand' products with the objective of attracting investment, technology and global best practices and catering to the demand for such branded goods in India. This implies that foreign companies can now sell goods sold globally under a single brand, such as Reebok, Nokia and Adidas. Retailing of goods of multiple brands, even if the goods are produced by the same manufacturer, is not be allowed. Going ahead, the Government is expected to adopt a highly calibrated approach to allowing further FDI in the retail space. There is a possibility that the relaxation of FDI restrictions may take another 3-5 years. This may deter some international retailers from investing in a big way. However, regardless of the restrictions, international retailers are entering India. The returns on FDI in retailing in India are likely to be greater than those in China because large Indian retailers are much smaller than their Chinese counterparts. International retailers will find the competitive environment easier on the market share and the growth fronts.

2.5.9 Establishment of Supply chain

In the last 2-3 years, several retailers, ranging from F&B operators to discount clothing, have implemented Supply Chain Management (SCM) solutions to improve core business processes such as global sourcing, distribution, logistics, innovation, transparency and visibility in financials and inventory, compliance and management of point of sale (POS) data. Going ahead, India's FMCG and retail sectors are likely to see an increase in adoption of SCM. However, most Indian retail players are under serious pressure to make their supply chains more efficient in order to deliver the levels of quality and service that consumers are demanding.

2.5.10 Entry of the corporate sector

The entry and investment in retailing by corporate are visibly enhancing due to the potentials available. Large conglomerates like the Tatas, ITC, the RPG group, Reliance etc have increased the investment in retail business. Oil companies like HPCL (Speed Mart), IOCL (Convenio) and BPCL (In & Out) are also expanding from fuel retailing to grocery and convenience stores. Big business houses are in a position to provide the Indian masses with shopping satisfaction, entertainment, quality products, polite salespersons, product information and discounts. Though the margins are low at the moment because of high property cost and poor infrastructure, the growth potential are high.

2.5.11 New Entrepreneurs

The growing attractiveness of the retail trade has begun to attract new entrepreneurs with ideas and venture capitalists with funds. Many retailers have expanded their operations in terms of number of stores as well as scales of operations. Venture capitalists like ICICI and IL&FS are also willing to invest in retail business.

2.5.12 Technology Impact

Technology is a most important ingredient initiating the growth of retail industry. The computerization of the various operations in a retail store including inventory management, billing and payments, data base management, customer relationship management, supply chain management, and retail information system has enhanced the performance of retail industry. Use of technology enables to serve the customer in a better manner leading to an enriched shopping experience.

2.6 MACRO AND MICRO ENVIRONMENTAL INFLUENCES

Retailers do not operate in isolation. Short-term and long-term changes take place in the world surrounding them, which may be favourable or unfavourable. Retailers undergo these changes, but may also be agents of change themselves. The retailers must monitor changes and adapt the same in such a manner to thrive in the new environment. Forecasting changes in the environment will allow the retailers to plan the adaptation process. Therefore, it is important to observe and understand the environment.

The Micro-environment influences the retail organization directly. It consists of elements within the environment that immediately impinge upon the retailer on a day to day basis and that require immediate responses. It includes suppliers that deal directly or indirectly, consumers and competitors, and other local stakeholders. Micro tends to suggest small, but this can be misleading. In this context, micro describes the relationship between firms and the driving forces that control this relationship. It is a more local relationship, and the firm may exercise a degree of influence.

The macro-environment includes all factors that can influence the organization, but that are out of their direct control. It is made up of those elements within the environment that consist of the larger societal forces such as demographic, economic, cultural and social, political, legal, technological and natural factor.

Throughout this unit both the macro and micro environmental factors in retail sector are discussed under various aspects. A brief mention about the same follows;

NOTES

2.6.1 The retailing Macro-environment

The component of macro environment are highlighted.

- **Demographic factors:** The retailer must scrutinize the demographic data to determine the target customers, their expectations and perceptions so as to design and deliver an effective value proposition. Increase in the number of working women, increase in the composition of younger age group in the total population, growth in the working population, change in pattern of spending, urbanization, change in the life style etc should be considered by the retailer while framing the retail strategies.
- **Economic factors:** Increase in the number of middle income and high income group of consumers, increase in the disposable income and the resultant increase in the standard of living of population etc., provides a positive influence on the retail sector. Other economic factors to be monitored include growth of GDP, the rate of inflation, cost of credit and the long term prospects of the economy.
- **Cultural and social factors:** Individuals are becoming more self centered and show a greater need for self expression. This is reflected in the growing need for designer labels and specialist apparel stores. Consumers are paying more attention to the quality of life and healthy living and concern for environment. Growing awareness about consumer rights requires business to operate in the best interest of consumers. Lifestyles are changing which is reflected in the form of change in the patten of food consumption, clothing and leisure time spending activities. Consumers pay greater emphasize to both price and quality. These changes are reflected in the needs and wants of consumers, their demands and expectations from the shopping experience. A retailer should be aware of these changes so as to deliver the same to the satisfaction of the target customers.
- **Political factors:** Different political philosophies can have a major effect on retail organizations. The problems of inflation, internationalization of retail sector, liberalization and privatization issues will be tackled in different ways by different political parties in the power. Government's economic policy will have a major impact on the interest rates, taxation, inflation, employment generation and a host of other factors that will have an impact on the retail business and its profitability.
- **Legal factors:** Legal factor is closely associated with the political philosophy. The role of law and the regulating authorities set up to administer and enforce the law are affected by the political power. The laws relating to retail establishment and management will also change constantly. For examples the laws relating to FDI, labeling requirements, pricing, hours of trading etc is being constantly updated and therefore affects the retail operation.
- **Technological factors:** Changes in technology not only affects the products that the retailers sell but also the way they sell them. The influence of information technology and the development of sophisticated data capture facilities has led to revolutionizing certain sectors of the retail industry. For example the introduction of Electronic fund tranfer systems, allows the transfer of funds from a customers accounts to the retailers account without the need for paper work. Likewise e-shopping and e-tailing enriches the shopping convenience of the retailer.

- **Natural factors:** environmental groups have brought to focus the problems of pollution, water conservation, energy shortage and diminishing limited natural resources. The awareness regarding these issues has led to a shift in the consumption pattern. For example the demand for green products, organic products and the like has increased.

2.6.2 The retailing micro-environment

The components of the micro-environment viz., the competitors, channel members, customers and other stake holders are highlighted below:

- **Competitors:** Retailer cannot exert any direct influence on the competitors but can change his strategies to meet or synchronize with that of the competitors. Competition can be between two retail stores of the same type or between different types of retail stores. A retailer should perform 'SWOT' analysis for himself as well as for the competitor so as to identify and position himself in a better manner. Perceptual mapping will enable a retailer to identify the manner in which the retail stores are positioned in the minds of consumers compared to that of the competitors. The competitors retail mix should be carefully monitored along with other strategies followed.
- **Channel members:** Retailers are the final link in the distribution chain. Product passes from the original manufactures through several intermediaries' viz., wholesalers, agents etc before reaching the retailer. If problem arises in a single line in the chain the retailer being the last link suffers. Hence it is imperative for a retail organization to approach channel decision in an informed and systematic way.
- **Consumer:** Consumers decide the success or failure of retail concern. The need and wants of consumers, their perception, the social, personal, psychological, demographic factors influencing the customers should be given due consideration by the retailer (dealt in detail in Unit V). The spending pattern, change in the profile and lifestyle etc should also be tracked by the retailer so as to position himself successfully.
- **Other stake holder:** Other stakeholder include the creditors, share holders, employees, top management, public etc who have a impact on the retailers performance.

A retailer should scan the environment so as to identify the challenges and opportunities. This will enable them to frame strategies to successfully overcome the same. Adaptability of a retail organization to the micro and macro environment requires a constant process of scanning, which is both art and science.

2.7 Emerging trends and Challenges

India tops the AT Kearney's annual Global Retail Development Index (GRDI) for the third consecutive year, maintaining its position as the most attractive market for retail investment. The Indian retail market, which is the fifth largest retail destination globally,

NOTES

according to industry estimates is estimated to grow from the US\$ 330 billion in 2007 to US\$ 427 billion by 2010 and \$637 billion by 2015. Simultaneously, modern retail which presently accounts for 4 per cent of the total market is likely to increase its share to 22 per cent by 2010.

Of the 12 million retail outlets present in the country, nearly 5 million sell food and related products. Even with this large number of outlets, organised retail accounts for only 4 per cent of the total market, opening huge growth potential in this segment.

The Indian retail sector can be broadly classified into:

- **Food retailers:** There are a large number and variety of food retailers in India. Traditional type of retailer who operate one single business unit employing family members constitute majority of the share of food retailing. The share of supermarkets formulates only a small share in the total food sales in India. However the growth rate of supermarket sales is increasingly more number of higher income consumers prefer to shop these supermarkets which offers hygiene and good ambience.
- **Health and Beauty products:** With the growth in the income level, the Indian consumers started to spend more on the sale of health and beauty products. Here also small and single outlet retailers dominate the market. However there is an increase in the number of retail outlets dealing with these products in view of the increase in the quality consciousness of the consumers.
- **Clothing and Footwear:** A number of clothing and footwear shops operate in shopping centers and markets all over India. Traditional outlets stock a limited range of cheap and popular items whereas modern clothing and footwear have modern products and attractive displays to lure customers. In view of rapid urbanization and changing consumer tastes and preferences, the traditional outlet will face a time to survive.
- **Home furniture and household goods:** Small retailers again dominate this sector. Despite the large size of this market, very few large and modern retailers have established specialized stores for these products. However there is considerable potential for the entry or expansion of specialized retail chains in the country.
- **Durable goods:** The Indian durable goods sector has seen the entry of a large number of foreign companies during the post liberalization period. A greater variety of consumer electronic items and household appliances became available to the Indian customer. Intense competition among companies to sell their brands provided a strong impetus to the growth for retailers doing business in this sector.
- **Leisure and personal goods:** Increasing household incomes due to better economic opportunities have encouraged consumer expenditure on leisure and personal goods in the country. There are specialized retailers for each category of products (books, music products, etc.) in this sector. Another prominent feature of this sector is popularity of franchising agreements between established manufacturers and retailers.

The trend in Indian retail segment is discussed under various heads:

NOTES

Retail space

Indian retail is expanding at a rapid pace driven by changing lifestyles, strong income growth and favourable demographic patterns, Mall space, from a meager one million square feet in 2002, is expected to touch 40 million square feet by end-2007 and an estimated 60 million square feet by end-2008, says Jones Lang LaSalle's third annual Retailer Sentiment Survey-Asia. Alongside, Indian cities are witnessing a paradigm shift from traditional forms of retailing into a modern organized sector. A report by Images Retail estimates the number of operational malls to more than double to over 412 with 205 million square feet by 2010 and further 715 malls by 2015, on the back of major retail developments even in tier II and tier III cities in India.

Luxury retail

With consumers for luxury goods more in numbers than adult population of several countries, the Indian luxury retail market is estimated to leap-frog from around US\$ 3.5 billion to US\$ 30 billion by 2015, according to a survey done by AT Kearney. India's luxury market, estimated to be the 12th largest in the world, has been growing at the rate of 25 per cent per annum.

Already Indians splurge US\$ 2.9 billion on luxury assets, spend another US\$ 953 million on luxury services and top it by buying luxury goods worth US\$ 377 million. And with a rapidly expanding population of high net worth individuals, India could emerge as the next hub for luxury goods consumption. Consequently, a number of foreign brands including French Connection, Sanrio of Hello Kitty fame, Jimmy Choo, La Pearla and Calvin Klein among others have already lined up for permission to infuse foreign direct investment through the single-brand retail window.

Retail in Kids market

Retailers are busy bonding and branding as for as the kids market is concerned.

- Monalisa, the Versace of kids, is coming to India.
- International brand Zapp tied up with Raymond to foray into kids' apparel.
- Disney launched exclusive chains which stock character-based stationery.
- Pantaloon's joint venture with Gini & Jony will set up a retail chain to market kids' apparel.
- Swiss kidswear brand Milou is collaborating with Tirupur-based Sreeja Hosierys.
- French furniture brand Gautier is all set to hit the Indian retail market by the end of the year with a comprehensive range of furniture for children and infants.
- The UK based retail chain, Marks & Spencer, is launching its kids' wear categories in India.

NOTES

Leading the kids' retail revolution is the apparel business, which accounts for almost 80 per cent of the revenue, with kids' clothing in India following international fashion trends. According to research firm KSA Technopak, the branded segment comprises US\$ 701.7 million of the total kids' apparel market-size of over US\$ 3 billion. Industry experts say kids' retailing will touch annual growth of 30-35 per cent.

Malls in India

Over the last 2-3 years, the Indian consumer market has seen a significant growth in the number of modern-day shopping centers, popularly known as 'malls'. There is an increased demand for quality retail space from a varied segment of large-format retailers and brands, which include food and apparel chains, consumer durables and multiplex operators. Shopping-centre development has attracted real-estate developers and corporate houses across cities in India. As a result, from just 3 malls in 2000, India is all set to have over 220 malls by 2005. Today, the expected demand for quality retail space in 2006 is estimated to be around 40 million square feet. While previously it was the large, organized retailers with their modern, up-market outlets, and direct consumer interface- who had been a key factor driving the growth of organised retail in the country, now it is the malls which are playing the role. Factors such as availability of physical space, population densities, city planning, and socio-economic parameters have driven the Indian market to evolve, to a certain extent, its own definition of a 'mall'. For example, while a mall in USA is 400,000 to 1 million sq.ft. in size, an Indian version can be anywhere between 80,000 sq.ft. and 500,000 sq.ft. By 2005, total mall space in the 6 cities of Mumbai, Bangalore, Hyderabad, Chennai, Kolkata, and National Capital Region (Delhi, Noida, Gurgaon) is expected to increase to over 21.1 million sq. ft. Compared to other big cities, Kolkata and Hyderabad are relatively new

entrants in the mall segment, but are witnessing quick growth. Smaller cities like Pune, Ahmedabad, Lucknow, Ludhiana, Jaipur, Chandigarh and Indore, are also expected to see a formidable growth in the growth of malls in the near future. But malls in India need to have a clear positioning through the development of differential product assortment and differential pricing, in order to compete effectively in a growing mall market. Segmentation in malls, like up-market malls, mid-market malls, etc. , proper planning, correct identification of needs, quality products at lower prices, the right store mix, and the right timing, would ensure the success of the 'mall revolution' in India.

Discount Malls

There has been a concomitant surge in branded discount outlets in India. Top realtors and local retail chains are developing malls in regional boroughs, specifically to sell premium branded goods. At least 50 such malls are to come up in the next two years across the country positioned in the middle-to-the-premium end of the market.

For example, Royal Palms is developing Orchard Road Mall in the western suburbs of Mumbai. Similarly, Akruti Nirman, which is planning to brand its discount malls in Kanjurmarg, Ghatkopar, Mumbai and Thane as 'Cityworld', has decided to develop similar malls in Tier II and Tier III cities. Some of the other prominent discount retailers include Pantaloon Retail (India) Ltd's Brand Factory, Arvind Mills Ltd's Megamart and Provogue (India) Ltd's Promart among others.

E-tailing

The increase in the PC and internet penetration along with the growing preference of Indian consumers to shop online has given a tremendous boost to e-tailing-the online version of retail shopping. An estimated 10 per cent of the total e-commerce market is accounted by e-tailing. With today's, net-savvy Indians making online purchases like never before, both the number and variety of products sold online has grown exponentially. According to the Indian Marketing Research Bureau (IMRB) and Internet and Mobile Association of India (IAMAI), the e-tail market is estimated to grow by 30 per cent to US\$ 273.02 million in 2007-08, from US\$ 210.01 million in 2006-07.

Retail Franchising

Along with e-tailing another perceptible trend in the growth of organized retail market has been the concept of retail franchising. According to industry estimates, retail franchising has been growing at the rate of 60 per cent in the last three years and is set to grow two-fold in the next five years. A number of companies have been taking this route driven mainly by the need to meet the increasing consumer expectations of quality, ambience and brand experience. In addition, this route also helps the big retailer players to rapidly foray into the tier II and III towns and rural areas.

Rural retail

Led by the rising purchasing power, changing consumption patterns, increased access to information and communication technology and improving infrastructure, rural retail market is estimated to cross US\$ 45.32 billion mark by 2010 and US\$ 60.43 billion by 2015, says a study by CII and YES BANK. Consequently, Corporate India is already firming up concrete plans to tap the rural retail market, which is growing at double the rate of urban markets, with innovative schemes and human resource policies. And with 87 per cent of rural markets not having access to any sort of organized marketing and distribution, this segment has tremendous potential for growth. Several states in the country are permitting retailers to purchase produce directly from farmers, paving way for a new kind of revolution in rural India. Farmers are taking special care of produce to garner higher prices, selling to retail companies such as ITC, Godrej and other and finally making good money, after centuries of social and economic exploitation.

NOTES

International Retailers

With international brands like Tommy Hilfiger, Esprit and Puma (that have entered the country) growing well over 100 per cent, many others are also planning to foray into the Indian retail market. India's vast middle class with its expanding purchasing power and its almost untapped retail industry are key attractions for global retail giants wanting to enter newer markets.

- The world's largest retailer, Wal-Mart, has tied-up with Sunil Mittal's Bharti Enterprises to enter Indian retail market.
- Microsoft's first shop-in-shop pilot has been launched with the Tata Group subsidiary Infiniti Retail's multi-brand consumer durables retail format, Croma.
- The Walt Disney Company, consumer product retailing arm of global animation giant, will soon add 135 new stores to its existing 15 stores.
- World's leading coffee chain, Starbucks' enters India through a tie-up with the country's leading multiplex operator PVR Limited.
- Apple Inc has entered into an exclusive marketing and distribution deal with Reliance Retail through "iStore by Reliance Digital".
- The UK-based international coffee chain, Costa Coffee, plans to double the number of retail outlets by the end of 2008.

Some of the international players that have already entered India include McDonald's, Pizza Hut, Dominos, Levis, Lee, Nike, Adidas, TGIF, Benetton, Swarovski, Sony, Sharp, Kodak, Medicine Shoppe among others.

Retail Reform

The Government allows 100 per cent foreign direct investment (FDI) in cash and carry through the automatic route and 51 per cent in single brand. Besides, the franchise route is available for big operators. To further attract global retailers, the economic survey 2007-08 has suggested a share for foreign equity in all retail trade and 100 per cent in respect of luxury brands and other specialized retail chains.

Consolidation of market share - The big getting bigger

In the early stages of development in retail markets, there is a proliferation of players. For example in China in 2003 the top 100 players accounted for only 8% of the total retail market with the top ten accounting for 3.2% of the market. However, when retail markets develop there is a consolidation of players with fewer large players dominating the market. This trend is starkly visible in the developed economies of US and Europe. As per data from M+M Planet Retail, in 1990 30 retailers accounted for 20% share of the US retail market. By 2005, only 8 retailers accounted for the same 20% share of the market. Similarly, in 1990 37 retailers accounted for 20% share of the European retail market. By 2005, only 10 retailers accounted for the same share of the market.

NOTES

Region/Country	No. of Retailers Accounting for 20% Market Share	
	1990	2005
US	30	8
Europe	37	10

Convenience stores and hypermarket formats are gaining prominence

These are driven by consumer need for convenience and lower price / higher value in mass categories while big box category killer stores are gaining importance in the specialty retail categories. While supermarkets may emerge at the initial stages of retail market development, they are unable to match the consumer value proposition of convenience stores and hypermarkets.

Private label products become increasingly important

Private labels today account for 17% of global retail sales with the highest share of 23% in Europe and Asia the least at 4%. As per M+M Planet Retail data, private label penetration varies from 25%-95% among some of the largest retailers in the world. Growing acceptance among consumers, increasing price competition and need for differentiation among retailers and lastly the ability to offer higher margins are the key factors contributing to the growth of private labels. private labels provide the retailer an ability to offer a significant price advantage to consumers with private label prices being 16-32% lower as compared to manufacturer brands.

CHALLENGES IN RETAIL SECTOR

According to a report by CII retailing as an industry in India has still a long way to go to become a truly flourishing industry. Retailing needs to cross the following hurdles:

- Automatic approval is not allowed for foreign investment in retail.
- Regulations restricting real estate purchases, and cumbersome local laws.
- Taxation, which favours small retail businesses.
- Absence of developed supply chain and integrated IT management.
- Lack of trained work force.
- Low skill level for retailing management.
- Intrinsic complexity of retailing – rapid price changes, constant threat of product obsolescence and low margins.

The retailers in India have to learn both the art and science of retailing by closely following how retailers in other parts of the world are organizing, managing, and coping up with new challenges in an ever-changing marketplace. Indian retailers must use innovative retail formats to enhance shopping experience, and try to understand the regional variations

NOTES

in consumer attitudes to retailing. Retail marketing efforts have to improve in the following aspects

- Advertising, promotions, and campaigns to attract customers
- Building loyalty by identifying regular shoppers and offering benefits to them
- Efficiently managing high-value customers
- Monitoring customer needs constantly

These are some of the aspects which Indian retailers need to focus upon on a more pro-active basis. Despite the presence of the basic ingredients required for growth of the retail industry in India, it still faces substantial hurdles that will retard and inhibit its growth in the future.

One of the key impediments is the lack of FDI status. This has largely limited capital investments in supply chain infrastructure, which is a key for development and growth of food retailing and has also constrained access to world-class retail practices. Multiplicity and complexity of taxes, lack of proper infrastructure and relatively high cost of real estate are the other impediments to the growth of retailing. While the industry and the government are trying to remove many of these hurdles, some of the roadblocks will remain and will continue to affect the smooth growth of this industry. Fitch believes that while the market share of organised retail will grow and become significant in the next decade, this growth would, however, not be at the same rapid pace as in other emerging markets. Organised retailing in India is gaining wider acceptance. The development of the organised retail sector, during the last decade, has begun to change the face of retailing, especially, in the major metros of the country. Experiences in the developed and developing countries prove that performance of organised retail is strongly linked to the performance of the economy as a whole. This is mainly on account of the reach and penetration of this business and its scientific approach in dealing with customers and their needs.

In spite of the positive prospects of this industry, Indian retailing faces some major hurdles given in the table below which have stymied its growth. Early signs of organized retail were visible even in the 1970s when Nilgiris (food), Viveks (consumer durables) and Nallis (sarees) started their operations. However, as a result of the roadblocks mentioned the industry remained in a rudimentary stage. While the retailers gave the necessary ambience to customers, little effort was made to introduce world-class customer care practices and improve operating efficiencies. Moreover, most of these modern developments were restricted to south India, which is still regarded as a 'Mecca of Indian Retail'.

Raising cost of real estate will be the critical challenge for retail industry. While there are a few hundred malls under various stages of development across the country, retailers will need to think out of the box as well to ensure availability of real estate. This may include acquiring and developing the real estate themselves rather than wait for mall development.

NOTES

Factors	Description	Implications
Barriers to FDI	<ul style="list-style-type: none"> • FDI not permitted in pure retailing • Franchisee arrangement allowed 	<ul style="list-style-type: none"> • Absence of global players • Limited exposure to best practices
Lack of Industry Status	<ul style="list-style-type: none"> • Government does not recognize the industry 	<ul style="list-style-type: none"> • Restricted availability of finance • Restricts growth and scaling up
Structural Impediments	<ul style="list-style-type: none"> • Lack of urbanization • Poor transportation infrastructure • Consumer habit of buying fresh foods • Administered pricing 	<ul style="list-style-type: none"> • Lack of awareness of Indian consumers • Restricted retail growth • Growth of small, one-store formats, with unmatched cost structure • Wastage of almost 20%-25% of farm produce
High Cost of Real Estate	<ul style="list-style-type: none"> • Pro-tenant rent laws • Non-availability of government land, zoning restrictions • Lack of clear ownership titles, high stamp duty 	<ul style="list-style-type: none"> • Difficult to find good real estate in terms of location and size • High land cost owing to constrained supply • Disorganized nature of transactions
Supply Chain Bottlenecks	<ul style="list-style-type: none"> • Several segments like food and apparel reserved for SSIs • Distribution, logistics constraints restrictions of purchase and movement of food grains, absence of cold chain infrastructure • Long intermediation chain 	<ul style="list-style-type: none"> • Limited product range • Makes scaling up difficult • High cost and complexity of sourcing & planning • Lack of value addition and increase in costs by almost 15%
Complex Taxation System	<ul style="list-style-type: none"> • Differential sales tax rates across states • Multi-point octroi • Sales tax avoidance by smaller stores 	<ul style="list-style-type: none"> • Added cost and complexity of distribution • Cost advantage for smaller stores through tax evasion

NOTES

Factors	Description	Implications
Multiple Legislations	<ul style="list-style-type: none"> Stringent labor laws governing hours of work, minimum wage payments Multiple licenses/clearances required 	<ul style="list-style-type: none"> Limits flexibility in operations Irritant value in establishing chain operations; adds to overall costs
Customer Preferences	<ul style="list-style-type: none"> Local consumption habits Need for variety Cultural issues 	<ul style="list-style-type: none"> Leads to product proliferation Need to stock larger number of SKUs at store level Increases complexity in sourcing & planning Increases the cost of store management
Availability of Talent	<ul style="list-style-type: none"> Highly educated class does not consider retailing a profession of choice Lack of proper training 	<ul style="list-style-type: none"> Lack of trained personnel Higher trial and error in managing retail operations Increase in personnel costs
Manufacturers Backlash	<ul style="list-style-type: none"> No increase in margins 	<ul style="list-style-type: none"> Manufacturers refuse to dis-intermediate and pass on intermediary margins to retailers

Fraud in retail is expensive. Fraud is going to be one of the retail sector's primary challenges in the future. Fraud and theft, including employee pilferage, shoplifting, vendor frauds and inaccuracy in supervision and administration costs the Indian retail industry about Rs 550-600 crores (USD 0.12-0.13 billion) every year. This is despite the fact that most large modern format retailers use standard security features such as CCTVs, POS systems and anti-shoplifting systems for greater control over fraud and theft. In financial terms, cost of this fraud constitutes about 2% of the organized retail sector's revenues. The implications and size of this loss will be more significant as retailers continue to scale up and increase product lines.

Improvement in infrastructure and logistics needed for increased rate of growth in retail sector. India is a large and highly fragmented country, with 29 states and 18 official languages. A bulk of its population, 66.1 %, lives in rural areas. The lack of adequate infrastructure makes it virtually impossible to reach this virtually untapped market. Distribution, or the lack of it, is a major hindrance for retailers in India. The lack of quality infrastructure across the country and a non-existent distribution sector results in inefficient logistics systems. Infrastructure is the weakest link in India's path to progress and there is an urgent need to

address issues plaguing this area. Urbanization is driving an increasing need to upgrade or create infrastructure facilities. An indicator of the urgent need for highway development, for instance, is the fact that average daily traffic volume on highways of 39,000 Passenger Car Units (PCUs) far exceeds the highway capacity of 15,000 PCUs. Transport is a major concern, with a deteriorating railway system and a limited highway network. In contrast to the global standards, the average load carried by trucks in India -around 7 tons -is very low. However, the Indian Government is presently investing heavily in the state highway system. This will help in an overall decline in logistics costs which is currently 10-12% of the total GDP. 10,000 MW of power needs to be added every year for the next decade. Growth in air passenger traffic, estimated at 20% p.a. for the next two years, necessitates quadrupling of airport capacities. Ports will witness 38% increase in tonnage in the next 2-3 years and hence, port infrastructure cannot be ignored.

Lack of a distribution sector and specialized distribution companies is a major obstacle for retailers to fully utilize India's retail potential. Private logistics companies offering specialized services, refrigerated transport and warehouse facilities across the country, along with timely distribution of supplies to retail outlets will create some of the much needed back-end support for retailers to enhance operational performance.

Human resources are critical for success of any business more so in the case of retail industry. However the industry is facing a severe shortage of talented professionals, especially at the middle-management level. Areas gradually becoming critical are technology, supply chain, business development, marketing, product development and research. Successful Indian retailers are creating a robust second and third level of management by hiring aggressively for these key roles. There is also an increase in the number of retail management programmes and institutes. This will bridge the gap in availability of talented professionals at the middle and lower levels. The retail industry is expected to create 2 million jobs between now and 2010. However, talented professionals will put increased pressure on wage costs. Therefore, operating margins, especially for mid-sized retailers will shrink. There is also a huge risk for Indian retailers becoming a poaching ground for international retailers entering India.

SUMMARY

This unit has attempted to provide the framework of retail sector. The trends in retail sector across the globe in select countries were presented. Further the trends and development of Indian retail and its place in global scenario is highlighted. Further the drivers to retail growth and the macro – micro environment in which the retail sector is existing is briefed. The unit also touches upon the challenges ahead the retailing sector in Indian context. With this background the next unit will provide a detailed account of the retail formats.

NOTES

HAVE YOU UNDERSTOOD?

- Elucidate the position of retail industry across of globe. What do you think in the potential of Indian retail sector against the global retail scenario?
- Discuss the emerging trend in retail sector in India
- What are the key issues facing the Indian retailers?
- Discuss the two levels of the retailing environment.
- Analyze the changes occurring in the retail environment and discuss the possible implications of such changes for retailers.
- Highlight the major demographic and Psychographic trends of Indian consumers which is conducive to the growth of retail sector.
- 'His and Hers' is a successful retail showroom dealing with apparels. However the retail environment has changed a great deal since the inception of the retail show room in the year 1970. The management thinks that the retail strategy should be changed. In this context:
 - What factors in the external environment should the management monitor?
 - Should the internal environment be scanned?. If so what are they?
 - How can the information be acquired?
- Explain the factors which have led to the growth of retail sector in India.

UNIT III

NOTES

RETAIL FORMATS

3.1. INTRODUCTION

A retailer faces a number of questions in launching a retail store viz., What type of retail unit to start? Where to locate the same?, How should the store layout be designed? How to position the retail store? What types of brand image should be nurtured? What type of strategy should be followed to ensure the quality of service? This unit attempts to provide an insight to the readers regarding the various aspects to be taken into consideration by a retailer for making the above decisions and the choices available for the same.

The different types of traditional and non traditional retail formats are discussed in detail under the various heads viz., type of ownership, store-based, non-store based and other non traditional new formats. Various factors to be considered in deciding the location and site and the step involved in finalizing a location are presented in detail. The forms of store layout and design are discussed in terms of its contribution to the store image. The methods of positioning a store and the key factors influencing the store image are explored. The gap between the expectations and the perceptions of the retail shoppers is the reason for reduced footfall leading to low sales per square feet. Hence the various service gaps and strategies to reduce the same are analyzed.

3.2. LEARNING OBJECTIVES

After reading this unit you will understand:

- Types of retail formats
- Steps involved in deciding the location and factors influencing the same
- Various form of stores layout and elements of store design
- The steps involved in developing positioning strategy and methods of positioning
- Key factors influencing the store image
- The strategies for improving service quality

3.3. TYPES OF RETAIL FORMATS

The retail environment is dynamic with changing consumer needs, technological development, increasing competition etc., In order to attract more foot fall and to serve the

NOTES

customers better new retail formats are evolving. Retail format refers to the place, physical or virtual where the vendor interacts with the customers. It is a store 'package' that the retailer presents to the shopper. The origin of retail format can be traced back to the era of barter system. Later the development took the form of merchandise sold by peddlers and sales in the common marketplace. The social changes leading to the developments of infrastructure and transportation led to changes in the retail formats too. With the advent of travelling salesman the wholesale business took momentum. The success of the wholesale business led to the development of the department stores.

The industrial revolution, increase in the urban population, increase in the middle class income group, clustering of people in small geographical area, mass transportation, mass manufacturing etc were conducive to the increased retail sales and retailing evolved with new dimensions in the twentieth century. The self service concept helped retailers to reduce cost as fewer sales assistants were only needed to service the customers. Further the retail boom contributed to the development of supers markets, discount stores, specialty shops, malls and e-tails.

One of the main reasons for the retail formats assuming new dimension is the consumer. The consumers today are more challenging, demanding and is very sure of what they need. From the retailers perspective the factors like the escalation of real estate cost, increase in the prices, the challenge of retaining the customers, pressure on the need to earn more revenue have all contributed to the development of new formats.

Understanding retail formats is needed to develop strategies to achieve the objectives. The retail formats discussed below do not fall under watertight compartments, they may overlap too. The store formats are discussed on the basis of type of ownership, store-based , non-store based and other non traditional new formats.

3.3.1 Ownership based classification

On the basis of ownership the retail firms can be classified as independent store, chain stores, franchise, leased departments, owned by manufacturers or wholesalers or consumer cooperatives. Each ownership format differs in terms of their positioning and operating strategy. While making decision regarding the retail format the strength and inherent weakness should be given due consideration.

1. Independent retailer

An independent retailer is one who owns and operates only one retail outlet. The outlet is usually owned by the owner cum proprietor and/or few other hands or family members working in the retail shop. Usually paid employees would be very rare or kept to minimum numbers. Many stores are passed on from generation to generation. In India a large number of retailers ie more than 80 percent of the total retail establishment are independent retailers called popularly as the local baniya/kirana store. In United States these firms account

for just 3 percent of the total US store sales. In India the number of independent retail stores are high due to the reasons; lack of regulations, low capital requirement, lack of other employment opportunities and employable skill set. Most the retail units have very basic offerings and over the counter service. They are highly competitive due to less cost of operation compared to large scale retailing.

The benefits enjoyed by the independent retailer are listed below;

- The independent retail store offers great flexibility as the retailer is the sole authority deciding the location, retail strategy etc and can change the same according to the local customers. The policies and procedures can be customized to suit individual customer requirements.
- The extent of personal involvement in the business is higher as the retailer usually makes a personal investment which leads to strive hard and succeed.
- The independent retailer has the biggest advantage of knowing not only his customer but his family. Many times the customers are known by the names and their preferences and tastes are remembered by the retailer. They have the unbreakable trust of the customers and also the loyalty which runs deeper on the strings of emotional attachment.
- The independent retailers do some personalized services like taking orders through telephone, offering credit transaction and home delivery. They take orders even on holidays or beyond normal working hours if it is needed urgently by the customers. This creates a strong binding between the customer and the retailer.
- Consistency in the policy, procedures and approach can easily be approached as the retailer operates only one store and mostly has less number of people working for salary.
- Decision making is more centralized and takes much less time as there is no need to bother about the stockholders, directors meeting, unions etc.
- Investment and operation cost can be controlled and kept to the minimum as there is no duplication of stock , less number of salaried employees, less investment in fixtures, leases etc.
- Developing and maintaining an image is much easier in case of independent stores as it solely depends on the retailer.

The *drawbacks* suffered by independent retailers is listed below;

- Many of the small retailers either close down the business soon or run the business at less or no profits. They spend only less time in long-run planning as the independent retailer is more involved in the daily operation of the business.
- The independent retailer do not much bargaining power as they merchandise in smaller quantity compared to large scale retailer. Reordering is done with much difficulty as the quantities dealt is smaller.
- The independent retailer cannot enjoy the benefits of the economies of scale as he purchases less quantity due to financial constraints. Transportation, ordering and handling cost per unit is higher.

NOTES

- Independent retailers cater to the needs of much smaller segment of customer within a limited geographical area. Due to dearth in the availability of finance they do not opt for advertisement in popular media and their share of consumers in the market is minimum.
- The assortments available with the independent retailer and their display are not as attractive as in the case of malls. Due to small area of operation the retailer normally stores less variety.
- The ambience in the case of independent retailer is not appealing, as the retailer solely depends on his own investment and cannot offered to spend much on the same.
- The time taken to serve the customer is high as the number of employed persons is less. Also the retailer depends on labour intensive method of recording the transaction and raising the bill. Computerization is not still opted by many of the independent retailers.

2.Chains

When two or more outlets are under a common ownership and name, it is called as a retail chain. The retail chains range from two stores to over thousands of stores. These stores offer similar merchandise and ambience. Advertising and promotions strategy followed are also similar. In developed economies, the retail chains account for nearly a quarter of the retail outlets and over 60 percent of the retail sales and employment. Examples of chain stores in India include Globus, Shopper stop, Reliance Fresh, Food world, More etc.

The advantages of chain stores are listed below;

- Cost efficiency can be achieved in chain stores due to bulk purchases directly from manufactures. This enables them to fix prices at a lower level compared to other types of retailers.
- The chain retailers can exercise a greater bargaining power as the products are purchased in larger quantities. They are informed in case of arrival of new products, their order are taken care and they get good sales support. They may also have exclusive rights to certain items and have goods produced under the chain's brand.
- Sharing of warehousing facility, using standardized fixtures, centralized buying and decision making and similar other practices leads to increase in the operating efficiency.
- The chain stores usually have advertising in a variety of media and it reaches a variety of consumers dispersed in a wide geographical area by going near them. This enhances their market share.
- The chain store uses computers for ordering merchandise, taking inventory, forecasting, book keeping etc which will increase the efficiency and reduce the cost.
- Most of the chains have defined management policies, procedures, defined employee responsibilities, long term planning and formulated strategy. This provides consistency in the operation of the chain stores and leads to building a brand image.

The chain stores suffer the following *drawbacks*;

- High investment is needed due to operation in multiple localities leading to more real estate cost, fixtures, salary to employees, operational cost and the like.
- The chain stores usually follows consistent strategies in terms of promotion, product assortment and the like. There is no flexibility to change the strategies according to the local conditions.
- Exercising control over the operation of chain stores is difficult and time consuming process as they are geographically dispersed. Lack of communication, delay in decision making and executing decision are commonly found.
- The employees in large chains have limited autonomy in operation as there are several management layers and employee unions.

3.Franchising

Franchising is one of the most common modes of expansion in retailing. A franchise is a contractual agreement between the franchiser and the franchisee which allows the franchisee to conduct a business under an established name, as per a particular business format, in return for a fee or compensation. It allows the franchisee to operate a retail outlet using the name and format of the franchiser. The franchiser provides assistance in locating and building the store, developing the products and services sold, management training and advertising. The franchisee operates the outlet based on the norms and practices laid down by the franchiser.

Franchising may be of two types; product or trademark franchising and business format franchising. A product or trade mark franchise is a case where the franchisee sells the product of the franchiser and/or operates under the franchisers name. Apart from following certain operating rules, the franchisee operates rather autonomously. The franchisee can set the operating hours, select the location, and determine the facility and the display. In business format franchising, there is a more interactive relationship between franchisor and franchisee. The franchiser draws strategic plans and lays down the procedures for operation so as to ensure that the similar service is provided across all the retail outlets. The franchisee is responsible for the operations and the profitability of the stores under the given guidelines. This sort of arrangement is common for restaurants and other food outlets, real estate and service retailing. In both the methods of franchising, the franchise may be for a single store, a multiple number of stores for a region or country.

There are many significant *advantages* to franchise ownership. In most instances, an entrepreneur who decides to buy a franchise is purchasing a business concept with a proven track record of success. In addition, a franchise agreement provides instant name recognition for the business, which can be a huge advantage if the name enjoys a solid reputation in the marketplace. But franchising provides benefits in many other areas of business operation as well. These include:

NOTES

- Franchisees benefit from any national advertising campaigns launched by the corporation with which they have gone into business. In addition, many franchisors provide their franchisees with a wide range of point-of-sale advertising materials, ranging from posters to mobiles to brochures.
- Franchisors provide franchisees with a wide range of help in the areas of administration and general operations. The entrepreneur who becomes a franchise owner is instantly armed with proven products and production systems; inventory systems; financial and accounting systems; and human resources guidelines. Many franchisors also provide management training to new franchisees, and ongoing seminar workshops for established owners.
- Franchisees are often able to fill inventory needs at discount prices because of their alliance with the franchisor, which typically has made arrangements to buy supplies at large-volume prices.
- Most small business owners are able to devote little time or money to research and development efforts. Franchising, then, can provide a huge lift in this regard, for many franchisors maintain ongoing research and development systems to develop new products and forecast market trends.
- It is in the franchisor's best interests to do all it can to ensure the success of all of its franchisees. As a result, the entrepreneur who decides to become a franchisee can generally count on a wide range of training and consulting services from the larger company. Such services can be particularly helpful during the start-up phase of operations.
- While the benefits of franchising are many and varied, there are well-documented *drawbacks* that should be considered as well. These include:
- The initial franchise fee, which in some cases is not refundable, can be quite expensive. In addition, some franchisors require their franchisees to pay them regular royalty fees—a percentage of their weekly or monthly gross income—in exchange for permission to use their name. Some franchisors also require their franchise owners to help pay for their national advertising expenditures. Other costs include insurance, initial inventory purchases, and other expenses associated with equipping a new business.
- Franchisees are subject to many franchisor regulations concerning various aspects of business operation and conduct. Areas in which franchisors generally wield significant control include the following: Site Approval—Many franchise agreements include stipulations that give the franchisor final say in site selection. Some franchisors also limit franchise territories, and while such restrictions generally prevent other company franchisees from impinging on the selected territory, they can also act to restrict the ability to relocate once the business has become established.
- Operating Restrictions—Franchise agreements include many instructions on the ways in which a franchisee must conduct business. These encompass all aspects of a business's operation, from operating hours to accounting procedures to the goods or services that are offered.

- Many franchisors cultivate a certain readily recognizable look to their outlets, as such standards, when applied consistently, contribute to national recognition of the company name and its products and services. The standards of appearance in the areas of decor, design, and uniforms lead to success. However the franchisee has little freedom to change the business's appearance

Prospective franchisees need to weigh many factors in their decision making about entering the burgeoning world of franchising. It is imperative for prospective franchise owners to make an intelligent, informed decision regarding franchise selection, for once a contract has been signed, it involves commitment in terms of resources.

4. Leased Department

Leased departments also termed as shop-in-shops is a section of a department in a retail store leased/rented to an outside party. The leased department proprietor is responsible for all aspects of its business including fixtures and normally pays a percentage of sales as rent. The store sets operating restrictions for the leased department to ensure overall consistency and coordination. Setting a leased department within a store provides opportunity for the retailer for expanding his product or offering to the customers. A new trend emerging in Indian retail is that larger retail outlets setting up smaller retail outlets in high traffic areas like department stores, multiplexes, malls and public places like railway stations, airports etc. These stores display only limited assortments of the merchandise sold in anchor stores. The main aim is to be available to the consumer where they need.

From the stores perspectives the leased department offers the following *benefits*;

- A regular income is generated from the leased departments as a percentage of sales or by other methods of agreement
- The department operators pays for some expenses which reduces the expenses
- Personnel management, merchandise display and reordering items are undertaken by lessees.

The *drawbacks* from the stores perspective are;

- If the customers are not satisfied or face any problem they may blame the store rather than the lessee.
- The lessee by his operations and dealing with the customers may affect the image of the store
- The operating procedure of the lessee may not be consistent with that of the stores

The leased department operators enjoy the following *benefits*;

- They have the shops in already established store which has an image and customers, hence the sales will be immediately generated.

NOTES

- Some of the cost are shared by the stores. For example the operating expensens like the security expenses, mainitenance, ambience etc
- The image is enhanced by being everywhere the customers need them

The following *drawbacks* should be given due consideration;

- The assortment of goods and services are usually restricted and dealt in full scale.
- The lessee cannot exercise his own thoughts in operation as it has to be consistent with that of the stores procedures.
- There is a possibility that the stores may not generate the revenue expected.

5. Vertical Marketing System

A vertical marketing system consists of all levels of independently owned business along a channel of distribution. One of the three systems may be followed for distribution of goods viz., independent vertical marketing system, partially integrated system and fully integrated system. In an *independent vertical marketing system*, there are three levels of independently owned firms; manufacturers, wholesalers, and retailers. This system is often used if the manufacturers or retailers are small, intensive distribution is needed, customers are spread over a wide geographical area, unit sales are high, company resources are low, channel members seek to share costs and risks and task specialization is needed.

In a *partially integrated system* two independently owned businesses along with a channel perform the production and distribution functions. This system is common when the manufacturer and retailer complete transaction and other distribution functions in absence of the wholesaler. This system is suitable if manufacturers and retailers are large selective or exclusive distribution is sought, unit sales are moderate, company resources are high, greater channel control is desired and wholesalers are not available or costly.

In *fully integrated system*, one firm performs all production and distribution functions. The firm has total control over its strategy, direct customer contact and uniqueness in its offerings and keeps all profits. This system is costly and requires a lot of expertise.

6. Consumer Co-operatives

A consumer co-operative is a retail institution owned by its member customers. A group of consumers invests, elects officers, manages operations, and share the profits or saving that accrue. The profits are divided among the members in the form of dividends. Hence even if these stores sell at the same prices, consumer will tend to gain. The stores are managed by elected officials. The co-operatives are mainly started to safeguard the interest of consumers from the malpractices of retailers in terms of higher prices, inconsistent quality etc. However consumer co-operatives suffer due to lack of expertise of consumers in buying, handling and selling goods and services, cost saving practices etc. They generally lack skill of running the business and hence the growth opportunities are limited. Examples of cooperative societies are Sahakari Bhandars and Apna Bazaar shops in Mumbai and the Super Bazaar in Delhi.

3.3.2 Store based classification

On the basis of the store based strategy retail institution can be further divided into food-oriented and general merchandise retailers on the basis of the merchandise mix offered to the customers. on the basis of the target market catered to, the retail institution can be further classified as specialty stores, department stores and convenience stores. In contrast, the supermarkets, discount stores, hypermarkets and off price retailers cater to a mass market and are often called as traditional product retailers.

Food-Oriented Retailers

Indian food retail is growing at the rate of 30%, and it is one of the major driving force for the retail industry. The changing life styles, tastes and higher disposable income, growing need for convenience, higher aspirations among youth, exposure to the western lifestyle and increasing numbers of working women have revolutionized the food retail scenario of the country. The publication of Indian Retail Forum held in Mumbai has presented that Food retail has surpassed the dominating apparel and accessories sector and food & beverages is the major segment worth Rs.8,97,000 crore.

Retail food trade is growing in multiple formats. More and more corporate houses such as HUL, ITC, Godrej and Reliance are now making inroads into food retail, with some even exploring the integrated approach via agri business and food processing. Huge proliferation is expected from the corporate players, which will help grow the entire retail pie. Entrenched players such as Subhiksha, Food Bazaar and Spencer's Daily are also tapping into backward linkages, while trying to match their expanding geographies with retail formats.

The size of organised foods retail in India stands at Rs 25-30 bn. The organised form of food retail accounts for less than 1% of food consumed in India. Balance sales are dominated by kirana stores. Organised food retailing has grown at about 25% per annum for the last two years and the momentum is likely to increase with the entry of large corporates and possible relaxation of the FDI policy. The growth rate is likely to be 30% for the next five years and the size of organised food retail can become Rs 110 bn by 2010. There has been significant growth in the number of supermarkets and neighbourhood stores in the metros and mini metro cities.

High degree of fragmentation can be witnessed in Indian retail sector. India has the highest number of retail outlets in the world. There are an estimated 12 million outlets in India with a total retail space of about 2 billion sq ft. Owing to this fragmentation; the availability of retail space per capita in India is among the lowest in the world, 2 sq ft per capita compared with 19 sq ft in the US. Some 5 million of these outlets engage in the retail of food and food products. The degree of fragmentation is much higher among food retailers than among non-food retailers. The majority of food and food products are retailed through

NOTES

neighbourhood kirana stores. A typical kirana store has a retail area of 200 sq ft and sells 500 to 800 stock keeping units (SKUs). The kirana stores focus on dry food products because the infrastructure for cold storage is lacking. The majority of fresh produce is sold from the carts of travelling vendors. Such produce is associated with low product quality, variety and hygiene.

A kirana store's greatest advantage over organised formats is its proximity to consumers. However, the limited space and capital of such stores translate into restricted choice, low value for money, poor quality and lack of shopping experience for the customer. Southern India has been witnessing frenetic activity in food retailing. The food retailing in various formats such as the supermarkets, hypermarkets and neighbourhood stores are witnessed. These include Food World, Subhiksha, Nilgiris, Margin Free, Big Bazaar and Giant.

Increasing consumption creates golden opportunity. The changing age profile with increasing share of population in the age bracket of 15-59 years, a large proportion of which constitute the active workforce, augurs well for the growth of food consumption. This group has the willingness as well as the ability to spend on processed foods and buy from organised formats. Food accounts for the largest share of consumer spending. Food and food products account for about 50% of the value of final private consumption. This share is significantly higher than in development economies, where food and food products account for about 20% of consumer spending. Significant spending on food and increasing out of home food consumption represent a significant opportunity for food retailers and food service companies.

The following section deals with the food oriented retail formats viz., convenience stores, supermarkets, hypermarkets, box stores, super stores or combination stores and warehouse stores.

1. Convenience Store

These are relatively small stores of about 400-2,000 sq. feet located near residential areas. They stock a limited variety and assortment and dealt with low cost, high-turnover convenience products. The items dealt are consumed very regularly and so purchase very frequently by the shoppers. The products dealt can be sold easily without the problem of measuring, trying and testing.

They are usually open for an extended period during the day, seven days a week. Convenience stores are targeted at customers who want to make quick purchases without having to search through large stores or wait in a long check-out line. Prices are slightly higher due to the convenience premium.

The most popular example of a typical convenience store is the 7-Eleven chain of convenience stores which is owned by Southland Corporation. In India, Convenience stores occupy 23 thousand sq. meter of retail space with sales of about Rs 1347 million in

2005 and are expected to occupy 85 thousand square meter of selling space by 2010. During the same period, sales is expected to touch Rs 5271 million and number of outlets are likely to grow from 510 to 2434.

Modi group has started 24X7, a new format of convenience store in Delhi. It supplies ranges from branded fast-moving consumer goods, over-the-counter drugs and staple products such as pulses, rice etc. The other examples for convenience store are Speed mart and In & Out.

2. Supermarkets

A supermarket is a self-service store largely concentrating on selling food related products and is considerably smaller in size compared to hypermarkets. They do not play the price game rather use convenience and affordability as their salient features. The supermarkets usually price the products low in addition to providing a neat and clean shopping environment, fast check-out counters and attractive and organized layouts. The supermarkets target the middle-class society in India, who are looking for fixed prices, cleaner products and faster shopping.

A super market normally sells grocery, fresh, cut vegetables, fruits, frozen foods, toiletries, cosmetics, small utensils, cutlery, stationery and gift items. But in India, traditionally vegetables and fruits are purchased on designated vegetable markets or from the local vegetable sellers who bring them on carts to their doorsteps. Buying them in the supermarkets is not so encouraging but the trend is changing and slowly supermarket operators are coming to their own. Reliance Fresh is a classic example in this category.

Food World is another supermarket which sells both food and non-food items. The non-food items contribute about 22 per cent of total sales and rest is contributed by the food related items. It provides value added services to its customers to gain their confidence. Some of its initiatives are:

- *Live chakki*: which allows customer to buy fresh wheat and have it grinded there at the store
- *Fresh Juice counter*: This provides customer to have fresh juices.
- *Live dairy*: This provides customers with fresh milk and milk products.
- *Live kitchen*: Customers have the option of buying vegetables, getting them chopped, cooked fully or partly. Soups, salads and sandwiches are also available

In India Food World, Food Bazaar, Nilgiri, and Adani are the leading super market operators.

3. Hypermarkets

The hypermarkets are huge retail store occupying an area which ranges between 80,000 to 2,20,000 sq.ft. They offer both food and non food item like clothes, jewelry, hardware, sports equipment, books, CDs, DVDs etc. It combines the principles of

NOTES

supermarket, discount and warehouse retailing. The hypermarkets ideally, stocks 60 per cent food and 40 per cent non-food items. They are designed to generate higher revenues and delivery gains in terms of branding, merchandising, display, variety and choice for partners, consumers, retailers and the government alike. Owing to the huge volume of sales generated at hypermarkets, overheads stay low enabling them to function like discount stores.

Globally, hypermarkets account for 60 per cent of the retail sales. But in India established retailers are cautious of entering into the hypermarket structure. RPG group, which runs Foodworld, opened its hypermarket called “Giant” in Hyderabad. Similarly, Pantaloon group opened its hypermarkets – Big Bazaar in Hyderabad, Kolkata, Bangalore etc.

Ernst & Young in its report, ‘The Great Indian Retail Story’ says the hypermarkets route has emerged as one of the most preferred formats for international retailers entering India. Currently there are less than 50 hypermarkets in India, operated by 4-5 big retailers. The report also says that India’s 67 cities with population of half a million or more have potential to absorb many more hypermarkets in the next 4-5 years.

4. Box store

This is a food based store that focuses on small selection of items, moderate hours of operation, few services and limited manufacturer brands. The store carries less than 2000 items, few refrigerated items and few sizes and brands per item. Prices are displayed on the shelves or overhead signs. Box stores rely on low-priced private label brands and their prices are lower than that of the super markets. Box stores cannot fulfill one stop shopping needs.

5. Warehouse store

Warehouse store is a food based discounter offering a moderate number of food items in a no-frill setting. It focuses on one-stop food shoppers, concentrates on special purchases of popular brands, uses cut boxes/cartons for display, offers little service, post prices on shelves and is located in secondary sites. These store projects low price image with no frills and no service and are usually located in very low rent areas. Customers are attracted to these outlets due to substantial cost savings. However like conventional supermarkets, warehouse stores are also increasing their emphasis on perishable and freshly prepared foods since they are more profitable. Some of the popular warehouse clubs are Sam’s club, Quality stores, etc.

6. Super stores or combination stores

Combination stores or ‘Combostores’ are food based retailers that stock a full line of food products including the perishable products. Apart from the food products the stores also deal with non-food merchandise. 60 percent of the items carried by these stores include

non-food items like apparel, accessories, shoes, appliances, house wares, electronics, health and beauty aids, kitchen utensils, flowers and the like. They occupy a large areas and hence situated outside the city. The shoppers are usually attracted by the large variety of services and do not mind travelling the distance. The shoppers generally purchase a large amount on nonfood items through impulse purchase rather than the food items. Wal-Mart, K-Mart, Target and Best Buy are some examples.

GENERAL MERCHANDISE RETAILING

This section discusses the general merchandise retail formats viz., specialty stores, department stores, discount stores, variety stores, off-price chain, factory outlet, membership clubs and flea market.

1. Specialty store

Specialty stores are those which specialize in a specific range of merchandise and related items. These stores are often called as limited-line store attract customers in a particular line of merchandise by offering an extensive width and depth of stock in the item they specialize and provide high levels of service and expertise. The specialty store focus on a narrow market segment or a niche market. The pricing policy is generally in the medium to high range, They differ from department store and supermarkets which carry a wide range of merchandise. For example the specialty stores may exclusively deal in art, clothing, hobby, outdoor, electronic games, toys etc. Even though hypermarkets have been getting a lot of attention in recent times, it is the specialty store trend that is really taking off. The specialty store trend cuts across sectors with some offbeat categories and even some in the unorganized sector. Hindustan Lever is considering a chain of stores only for laundry products. Other categories inviting interest are electronics and electrical products, office products and stationary, toys, lingerie, chocolates and furnishings. Some of the major names currently involved in this thinking include the Tata's, the Jumbo group from Dubai, Marks & Spencer's Women Secret, Straps which was earlier Sensa, Luxur Parker, Bilt, Havells, Phillips and Bajaj Electronics.

One type of specialty store – the category killer refers to a large specialty store. It has an enormous selection in its category and offers merchandise at relatively low prices. For example Toys “R” Us, the Limited Gap and Barnes & Noble. Specialty malls seem to be the buzzword in the Indian retail mart. Presently the number of specialty malls in the country is only a handful, but the Retailers Association of India (RAI) expects that over the next three years, specialty malls will constitute nearly 10 per cent of the total malls in India. Among the most prominent specialty malls in the country is the Gold Souk Mall, a jewellery specialty mall developed by the Aerens Gold Souk Group. The mall houses jewellers providing both consumers and retailers an ambience of security and convenience. Likewise, the Bangalore-based real estate developers, Prestige Group, have revamped its Eva Mall into a super-specialty ethnic Indian womenwear mall.

NOTES

In Kolkata, a medical mall — Alpha Family Health Mall — has been launched by Alpha Medical Services while another city-based developer, the Merlin Group, has set up Home Land, the country's first dedicated home mall. Several other specialty malls on auto-parts, furniture, home appliances are being planned across the country. Industry estimates indicate that although the footfalls in specialty malls are considerably lower than in generic malls, the conversion rate in these malls is high compared to the general malls. Conversion rate in a specialty mall is estimated to be nearly 65 per cent while it is only 18-20 per cent in a general mall.

2. Department stores

Department stores are very large stores which are usually multi tiered and stock a vast range of products in separate departments. It is a retail establishment which specializes in selling a wide range of products without a single predominant merchandise line. The variety of merchandise stocked by department stores is much wider than any other retail format. They seem like a collection of specialty operations all under one roof having one owner. Department stores usually sell products including apparel, furniture, appliances, electronics, and additionally select other lines of products such as paint, hardware, toiletries, cosmetics, photographic equipment, jewellery, toys, and sporting goods. Certain department stores are further classified as discount department stores. Discount department stores commonly have central customer checkout areas, generally in the front area of the store. Department stores are usually part of a retail chain of many stores situated around a country or several countries. Some of the popular international players in this format are J.C.Penny, Macy's, Nordstrom, Eaton's, Marks & Spencers, Sears etc.

The size of an average Indian department stores ranges from 20,000 to 40,000 sq.ft and stocks 50,000 to 1,00,000 SKUs. Some of the national players are Shopper's Stop, Globus, Westside and Lifestyle. Internationally the departmental stores can take the form of upscale department store, mid-scale and mid range which are discussed below;

Upscale Department Store

Characteristics of a typical upscale department store may include:

- Sale of brand name perfumes and beauty supplies, like Burberry, Calvin Klein or M•A•C at the main entrance, with specialists in cosmetics present to assist customers with applying and selecting makeup.
- General sale of name brand clothes above an average price level, such as Dior, Chanel, Versace, Lacoste, etc.
- The price of discounted items resembles that of an average priced item at a lower scale department store.
- Sale of small household appliances like blenders, or small electronic items such as portable radios.

- Specialized services or subset businesses such as personal shopping assistance, salons, restaurants, and/or travel agencies.

Some upscale department stores that operate in the United States include national chains like Barneys New York, Lord & Taylor, Neiman Marcus, and Saks Fifth Avenue.

Mid-Scale Department Stores

Depending upon location, and the following Characteristics a store is termed as mid scale departmental store;

- Sale of cosmetics.
- Sale of some brand names, with greater emphasis on private label brands.
- Sale of accessories.
- Sale of some small household appliances.
- Sale of furniture in larger locations.

Compared to upscale departmental store the following differences emanate;

- Sale of cosmetics but generally not brand name. Fragrances and beauty supplies may be placed further into the interior of the store, without cosmetic specialists at the counters.
- Greater proportion of moderately-priced brand names.
- Accessories and purses aren't upscale brand names, with greater proportion of lesser-known or private label branded items.

Mid-range department stores that operate in the United States include national chains JCPenney and Kohl's. The national chain Sears is also in this category, but often is considered a lower grade mid-range department store due to marketing a higher proportion of private label and lesser-known label goods in apparel and housewares segments. Sears differs from most mid-range department store chains in its common inclusion of departments for hardware, garden and outdoor equipment, automotive service, and large appliances and electronics — product segments more typical of discount or so-called “big box” retailers.

4. Discount Department Store/Super-Store

A discount department store has the following characteristic features;

- It is a high-volume, low-cost outlet selling a broad product assortment for less than the conventional prices.
- It deals with the product lines in the department stores including the electronics, furniture, appliances, housewares and the like.
- Shopping carts and centralized checkout service are provided.
- Customer service is not usually provided within store departments but at a centralized area. Products are normally sold via self-service with minimal assistance.
- In case of nondurable goods private brands are offered whereas in non durable segment emphasize is on well known manufacturers brands.
- Less fashion sensitive merchandise are dealt.

NOTES

Some discount department stores that operate in the United States include: ShopKo, Kmart and Wal-Mart. Although Shop Ko and Kmart are more upscale than Wal-Mart; further, Wal-Mart could be considered a “super discount department store”. Target is also in this category but may be considered a more upscale Discount Department Store because it puts a greater emphasis on current fashion and on special merchandise lines

5. Off-Price Retailer

In off-price retail setting the merchandise is sold at less than the retail prices. It has the following features;

- Most products are name-branded.
- Products may be over-runs, seconds, or last season’s stock liquidated from department stores or may be in odd sizes, unpopular colours, or with minor defects.
- Product mix typically emphasizes women’s clothing and may include men’s clothing, children’s clothing, shoes, accessories, perfume, toys, housewares, or packaged gourmet food.
- Stores are most frequently located in power centres but may also appear in shopping malls.

Internationally the Off-price retail department stores include, Factory 2-U, Century 21, Gabriel Brothers, and Burlington Coat Factory. In india the off price retail stores include Big Bazaar ,c3 (Cost,Comfort,Convenience) ,Central ,Fabmall ,Akbarally’s Family Mart ,Foodworld ,Home Stop ,Hyper Mart ,Lifestyle International ,Pantaloons,Shopper’s Stop ,Spencers,Westside and the like

The Rs 200-crore Provogue (India) Ltd has launched Promart, its first off-price store in the country, and is set to open five more across India in a bid to capture 10 per cent of the \$25-billion retail market by 2010. It would target the new generation shoppers through something of a “stock-clearance” model by making available domestic and international branded items at affordable prices.

6. Variety stores

Variety store or price-point retailer is a retail store that carries a large variety of usually inexpensive merchandise with a single price point for all items in the store. Typical merchandise includes cleaning supplies, candy, cooking supplies, small tools, personal hygiene supplies, kitchen supplies, organizational supplies, small office supplies, holiday decorations, electronics supplies, gardening supplies, home decor novelties, toys, pet supplies, out of print books, DVDs and VHS tapes, food products and automotive supplies.

Some examples of variety store include

- Dollar store, \$1.25 store, 99-cent store, etc. in the United States
- Loonie store, or Toonie store in Canada after the nicknames for the Canadian one-and two-dollar coins respectively.

- Pound shop, £2 shop, 50p shop, etc. in the United Kingdom
- 49 to 99 shop in India
- 100 fils Shop in Kuwait
- 2 riyal Shop in Saudi Arabia and other Gulf countries

Some variety stores are not true “single price-point” stores despite their name. Often the name of the store, such as “dollar store”, is only a suggestion, and can be misleading. Some stores that call themselves “dollar stores”, such as Dollar General and Family Dollar in the United States, have items that cost more or less than a dollar. Some stores also sell goods priced at multiples of the named price. The problem with the name is also compounded in some countries by sales tax, which leads to taxable items costing the customer more than a dollar. Some purists maintain that the phrase “dollar store”, in the strict sense, should only refer to stores which sell only items that cost exactly \$1. Some stores can have prices which are not round multiples of currency, such as the “99-cent store” or “88-yen store”. As inflation increases the nominative price of goods, the names of such stores must also change over time.

There are four reasons a dollar store is able to sell merchandise at such a low price:

- The product is a generic or private label, often specially manufactured for such stores, using cheaper ingredients and processes than products intended for the mass market.
- The product was manufactured cheaply for a foreign market but was then re-imported by an unauthorized distributor (grey market goods).
- The product is purchased from another retail store or distributor as overstock, closeout merchandise, or seasonal merchandise at the end of the season.
- The items were manufactured to coincide with the promotion of a motion picture, television show or special event (e.g. Olympic games), and are past their prime.

Some stores carry mostly new merchandise, some mostly closeout merchandise bought from other stores below regular wholesale cost. Depending upon the size, some variety stores may have a frozen food and drink section, and also one with fruits and vegetables. The Deal\$ dollar tree and 99 Cents Only Store chains in the U.S. are two such examples. Some stores may have a section of single price point (dollar) items combined on the same premises with a section selling larger, relatively more expensive merchandise like CD players, lamps, and silverware. The flagship store of Jack’s 99 and Jack’s World in New York City is an example of such a store. Jack’s 99 carries all types of items that retail for 99 cents, whereas Jack’s World sells branded goods at discount prices.

In India, they are known as 49 to 99 shops. Typical price range in these shops range between 49 to 99 Indian Rupees. 49 Rupees was approximately equal to one US dollar when these started, also 49 and 99 are near rounds of 50 and 100 respectively to draw the shoppers. Items are generally cheap gift articles, toys, watches, office stationery and crockery.

NOTES

7. Factory outlet

An outlet store or factory outlet is a retail store in which manufacturers sell their stock directly to the public through their own branded stores. The stores can be brick and mortar or online. Traditionally, a factory outlet was a store, attached to a factory or warehouse. The factory outlet is a fairly well-established concept in the West, where it forms a subset of a larger format called the off-price retailer. Factory outlets basically sell manufacturer closeouts, discontinued merchandise, irregulars, factory overruns and cancelled orders. During the past few years, there has been considerable increase in the number of factory outlets bringing about several advantages to consumers as well as manufactures. Besides usual retail outlets positioned on high streets and malls, another place where shoppers can buy products is the premises of factory, which is fast turning into another retail format. This format offers branded goods at a reasonable price, ranging from 30 to 70 per cent lesser than the normal retail price. Brand-craving consumers prefer these outlets as they get products with brand tags at an affordable price range.

Factory outlets are equally important for the companies as they serve as media of clearing excess stock and unsold stuff. Factory outlets are profitable because of low operating costs, limited services, low rents, and elimination of the distributor or retailer links in the distribution chain. Manufacturers have supreme control of their outlet, and can run the store in their own way with respect to visibility, prices, promotion and inventory.

Factory outlets have products ranging from apparel, accessories, sportswear, footwear, luggage, children's clothing to wide variety of men's and women's clothing.

The concept of factory outlets came to India from overseas markets like Singapore, Hongkong, Thailand, Europe and US. Factory outlets originated in India once the apparel majors such as Arvind, Madura, and Raymond wanted to get rid of their old inventory to keep the working capital under control. Another example is Globus which has inaugurated its first factory outlet at Chennai in 3,200 sq. ft. store and has various sections for menswear, womenswear, ethnicwear, workwear and accessories. In branded apparel business, globally and in India approximately 15 to 20 per cent of the business comes from the factory outlet business.

Internationally, factory outlets prospered for the following basic reasons:

- Manufacturers could control where their discounted merchandise was sold. Normally, outlets are placed in out-of-the-way locations, depressed areas or areas with low penetration of the firm's brands. Most factory outlets occupy large, low overhead locations known as outlet malls or sometimes even shopping centres called outlet centres. This is done to expand customer traffic and use co-operative ads.
- Despite the discounts, factory outlets can be profitable due to the low operating costs — no frills, few services, low rents, and elimination of the distributor/retailer links in the distribution chain.

- Manufacturers have supreme control of their outlet, and can run the store in their own way — visibility, prices, promotion and inventory.

The outlet centres has progressed from no frills warehouses to well-designed buildings with a strong entertainment component. Basically, manufacturers opened so many outlets they could no longer fill them with irregulars and overruns. So, some factory outlets also offer full line, first quality merchandise. In fact, some outlet centres are located in strong tourist centres. For instance, there is a 1.2 million sq ft factory outlet mega mall at the Niagara Falls, New York. In India Marathahalli, the “off price/ outlet mall” of Bangalore, where scores of well-known manufacturers have factory outlets. This phenomenon is not a Bangalore exclusive — Delhi has its own string at Mahipalpur off the NH8, and Hyderabad at Trimulgherry.

8. Membership club

A membership club also called as warehouse club is a retail store, usually selling a wide variety of merchandise, in which customers pay annual membership fees in order to shop. The clubs are able to keep prices low due to the no-frills format of the stores. It aims at the price conscious consumers, who must be members to shop there. In addition, customers are required to buy large, wholesale quantities of the store’s products, which makes these clubs attractive to both bargain hunters and small business owners. Most consumers are however the final users. The membership club is located in inexpensive or isolated industrial locations. It relies less on advertising and offers merchandise at lower price. The general merchandise dealt includes consumer electronics, appliances, food and sundries, health and beauty aids, tobacco, candy and the like. The inventory turnover is several times more than that of the department store.

9. Flea market

Flea market or swap meet is a place where vendors come to sell or trade their goods at discount prices in plain surroundings. The goods are usually inexpensive and range in quality depending on several factors, which might include urban or rural location, part of the country, or popularity or size of the flea market. It relies heavily on the traditional street selling where shoppers touch and sample items and bargain over prices. The vast majority of flea markets in rural areas sell goods that are second-hand. Larger selections of newer but usually inexpensive items can be found at some of the larger or more urban flea markets. They have also sometimes been used as an outlet for bootleg movies and music or counterfeit goods ranging from clothing, shoes, handbags, fragrances, etc. The semi-spontaneous nature and vendor-oriented open-market layouts of flea markets usually differentiate them from thrift stores. Some flea markets offer concerts and carnival-type events to attract shoppers.

NOTES

10. Catalogue showrooms

In catalogue showroom the customer walks into the retail showroom and goes through the catalogue of the product he would like to purchase. The product code numbers are handed over to the clerk who arranges for the product to be brought out from the warehouse for inspection and purchase. They deal in hard goods such as houseware, consumer electronics, fitness equipments and the like . Popular catalogue retailers include Argos, Best products etc.

Argos is the largest general-goods retailer in the United Kingdom and Republic of Ireland with over 700 stores. Argos is unique amongst major retailers in the U.K. because its primary means of displaying goods to customers is via a catalogue. Customers browse through the Argos catalogue, select items to purchase, pay for the items, and then collect the items from the in-store collection desk or have the item delivered to their home. Argos, is keen on entering India and is in talks with the Rahejas to enter the catalogue showroom segment in India.

3.3.3 Non-store based classification

Non-store retailing refers to retailing done without conventional store-based locations. This is a fast growing method used by retailers to sell products through methods that do not have customers physically visiting a retail outlet. In fact, in many cases customers make their purchase from within their own homes. The consumer contact occurs outside the confines of the retail store, such as vending machines and electronic shopping, at home personal selling, telemarketing, mail order, and catalog buying.

1. Direct selling

Direct selling industry in India is generally defined as a Low investments and high returns affair. It involves the making of a personal contact with the end consumer at his home or at his place of work. The Indian Direct Sellers Association (IDSA) has compiled a comprehensive report on domestic and international patterns followed by the direct selling industry. According to the survey, the global turnover of the direct selling industry has more than doubled over 10 years, from US \$33.32 millions in 1988 to US \$81.87 millions in 1998. The number of sales people has gone up by about four times in the corresponding period, from 8.48 million people in 1988 to 33.56 millions in 1998.

In India, the total retail sales amounted to US \$140 millions in 1998-99 (Rs. 588 crores) and is estimated to be in the region of US \$170 millions (Rs. 714 crores) in 1999-2000. According to the survey, the direct selling industry in India has been witnessing a 60-65 per cent growth in sales turnover over the past few years. In 1998-99, the industry grew by 62 per cent and is expected to be roughly in the same region in 1999-2000. The industry is set to cross the USD 1000 million mark by 2010.

There are about 200 direct selling companies in India, and close to 70 per cent of these are region-centric players. Of the other 30 per cent that operate on a national level, only about 15 are big time players. Of the 200 direct selling companies in India, nine are DSA members. The contribution made by DSA members to the industry averages 40 per cent. The popular direct selling companies include Avon , LB Publishers and Distributors, Tupperware, Amway, Oriflame, Modicare, Herbalife , Lotus Learning etc.

In terms of profile of products purchased from direct selling companies, 68.9 per cent are household goods, while 12.4 per cent are personal care products. Family products (including educational material, leisure products) account for 14.4 per cent, business aids and others (mainly promotional material) account for 3.59 per cent, and food products (like dietary supplements) account for 0.71 per cent of all products purchased. In world markets, household goods account for 39.5 per cent of all products purchased while personal care products account for 30.4 per cent. There is expected to be an increase in the number of food products sold through this chain. Products that have a long shelf life, like tea, will soon be sold through direct selling companies.

It has been found that in India, about 80 per cent of direct selling deals take place at home, 10 per cent at the workplace, 5 per cent at temporary locations like fairs and exhibitions, 2 per cent over the phone, and the remaining 3 per cent at undefined locations. Worldwide, however, about 55 per cent of sales take place at home and 30 per cent at the workplace. In India, 50 per cent of total sales are made through individuals, 35 per cent through party plans, 10 per cent through a combination of individuals and party plans, and 5 per cent through customers placing orders directly with direct selling companies. Women comprise up to 70 per cent of all sales people in India, couples account for 20 per cent and males account for 10 per cent. The number of men is expected to go up, because companies like Modicare, Amway and Herbalife have been encouraging men in their sales force.

At present, there are about 400 types of products with over 1,700 variants being sold by these companies. The latest to join the list is insurance which contributes around 10 per cent to revenues coming from direct selling. While most companies sell cosmetics, personal hygiene and home care products and health supplements, there are some that sell semi-precious jewellery (Quantum International Ltd), educational products and multimedia (Direct Educational Technologies India Pvt. Ltd). The size of direct selling industry, which is around Rs 3,100 presently, will expand four folds to Rs 15,000 crore by 2012, driven by segments like health, wellness and personal care. The fastest growing segments in India in order of size are nutrition, kitchen, education, personal care and beauty products.

Direct selling is facing the following challenges:

- Increase in single-person and working-couple households decreases the chances of finding someone at home;

NOTES

- Home-party companies are having difficulty finding non-working women who want to sell product part-time;
- Increases in crimes against individuals has made consumers reluctant to invite strangers into their homes; and
- Recent advances in interactive direct-marketing technology mean that the door-to-door salesperson may be replaced by the telephone, the television, and the home computer.

2. Direct marketing

Direct Marketers are retailers who are principally selling via direct methods. They may have a primary location that receives orders but does not host shopping visits. Orders are received via mail or phone. It involves various non personal methods of communication. Although direct marketing initially consisted mostly of direct mail and mail-order catalogs, it has taken on several additional forms, including telemarketing, direct radio and TV, and on-line computer shopping. The growing use of direct marketing is largely a response to the “demassification” of mass markets, which has resulted in an increasing number of fragmented market segments with highly individualized needs.

The following aspects have led to the popularity of direct marketing;

- Higher cost of driving including traffic congestion and parking problems
- Longer waiting time, checkout lines
- Availability of toll-free numbers
- Availability of credit through increased use of credit cards
- Increase in use of computer and internet
- Increased time pressures on consumers

Direct marketing has the following advantages;

- The cost is lesser due to the need for fewer inventories, lack of need for display to attract the customers, lack of need for prime location. These aspects will lead to low startup cost.
- Customers can do the shopping conveniently due to lack of crowds, parking congestion or checkout lines. They can visit the shop at their convenient time.
- Due to reduced startup costs the products are priced lesser.
- Specific consumer segments could be targeted through database marketing efforts which will result in more successful efforts.

However it has to be kept in mind that the Indian consumers like to touch and feel the product. Shopping is a leisure time activity and a therapy. In direct marketing the products cannot be examined before purchase. More attention and cost is spend on catalogue preparation and mailing , keeping track of shipments, monitoring purchases and returns and updating the mailing list. The conversion rate of catalogue marketing is very much lesser. Sometimes the delivery of products ordered through internet, telephone or telemarketing efforts may be delayed or goods may be delivered in damaged conditions which will affect the image of the firm.

The various forms of direct marketing viz., the catalogue marketing, television shopping and electronic shopping are discussed below;

(i) Catalogue retailing

The catalogue retailing focuses on specialty products. Catalogue are sent to customers from which the products are chosen and orders are placed. The products are delivered to the customers without them having to visit the shop. It offers greater convenience to the shoppers. However the catalogue should reach the target customers in which the customer database plays a key role. Many firm have shifted their focus on printing 'specialogs' in addition or in the place of catalogue. The 'specialog' focuses on a particular consumer segment, emphasizes a limited number of items which is of interest to the consumers. To reduce the cost some companies accept advertisement of related but non competing concerns. The catalogues are also sold in bookstores, supermarkets, airports apart from hosting the same in companies' websites. The chances of a shopper ending up in purchase of a product or otherwise the conversion rate is more in case catalogue bought rather than in case of mailed catalogue.

(ii) Television shopping

The product is advertised on television along with the details regarding product features, price, gurantee/warrantee etc. The toll free number in various cities is given through which the buyer can make a call and place the order. The products will be delivered home. TV retailing has two components; shopping networks and infomercials. On shopping network the program focuses on merchandise presentations and their sales usually through telephone orders. For eg., Home shopping Network. An informecial is a lengthy commercial typically for 30 minutes or more for a specific good or service. As the program is aired the shoppers can call in orders which are delivered to them.

(iii) E-tailing

It's not just brick and mortar retail stores that are booming in India, e-commerce is also seeing a surge and sales are expected to reach \$100 billion in 2008. The reduced cost of computers, broad band connection and increased computer literacy makes e-tail a reality. The shoppers use the web to surf information regarding products they want to buy. The percentage of shopping on the internet is very less due to security issues and reduced credit card usage. However the sale of books, CD, services like air ticket, train ticket, hotel reservations are preferred by the shoppers. A detailed account of e-tailing has been already presented in Unit 1.

3.3.4 Other non traditional form of retailing

This section deals with some of the emerging trends in retailing viz., automated vending, video kiosks, airport retailing, cash and carry outlets and shopping malls/multiplex.

NOTES

1. Automated vending

Selling through automated vending machines gained momentum after the second world war. There are now about 4.5 million vending machines in the Us- one for every 55 people. Compared to store selling vending machines offer greater convenience by being available 24 hours per day and have replaced many services requiring human intervention for eg., banks, gas station etc. The products usually dealt in vending machines are softdrinks, candy, cigarettes and newspapers. Tea and coffee machines are popular sight at the airports in India. The expensive equipment and labor required to stock and service vending machines makes this a costly channel of distribution and the prices of vended goods are often 15-20% higher than those in retail stores.

2. Video Kiosks

Video kiosks are an interactive electronic computer terminal that displays products and related information on a video screen. It has a touch screen which enables the consumers to make selection. The video kiosks are used in some store to enhance customer services whereas it can also be used to place orders and complete transactions. In a store where a number of items of stored , the video kiosks enables the shoppers to easily find what they want without moving around and hence it makes shopping easy and enriches the experience. In case of placing orders through video kiosks , the kiosks are connected to retailers computer networks or to the web. There are 1.5 million video kiosks in use throughout United States and they account for \$3 billion in annual sales.

3. Airport retailing

There is a spur in the number of passenger in airways. Subsequently the airports have moved a long way from merely being a transportation hub to providing greater ambience to the passengers. Airports now hosts a number of retail outlets dealing with apparels, jewellery, food marts, bookstores etc. Inside the flight too, catalogues are present wherefrom the customers can choose and order the product. The facility to bid for the products is available too.

4. Cash & Carry outlets

In cash & Carry outlets the customers do their own order picking, pay in cash and carry the merchandise away. It is a wholesale format aimed at small retailers and businessmen. It provides one stop shopping experience offering a wide assortment of goods both food and general merchandise. The shops are open for longer business hours enabling the customer to do shopping at a convenient time. Metro AG, Germany and Shoprite of South Africa have recently started their operation India.

5. Shopping Malls

Shopping malls are not retail stores in the real sense. It is a common mall in which a large number of stores are located. The shopping mall has one or even a couple of anchor stores. The variety of retailers that are located within them are usually quite different from each other. The anchor stores are usually given the sites at much subsidized rates as the promoter of the shopping mall has a lot to gain from their mere presence. The anchor stores bring in substantial customer traffic which attracts other retailers to the open the stores in the mall. Usually promoters of malls prefer to give out various stores of different sizes at a fairly low lease rental for first few years. Apart from fixed monthly rental, the promoter may also take a percentage of sales from each of their tenants. It provides a win-win situation for the retailer and the promoter.

Multiplex are also making a foray in India. The multiples host a number of cinema theatres along with retail stores dealing with food and general merchandise along with services like personal care, ATM centres.

Many retailing innovations are partially explained by the **Wheel of Retailing** concept. The **Wheel of Retailing** concept states that new types of retailers usually begin as low-margin, low-price, low-status operations, but later evolve into higher-priced, higher-service operations, eventually becoming like the conventional retailers they replaced. According to this concept, new types of retailing forms challenge established retailers that have become "fat" by letting their costs and margins increase. The new retailers' success leads them to upgrade their facilities and offer more services, increasing their costs and forcing them to raise prices. Eventually the new retailers become like the conventional ones they replaced, and the cycle begins again when still newer types of retail forms evolve with lower costs and prices. The Wheel of Retailing concept seems to explain the initial success and later troubles of department stores, supermarkets, and discount stores and the recent success of off-price retailers. To be successful, retailers of the future will have to choose target segments carefully and position themselves strongly. Essentially, retailers can no longer sit back with a successful formula. To remain successful, they must keep adapting to the changing scenario.

3.4 CHOICE OF LOCATION

Though a number of formats are emerging like e-tailing, catalogue marketing etc as discussed in the previous section, most of the shopping is done by the consumers in the stores.

Hence choice of location is a most important strategic decision in retailing. It is a major factor contributing to the success or failure of a retail business. A good retail location may lead to a success even if merchandise dealt is limited, prices are high and promotion is not done in an attractive manner. On the other hand even if the assortments are wide,

NOTES

prices are affordable and promotion is very attractive a retail firm may fail if the location decision is made wrongly.

Location is a crucial decision due to the following reasons;

- It is one of the most important factor consumers take into consideration while choosing a store
- It is the least flexible element in the strategic mix. A retailer cannot keep changing his location due to the fixed nature, huge investment and the length of lease agreement. Even if the lease agreement can be terminated, it will lead to customer loss and cause irritation among them.
- As mentioned above a bad location can lead to failure. On the other hand a good location will definitely contribute to success even if other strategic mix or not favourable.
- The location of the store contributes a greater extent to the store's image.
- The store location affects the long run and the short run planning. A retailer must choose the site which is consistent with the mission, goal and target market for an extended time. In the short run it has got specific implication of the other element of the strategy mix.

The retailers should follow the following four steps in deciding the location.

1. Evaluate alternative geographic (trading) areas in terms of the potential characteristics of Residents' , offices, commercial establishments and existing retailers.
2. Determine the desirable location from the three basic formats viz., isolated, unplanned district or planned shopping centre.
3. Select the general location for the store and evaluating the alternative store sites
4. Computing the overall rating and making the selection.

I. Trading Area Analysis

Investigating the alternative trading area is the first step in choosing the store location. A trading area is a geographical area containing the customers of a particular store or group of stores for specific goods or services. Trading area analysis enables to determine the current and future potential of the 'catchment' area of the stores. The analysis provides several other benefits listed below;

- It enables to understand the consumers' demographic and socioeconomic characteristics.
- The number of stores that can be operated in a given area can be calculated
- The analysis would reveal the media habits of the potential shoppers on the basis of which the promotional strategies as suitable to the target customers can be planned.
- It enables to know whether the store would cater new customers are will take away business from the existing stores. The trading area over-lap where the same customers are served by different branches will provide insight to decide the optimum location.

- The problems associated with opening the store in the trading area are considered and can be highlighted and alternative location or remedial measures can be derived.
- The extent of competition, availability of infrastructure, support from financial institution, availability of man power, real estate cost, legal restrictions etc can be understood by doing the analysis.

The Geographic Information System (GIS) is a software which helps the retailer in performing the trading area analysis. Evaluation of alternative location becomes easier with the GIS. It combines digitized mapping with key locational data to graphically depict the trading-area characteristics such as the population demographics, data on customers' purchases, the competitors' location- current and proposed etc.

The trading area can be divided into three zones viz., primary, secondary and tertiary. The primary area is located close to the store and has the highest density of customers (50 to 80 percent) and percapita sales. The overlap with other trading area is also lesser. The secondary trading area has an additional 15 to 20 percent of stores customers', it is located outside the trading area and has a widely dispersed customer segment. The tertiary trading area includes all the remaining customers that are most widely dispersed. It includes the customers who occasionally shop at the store or shopping centre and also shoppers who travel greater distance to patronize the stores.

Factors defining trading areas

The size and shape of the trading area is usually influenced by the following factors;

1. The ***type of store*** is an important factor determining the trading area. The store could be a destination store or a parasite store. The destination store is one which has better assortments, stronger store image, promotes more and has shoppers who are willing to travel distance to shop at the store. It has a much larger trading area than that of the competitor with a me-too appeal. A parasite store does not have the trading area of its own and depends on people who are drawn to the location for other reasons. For example a book shop or snacks bar in an airport.
2. The ***location of the competitors*** affects the trading area available for each store. The trading area increases if the distance between two stores is more. On the other hand if the distance is lesser it need not necessarily reduce the trading area as more shoppers may be attracted due to store grouping leading to variety of goods and services. However the percentage of sales by each shop in the trading area may be less due to competition.
3. Store's trading area is affected by its own ***size***. The larger the store greater would be the trading area because a larger store has generally more assortments. However the trading area does not proportionately increase with the size of the store. But generally the trading area of a supermarket is more than the trading area of a convenience store.
4. The ***housing pattern of the shoppers*** has an impact on the trading area. If an area is densely populated then the retailer has to be closer to the consumers and the

NOTES

trading area would be small due to several shopping complex situated nearby for the same reason. If the population is geographically spread out with the people are living in single-unit housing, the trading area is larger as the retailer has to attract shoppers from a greater distance.

5. The *media availability and the media habits* of the shoppers should be considered by the retailer in deciding the promotion mix. The retailer should weigh the cost of promotion against the possibility of attracting a bigger trading area.
6. The *vehicle population, road conditions, travel time/driving time* and the like usually reduces the trading area size as today's consumers are hard pressed for time.

Evaluating the trading area

The various characteristics of the trading area should be considered before selecting the same. The factors to be evaluated includes the population size and characteristics, availability of labour, closeness to the sources of supply, promotion facilities, competition, availability of locations and legislation. The factors are grouped under three heads viz., shoppers profile, economic base, and completion level and discussed below;

1. Shoppers profile

The retailer before making the decision regarding the trading area should take into consideration various aspect like the population size, age distribution, income, buying power, number of households, education level, consumption pattern and the like. The data regarding the psychographic and behavioural profile will also provide impetus to make strategic decision. The data relating the demographic profile could be obtained from the reports of the organization such as the Central Statistical Organization (CSO), National Council of Applied Economic Research (NCAER), ACNielsen and the Indian Marketing Research Bureau (IMRB). Apart form this, the psychographic profile could be traced by conducting a study involving primary data collection. The data collected would enable the retailer to make decision regarding the trading area in which the retail unit can be run successfully. For eg in a trading area where most of the population have low income a lifestyle store would not be profitable as the shoppers cannot afford for the same. Likewise if most of households in a particular area is of the nuclear family type then the amount of purchase would be small and the consumption pattern would differ.

2. Economic Base Characteristics

The economic base refers to the commercial and industrial infrastructure and the residents' source of income in the trading area. A retailer would benefit more by concentrating in an area where different types of non related industries are present rather than an area dominated by a single industry as the demand and consumption pattern be affected by the cyclical fluctuations in one industry. The retailer should also take into account the percentage of labour in each industry, transportation, banking facilities, the impact of economic fluctuations and the future of the individual firms.

3. Competition

If the competition is too intense in a location it may not be a good choice, though other characteristics of the desired market are attractive. While evaluating the competition the retailer should consider the number of existing retail stores, their market share, the propensity for new stores to start operation, the strength and weakness of other retail stores, the short-run and long-run trends and the level of saturation. On the basis of level of saturation the trading area could be termed as understored, overstored or saturated trading area. An understored trading area has only few stores compared to the demand raised by the population i.e. the unserved market is more. As against this an overstored trading area has many stores selling the product and services leading to more supply than the demand raised. As a result many retailers cannot earn an adequate profit. A saturated trading area has the right number of stores to satisfy the need of its population for a specific good or service. Customers visit the area because of wider selection and the assurance that they will be able to purchase the desired merchandise at competitive price and enjoy good service.

The level of saturation can be measured by ratios like number of persons per retail establishment, average sales per retail store, average store sales per capita or household, average sales per square foot of selling area. Competitive information can also be acquired from secondary sources such as the directories published by trade associations, chamber of commerce, yellow pages, specialized trade magazines, local newspapers, websites etc.

II. Identifying the desirable location

The retailer can choose among three different location types viz., isolated store, unplanned business district and planned shopping center. In each of the areas the various factors like the extent of competition, parking facilities, nearness to other non retail institution and the like should be considered.

1. Isolated store

An isolated store is a free standing retail outlet located either on a highway or a street. There are no adjacent retailers with whom the stores share the shoppers' traffic. There are various advantages in choosing such retail location. The competition in location is less and the retail cost is relatively low. There is flexibility in terms of space, parking lots, choice of location and operation as no group rules need be followed. The facilities can be designed to individual specifications. There are also various disadvantages in selecting an isolated location. They are less popular and it may be difficult to attract initial customers. The variety seeking customers may not be willing to travel to shop in one store only. Operating costs such as the outside lighting, maintenance, security charges has to be borne by the individual store as it cannot be shared. Large amount may have to be spent on advertising to inform and attract the customers.

NOTES

2. Unplanned Business District

An unplanned business district is a type of retail location where two or more stores are situated together in such a way that the total arrangement or mix of stores is not due to prior long range planning. Stores are located in close proximity due to the advantages they can reap together and not for the district. There are four types of unplanned business districts viz central business district, secondary business district, neighbourhood business district and string.

i. Central Business District

A Central Business District (CBD) is the hub of retailing in a city. It is that part of the town or city which has the greatest density of office building and stores. It has high vehicular and pedestrian traffic and draws shoppers from whole urban area including all class of people. CBD has atleast one major department store and a broad grouping of specialty and convenience stores. The arrangement of stores does not follow any preset format. It depends on first come first located basis and the trends in retailing.

CBD draws large number of shoppers due to the following attractions; access to public transportation, excellent goods and services assortments, wider range of prices, a variety of store types and customer services, a high level of pedestrian traffic and proximity to commercial and social facilities. However it suffers from the drawbacks like inadequate parking, traffic, congestion, high rents and taxes, more travel time etc. The CBD can be unattractive to people living in suburbs. Some examples of CBD are the Fountain area in Mumbai and Teen Darwaza in Ahmedabad. While a city may have a single CBD, metros have several.

ii. Secondary Business District

A secondary business (SBD) district is an unplanned shopping area that is located on service roads at the intersection of two major streets in a city. They deal in similar goods and services as sold by the CBDs. However the CBDs have smaller stores, less width and depth of assortment and a smaller trading area, so that the consumers do not have to travel far. The SBD sell a higher proportion of convenience oriented items.

The SBD enjoys the benefits like good product assortment, access to throughfares and public transportation and more personal service. the major weakness of secondary business districts are discontinuity of offerings, parking difficulties and fewer outlets than in CBDs.

Neighbourhood business district

A neighbourhood business district (NBD) is an unplanned shopping area that appeals to the convenience shopping and service needs of a single residential area. An NBD contains

several small stores, such as the dry cleaners, stationary shop, personal care centers, restaurants and the like. The leading retailer is typically a supermarket, a large drugstore or a variety store. Neighbourhood business districts are situated on the major street(s) of residential areas.

The major advantages offered by NBD's are convenient location, longer hours, good parking and a relaxed atmosphere. The drawback is that they offer a limited selection of goods and services and prices are generally higher because the competition is lesser than in the case of CBD or SBD.

iv. *String*

A String is an unplanned shopping area comprising a group of retail stores often with similar or compatible product lines, located along a street or highway. There is little extension of shopping onto perpendicular streets. A string may start with an isolated store the success of which may bring competitors in the latter stage. The retailers situated in the string include the restaurants, gift shops and music stores and the like.

The string location enjoys the advantages of an isolated store such as lower rent, more flexibility, better road accessibility, parking facilities and lower operating costs. However it suffers from less control over prices, lower store loyalty and limited product variety.

3. *Planned shopping centre*

A planned shopping center consists of a group of architecturally unified commercial establishments on a site that is centrally owned or managed, designed and operated as a unit, based on balanced tendency and accompanied by parking facilities. Balanced tendency means the stores in the planned shopping center complement each other as to the quality and variety of their product offerings and the kind and number of stores are linked to overall population needs. In order to ensure the balanced tendency the management usually allocates the total space available to each retail proportionately and limits the product lines that be sold by every store. A cooperated and cooperative long-run retailing strategy is followed by all the stores.

A planned shopping centre enjoys a number of benefits like cooperative planning and sharing of costs, assortments of goods and services, unified shopping center images, maximum pedestrian traffic and access to highways and parking lots. The limitations associated with the planned shopping center includes reduced flexibility of operation for the retailers as they have to cooperate with the policies, higher rent than the isolated store, restrictions on goods sold, and the prevalent competitive environment.

There are three types of planned shopping centers viz., regional, community and neighbourhood.

NOTES

- The ***regional shopping center*** is a large, planned shopping facility catering to a geographically dispersed market. It has at least one or two department stores and 50 to 150 or more smaller retailers. It offers a very broad and deep assortment of shopping-oriented goods and services so as to attract more foot fall.
- The ***community shopping center*** is a moderate-sized, planned shopping facility with a branch department store and /or a category killer store as well as several smaller stores. It offers a moderate assortment of shopping and convenience oriented goods and services to consumers from one or more nearby well populated residential areas. The community shopping center has a better long-range planning than the neighborhood shopping center. Two types of community center are the *power center* and the *life-style center*. A *power center* is a shopping site with a number of category killer stores and small stores. Several complementary stores specializing in one product category may also be situated. A lifestyle center is an open-air shopping site with a 1,50,000 to 5,00,000 square feet of space and has upscale well-known speciality stores. The stores mainly focus on apparel, home products, books music and restaurants.
- The ***neighbourhood shopping center*** is a planned shopping facility with a supermarket and other retail stores including a bakery, dry cleaner, stationary, personal care center, restaurant, hardware shops and petrol pumps. The center mainly focuses on people living or working nearby.

III. Selecting the general location and evaluating alternative store sites

In planning the location, the retailer has to choose a locational format viz., isolated, unplanned district or planned shopping center. The benefits and drawbacks of each has been discussed in the previous section. The next step to be taken by the retailer is to choose a broadly defined site. Two decisions are involved in this. First the retailer has to decide the specific kind of isolated store, unplanned district or planned shopping center location. If a retailer decides on a isolated store in an unplanned business area then it must decide a CBD, SBD, NBD or string. If a planned shopping center is chosen then further the retailer must choose the regional, community or neighbourhood shopping center.

Second the retailer should select its general store placement. In case of an isolated store it means selecting a specific highway or street. In case of unplanned district or planned center it means picking up a specific district or center.

In this third step the retailer narrows down the decision in the first two steps and then chooses a general location. It includes the evaluation of specific alternative sites including their position and the terms of tenancy. The factors to be considered in assessing and choosing a general location and specific site within the location are described in the following section.

Factors to be considered in location and site evaluation

Extensive analysis is required to select a general location and a specific site. An optimum site is called the **one-hundred percent location**. The optimum site differs from one retail unit to the other ie what is optimum for a apparel store may not be optimum for a convenience store. Two firms may rate the site differently based on their requirements. However the following factors will be generally considered in selection of a location and a specific site.

1. Traffic

Traffic refers to both pedestrian and vehicular traffic. The traffic that passes the site is an important determinant of the potential sales to be generated in the store. The pedestrian traffic refers to the number and type of people passing by. Not all the passers by are counted, some retailers use selective counting where only the passers with carrying the shopping bags are counted. While counting the pedestrian the age and gender should be taken into consideration. The time should also be taken into account which will allow the retailer to identify the peak and slag hours. Likewise in taking the vehicular traffic counts, the retailer should study the extent and timing of congestion.

2. Transportation

Nearness to the transportation facility is important for people who do have their own vehicle. The availability of buses, taxis, subways, trains and other kinds of public transport should be taken into account. The nearness to the major roads, driving time, transportation network etc should be rated before selecting the location. A related factor is the the road condition which includes the age, number of lands, number of stoplights, congestion, state of the repair and maintenance work etc. For eg a site in old, narrow, congested road which needs to be repaired is not a good selection.

3. Parking facilities

Availability of parking facility is assuming an important role in the shoppers' choice of a store. Increase in the vehicle population, has made it difficult to get a parking slot. The safety consideration and cost of parking is also questionable. The ingress/egress- the ease of entering and exiting the sites parking also limits the accessibility. The number and quality of parking spots, their distance from store and the availability of employee parking should all be evaluated. The extent of parking facilities required depends on the store's trading area, type of the store, the proportion of shoppers using a car, the existence of other parking lot and time spend in a shopping trip (it determines the turnover of spaces), the flow of shoppers and parking made by the non shoppers.

4. Visibility

Visibility refers to customers' ability to see the store and enter the parking lot safely. Good visibility is less important for stores with established and loyal customers and for stores with limited market areas as the customers already know the place where the store is situated. The extent of visibility should be kept in mind while choosing the location and site.

NOTES

5. Amenities available

The availability of other services like restaurants, banks, ATMs, petrol bunks etc should be considered in the selection process.

6. Store composition

A market with a large number of stores usually has more people visiting the area than locations where one or two stores exist. The type of stores that exist in the area is also equally important. The type of stores should be compatible with the kind of business that the retailer wishes to conduct. The type of competition also needs to be taken into account along with the presence of food, entertainment avenues and the like. If the store in a given location complements, blends and cooperate with one another, and benefits from others' presence, affinity exists. When the affinity is strong, the sale of each store will increase due to higher customer traffic. The compatibility can be measured with the degree with which the stores exchange customers.

7. Product mix offered

The kind of product mix to be offered by the retailer affects the choice of location. A food and grocery retailer or a supermarket would need to be located near or in a residential area. Locating the supermarket in a purely business district may not be suitable. Similarly a boutique dealing with highly priced, designer collection should be situated in the area where the residents could afford the same ie upmarket area which suits the image of the boutique.

8. Specific site

The specific site considered for situating the retail outlet should be reviewed in terms of visibility, placement in the location, size and shape of the building, condition and age of the lot and building. Visibility is already discussed above. Placement refers to the site's relative position in the district or center. 'Corner influence' can be enjoyed if the retail store is situated in a corner where two streets intersect. It attracts greater foot fall as it is visited by pedestrians from both the streets. The site is normally expensive in view of the inherent benefits. When a retailer rents an existing building for the business then the size and shape of the building along with the condition and age of the building should be given due consideration.

9. Terms of occupancy

Terms of occupancy refers to decision regarding the type of ownership/ the type of lease, for each prospective site. If the store is leased then the terms of lease should be carefully scrutinized. The length of lease period should not be too long or short. If the lease period is too short, the retailer may have to change the stores location which will leading to loosing the customers and the store image. The lease rent should be justifiable for the location because paying too high a rent will erode the profit share of the retailer. Leasing minimizes

the initial investment, reduces the risk, enables to open shop in attractive sited that could not hold more stores, enables immediate occupancy and attract customer traffic besides reducing long-term commitment. The retailer can also opt for sale-leaseback where the large retailers build store and then sell the m to real estate investors who lease back to the retailer on a long-term basis. Retailers can build the stores to their specifications apart having the bargaining power in leasing.

The retailers can opt for a straight lease, percentage lease, graduated lease , maintenance-increase-recoupment lease and net lease. A straight lease is where a fixed amount is paid as rent per month over the life time of the lease. In case of percentage lease the rent is fixed as a percentage of sales or profits. A graduated lease is where the rent increases over a stated period of time. Maintenance-increase-recoupment lease has the provision to increase the rent if the expenses raise beyond a certain point. A net lease frees the property owner form managing the facility and gives the retailer control over the store maintenance. All maintenance cost is to be borne by the retailer.

10. Economies of scale

The retailer should consider the benefits accruing to the company by opening more stores in the location in the long run. The choice regarding the number of stores would depend upon the objective of the owner. In case of company-owned stores the objective may be to maximize profits for entire chain. In this case the retailer would continue to open new stores as long as the marginal revenues achieved by opening new store are greater than the marginal costs.

11. Legal issues

Legal issues like the inflexible zoning, rent, strong pro-tenancy laws and taxation should be considered while selecting the location and site. The legal restrictions ‘freeze’ the land available for new retail outlets and the residential buildings. The law also restricts competition. The zoning restriction affects the kind of the stores allowed, store size, building height, the type of merchandise carried. Voluntary restriction that are not mandated by the government but prevalent in planned shopping centers like required membership in merchant groups, uniform hours, security forces, bans on discount, limits on product lines, fee for common services and the like should be considered.

12. Competition and Neighbors

Other businesses in the prospective location can actually benefit or affect the prosperity of the retail shop. Due consideration should be given to determine if the types of businesses nearby are compatible to the store. For example, a high-end fashion boutique may not be successful next door to a discount variety store.

NOTES

13. Location Costs

Besides the base rent, all other costs involved should be considered while choosing a retail store location. Some examples are listed below;

- Expenses involved in building maintenance, utilities and security
- Payment to be made for the upkeep and repair of the buildings/cooling system/amenities etc
- The additional marketing needed to attract consumers in case of remote location.
- The average utility bill to be incurred
- Repairs or remodeling to be done in a location to fulfill the specific needs
- The property taxes to be paid

Apart from the above factors other consideration like the demographics of the people living in the area, economic base characteristic (discussed in the selection of trade area), global issues on location, cost of operation, difference in various taxes among the alternative sites etc should also be weighed properly in selecting a location and specific site.

IV. Computing overall rating and selection

The last task involved is to compute overall ratings based on the various criteria discussed above. The overall rating of alternative locations is compared and the best location is chosen. The same procedure is used to evaluate the alternative sites within the location. It is often difficult to compare and arrive at a composite evaluation because some attributes may be positive and some may be negative in various locations considered. In this case the selection of location/site should be based on weighing the attributes on the basis of their relative importance.

3.5 STORE LAYOUT AND DESIGNS

Store layout and design plays an important role in defining the store image. The layout and design of a store will enable a retail concern to differentiate it from that of its competitors. It plays a major role in attracting and retaining the shoppers by playing an important role in enriching the shopping experience. The store layout and design tell a customer what the store is all about. It is very strong tool to create store image in the minds of the consumers. The following **fundamentals** should be kept in mind while designing the store;

1. Consistency with store image

The retailer must define the target market which he wishes to serve and then design the store in such a way that complements the needs of the target market. The exterior and interior design and decoration of the store must be in consistent with the image the store wants to project. For example a retailer targeting and the middle class consumers should not design the store in such a way that creates a impression of being an upscale store.

2. Selection of fixtures

The fixtures should be selected in such a way that it reflects the store image. The various types of furniture used should be similar to each other or complement each other. The retailer should also ensure that the flooring does not clash with the furniture and fixtures in the store.

3. Influence the consumer behaviour

The shoppers today are money rich and time poor. They do not want to waste their time in looking around for things except when it pleases them. This should be kept in mind while designing the layout. Efforts should be made to make the shoppers spend more time and money in the store. This is possible by a good interior designing which will enhance the pleasure of shopping. The retailer has to constantly evaluate the store layout and visual merchandising technique in terms of their impact on the consumer decision.

4. Cost Versus value

A retailer must consider the cost associated with the store design element with the value received in terms of higher sales and profits. When deciding the atmospheric issues of store designs, the retailer must consider the cost along with the strategy and customer attraction issues. Likewise while allocating space for merchandise the best location should be provided for the most profitable merchandise.

5. Flexibility

In order to keep the customer engaged and prevent monotony, the retail stores usually change the design in periodic intervals. Hence the store design and layout should be amenable to change. However the change should not lead to wastage of time and other resources. It should also be executed in a smooth manner. The flexibility in design would facilitate convenience and also retain the interest of the shopper apart from attracting more shoppers.

6. Cost effectiveness

In addition to creating an attractive environment, the store layout and design should be planned such a way that it reduces the recurring expenditure and leads to cost saving measures.

7. Optimization of floor space

In designing the store layout the retailer should arrive at a balance between optimizing the floor space and encouraging the customer traffic. If the store layout hinders the movement of the customer in the store it will add to their frustration and displeasure apart from being a physical hurdle. The layout should be designed to attract more foot fall leading to higher profits per square feet.

NOTES

Elements of store layout and design

A good store layout should allure the customers to move around the store and persuade them to purchase more merchandise than originally planned. At the same time the retailer should see that the plan is not complicated such that the customers find it difficult to identify the merchandise needed. The layout can be used to encourage the customers to explore more merchandise. This can be done by planning the layout that forces the customers to move through a specific traffic pattern. For example the layout can be planned in such a way that the customers should move around the inexpensive impulse-purchase products to get to more expensive goods. Interesting design elements can also be used to help the customers move around the store.

A number of factors should be considered while deciding the layout of a store viz., the floor pattern, type and amount of merchandise, display etc. A thorough understanding of customer need and their interaction with retail environment should also be kept in mind. If the customer are willing to spend more time then the layout should be designed keeping in mind the different shops, their locations, compatibility, additional facilities like restrooms, lounges, eateries, entertainment etc. A good layout should also balance between providing adequate space to shop and productively using the floor space which is a scarce resource.

The variables within the store viz., type of layout, furniture, other shoppers, the signage, etc communicate some message to the customer. The basic elements that are primarily responsible for communication are;

- The types of layout,
- Feature areas,
- Space planning,
- Merchandise location and their presentation,
- Materials and finishes and
- Atmospheric

The following section deals with these elements in detail.

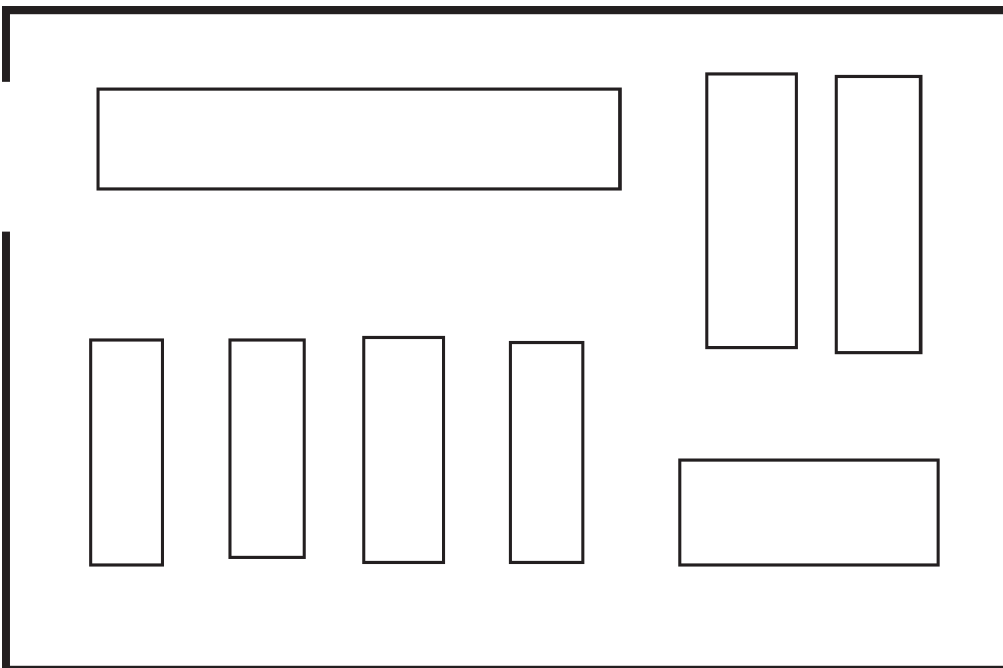
Types of Layout

A well-planned retail store layout allows a retailer to maximize the sales for each square foot of the allocated selling space within the store. Store layouts generally show the size and location of each department, any permanent structures, fixture locations and customer traffic patterns. A customer can move only in a limited number of ways within the store ie., front to back, from side to side, diagonally across and in multi-level stores up and down. A layout plan should determine and facilitate these movements based on the expected pattern of customer behaviour. In addition the type of products sold, the building location and how much the business can afford to put into the overall store design should be taken into account. Retailers can use a mix of layout in order to enhance the customer experience. Some layout designs are discussed below;

1. Straight plan

A straight plan enables the shoppers to cover the store with direct access from front to back. It makes use of the walls and fixtures to create small spaces within the retail store. It contains long gondolas of merchandise and aisle in repetitive pattern. This layout may not be aesthetically pleasing but it enables the customer to move throughout the entire store and easily locate the products they want to buy. For instance, customers who purchase their monthly provisions can just move in and out of the specific aisles easily and pick up the products every month. Since the customers know where everything is, the time spent in locating the products is reduced.

The straight floor plan is one of the most economical store designs. The fixtures cost less as they are repetitive and standardized. Also the wasted space is less in the grid design than the other design. This is because the aisles are designed to have the same width and wide enough to accommodate the shoppers and their carts. Since long gondolas with multiple shelves are used to display the product, more number of merchandise can be displayed per a square feet which increases the space productivity. The straight floor plan is an excellent store layout for most type of retail store.



Straight Floor Plan 2. Racetrack

In case of straight plan the customers are not exposed to all the products merchandise in the store. In case of purchases where the customers know what they want, the straight plan isn't an issue. However if the retailer wants the shoppers to explore and consider buying the interesting merchandise the racetrack layout will be apt. The racetrack layout

NOTES

also known as loop provides a major aisle to enable customer traffic. It consists of a distinct circulation path that moves the shoppers through the store. The path will have access to store's multiple entrances. The track loops through the store, providing access to all the departments. Shoppers travel along the well defined route passing through the aisles and shelves. This encourages impulse buying as the shoppers move around the track viewing a number of attractively displayed merchandise.

The loop design tends to place all the departments on the main aisle and draws customers through the store in a series of minor and major loops. To make the customers to move around the loop the most sought after/important departments may be placed in the rear end of the store. New items are attractively displayed on the aisle to attract the customers into departments and make them move around the loop. Different departments may use different color patterns, or floor design, materials, textures and the like so as to direct the customers through the store.

3. Free-form

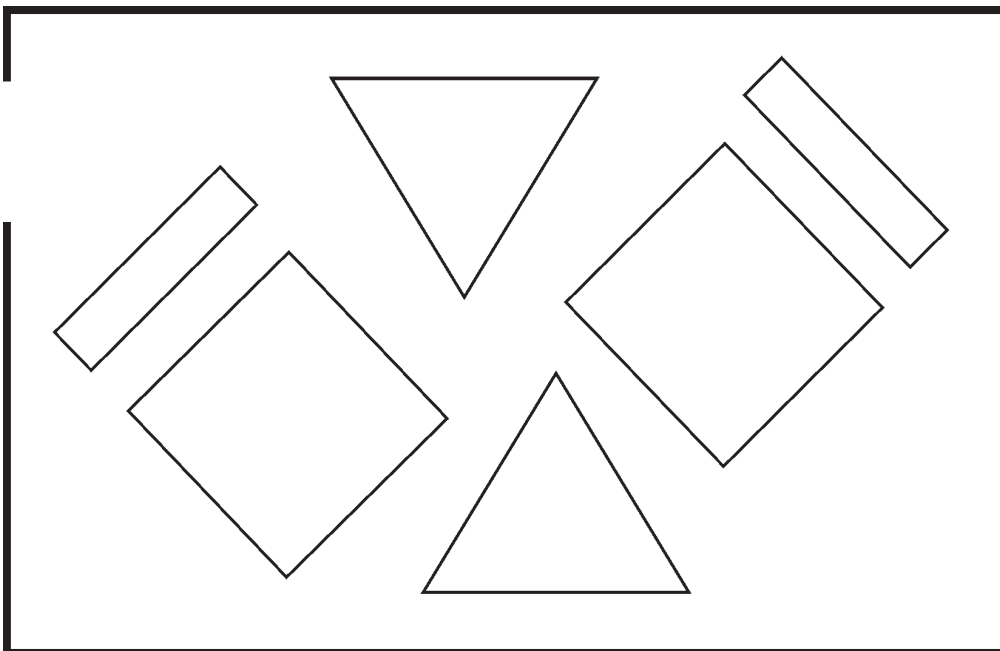
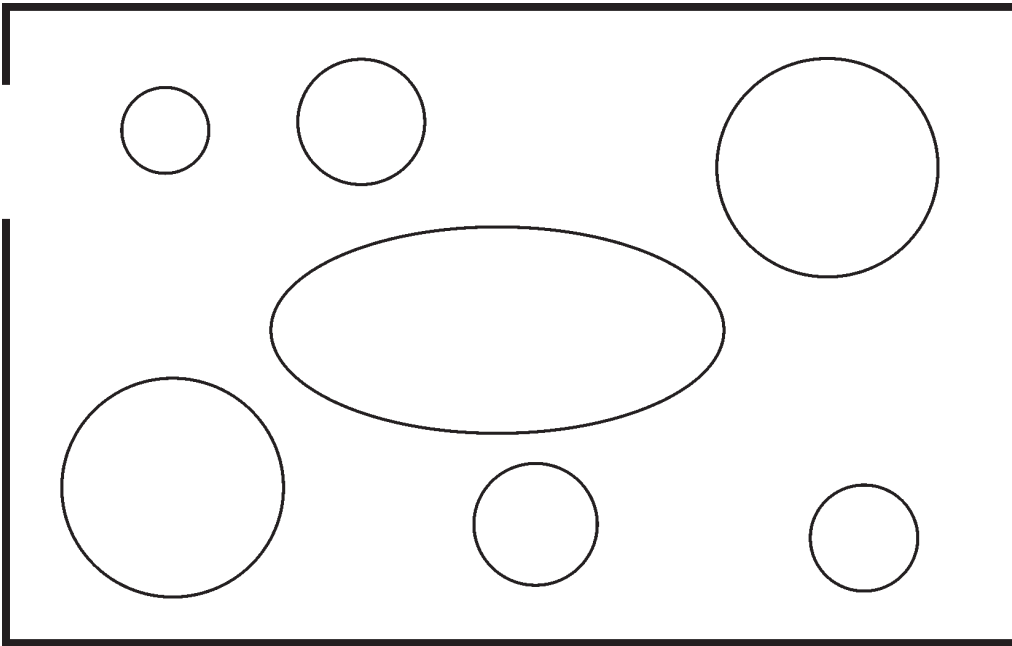
In free form, merchandise is arranged in an asymmetrical manner. It allows for free movement and is often used in small specialty stores or within the departments of large stores. The relaxed environment encourages people to browse and shop. This layout may not allow for maximum utilization of available retail space as the store sacrifices the storage and display space to create a more spacious environment. The fixtures are likely to be expensive. Since the shoppers are not directed to move around the store as in the case of racetrack or straight plan, personal selling becomes more important. Increase in the cost can be offset by increased sales and profit margins by enhancing the shopping experience.

Modification of the the three plans discussed above, leads to the further plans viz., angular, geometric and mixed floor plan. A brief description follows;

4. Angular Floor Plan

The angular floor plan is best used for high-end specialty stores. The curves and angles of fixtures and walls leads to a more expensive store design. However, the soft angles create better traffic flow throughout the retail store. As the end of the aisle is not visible, the shoppers tend to feel that they have more to see and keep moving which may lead to loss of sense of direction. To avoid the confusion the store may provide exits and signage at strategic points to make shopping convenient.

NOTES

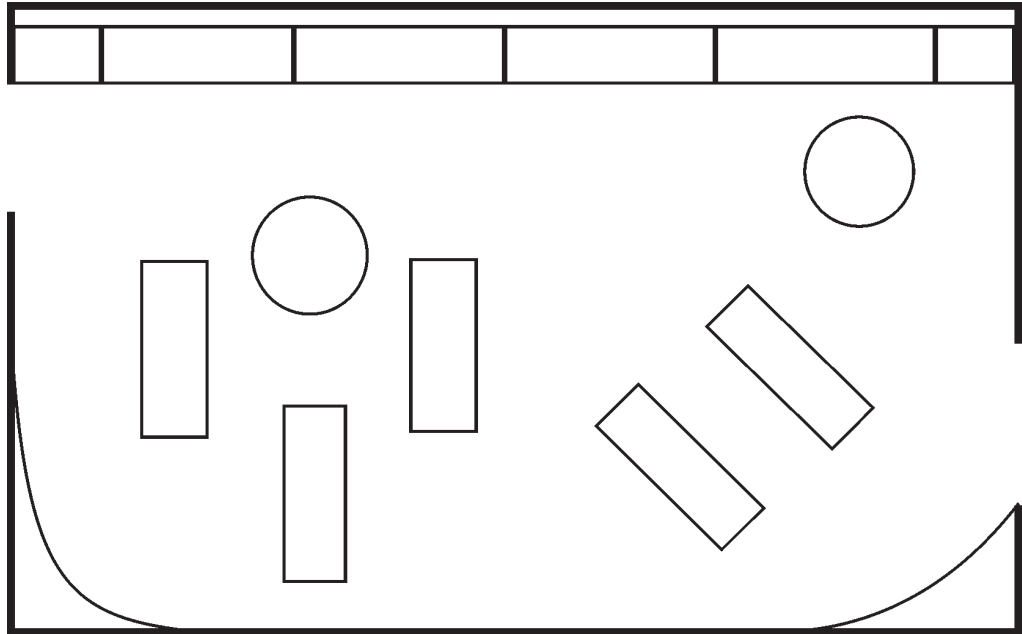


Angular Floor Plan

NOTES

5. Geometric Floor Plan

The geometric floor plan is a suitable store design for clothing and apparel shops. It uses racks and fixtures to create an interesting and out-of-the-ordinary type of store design without a high cost.



Geometric Floor Plan

6. Mixed Floor Plan

The mixed floor plan incorporates the straight, diagonal and angular floor plans to create the most functional store design. The layout moves traffic towards the walls and back of the store.

Mixed Floor Plan

Feature areas

The areas within the a store designed to get customer attention, apart from the area where most of the merchandise is displayed and stored is known as feature area It includes the following;

- *Windows* are external to the store however window display can be used to attract customers and draw them into the store. It communicates the type of merchandise sold in the store and its image. The window display should synchronize with the products that are sold in the store.
- *Point of sale or point of purchase (POP) or checkout* is the area is the most valuable

place in the store as the shopper has to wait for settling the bill and collecting the merchandise. This waiting time is spent by customers by browsing through the items displayed nearby which may lead them to purchase the same.

- *Wall space* is successfully used by retailers to display merchandise and creatively present the message. Displays, photographs, graphics etc featuring the merchandise are prompted on the wall which meet the shopper eye and get the attention even from a distance.
- *End caps* are displays located at the end of an aisle. End caps are usually used to display special promotional items or merchandise on sale
- *Promotional area* is an area which is used to display merchandise that are being promoted. It may be used to display seasonal products or merchandise on sale. It is usually displayed at the end of store so as to make customers walk through the display of other full price merchandise.
- *Free standing fixtures and mannequins* are placed near the entrance or on aisles to attract the attention of the customers. They are often used to display the newest and most attractive merchandise in the store.

Space Planning

Space planning is important due to escalating cost of real estate. Every square foot available should be utilized to enhance the returns of the store. The total amount of floor space available should be allotted to selling, merchandise, personnel and customers. Selling space is used for display of merchandise, interactions between salespeople and customers, demonstration etc. In case of self service oriented retailing more space should be allotted for selling space. Merchandise space is used to store non displayed items. This area takes up a large amount of total space. Personnel space is meant for employees for eating lunch, taking breaks, for rest rooms etc. Customer space is used to enhance the shopping mood. It includes the space allotted for lounges, dressing rooms, restaurant, parking, aisles, rest rooms etc.

Space planning involves the decision regarding the location of departments and the location of merchandise within the departments. The following section deals with the same.

Location of departments

The profit generating abilities of various locations in the store are not the same. All the departments cannot be situated in the best location. The retailers should take into consideration the following factors while determining the location of the departments.

- The relative locational advantage of the floor should be considered while allocating the space to various departments. The best location depends on the floor location, the position within a floor, its location relative to traffic aisles, entrances and escalators.

NOTES

- Impulse products are located normally near the entrance so that it attracts the shoppers and make them purchase the same Though they don't the prior plan to buy the same.
- The physical characteristics of the merchandise should be taken into account while allocating the floor space. Department requiring large floor space are often located in the less desirable locations.
- Demand/destination areas are allocated to departments dealing with products or services the demand for which is created before the customers get to their destination. Hence these departments are not generally situated in prime locations for eg the specialty stores, furniture shops etc.
- Departments which deal with products which are complementary can be situated adjacent to each other. Some stores are combining traditionally separate departments to facilitate multiple purchases based on the way the customers buy merchandise.

Location of merchandise

The space to be allocated to each product category can be calculated using model stock method and the space productivity ratio. The model stock approach involves determining the floor space necessary to carry and display the merchandise assortment. In sales productivity ratio the floor space is assigned on the basis of sales or profit per foot. Profitable items are allotted more space than the less profitable categories. The initial estimate made using either one of the method mentioned should be adjusted taking into consideration the other factors; seasonal variations in demand, the physical limitations of the fixtures used to store and display the products, the items which the retailer wishes to emphasize and the locational advantage needed by the products to attract the customers attention.

To determine where the merchandise should be located in the department, the retailers can use planograms. A planogram is a diagram created from photographs, computer output or artists drawing that illustrate the place where every Stock Keeping Units (SKU) should be located. It enables the visual representation of the space for selling, merchandise, personnel and customers.

Merchandise Presentation techniques

Merchandise display should be made in a proper manner so as to encourage the sale of products. The display should be consistent with the store's image. The nature of the product should also be taken into account for eg some products needs to be stacked some have to be hanged. The packaging consideration and the products profit potential also influence the display. The following presentation techniques can be considered by a retailer.

- Idea oriented presentation is a method of presenting a merchandise based on a specific idea or image of the store. The retailer attempts to group items to show customers how each item could be used or combined which would encourage customer to make complementary purchases. For eg in a furniture store, the furniture

are arranged in room setting to give customers an idea of how it would fit their homes.

- Colour presentation is where a particular colour is taken as the theme for display. In apparel stores particular color apparels are displayed together.
- Price lining is where merchandise are organized in price categories. It helps the customers to find the merchandise within their price range.
 - Style/item presentation is a method where the merchandise is arranged by style or items. In case of apparel showroom for women different collection can be presented on style basis viz., chudhidhars, sarees, etc. the merchandise could be arranged on the basis of size too.
 - Tonnage merchandising is where large quantities of merchandise are displayed together with the hope that the customers will notice the same and be drawn to it.
 - Functional product groupings display merchandise by common end use. A stationary shop may group products on this basis as storage files, writing materials, diaries, books, novels etc.
 - Storability product grouping may be used for produce needing special handling. For example a supermarket has separate sections dealing with items to be freezed, refrigerated and to be kept in room-temperature.

Materials and Finishes

The decision on material and finishes depends upon the image the store wants to project, capital cost, maintenance cost and other practical considerations like the availability, durability, safety, security, ease of replacement and the like. The retailer specifically has to pay attention to three elements viz., floor, walls and the ceilings.

- Floors can be used to create different atmospheres or even departments. The flooring of each section should match the overall design of the store. Carpets, woods, tiles can be used for flooring. The floor made of materials like marble, mosaic, granite is durable and can be easily cleaned.
- The interior walls could be painted, plastered or could be made combination of both could be used to give a three dimensional quality. Apart from this brick, marble, concrete, wood, plastic, mirror, fabric and other material could be used. The decision regarding the type of material is taken based on the extent of visibility required.
- The ceiling carries many facilities like the lighting, wiring, air conditioning and fire protection devices, security equipment and the like. Various types of materials as in the case of walls could be used here too. The ceiling could be suspended or false.

The decision regarding the floor, interior walls and ceiling should be made keeping in mind the theme and the idea that is to be communicated to the shoppers

Atmospherics

Atmospherics refers to the design of an environment via visual communications, lighting,

NOTES

colours, music and scent to simulate customers' perceptual and emotional responses and ultimately affect their purchase behaviour. Atmospheric complements the other aspects of the store design and merchandise. It is important that the atmospheric elements work together in order to create a positive impact on the customers. The elements are discussed below;

Visual communications

Visual communication comprises graphics, signs and theoretical effects, both in the store and in windows which will help to boost sales. It also provides information on products and suggests items or special purchases. It also enables the customer to locate the department and the merchandise apart from adding to the store's image. Two types of visual communication viz., interior and exterior signage are explained below;

Exterior signage creates the first impression of a store. It acts as the advertisement and also communicate the image of the store. A retailer should not overdo or underplay the signage. A right balance should be achieved between the two. The signage should synchronize with the surroundings yet should be distinctively different. While choosing the font size and style importance should be given to clarity. Most of the exterior designs are illuminated from inside the store by using tubes or spotlights.

Interior graphics are used for the purpose of selling merchandise , giving information and providing direction to move inside the store. The signs that provide direction should be simple, whereas the signs that help in selling process can be complex. The bottom line is to communicate the message.

Lighting

Use of proper lighting can enhance the store image and positively influence the customer shopping behaviour. Lighting performs more than just illuminating space. It is used to highlight the merchandise and create a positive pleasant atmosphere. A good lighting must provide the accurate color version of the merchandise. An orange colour should not look like red in the light. Using proper lighting on merchandise draws the attention of shoppers. Lighting can also used to downplay errors and outmoded store designs.

Music

Music can add or detract from the total atmospheric package. Unlike other atmospheric element music can be easily changed. The research studies conducted concludes that music can be used to influence the attitude of the shoppers towards the shop and the shopping time spent. Like changing the lighting effects, using different music in different parts of the store can create or alter the mood.

Color

Using creative colours can enhance the retailers image and help to create a mood. Warm colours produce opposite physiological and psychological effects. For eg red colour can increase blood pressure and the respiratory rate. Warm colours are used in retail store environment to attract the attention of customers, at the time they can be distracting and unpleasant too. As against this the cool colours like blue, green create a relaxing, calm and pleasant atmosphere. These colours can be more effectively used in selling the anxiety-causing products such as expensive products.

Scents

Research studies have proven that more than any other sense, smell is a straight line to feelings of happiness, hunger, disgust and nostalgia. Research studies have also concluded that scent in conjunction with music has a positive impact on impulse buying behaviour and customer satisfaction. While planning the type of scents to be used, the retailer should take into consideration the gender and age of the target market. To release the scent in store the retailer can use the time-release atomizers or computerized heating and air-conditioning systems.

3.6 POSITIONING OF RETAIL STORES

Positioning of a retail store refers to the position the store occupies in the minds of consumers and it is always relative to the competition. In the present retail situation where is less or no difference between the product or services offered by the retailers in terms of ambience, price, product choice, value added services etc., craving a market niche is very complicated. Positioning of retail stores would enable the consumers to get a 'mental fix' on a store which would otherwise be undefined or vague. Successful positioning is based on thorough understanding of the target markets preferences and the characteristics of the competitors offerings.

Positioning strategies enables a retail store to create and maintain a distinctive difference which would lead a firm to develop a long-term relationship with the customers. Positioning analysis as a diagnostic tool enables to make decisions regarding the type of products/ services to be dealt, service delivery, pricing and promotional measures.

Steps involved in developing a positioning strategy

The steps involved in developing a positioning strategy are explained below.

- Positioning strategy begins with market analysis which includes evaluating the overall trend of retailing and identifying the demand potential. The composition of existing retail stores and their market share should be studied. The various ways in which the

NOTES

shoppers could be segmented, the potential size and share of each segment should be taken into consideration.

- The next step is to perform the internal analysis which involves identifying the available resources in terms of finance, human resources, facilities and the like. Within the limitations or constraints a retail store should select the target market segments that can be profitably served.
- Competitor analysis enables the retail stores to identify the competitor's strengths and weaknesses which would enable them to arrive at opportunities to differentiate. However it is important to understand competition from the customer's point of view which means that that the various retail stores considered by a shopper in making a purchase decision should be taken into account.
- The competitor analysis is followed by assessing the consumers' perceptions of each retail store who are considered to be the competitors.
- Based on the information gathered from the previous steps positioning map can be done to arrive at the position of each firm as perceived by the shoppers. Positioning maps can be used for the purpose of understanding where they are compared to their competitors. Positioning map refers to mapping a firm and its competition on a graph based on two major criteria. A retail store may map the image of various stores on the basis of price and quality. It may lead to a store being perceived as dealing with high price - high quality product or high price but not equivalently good quality, low price but offering good quality, low price and low quality products and services.
- Once the relative position of each retail store is clearly arrived at, the next step involves analyzing the consumer preferences to each of the stores. The information regarding why the consumers prefer a store over other is obtained by conducting a study.
- The information obtained will lead to making a position decision. For eg an apparel retailer may be positioned as a specialty store exclusively dealing with high end dress material or a store which deals with low priced , low variety merchandise.
- The positioning decision will enable a retail store to implement its new position or reinforce the current position through activities like method of atmospheric, pricing, distribution and promotional strategies.

Methods of positioning

A retail store could choose any of the following methods of positioning;

- A retail store could be positioned on the base of its *attributes* ie what it does best. For example Krishna sweets tries to position itself as the best in providing high quality sweets. Vivek & co as the best in dealing with variety of electronics goods.
- Retail stores could positioned on basis of the *type of product or service* they are dealing with. Reliance fresh tries to position itself as dealing with the farm fresh products, Spencers daily tries to position itself as dealing with all provision under one roof.
- Price/quality relationship can be used for positioning. There are apparel stores which

position themselves as boutiques dealing with designers wears and also stores which deals with low priced apparels too. Peter England showrooms position itself in ready made segments as dealing with fashionable men's wear at affordable price.

- Retail stores can be positioned based on the class of consumers they target at. Eg
 - The type of shoppers
 - The type of competitors

3.7 RETAIL STORE IMAGE

Retail image refers to how a retail store is perceived by consumers and others. A retailer uses the store to establish a competitive advantage and communicate its offering to the consumer. The store image is how the shopper perceives the store in terms of the products available in store, the store itself and the experience he or she expects when shopping at the store. The key to success in retailing is to create a store image that is liked and perceived positively by the consumers. However constructing a store image is a complex process.

A retail store could be perceived as upscale or discount oriented, as dealing in specialized or general merchandise, as innovative or traditional etc. The key to successful image is that consumers view the retailer in the manner in which the firm has projected it. Positioning refers to the strategy adopted by a retail firm to project the image. The various steps involved in positioning and the basis of positioning were discussed in detail in the previous section. In a retail atmosphere, where everything viz., the type of products, ambience, store layout and the like could be replicated, the retail image can play a great role in differentiating a firm from that of its competitors. Retail image enables a firm to create a niche in the consumers mind relative to the competitors. Retail image will enable a firm to attract, retain and expand the customer base.

Creating and communicating a retail image involves complex and multistep process. Maintaining the store image in tune with the retail firms' objective is equally important which makes the task as an ongoing process. There are several factors relating to the store and its environment that contributes towards building store image; target market, firm's positioning, customer service, store location, pricing, attribution of physical facilities, shoppers experience, community service, promotion tools, store specific factors. All these factors are discussed throughout the chapters. A brief overview of the same is presented below;

1. Target market

Target market refers to the group of consumers whom the retail concern wishes to focus upon. The target market is decided based on the goals of the retail firm, goods/service category, the size of various segments, the resources needed etc. The target customers needs, demographic features, attitude, their purchase decision making process etc should be taken into account. The image which a retail firm wishes to project should

NOTES

synchronize with the needs of target market. The apparel store “Just Born” focuses on the target market – just born babies. It projects the image of catering to all the needs of a new born baby be it be clothing or toys.

2. Firm’s positioning

Positioning involves designing strategies to project the image of the retail concern. The strategies should differentiate the retail concern from that of its competitors and gain positive consumer response. A firm could be positioned as upscale retail firm like the Spencers or as discount specialty retailers like Subhiksha.

3. Customer service

Customer service refers to intangible activities undertaken by the retailer in addition to the goods/services sold. The customers service may be visible or identifiable or invisible but it has an impact on the retail experience and the retail image. The dress code of the customer contact employees, their attitude towards the retail firm and the customers, the empathy, their personality, knowledge regarding the merchandise dealt etc., contributes to the retail store’s image. The customer sees the employee as a projection of the retail store itself, hence they can play a major role in enhancing or destroying the retail store image.

4. Store location

The location of a particular store determines the range of potential customers. Location determines the sorts of purchasing that the customers are expected to make. The store must also fit the general area and surroundings. Customers often visit the small corner shop, as part of their wider shopping activity. This type of store is compact and offers the customer convenience rather than extensive merchandise displays. Out of town stores may provide enhanced facilities that attract customers, but the cost in time and money act as a disincentive to travel there. Unless the features on offer attract them, consumers are less likely to visit a store which is located at the distance. In general, it is the image created by the retail stores that entices customer

5. Retail format

The retail store format plays a compelling part in forming a consumer’s image of the store. People tend to link the products they purchase with a particular retail format. The traditional department store uses various departmental layouts to suggest the type of merchandise on offer and the price customers can expect to pay. Similarly the discount warehouse present images of value retailing and limited service levels. The format can thus influence the image of the store. When searching for a product customers may use the type of format as an indicator of shopping requirements.

6. Pricing

Indian consumers are mostly price conscious and give more importance to price. To some consumers high the price may be synonyms with high quality. At the same time high price may deter the customers from purchasing. Hence price of the products have to be carefully fixed taking into consideration the image the firm wants to project among the shopper. One Dollar shops projects the image to the consumers as low price shops and accordingly the product may be worth to the extent of price paid only.

7. Shoppers experience

Providing a good shopping experience has a positive effective on the store image. In order to provide an enhanced shopping experience a retail store should try to minimize the annoyances inside the retail store. Setting up wider aisle can help to avoid the crowded/cramped feeling. Providing air conditioned environment, neat and tidy restroom facilities, clean atmosphere, good melodious music, play station for children, providing water facilities, valet parking, delivery at car and the like can enhance the shopping experience and create a positive store image.

8. Community service

The manner in which the retailers contribute to the society's well being contributes a lot to building up the store image. The extent of care taken by a retail concern towards the environmental protection, avoiding child labour, sponsoring for good cause, donating money to school, temples, charity purposes etc., contributes in building a good store image and shoppers will be happy to shop at a retail stores which care about the community. This will create a positive image in the minds of the shoppers.

9. Promotion tools

The type of promotional tools utilized viz., advertising, sales promotion, publicity etc has an impact on the store image. In advertisement the type of media used viz., the print media, television, radio used have an impact on the image of the stores. The type of print media viz the magazine or choice of new paper, or the type of notice designed and method of distribution of the same affects the type of image a retail store wants to project.

10. Store specific factors

Store specific factors viz, store amenities, assortment, merchandise quality, support services, value perception and overall impression about the store are discussed below:

Store amenities

NOTES

This factors refers to the store amenities like water, dressing room and refreshment available for the convenience of shoppers.

Assortment

Assortment is the number of different items in a merchandise category (ie) the depth of merchandise category. In soft good merchandise like apparel garments this means the size colour, designs and styles. Assortment refers to the variety of items available for a given product category in terms of price, ranges, size, design, colors etc.

Merchandise quality

It is one of the most important attributes building store image. This factor refers to the overall quality perceptions of merchandise at the store.

Support services

This refers to the supporting services, which are provided by the store to benefit its customers. It includes all the extra services, which the store extends to satisfy its customers. The supporting services include; acceptance of all debit/ credit cards, facilities of return/exchange of merchandise, alteration facilities, child care and children entertainment services.

Value perception

Value perception refers to the perceived value of product and service quality relative to price paid.

Exterior	<ul style="list-style-type: none"> • Store front • Marquee • Entrances • Display windows • Height of building • Congestion 	<ul style="list-style-type: none"> • Visibility • Uniqueness • Surrounding stores • Surrounding area • Parking facilities
General Interior	<ul style="list-style-type: none"> • Flooring • Color and lighting • Scents, sounds • Fixtures • Wall textures • Temperatures • Width of aisles • Dressing facilities 	<ul style="list-style-type: none"> • Vertical transportation • Dead areas • Personnel • Self services • Prices • Technology • Cleanliness
Store layout	<ul style="list-style-type: none"> • Allocation of floor space • Classification of store offerings 	<ul style="list-style-type: none"> • Determination of traffic-flow pattern • Arrangement of individual products

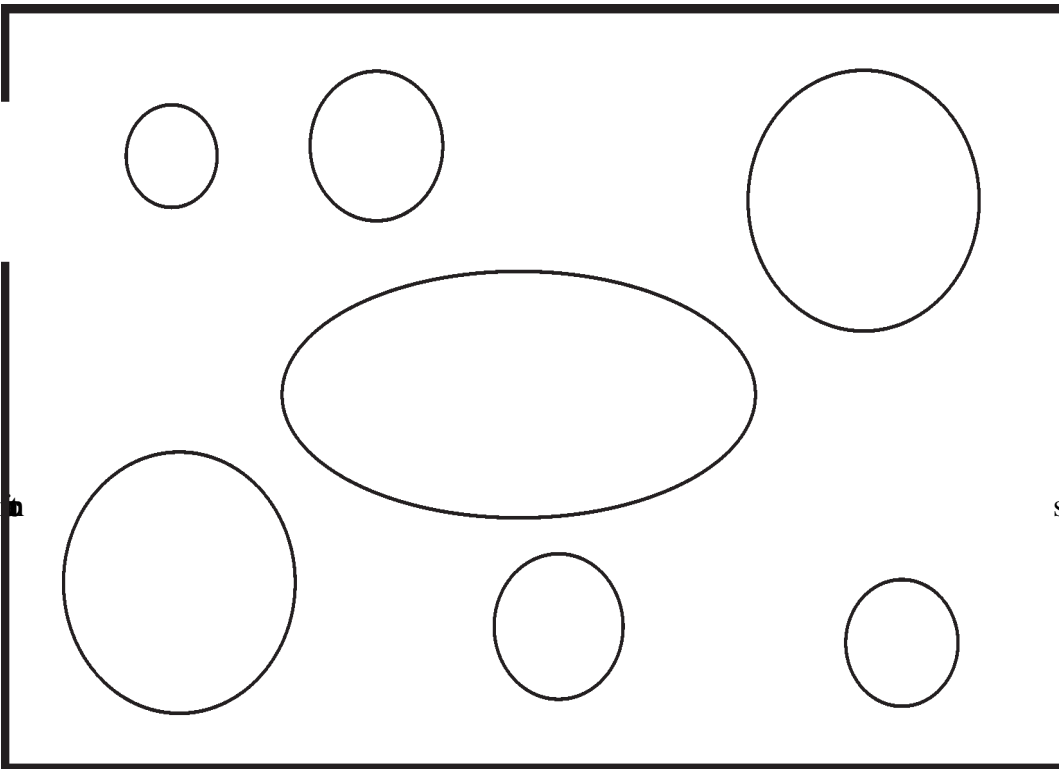
Overall impression about the store

NOTES

This factors refers to the general perception of the customer regarding the retail store. The perception may be due to past reputation of the store as well as the impression that a shopper has after visiting the store. The impression is based on general attribute dimension of the store.

Store atmosphere

Store atmosphere can be divided into three key elements: Exterior, general interior and store layout. The following figure



a detailed breakdown of them.

The elements of atmosphere

A brief explanation of the contribution of elements listed to the store image is dealt below:

Exterior

A stores exterior characteristics have a powerful impact on its image and should be planned accordingly. It comprises of the various elements discussed below:

Store fron

NOTES

A store front is the total physical exterior of the store itself. With its store front, a retailer presents a conservative, trendy, lavish, discount or other image to the consumer. When passing through an unfamiliar business district or shopping center, consumers often judge a store by its exterior. Besides the storefront itself, atmosphere can be enhanced by trees, fountains and benches in front of the store likewise the modular structure, prefabricated structure, prototype store, recessed store front and unique building design.

Marquee

A marquee is a sign used to display the store's name. It can be painted or a neon light, printed or script and alone or mixed with a slogan and other information. Image is influenced because a marquee can be gaudy and flashy or subdued and subtle.

Entrances

The number of entrances, the type of entrance and the walkways affect the store image.

Display windows

Display windows have two main purposes, to identify the store and its offerings and to induce people to enter. By showing a representative merchandise offering, a store can create an overall mood. Display of fashion or seasonal goods, shows that the store is contemporary. Arranging sale items in window display enables a store to lure price-conscious consumers. Eye catching displays will also attract pedestrian's attention. The store can also indicate its concern for the community by showing public service messages.

Considerable planning is needed to develop good display windows, which leads many retailer to hire outside specialists. Decisions include the number, size, shape, color and themes of display windows and the frequency of changes per year.

Height of the building

Exterior building height can be disguised or non-disguised. Disguised building height occurs if part of a store or shopping center is beneath ground level. Non-disguised building height occurs if the entire store or center can be seen by pedestrians.

Visibility

Few firms can succeed without good visibility. This means pedestrian and/or vehicular traffic clearly see store fronts or marquees. A store located behind a bus stop has poor visibility for vehicular traffic and pedestrian across the street. Many firms near highways use billboards since drivers pass by quickly.

Uniqueness

The goal in every case of stores design, is to make the store or center appear unique and eye catching.

Surrounding stores

As a retailer plans its exterior, surrounding stores and the surrounding area should both be studied. Surrounding stores present image cues due to their price range, level of service and so on.

Surrounding area

The surrounding area includes the demographic and life styles of those who live nearby. An overall area image rubs off on the individual firm because people tend to have a general perception of a shopping center or a business district. An unfavourable atmosphere would exist if vandalism and crime are high, people living near the store are not in the target market, and the area is rundown.

Parking facilities

It can add to or detract from store atmosphere. Plentiful, free nearby parking creates a more positive image than scarce, costly, distant parking. Some potential shoppers may never enter a store if they drive around looking for parking and not finding it, go elsewhere or return home. Other customers may run in and out of a store to finish shopping before parking meters expire.

Congestion

Store atmosphere is diminished if the parking lot, sidewalks, and/or entrances are jammed. Consumers who feel crushed in the crowd generally spend less time shopping and are in poorer moods than those who feel comfortable.

General interior

Once customers are inside a store, there are numerous elements that affect their perceptions. The general interior element of store atmosphere are as followed.

- **Flooring** can be cement, wood, linoleum, carpet and so on. A plush, thick carpet creates one kind of atmosphere, and a concrete floor creates another. Because people use cues to form store perceptions, flooring materials and design are important.
- **Colors and lighting** affect a store's image. Bright, vibrant colours contribute to a different atmosphere than light pastels or plain white walls. Lighting can be direct or indirect, white or colours, constant or flashing. A teen-oriented apparel boutique could use bright colours and vibrant, flashing lights to foster one atmosphere and maternity dress shop could use pastel colours and indirect lighting to form a different atmosphere.
- **Scents and sounds** influence the customer's mood and contribute to the atmosphere.
- **Store fixtures** should be planned on the basis of their utility, as well as their aesthetics. Pipes, plumbing, vents, beams, doors, storage rooms, and display racks and tables should be considered part of interior decorating. A store with an upscale image dresses up and disguises its fixtures. A store with a discount image might leave fixtures

NOTES

- exposed because this is inexpensive and portrays the desired image.
- **Wall textures** can enhance or diminish atmospherics. Prestigious stores often use fancy, raised wallpaper.
 - **Store temperature** affects the customers mood and the way of achieving it. This can shorten a shopping trip or enhance it. In another words, the store image is influenced by the use of central air-conditioning, unit air-conditioning, fans or open windows.
 - **Width of the aisles** has an impact on retail image. Wide, uncrowded aisles create a better atmosphere than narrow, crowded ones. People shop longer and spend more if they are not pushed and showed while walking or looking at merchandise.
 - **Dressing facilities** can be elaborate, plain or non-existent. A prestigious store has carpeted, private dressing rooms. An average quality store has linoleum-floored, semi-private rooms. For some apparel shoppers, dressing facilities are a big factor in store selection.
 - **Vertical transportation** in multilevel stores take the form of elevator, escalator, and/or stairs. Larger stores may have a combination of all the three. Traditionally, finer stores relied on operator-run elevators and discount stores on stairs. Today, escalators are quite popular and gaining stature. They provide shoppers with a quite ride and a panoramic view of the store. Finer stores decorate around their escalators with fountains, shrubs and trees. The placement and design of vertical transportation determine its contribution to atmosphere. Stairs remain important for some discount and smaller stores.
 - **Dead areas** are caused by light fixtures, wood or metal beams, doors rest rooms, dressing rooms and vertical transportation. These are awkward spaces where normal displays cannot be set up. Some times it is not possible for such areas to be deployed profitably or attractively. However, retailers have learned to use dead areas better. Mirrors are attached to exit doors. Vending machines are located near rest rooms. Ads appear in dressing rooms. One creative use of a dead area involves the escalator. It lets shoppers view each floor, and sales of impulse items go up when placed at the escalator entrance or exit. Many firms plans escalators so customers must get off at each floor and pass by appealing displays.
 - **Personnel-** the number, manner and appearance of personnel reflect a store's atmosphere. Polite, well-groomed, knowledgeable personnel generate a positive atmosphere. Ill-mannered, poorly-groomed, unknowing personnel engender a negative one.
 - **Self service** minimizes the personnel employed in store and creates a discount, as well as impersonal image.
 - **Prices** contribute to image in two ways. 1) Price levels yield a perception of retail image in consumer minds. 2) The way prices are displayed is a vital part of atmosphere.
 - **Technology** used by the store and the modernization of its building and fixtures also affect image. A store with state of the art technology impresses people with its operations, efficiency and speed. Stores with slower, older technology may have impatient shoppers. A store with a modern building and new fixtures fosters a more favourable atmosphere. Renovations are easier, faster and less costly than building

or opening new stores. The main reasons for remodelling are improving store appearance, updating facilities, expansion and the need to reallocate space. It results in strong sales and profit increases after completion.

- **Cleanliness** is an important component of store image. No matter how impressive a store's exterior and interior may be, an unkempt store will be perceived poorly by customers. People open the door and form an image right away hence there must be a plan for keeping store clean.

11. Store layout

Store layout plays a major role in building store image. To develop a good store layout, store designers must balance many objectives that often conflict. For example, the store layout should entice customers to move around the store to purchase more merchandise than they may have originally planned. However, if the layout is too complex, customers may find it difficult to locate the merchandise they are looking for and decide not to patronize the store. The store layout is decided based on the allocation of floor space, classification of store offerings, determination of traffic flow pattern and arrangement of individual product. Discount retailers are more apt to skimp on consumer areas; those with upscale images provide their customers with ample amount of space for many or all of these factors.

12. Consumer specific factors:

Consumer specific factors also play a major role in building store image. The image of a store may be perceived differently depending upon their demographic profile viz, gender, age, education, income, occupation, family size etc. For eg. Women may tend to attach more importance to aesthetic appeal likewise people with higher income may perceive a store with a luxurious appeal more favourably. On these lines the personality traits of the individuals, life style, psychographic profile and the like may also influence the store's image.

3.8 RETAIL SERVICE QUALITY MANAGEMENT

Customer service plays a greater role in differentiating a retail concern from that of its competitors. Among other things being constant like the merchandise dealt, location, ambience, price etc., customer service would enable a retail firm to achieve sustainable competitive advantage. It has two dimensions the services and the service. Services are facilities, concessions or infrastructure offerings extended to customers. Service is how well they are offered by the store. In other words customer service is the set of activities and programs undertaken by retailers to make shopping experience more rewarding for their customers. The retailer may follow a customized or standardized approach in delivering the service. The customization approach encourages the service providers i.e. the customer contact employees to tailor the service to meet the each customer's personal needs. Each customer gets a superior service as it is based on the requirement. However there may not be consistency in the service delivery process as it depends on the judgment and capabilities of the service provider. In case of standardization approach, the service delivery is based on a set of rules and procedures. Inconsistencies could be avoided in this approach.

NOTES

The shoppers evaluate the retail services by comparing the perception of the service they receive with the expectations. The shoppers will be satisfied when the perceived services meet or exceed the expectations otherwise they will be dissatisfied and chances of the shopper not coming back to the retailer is high. The customer expectations are framed based on the information received and the knowledge gained by them. The expectations vary depending on the type of store. For eg in case of a supermarket they will not expect a number of sales persons to assist them as they know that it is based on self service concept. In case the sales persons are made available to assist the shopper, they may be delighted. On the other hand, in case of departmental store, the shoppers expect the sales persons to be available at their service. if the service persons are present then it meet the expectation of the shopper. If more number of sales persons are employed to reduce the waiting time, then the shopper may be much more satisfied.

Customers perceptions are affected by the actual service delivered. Five service characteristic features are used by the customers to evaluate the service quality viz., the reliability, assurance, tangibility, empathy and responsiveness. Reliability in retail setting may take the form of accurate billing, timely delivery of products/services. Assurance is denoted by the guarantees and warranties. Tangibility is projected in terms of appearance of the store and the employees. empathy is measured by the extent of personalized services, recognition of the customers and willingness to understand their needs. Responsiveness refers to the time taken by the employee to return the services demanded by the customers be it be product/service or information.

The customer service should be designed based on the customer expectations. The ability of the retail organization to identify the expectations and fulfill them will determine whether shoppers will come back again. In the prevalent competitive scenario in retail environment, fulfilling the expectation is alone not enough to retain the customers', the retail firm should take measures to exceed the expectations of the customers. A retail firm should have service vision and create a service culture within the organization. A service standard should be set along with the service strategy, systems and people. The retail concern should manage the people and processes to deliver the same. The following steps are involved in delivering quality service.

Defining the service objective

The first step in improving the quality of service is defining the objective for service performance in the organization. a retailer should have a clear vision of which type of target market he want to position himself and how he what to do the same. The target customer segment, their needs and expectations should be a criteria in deciding the service objective. The service objective should be clearly spelled out and communicated to the employees who are involved in the service delivery process. The relevant strategies and system should be identified.

Defining the customer profile and expectations

The customers expectations may differ based on the age, gender, income level, education level, occupation, lifestyle, personality traits etc., Identifying and defining the target customers will enable the retail firm to understand their expectations. The customer expectation can be broadly grouped into four categories viz., basic, expected, desired and unanticipated. The basic services refers to the absolutely essential attributes, expected services are the associated attributes of the experience that the customer takes for granted, desired services are those attributes the customer doesn't expect but knows about them and appreciates it if the experiences is included. 'Surprise' attributes that add value for the customer beyond his desires is called unanticipated expectations.

Mapping the processes

The customer service process starts with the identifying the customer needs and ends with fulfilling the same. The elements of the expected service process should be identified. This should be compared with the existing service process and map them according to the desired level. The process should end in an operational plan for service delivery. While mapping the process the following aspects should be considered;

- Dependability ie whether the services promised or taken into consideration?
- Responsiveness – whether the service is provided on time?
- Authority – whether a feeling of confidence is created in the minds of the customer during service delivery process?
- Empathy- has the customer point of view taken into account?
- Tangible evidence – whether the evidence of service delivery is created?

Setting standards and developing a service strategy

After mapping the process, the areas which require improvement are redesigned. New standards should be set for service delivery with customer as the focal point. For example If in a departmental store, the billing process is identified as taking long time, then the process should be revamped by opening more billing centre so as to enhance the level of customer service.

Managing and developing Human resources

Customer service is delivered through the customer contact employees. They should be trained to deliver the most efficient customer service. the customers look at employees as the projections of the retail firm for which they are working. In other words they are considered as the 'face' of the organization. The employees should be informed about the organizations objectives, plans, policies and procedures. Training programmes can be devised to enable them to work more efficiently.

NOTES

Monitoring, measuring and filling gaps in service quality

The quality of service delivered should be monitored so that the service goals are achieved. It will also enable to ensure that the service strategies are successful. Monitoring service quality involves continuous measurement of service quality parameters and evaluation of the same. Measuring service quality enables the retail firm to identify the opportunity for improvement. Hence this should be a continuous process. The gaps in service quality is discussed in the next section.

Improving service quality: The Gaps model

The service quality may be perceived as poor if the retailer is not able deliver the service upto the customer expectations. If the customer expectations are higher than their perception of the delivered service, the customer will be dissatisfied. The difference between the customer expectations and perceptions is known as the service gap. This gap should be reduced so as to enhance the level of customer satisfaction. Four factors affect the service gap viz., the knowledge gap, standards gap, delivery gap and the communication gap. In order to reduce the service gap the retailer should try to reduce these gaps. The various aspects of service gaps are dealt in detail;

The knowledge gap

Knowledge gap refers to the difference between customer expectations and the retailer's perception of the customer expectations. The retailer should be able to understand what the customer wants. If the retailer lacks the information about the customer needs and wants, it may lead to poor designing of service delivery strategies. For example a supermarket customer may give more weightage to waiting time for check out then the availability of more sales person or merchandise. If the retailer does not understand the same it results in knowledge gap.

Retailers should reduce the knowledge gap leading to better understanding of customer expectations by taking up the following

- Customer research should be undertaken to have a better understanding of the customer expectations and to study the quality of the services provided. The data could be collected through questionnaire or interview schedules at a regular intervals. The retailer can also survey the customers after a retail transaction. Another method is to use consumer panels which consists of 10 to 15 consumers who will be meet in regular intervals. The data regarding the expectation will be collected from them.
- Interaction with customers could provide great deal of information. The retail manager can interact with the customers who will provide first hand unbiased information and insight about the various problems and expectations. Customer complaints shows the managers the avenues needing improved services. But there are times when a dissatisfied customer does not complain but simply takes the business elsewhere.
- Sales persons and other customer contact employees are dealing with customers often and hence they have a good understanding of the customer expectations. The retail

manager should encourage feedback from the employees which will provide the avenues for enhancing the service quality.

Collection of information through above methods alone will not be enough to reduce the knowledge gap. The information should be used to improve the services by implementing the findings.

The Standards Gap

Once the retailer has gathered the information about the customers' expectation and perception, the next step involved is to set standards for delivery of high quality service. At this stage the standards gap may arise due to the difference between the retailer's perception of customer's expectations and the customer service standards it sets. To close the standards gap, retailers can perform the following activities;

- Excellence in service quality can be achieved only by total commitment by top management. The commitment should be made known to the employees concerned. The rewards could be delivered to employees based on the level of customer satisfaction rather than the sales target achieved by them.
- Retailers think that setting high standards will lead to high cost. Hence there is a resistant to set standards. However innovative solutions will lead to reduced the cost as well as increased quality.
- The role of service providers should be clearly spelled out in terms of what is expected out of him. Just providing vague ideas will not guide the service providers in fulfilling the standards as expected by the customers and the management. For eg in the case of the guard standing near the entrance in a retail shop, instead of just telling him to perform excellent service, he can be instructed to greet the customers' on entry and exit, open the doors, and assist in anyway he can.
- Setting service goals and communicating the same to employees will reduce the service gap. The goal set should be specific, measurable, achievable and participatory in the sense that the employees should be consulted in setting the standards. This will put obligation on them to achieve the same.
- In order to reduce the service gap, it is necessary to continuously assess the service quality so as to ensure that the set service goals are achieved. In order to measure the service quality *mystery shoppers* can be used by a retailer. Mystery shoppers are the professional shoppers who shop at stores to assess the service provided by store employees and merchandise presentation.

The delivery gap

The delivery gap refers to the difference between the retailer's service standards and the actual service delivered to the customers. Setting standards alone is not enough in achieving excellent service quality. It has to be delivered as per the specifications fixed. In order to meet and exceed the service standards the following aspects should be considered.

- Proper information and training should be given to store employees regarding the various types of merchandise available and their substitutes. This will enable them to handle the queries' raised by customer in an efficient manner. The employees should be trained in the interpersonal skills also.

NOTES

- The employees should be provided with adequate equipments to perform the service. Emotional support should also be provided by demonstrating concern for the well-being of employees.
- Empowering employees enhances their morale as well as the service quality. Empowerment refers to allowing employees at lowest level to make important decisions regarding how the service is provided to customers.

The communication gap

The communication gap refers to the difference between the service promised by the retailer and the actual service delivered. Overstating the services offered will raise the customers' expectation. Ultimately when the promised services are not delivered the expectations will exceed the perceived service leading to customer dissatisfaction. The following steps could be undertaken to reduce the communication gap;

- Realistic commitment should be made by the retailer which will ensure that the achievable service levels are only promised. To make this possible the marketing department should communicate and synchronize it's the promised commitment with the actual deliverables possible by the store employees.
- The customer expectation can be managed with adequate strategies which will ensure that it does not exceed the perceived services. For example the retailer could provide information regarding the delay in services, the reasons for the same and the step taken to ensure the best possible under the situation. This will ensure the customers that the retailer is not taking them for granted and that the situations are beyond the control.

SUMMARY

This unit has provided an insight regarding pertinent aspects of decision making to be undertaken by a retailer. The various types of retail formats were discussed in detailed under various heads viz ownership based, store based, non-store based and other non traditional forms of retailing. The choice of various types of locations available to a retailer and factors to be considered in deciding the location was presented. Different types of store layout were explored. The positioning strategies and the key factors influencing the store image were presented. The gaps model and strategies to reduce the gap between the expectations and perceptions of retail shoppers were discussed.

With the knowledge on various factors to be considered in launching a retail store, the next unit aims to equip the readers with the understanding on the strategies available to capture, retain and attract more shoppers using the retail marketing mix.

HAVE YOU UNDERSTOOD?

- Discuss the different retail formats citing examples
- Explain the various steps involved in selecting a retail location. Discuss the factors to be considered in site selection.
- Discuss the different types of stores layout and explain where it is suitable.
- What are the various methods of positioning a retail store. Explain with examples
- What are the key factors influencing the brand image of a retail store?
- Elucidate the strategies available to the retailer to manage service quality.

UNIT IV

NOTES

RETAIL MARKETING MIX

4.1 INTRODUCTION

The success of a retailer to a greater extent depends on his ability to provide right goods to the right consumer at the right place at the right time and at right price. Merchandise planning and buying enables a retail to provide the right merchandise to the customers. The steps involved in merchandise planning and various aspects involved in merchandise buying are dealt in detail in this unit. Retail branding enables to differentiate the merchandise of a retailer from that of his competitors. In this context the various types of branding and the importance of branding a retail store along with private labels are highlighted. Indian consumers are in general price conscious. A retailer cannot afford to loose the customer due to wrong pricing decisions. Hence the various factors affecting the pricing decision and the types of pricing policies along with the methods of pricing are discussed. Though it is said that 'a good product will sell by itself', in today's competitive environment a retailer should resort to communicating with customers so as to inform, educate and persuade prospective customers. In this context the various elements of promotion mix are discussed along with the factors to be considered in making the decision. The role of Supply chain and logistics in making an effective distribution and maintaining low inventory is highlighted along with the quick response delivery system. This unit ends with the discussion on the various retail strategies available to a retailer to build sustainable competitive advantage so as to carve a niche in the minds of customers.

4.2 LEARNING OBJECTIVES

After reading this unit you should be able to understand;

- Steps involved in merchandise planning and the various aspects of merchandise buying
- Importance of retail branding and store as a retail brand
- Factors affecting pricing decisions and the pricing policies
- Elements of promotional mix

NOTES

- Various aspects of logistics and supply chain
- Different types of strategies to build sustainable competitive advantage

4.3 MERCHANDISE MANAGEMENT

Merchandise management is an integral part of retailing and also the most challenging function. Merchandise management is the core of retail management as it can contribute to a greater extent to the success or failure of a retail firm. The term merchandising has different meanings to different retailers. Merchandising can be termed as the planning, buying and the selling of merchandise. Merchandise management can be termed as the analysis, planning, acquisition, handling and control of the merchandise investment of a retail operation. Merchandise analysis is performed to understand the need and wants of the target market. Planning is concerned with procuring the products in advance so as to enable the availability of the same when demanded by the customers. Once the planning is done the product should be procured from distributors or manufacturers which require a series of steps to be performed which is dealt as acquisition. Handling deals with determining where the merchandise is needed and ensuring that the merchandise reaches the required stores at the right time and in right condition. Merchandising involves spending of lot of money in buying the products, transporting and storing the same, hence control is necessary to keep track of the money spent on buying.

The process of merchandise management include strategies to ensure that the right product is bought at the right prices and is available in the right place, at right time in the right amount so as to satisfy the needs of the target market.

The merchandising function is influenced by various aspects discussed below;

- Type of the store to a greater extent influence the bargaining power in performing the merchandise function. In case of a chain store the purchase of merchandise will be done in a huge volume in varied assortments, however in case of independent retailers the the volume and assortments dealt will be limited. Likewise the type of purchase done by a mail order business retailer differs as he has to plan in advance regarding the production of catalogue. In case of the e-tailer, the type of products the consumer would be willing to buy in net should be taken into consideration.
- Merchandise to be carried influences the retailers buying and selling process. The retailer who deals in the basic products has to perform the merchandise process differently from that of a dealer in fashion products. The basic products can be kept in stock as the same will be in demand for a longer time as against the fashion products which may sell during a particular duration and may not move at all in other seasons. A merchandiser dealing with the fashion products should spend a long time in the market identifying the products that will be attractive to the consumers. The fashion trends and forecasts in the international markets should also be kept in mind. If the retailer runs a discount store then the merchandise

should be identified at right price. The products need not be unique but only price competitive.

- The organization structure affects the merchandising function. Some organization may consider the role of buyer and the role of merchandiser as a separate function, while in smaller organization a single person may perform all the duties.
- Size of the organization in terms of investment and square feet occupied also matters in merchandising function. A large retail store may carry huge variety and assortments whereas a small store may invest relatively in merchandising.

The nuances of merchandise management are discussed under two major heads viz Merchandise Planning and Merchandise buying.

4.3.1 Merchandise Planning

Merchandise planning is an essential function to be carried out by small as well as big retailers. A number of decisions are to be made about the thousands of individual items to be purchased from hundreds of vendors. Proper planning regarding the various activities involved would enable the retailers to carry out the buying process without difficulty. The planning activities are discussed under the following heads

- Organizing buying process by categories
- Setting the objectives
- Sales forecasting
- Developing the assortment plan

Organizing the buying process by categories

Category is the basic unit of analysis for making the merchandising decisions. It refers to an assortment of items that the customers see as reasonable substitutes for each other. For example in textile retailing the men's wear, ladies wear and kids wear are categories. However the meaning of category may differ among the vendors and retailers. For example the vendor may assign the antiseptic soaps and beauty soaps to different categories based on the product attributes. However the retailer may put them and other combinations of soaps into a single category. The retailers may also define the categories in terms of brands. Category management is the process of maximizing the sales and profits of a category. It is a process by which a company manages a set of categories as independent and strategic business units with focused attention to deliver enhance consumer value. Selecting and deciding on every individual category is very important task as every category should be made up of a group of products and brands that must necessarily be related to each other.

NOTES

Elements of category management

The key elements of category management are presented below;

- Since every category comprises a group of products and brands that are related to each other, each one is considered as a individual business unit. Most of the items in a category could be substituted by others and hence any decision made relating to a particular product in the category would have an impact of the performance of the other product within the category. If a single team is entrusted with the management of a category, the decisions would be well balanced.
- Developing a category plan will include a set of all guidelines related to pricing, merchandising, promotions and product mix decisions which will have a major impact on the category's sales and in turn the profits.
- All the elements of the marketing viz., pricing, merchandising, promotions and product mix should be coordinated to achieve the category goals.
- Coordinated decision making involving the individual category managers should be made at all times which will enable to avoid the communication gap.

Setting the objectives

The retailer should fix the objectives of merchandise planning in terms of financial implications. Merchandise planning should take into account the past performance of various categories and the trends in the market based on which the projection for the future is done. The financial planning process starts with the overall financial goals and trickles down each category. Based on the financial planning each category purchase is planned. The merchandise plan enables the buyer and planner to decide the amount of money to be spent on a particular category of merchandise so that the sales forecast and the financial objective is met.

Objectives in merchandise planning are set in terms of finance. The performance measures are based on gross margin return on inventory investment (GMROI). GMROI measures the gross margin earned on every rupee of inventory investment.. It is similar to the concept of return on assets, but the components are under the control of the buyer rather than other managers. It comprises of two ratios viz., inventory turnover and gross margin percentage.

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

$$\begin{aligned}
 &= \frac{\text{Gross margin}}{\text{Net sales}} \quad \times \quad \frac{\text{Net sales}}{\text{Average inventory}} \\
 &= \frac{\text{Gross margin}}{\text{Average inventory}}
 \end{aligned}$$

GMROI enables to combines the both profits and turnover. This enables to compare the different departments and identify the most feasible one. If the turnover alone is compared it may lead to a wrong picture. Comparing the profit to the turnover will enable to evaluate the departments, merchandise classifications, vendor lines and items. However it should be noted that pricing decisions will affect the gross margin component of GMROI.

Measuring Inventory Turnover

Inventory turnover refers to the speed with which the merchandise moves in and out of the retail store in a given period of time. it is usually calculated for a period of six months or a year. It is defined as follows;

$$\text{Inventory turnover} = \frac{\text{Net sales}}{\text{Average inventory at retail}}$$

An higher inventory turnover leads to increased sales volume as fresh merchandise will be available to customers which will sell faster than the old merchandise. The risk of obsolescence is less as the merchandise moves out of store soon. It will result in improved sales person morale as sales person will be happy to deal with new and variety of merchandise than the old, stale ones. Higher inventory turnover leads to take back the money invested in merchandise so that more money is available to buy merchandise with high profitability. The operating cost will be lesser as the carrying cost of inventory is less leading to significant savings in the cost.

An high inventory turnover can also be harmful to a retail concern. If the retailer deals with items with high inventory turnover only, it may lead to disappointing the customers if other items are not dealt by the retailer. In order to achieve high turnover, the merchandise must be bought more often and in smaller quantities which will not enable the retailers to avail the quantity discounts and transportation economies. The operating expenses also increases as the buyer has to spend the same amount of time in meeting with vendors and carrying out the orders, however small the amount may be.

Sales Forecasting

Sales forecasting is an integral part of merchandise planning. It will enable to make decision regarding the quantum of purchase to be made. While forecasting the sales, the category life cycles should be given due consideration ie the retailer should predict the sales of various product categories over a period of time. The sales may be less during the introduction stage and it may gain momentum in the growth stage. In the maturity stage the sales may grow at a relatively lesser rate and then it may decline. This pattern may vary from category to category and it could be affected by the activities of the retailers. For example setting a low price in the initial stage may increase the rate of adoption of the

NOTES

product. Likewise in the decline stage the introduction of sales promotions measure may enhance the sales.

The varying pattern should be given due weightage while predicting the sales. Though the basic pattern of product life cycle is discussed above, variation may take the following forms; fad, fashion, staple and seasonal.

- The merchandise category that generates lot of sales for a relatively short period of time is known as fad. Generally the products attractive to children and teenagers fall in this category. The sales in Fad category are mostly unpredictable. In order to manage fad, it has to be recognized in the early stages and the distribution rights may be secured before competition gains momentum.
- The merchandise in fashion category lasts for several sessions than the fad. The sales of the product category may vary from one season to other. A fashion's life span depends on the type of category and the target market.
- The items within the stable merchandise are also called basic merchandise. The items in this category are in continuous demand over an extended period of time. For example the merchandise in the grocery stores falls in this category.
- In case of seasonal merchandise the sales fluctuate drastically according to the time of the year. The fashion and staple merchandise are usually influenced by the seasons. The retailers should carefully plan the purchases and deliveries to meet the seasonal demand.

The sales forecast is usually made for a week or season or for a year. It is termed as short term for a period up to one year and long term for a period of more than a year. While forecasting the sales for the product categories, various aspects should be considered apart from the category cycle discussed above. Some aspects are; the changes in the tastes and attitude of customers, size of the target market, changes in the spending pattern and the like. The process of developing the sales forecasts involves the following steps;

- *Reviewing past sales* – A review of past sales records is necessary to establish if there is any pattern or trend in the sales achieved. Past sales records would give an indication of the sales in the current year, if the situations or conditions remain constant.
- *Analyzing the change in the economic conditions* – The change in the economic patterns will have a direct link to the consumer spending patterns. The inflation rates, economic slowdowns, increased unemployment, the business cycles etc has an impact on the merchandise sales.
- *Analyzing changes in the sales potential* – the changes in the demographics of the target market should be related to the store and the products and sales projection can be made.
- *Analyzing the changes in the Marketing strategies* - The sales forecast may be affected by the marketing strategies of the retail concern and the competitors. The factors like remodeling, redesigning and opening of new store or new line of product

etc considered by the competitor should be taken into consideration apart from the general trend in retailing.

- *Creating the sales forecast* - All the factors mentioned above are taken into account and the estimate of projected increase in sales is arrived. The same is applied to various product categories to arrive at the projected sales figures at the store SKU level.

Developing Assortment Plan

Assortment plan in general involves decisions regarding what should be carried in a particular merchandise category. To arrive at the decision the retailer should take into consideration the relative importance of variety, assortment and product availability. Variety is the number of different merchandising categories within a store or department. It is also referred to as breadth. Assortment is the number of Stock Keeping Units within a category. It is also referred to as depth. Stores with large assortments are said to have good depth. Product availability refers to the percentage of demand for a particular Stock Keeping Unit that is satisfied. It is also referred to as the level of support or service level. A retailer should arrive at a trade off between the variety, assortment and product availability. Of the three issues variety assumes more importance as it plays a greater role in positioning the retail store in the minds of the consumers.

In determining the *variety and assortment* the following factors should be considered;

- The profitability of the merchandise mix has to be taken into account as the retailer invests both in terms of money and space in merchandise.
- The corporate strategy regarding assortment will enable the buyer to determine the number of styles and colors to purchase. If the portfolio is more diversified there will be less risk of huge losses. At the same time the retailer has to face the risk of breaking sizes i.e. running out of stock on particular sizes.
- The physical characteristics of the store ie the physical space for each category should be considered. If more styles and colors are dealt in assortment, much space will be required to properly display and store the merchandise.
- A balance between too much assortment and too little must be arrived at. Too much assortment may lead to confusing the retailer, like wise too little assortments may lead to less choice which may dissatisfy the shoppers who need a one-stop shopping. Hence the expectations of target market should be taken into account while deciding the assortment size.
- The retailer should consider whether the merchandise under consideration complements other merchandise in the department.

Product availability is defined as the percentage of demand for SKU that is satisfied. If the product availability is to be maintained at a higher rate then the percentage of backup stock to be stored will also be higher so as to ensure that out of stock situations does not arise. An optimum backup stock should be ascertained because if the backup stock is too high, it will lead to unnecessary locking up of financial resources. Likewise if the backup

NOTES

stock is too low, the stock out situation will arise leading to dissatisfied customers and declining sales. The backup stock is also known as buffer stock, or safety stock. To determine the buffer stock level the following aspects should be considered.

- The demand and lead-time pattern for each Stock Keeping Unit should be calculated. This will avoid overstocking of SKU's with smooth demand and out of stock situation for SKU's with erratic demand.
- The decision made by the retailer regarding the product availability affects the buffer stock level. If the retailer wishes to satisfy all the customers need then more number of merchandise has to be stocked. However if a retailer wishes to satisfy only 75% of demand, only to that extend the buffer needs to be maintained.
- Fluctuating demand pattern enhances the need for more buffer stock. If the sales is less than average, the retailer may end up carrying more buffer stock, on the other hand if sales is more than average, it will result in out-of-stock situation.
- Lead time affects the buffer stock level. Lead time is the amount of time between recognition that an order needs to be placed and the time at which the merchandise arrives in the store and ready for sale. If the lead time is more, more buffer stock should be maintained to avoid of out of stock situation.
- Product availability of vendors affects the back up stock requirements. If the product availability of vendor is restricted, the same will be passed on to the retailer resulting in the need to maintain more safety stock.

4.3.2 Merchandise Buying

Merchandising planning culminating at assortment plan enables to identify the type of merchandise to be carried. Merchandising buying systems enables to determine how much to buy. Two distinct types of buying systems are used by the retailers' viz., stable merchandise system and fashion merchandise. The demand for stables can be forecasted based on the previous year sales history and projections using statistical techniques. However sales history cannot be used as standard for fashion merchandise. The buyers have to forecast sales at the category level. This section discusses the following aspects involved in merchandise buying

- Buying system for Staple merchandise and fashion merchandise
- Open to buy systems
- Allocating merchandise to stores
- Analyzing merchandise performance

Staple Merchandise

Stable merchandise system is followed in case of merchandise whose demand pattern can be identified ie the order- receipt-order cycle is predictable. For example merchandise in grocery or food category the cycle is fairly predictable. A number of inventory management systems are available for staple merchandise. The system enables the buyers to identify how much to buy and when to buy. It basically provides three functions viz., monitoring

and measuring average current demand at the stock keeping Unit level, forecasting future demand taking into consideration the seasonal variations and other contingencies and developing ordering decisions rules for restocking the merchandise.

Unlike the forecast for fashion merchandise, the sales forecast for staples can be made mechanically. Softwares can enable the preparation of budget plan in an easy manner. Some of the concepts used in budget plan like the exponential smoothing, order point and order quantity is explained below;

- *Exponential smoothing* is a forecasting technique in which sales in the previous time periods are used along with an assigned weight. The following formula can be used for forecasting sales;
New forecast = Old forecast + α (Actual demand – Old forecast)
- Alpha (\pm) takes the value between 0 and 1 which depicts the influence of actual demand on the new forecast. High value of alpha i.e. .5 and above causes the forecast to react quickly whereas the low value of alpha such as .1 is used when the demand is changing very slowly.
- *Order point* is the minimum quantity of stock required to avoid the out of stock situation until the next order arrives. The order point can be calculated using the following formula;
Order point = [(Demand/Day) (Lead time + Review time)] + (Backup stock)
- Lead time is the amount of time between placing the order and receiving the same. If the lead time is zero then the buyer can wait until the stock is completely used and then order and replenish the merchandise immediately.
- *Order quantity* refers to the decision regarding number of merchandise the buyer should order when the quantity available is less than the order point. The important aspect to be kept in mind is that the order should be enough such that the minimum stock required is not depleted and sales is made from the backup stock.

Fashion Merchandise

Fashion merchandise has a high demand for a relatively short period of time. The demand for the product exists for a limited time and hence buying right quantities at the right time is of great importance for this category of products. Excess buying may result in heavy markdowns at the end of the season when the product becomes out of fashion.

The monthly additions of stock in case of fashion merchandise should be calculated taking into account various aspects i.e. the Sales, Reductions, Beginning of the month and End of the month stock. These aspects are explained below;

- *Calculation of monthly sales percent distribution to season*, projects what percentage of the total sales is expected to be sold in each month. Historical records provide the basis for calculating this percentage. Tracing the percentage change in sales in each month over a period of years would enable to check the

NOTES

significant changes. Due consideration should be given for changes due to marketing strategies of the concern and that of the competitors.

- *Monthly sales* should be calculated which is the forecast sales for six months period multiplied by sales percentage calculated as above. The various methods of forecasting sales are explained in previous sections.
- *Monthly reduction percent distribution to season* enables to take into account the various factors that reduces the inventory level. This aspect should be considered to support the monthly sales forecast. The value of inventory is reduced by primarily the sales made. The other reasons are the mark downs, shrinkage, and the discount to employees. These additional reductions should be taken into account, otherwise the retailer would be under stocked. Markdowns are price reduction offered to customers. It can be forecasted from the historical records taking into consideration the competition, changes in the environment etc. discounts refers the price reduction provided to employees. Shrinkage is the inventory reduction caused due to shop lifting by employees or customers. It also includes misplacing merchandise, damaged or poor book keeping.
- *Monthly reduction* should be calculated in the same manner like the monthly sales. The total reductions are multiplied by an percentage
- *The beginning of month stock to sales ratio* specifies the amount of inventory that should be on hand at the beginning of the month to meet the sales forecast and maintain inventory turnover objective. The formula for calculating the ratio is;
- Stock to sales ratio =
$$\frac{\text{Beginning of month inventory}}{\text{Forecasted sales for the month}}$$
- The ration is equivalent to the amount of monthly supply on hand at the beginning of the month.
- The amount of inventory to be held during the beginning of the month(*BOM stock*) is calculated as below;
- Monthly sales X Beginning of month stock-to-sales ratio
- BOM Stock of the current month is the *End of month stock* of the previous month.
- After calculating all the above aspects the *monthly addition to stock* can be calculated as shown below;
Additions to stock = Sales+Reductions+EOM Inventory–BOM Inventory

Open- to-buy

Open-to-buy system helps the buyer to plan the purchase of merchandise. It starts after the merchandise is purchased using the budget plan discussed above. The open-to-buy system enables to keep track of the merchandises flows while they are occurring i.e., it enables to identify how much is spent each month and how much is left to spend. The method for calculating open-to-buy varies for the past periods and the current period. Calculation of open-to-buy at the end of the period is easy as the period is already over and the actual End of the month stock (EOM) is equal to projected EOM stock. In case of

calculation of open to buy for the current period, there is no EOM stock actual as the period has started but has not finished, hence projected EOM stock should be calculated. This projected EOM stock is a new and improved estimate of the planned EOM stock arrived from the merchandise budget plan. The formula for projected EOM stock plan is

$$\text{Projected EOM stock} = \text{Actual BOM stock} + \text{Actual monthly additions} + \text{On order} \\ - \text{Sales plan} - \text{Monthly reductions plan}$$

The open to buy formula for the current period is simply the difference between what is originally planned to end with from the merchandise budget plan and what is the actual EOM stock plan calculated based on the information collected during the month. It can be expressed as below;

$$\text{Open-to-buy plan} = \text{EOM stock planned} - \text{Projected EOM stock}$$

An assortment planning process can be more complicated. It requires a fine mix of subjective and experienced judgments, good information system, and a systematic method of keeping historical records.

Allocating merchandise to stores

After planning and buying the merchandise as discussed above, the merchandise purchased should be allocated to stores. The merchandise should be replenished either by the vendor or through distribution centers. Retailers can use historical sales information for the purpose of allocating units to stores. However, close attention should be paid to current supply and demand situations so as to determine the proper inventory allocation. In the case of chain stores the allocation of merchandise may differ from one store to another. A core assortment is a relatively large proportion of the total assortment that is carried by each store in the chain regardless of the size. The core assortment is necessary to maintain the image of the chain particularly in the case of small stores. If the assortments are minimized in a chain store then the customers would perceive that the smaller stores have an inferior assortment. Hence the smaller store may require a higher-than average stock-to-sales ratio.

The retailers can follow pull or push strategy while allocating the merchandise. In case of pull strategy, orders for merchandise are generated at store level on the basis of demand data obtained at the point-of-sale terminals. In case of push strategy merchandise is allocated to the stores on the basis of historical demand, the inventory position at the distribution center and the needs of the stores. A pull strategy is where the retailer decides the allotment in responsive to the customer demand.

NOTES

Analyzing merchandise performance

The merchandise performance could be analyzed using three procedures viz., ABC analysis, Sell-through analysis and by evaluating vendors using the Multiattribute model.

- *ABC analysis*

ABC analysis orders the merchandise into three categories on the basis of some performance measure for example contribution margin, sales volumes, gross margin etc. The category may consist of items that should never go out of stock, items that could be allowed to be out of stock occasionally and items that should be deleted from the stock selection. The ABC analysis is based on the principle that implies 80% of the retail sales or profits come from 20% of the products. Contribution margin used as the performance measure can be calculated using the following formula;

$$\text{Contribution margin} = \text{Net sales} - \text{Cost of goods sold} - \text{other variable expenses}$$

Merchandise with high contribution margin can be stored more, however the less profitable merchandise should also be stored so as to draw the keep the customers satisfied. Sales margin per square foot may also be used as performance measure to categorize the merchandise using ABC analysis.

Item A could consist of the items that should never be out of stock . It occupy a less percentage of total items say 5% but may represent more for eg. 70% of the sales. These items may be expensive to carry as they generally will require high levels of backup stock to buffer against variation in demands. B items may consist of merchandise which occupies an near equal percentage in sales and volume. For example it may represent 10 percent of items contributing to 20 % of sales. C items account for more stock in numbers but less in total sales. for example it may account for 65% of the stock but may contribute only 10% of the total sales. Apart from the A, B, C items , there may be some items which may be obsolete and not wanted by customers and accounting for only cluttering in the stores. These could be termed as D items which has to be done away by the retailers.

- *Sell-Through Analysis*

A sell-through analysis is a comparison between actual and planned sales. It enables to determine whether early markdowns are required or whether more merchandise is needed to satisfy the demand. The decision can be made based on the past experience, the steps taken to enhance the sales etc. For example the advertising strategy for products could be changed or additional discounts could be offered. If the actual sales is much more than the planned sales, then a reorder should be made.

- *Multiattribute Method*

The multiattribute method is used for evaluating vendors on the basis of various criteria. The steps involved in evaluation are;

- The decision regarding the criteria to be used for selection of vendors should be identified, it could be vendors reputation, services offered, merchandise quality, selling history etc. Too much of criteria will be difficult to evaluate and at the same time too short a list will lead to ignoring some issues.
- Weights should be assigned to each criteria based on the discussion between the buyer and the merchandise manager.
- Judgment should be made about each individual brands performance on each issue.
- The importance and performance should be combined so as to evaluate the overall performance. This can be done by multiplying the importance of each issue by the performance for each brand or its vendor.
- To arrive at a vendors overall rating, sum the product for each brand for all the issues.

4.4 RETAIL BRANDING

The emergence of major retail brands is a significant new phenomenon in the Indian economic scenario. Brand is the most important invaluable asset particularly in the context of increased competition among the retailer to capture the customer base. Some of the well known retail brands include Pantaloons, Shoppers' Stop, Crossroads, Culture Shop, Big Bazaar and In Orbit.

The American Marketing Association (AMA) defines a brand as a "name, term, sign, symbol or design, or a combination of them intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of other sellers". Branding strategies will enable the retailers to win over customers in the competitive environment. Retail branding differs from product branding in the sense that it is not just a name or term only; it is something within the hearts and minds of customers, clients, and prospects. It is the sum total of their experiences and perceptions, some of which can be influenced, and some cannot. To formulate successful branding strategies the retailers should not only focus their attention on getting the target market to choose brand over the competitors, but it should enable the prospects to see the brand as the only one that provides a solution to their problem. Retail branding involves every single contact that occurs between any product and a human representative of the company and any customer or potential customer. In order to be successful in branding the retailer has to thoroughly understand the customers needs.

NOTES

Retailing in India is in nascent stage, however the need for branding as a key tool for differentiation is gaining momentum. The brands dealt and their price remains the same with all the retailers. The differentiation has to be made by a retailer to make the consumer choose to shop with him rather than the competitors. In this context, the retail brand plays an important role in connecting the customers and making a difference. A strong retail brand can make a customer to choose in favour of a particular retailer.

The objectives that a good brand will achieve include:

- Delivers the message clearly
- Confirms the credibility
- Connects the target prospects emotionally
- Motivates the buyer
- Concretises User Loyalty

The needs and wants of the customers and prospects should be taken into account so as to develop successful branding strategies. Though the basic principles of branding applies to retail branding, it is different from the product branding in the sense that retail branding is multisensory and the retail brand equity to a greater extent depends on the customer experience. The retail brand image and equity also depends on the manufacturer's brand they deals along with their brand equity. The manufacturers brand dealt determines the customers pull, their patronage and loyalty towards the retail store. The retailers compete with the manufacturers brands by creating their own brands so as to attract the customers pull. A retailer thus has an option of dealing with manufacturer's brand or they can develop their own brands. These aspects involved in the branding decisions are discussed below;

Manufacturer brands

Manufacturers brands or national brands are products designed, produced and marketed by manufacturers. The manufacturer is responsible of developing the merchandise and establishing an image for the brand. The brands are well known due to the wide advertisements supported by the manufacturers. These brands are well known in the market and they are actually pre-sold to customers. As a result the brands require only little or limited investment in marketing. The manufacturers brands often represents good quality to the consumer and hence they require only limited investment in marketing. The manufacturers' brands mostly dominate the sales in many product categories. The manufacturer may follow a family branding strategy where the name appears as a part of the brand name of a specific product. The retailer may organize their product categories around the most important national brands.

Dealing with national brands enable a retailer to enhance the store image, increase the customer pull and reduce the selling and promotional expenses. The shoppers are generally loyal consumers of a brand. For them the brand symbolizes the expected quality and comfort.

If the brands are available in only in limited retail stores, it will lead to increased customer loyalty towards the store. Dealing with manufactures brand may lead to some problems as listed below;

- The gross margin realized from a manufacturers brand is lesser. The lower gross margin is due to the cost of promotion of brand undertaken by the manufacturer and the increased competition among the retailers selling the brands. In order to attract the consumers and retain them the retailers may have to offer discount to on some brands. Due to these reasons the margin left over to the retailer is reduced.
- Dealing with national brands may lead to decreased loyalty, if the manufacturers' brands are dealt by many retailers. The customers' loyalty may decrease because the retailer cannot differentiate the same from competitors.
- The flexibility of a retailer is hindered due to his dealings in the national brand. The manufacturers control the product display, advertisement and price which limit the discretion of the retailer.

Licensed Brands

The licensed brand is a special type of manufacturer brand in which the owner of a well known brand name (licensor) enters a contract with a licensee to develop, produce and sell the branded merchandise. The licensee may be either the retailer who contracts with a manufacturer to produce the licensed product or a third party that contracts to have the merchandise produced and then sells it to the retailer.

Private-label brands

Private label brands are products developed by a retailer and available for sale only from that retailer. The retailer develops specifications for the merchandise and then contract with the vendor to produce the same. The promotion of the merchandise is taken up by the retailer. Private labels can be called as store brands when they actually adopt the name of the store itself in some way. Private labels are different from generics, which has a simple black and white packaging and does not provide any information as to the manufacturer of the product. Private labels cost less than the manufacturers' brand. However initially the use of private labels was less by retailers due to the following reasons;

- The manufacturers' brands are advertised in television and other media leading to a increased brand recognition and preference.
- It is difficult for retailers to gain economies of scale in operation needed to compete with the manufacturers' brand.
- The retailers lack the knowledge to compete with the manufacturers' brand.
- The private labels are perceived by consumers as inferior to the manufactures brand.

NOTES

However the recognition and penetration of private labels is gaining momentum both from the consumers and from the retailers' perspective. Private labels provide a number of benefits to the retailer;

- Strong private labels create brands loyalty
- It enhances the store image if the brands are of high quality and unique.
- The private label could be sold at a relatively less price than the manufacturers brand as the retailer need not be bothered about the gross margin spread.
- Higher gross margin can be enjoyed as the retailer need not share the same with the manufacturer.
- The retailers can enjoy flexibility in manufacturing, quality control and distribution of merchandise apart from the freedom in display, promotion and pricing strategy.

Though the benefits enjoyed are greater there are certain drawbacks in private labels. The retailer has to bear expenses involved in designing merchandise, communicating the same to consumers and developing image for loyalty for the private label brands. The sales men have to be trained to sell private brands against the popular manufacturers' brands. If the private label doesn't move well in the market, it cannot be returned back as in the case of manufacturers' brands.

The following are the *key drivers of successful private labeling* from the point of view of retailers, products dealt and the customers perspective;

Retailer

Product

- The product category should exhibit brand switching
- Retailer should have good vendor relations with supplier of the product
- Multi sourcing of the product should be done from different vendors
- Quality should be comparable to other brands stocked at outlet
- Right pricing strategy should be in tune with the positioning of the retail outlet

Customer

- Should be willing to experiment with different brands in the product category
- Should trust and appreciate the retail outlet in terms of service provided, quality of goods, variety stocked, value added services etc.
- Should have a good post-purchase view of the brand to become a regular customer

The retailer can resort of various strategies for enhancing the sale of private labels. The private labels can resort to range of strategies. For eg from low product quality to premium products, from no promotional activities to intensive promotion, from imitating the manufacturers' brand to carving a niche etc. Generally the private labels fall into the following categories;

Bargain branding

The private label is aimed at capturing the price conscious customers. The products are offered at a discount price. The products do not have any frills ie it is not advertised and it is unbranded. The brand is usually referred to as house brand. The brand is perceived by the consumers as of lower quality and the packaging is used to identify the brand as that of the retailer.

Premium branding

Here the retailer prices the brand at a higher price than the competing brands. This is generally done to attach a snob value with the Private Label. The quality will be comparable to that of the manufacturer-brand quality. The premium brands try to match or exceed the product standards of the manufacturer's brand. In order to succeed the competitors the retailer should concentrate on market research, product development, quality control and promotion.

Copycat branding

The retailer imitates the manufacturers brand in appearance and packaging. The products are perceived to be generally of lower quality and are offered at lower price. The retailer does not invest as much in advertising the brand at a national or international level so it can afford to price it lower than others. Care should be exercised to see that the products are not close copies inviting patent laws. At the same time if it is not imitative that the customers may not be drawn towards the brand.

Parallel branding

Parallel branding is used as the leveraging strategy to boost the sales of the private labels. The private labels closely imitate the packaging and product attributes of the manufacturers brand but with a clear difference in the merchandising approach and on its product label.. The products will be closer in terms of logo, labeling and packaging such that they are considered as substitutes. Parallel brands attempt to produce a product and packaging that are similar to the manufacturer's brand. The difference is shown in price so as to promote the view that the parallel brand provides better value for the consumer.

THE RETAIL STORE AS A BRAND

In recent years, more and more retailers have seen the importance of branding and have recognized the need to adopt distinctive positioning within their marketplaces. However, the drivers of branding for retailers are often misunderstood, and confused regarding what a retailer needs to do to develop their brand. Store equity measures the strength of the store brand by examining the extent of consumer loyalty, and their willingness to pay a premium to shop there. It's not the same as 'customer satisfaction': customer satisfaction

NOTES

is about the day-to-day interface with customers, and while shopping experience is obviously vital for retailers, it is not the only factor in developing a brand. To build long-term commitment, and to drive conversion opportunities among non-customers, retailers need to develop their store, as well as the equity. Retailers can create brand equity by establishing awareness and associations to the product assortment, pricing and credit policy, quality of service and so on. Consumers may choose the associations on basis of personal experience, word of mouth, advertisement etc. The following aspects should be considered while building brand equity;

- **Create a brand hierarchy**

The retailer should create a brand hierarchy by branding the store as a whole, as well as individual departments, classes of service or any other noteworthy aspects of the retail service or shopping experience. This will enable to create a synergy in brand development. The steps taken by other retail stores or chains should be considered so as to develop a complete strategy. The various departments in the retail store can also deal with unique set of associations that would attract the target market.

- **Enhance manufacturer's brand equity**

The retailers should try to gain as much mileage as possible from the manufacturer's brand they deal with by communicating and demonstrating their the strength and uniqueness. Retailers can cooperate with the manufacturer's in the various push strategy formulated by them to enhance the value and brand equity of the brands sold. This will enable them to sell more and generate greater profits.

- **Providing value addition**

The retailer can enhance the brand equity by offering added value in the selection, purchase, or delivery of product offerings. Retailer should build strong, favourable and unique associations that will go beyond the product they deal with. To communicate the associations the retailers can create strategies that focus on the shopping advantages that can be reaped by a consumer by choosing to buy from the retail store.

- **Create multichannel shopping experience**

The customers should be given the choice of variety of channel through which they can shop at the retail store. It may include physical store, catalogs and online sources. The need for supplementing the brick and mortar stores with virtual stores is all the more important due to the shortage in availability of time for the consumers and to satisfy their variety seeking behaviour. Irrespective of the time of channel chosen, the customers should be provided with rewarding shopping experience in searching, choosing, paying for and receiving the products.

- **Avoid overbranding**

A retailer should not deal with too many private brands. Too many private brands would put the retailer in a situation where scores of different brands are to be supported across different departments. Hence a retailer can concentrate on few major brands.

Building a store brand is different from a product brand. A great difference between the retail and product brand is that in case of product, the brand is made by anonymous or fictitious presenter whereas in case of retail the consumers come into direct contact with the retailer. Due to the direct contact with the end user the retailer has to effectively live up to the brand reputation in every aspect, every day in a continuous manner. In case of retail branding the issue is not the brand retailer deals but the branding the retail store itself. A retail store may deal with number of private and manufacturers brand but may fail if it is not able to bring in customers. In order to differentiate himself from others a retailer should concentrate on creating brand value, concentrate on branding strategies and the structure ie the operation level of the retail business should be held to integrate the whole brand proposal. In order to build a successful brand the retailer can adopt the following strategies.

- **Relationship Manageme**

Developing relationship with customers is an important ingredient in enhancing the shopping experience. Instead of choosing mass marketing strategy, the retailer can customize the strategies according to the requirement of the customer. This requires a database on consumers and an approach based on profitability and lifetime value of customer. The retailer should carry out instore data collection, provide frequent shopper reward, carry on interactive communication, make special offers, drive traffic and value apart from instore value creation. Retail brand value will get enhance by having personal relationship with customers rather than only through pricing and product.

- **External Communication**

Retail branding requires the retailer to have communication with customers outside the store too. It can take the form of broadcasting, email to customers or sending posters or customized sales letter to customers based on their preference for products.

- **Motivating staff to deliver value**

The quality of instore service is a key factor in differentiating the retailer from that of the competitors. The staff should be motivated to identify their best customers and offer them the superior service.

Among other things like merchandising, category management, pricing, promotion, supply chain logistics etc., successful retailing to a greater extent depends on the building retail brands. For Indian consumers retailing has become more of leisure time activity and

NOTES

they seek variety of experience to enhance the pleasure of shopping. The retailer should realize this and build brands with image that seek to entertain and involve the customers. The success of retailing ultimately relies to a greater extent on the ability of retailer to create sticky customers who would prefer to shop with the retailer.

4.5 PRICING FOR RETAIL

Price is one of the most important variables influencing the retail decision making. Specifically in the Indian context where most of the consumers are price conscious. From the customers view point, price is the most important reason for shopping in a particular store. Customers often seek value for the money paid. Value is the relationship of what the customer gets (goods/services) to what he has to pay for it. Some customers may feel that a good value means always getting a low price. Others may be willing to pay more as long as what they get in terms of product quality or service is assured. From the retailer's point of view, pricing decisions has an impact on the profitability, sustainability and most importantly it has an impact on the image. Price is one of the most tangible means of creating differentiation and hence, building the image of the store. Price differentiation has given rise to new store formats, referred to as 'price formats'. The price formats include discount stores, off-price retailers and every-day low price (EDLP) retailers.

4.5.1. Factors influencing pricing decisions

The decision regarding pricing is the outcome of interaction of various factors which should be taken into consideration while fixing the price. The factors affecting the pricing decisions are highlighted below;

1. Merchandise

The retailers should set the price by carefully analyzing the features and attributes of the merchandise and the value the consumers attach to the same. To attract different segments of customers the retailer can offer a range of merchandise selection with different levels of prices to consumers. The retailers can control the price through either the cost of goods sold or the gross margin that is added to the cost. The retailer can either buy the merchandise at a lower cost or charge a higher markup to sell at a specified price. The retailer can also buy merchandise that costs more, but sell at a lower margin to maintain price line.

2. Customer services

Customer services is an important factor which attracts a customer to the retailer and it is the distinguishing factor which would enable a retailer to carve a niche in the retail arena. Retailer can offer a variety of services like delivery of product at the car or door steps, sales assistance, alterations etc. the retailer may charge higher prices for offering certain services which may result in higher profits. In case of some services the retailer can provide the option of charging separately for the additional services or add the charges into

the product prices. But many times the retailer do not charge anything extra for the services, the services are rather provided free of cost to enhance value for the customers.

3. Credit

The requirement for purchasing the product on credit increases the price of the product. Offering credit may lead to generating greater demand rather than offering discount for cash paying customers. Credit purchases help the retailer to sell more merchandise and at the same time earn from financing the transaction.

4. Location

The location of the retail store in terms of nearness to customers and competitors has a significant impact on the price that can be charged. A store located in proximity to its competitors with comparable merchandise and customer service has less pricing flexibility. Likewise the distance between the store and its customers also has an impact on its pricing decisions. If the distance is more, the store may increase its promotional efforts or reduce its price of merchandise in order to attract customers.

5. Promotion

Promotion and pricing decisions are usually interrelated. When a retailer brings a change in its prices and offers discounts or other modifications, high promotion may be needed in order to create awareness about the offer to the consumers. A retailer who uses promotion heavily and also prices merchandise competitively may increase sales more than a retailer who uses high promotion or low price strategies independently.

6. Store image

The customers unconsciously link the retail prices with its image. The pricing policies and strategies interact with store image policies and strategies. For eg. If a store dealing with designer dresses starts to offer discounts regularly, it may lose the image of being an exclusive store.

7. Legal constraints

The legal constraints and the impact of the legal environment, especially the retail laws applicable should be taken into consideration while the retailer fixes the price. In some countries reducing the prices is easy like in the case of United states whereas in Japan which has a vertical monopoly of market distribution the prices are kept high by large manufacturer. In case of India, most packaged products has a mandatory maximum retail price which has to be followed. The retailer has to keep the MRP in mind while fixing the prices.

NOTES

8. Other environmental factors

Other factors such as the channel relationships, demand pattern, seasonality and competition should also be considered in formulating the overall pricing strategy. If the channel has too many members, the merchandise when reaching the retailer would be priced high and the markup in pricing by the retailer cannot be high as it will increase the prices. If the demand is elastic, then it means that with the change in the price there will be a change in demand and accordingly the retailer can change the price to increase or decrease the demand. If the competitor charges a low price for similar merchandise, the retailer cannot fix a high price unless he occupies a niche which is appreciated by the customer to the extent of paying more. Apart from the above listed factors, the retailer should take into consideration the factors like the pricing objectives, pricing policies and strategies, the extent of demand and price adjustments. These aspects are discussed in the next sections.

4.5.2 Steps in retail price strategy

Pricing policy of a retail concern should be integrated with the overall retail mix. The process is complex due to the dynamic and erratic nature of demand, the number of merchandise carried and the various factors influencing the pricing decision. A retail price strategy involves five steps which will be discussed in detailed in various sections ;

I. Pricing Objectives

Identification of the pricing objectives in a systematic manner is a must for developing the pricing strategy. The pricing objectives are the starting point for achieving effective price points i.e. the different level of prices set for products are services. The pricing objectives reflect the overall goals of the organization. The objectives should be consistent with the overall image and positioning, sales, profit and return on investment goals. The primary pricing objectives are described below;

1.Product quality objectives

It is a type of pricing objective which focuses on recovering the costs associated with the retail research and development. This objective is used in association with integrated marketing communication to create the perception of high product quality and thus a high retail store quality in the consumers mind. This objective is often reflected upon by the high-end retailers.

2. Skimming objectives

Skimming objectives refers to the retailer setting a high initial price. This strategy is often used to recover the cost incurred in selling a new product. The retailer targets at the customers who are relatively unconcerned about the price. Later after capturing these customers the prices may be lowered to attract additional customers who are more price

conscious. In order to succeed in this objective, the customer should be Price insensitive and should consider the merchandise as of premium quality.

3. Market penetration objectives

Market penetration objectives are effective when the customers are price sensitive. It is opposite of the skimming objectives. The retailer may set initially low price to attract large number of customers. The key to effective market penetration strategy is to increase the sales volume to offset the low product price. It enables to discourage the competitors from entering the trading area because of the lower prices the retailer has already established for the market. In addition, market penetration may help to establish the popularity of the new product.

4. Market share objectives

Market share refers to the proportion of sales of a particular product or brand to that of the total sales of a particular product or brand in a given area. Market share objectives is a type of pricing objectives in which the retailer has to adjust price levels based on the competitors change in the price, with the goal to gain additional market share. The retailer can set the market share for each division, each department, product line, product and brand.

5. Survival objectives

This is a type of pricing objectives in which the retailer increase price level to meet sales expenses. This objective is generally used to match sales volumes to overall store expenses.

6. Return on investment (ROI) objectives

This objective enables the retailer to meet or exceed the stated return on investment. The retailer fixes a target return figure which will satisfy the stakeholders. The price is fixed to attain the return of investment targeted.

7. Profit objectives

Profit objectives are similar to the ROI objectives except that the target is set on the basis of profit levels rather than as the return on investment. If the management uses profit maximization approach of retailing then, it may resort to this method of pricing.

8. Status quo objectives

In this type of objective the retailer attempts to maintain the current situation. A retailer who may want to stabilize sales will prefer to set the objective based on the status quo. For example a retailer may fix the price at a rate which is the same as the previous year so as to assure the sales and profit target as set in the past.

NOTES

9. Cash flow objectives

Cash flow objectives are generally short term objectives. This objective allows the retailer to generate money quickly. It is designed to encourage additional sales volumes. For example a retailer may set a lower price during a particular time period to enhance the sales volumes and increase the cash flow.

II. Broad price policy

A broad price policy enables a retailer to generate price plan with short and long run perspectives and with a consistent image. While fixing the broad retail policy the retailer should taken into consideration the need and behaviour of target market, the retail image the concern want to project and other elements of retail mix. Some examples of the pricing policies which a firm can choose are listed below;

- Prices will be consistent with that of the competitors
- Prices of all items will be interrelated to maintain an image
- Price leadership will be exerted or prices will be set independent of the competitors
- Prices will be constant over a period of time or price will change with the change in cost.

III. Pricing strategies

After selecting the broad pricing policy the retailer must choose the approach for pricing. The retailer can choose among three options viz., cost oriented, demand oriented or competition oriented. Cost oriented pricing strategies are followed when the retailer want to make profit. The demand oriented pricing strategies focus on what the customer will be willing to pay for the merchandise. On the other hand the competition oriented price takes into consideration the prices fixed by competitors as the customers shop around and compare prices. In India the retail price is usually pre-determined by the manufacturer, which is compulsorily printed on the package without which no branded product can be sold. The Maximum Retail Price (MRP) is fixed by the Government above which the retailer cannot sell the product. A retailer can only decide how much lower than the MRP he can sell so as to satisfy the customer as well as make a reasonable margin.

The cost, demand and competition oriented pricing policies are discussed below;

1. Cost-oriented method

In cost oriented method, the retail price is determined by adding a fixed percentage to the cost of the merchandise. A retailer would generally get the best deal in buying the merchandise and then would decide the 'markup' to be fixed over the cost of the goods to arrive at a reasonable retail price. The profit margins are usually decided on the product basis. The 'markup' is the difference between the cost of the merchandise and the retail selling price at which the retailer is supposed to sell the same. In markup pricing the retailer sets prices by adding the unit cost of the merchandise, retail operating expenses and the desired profit. The level of markup depends on the following aspects

NOTES

- Traditional markup which is practiced for the product
- Suppliers suggested list price
- Inventory turnover
- Level of competition
- Rent and other overhead costs
- Extent to which a product needs to be serviced
- Type of selling effort needed

The markup percentage can be calculated as a percentage of selling price or on the merchandise cost. The same is shown below;

$$\text{Markup percentage} = \frac{\text{Retail selling price} - \text{Merchandise cost}}{\text{Retail selling price}}$$

$$\text{Markup percentage} = \frac{\text{Retail selling price} - \text{Merchandise cost}}{\text{Merchandise cost}}$$

A retailer will not sell all items in stock at their original price. In this connection, *initial markup*, *maintained markup* and *gross margin* should be computed. *Initial markup* can be calculated by taking the original retail value assigned to merchandise less the cost of the merchandise. The initial markup percentage based on the planned retail operating expenses, profit, reductions and net sales.

$$\text{Initial markup percentage} = \frac{\text{Planned retail operating expenses} + \text{Planned profits} + \text{Planned retail reductions}}{\text{Planned net sales} + \text{Planned retail reductions}}$$

Maintained markup is based on the actual prices received for merchandise sold during a period of time less merchandise cost. Since the markup prices are based on the actual prices received they are difficult to predict. Maintained markups reflect adjustments from markdown, added markups, shortages and discounts. It can be calculated as under;

$$\text{Maintained markup percentage} = \frac{\text{Actual retail operating expenses} + \text{Actual profit}}{\text{Actual net sale}}$$

Gross margin is the difference between net sales and total cost of goods sold after adjusting for cash discount and additional expenses.

$$\text{Gross margin} = \text{Net sales} - \text{Total cost of goods}$$

NOTES

2. Demand oriented method

In demand oriented pricing the retailer sets prices based on the consumer desires. The retailer determines the range of prices acceptable to the target market. The top of this range is called the demand ceiling. This strategy is usually followed in case of products not branded, is of low quality and generate low volume sales. It is also undertaken for very expensive product where the retailer wishes to gauge the value of the product from the customers. The demand oriented pricing method is used to determine the correct balance of pricing and margins whereby the profitability of the merchandise could be maximized.

This method takes into consideration two aspects of psychological pricing viz., price-quality association and prestige pricing. According to price- quality association concept, many consumers feel high prices connote high quality and low prices connote low quality. The association assumes greater importance in the following cases

- The competing firms or products are similar other than price,
- Consumers have little experience in judging quality
- Shoppers perceive large difference in quality and among retailers or products
- Brand names are insignificant in brand choice

Apart from price, other aspects like retail atmospherics, customer service, popularity of brands etc may also assumes importance in framing the perception of customers.

Prestige pricing is also based on the price- quality relationship where the shoppers will not choose to buy in case of low price of merchandise. The customer consider low price as synonymous to low quality and status. The customers may patronize a retail store which offers product at higher price. Prestige pricing may not be applicable to all products or all customers. Most of the shopper may be economizers who always shop for bargains.

3.Competition oriented method

In competition oriented pricing a retailer sets the based on the competitors pricing policy. The competitors' prices are taken as guide and studied and applied. The retailer will not change the prices based on the cost or demand unless the competitor alters the price. The competition oriented retailer can price below, at or above the market. A retail firm with a good location, quality service, wide assortments, favourable image and popular brands can set prices above competitors. It is not suitable for a retailer who is not innovative, relies on self service and situated in a not so popular location.

Each of the methods has its own strength and weakness. The cost oriented method is quick, mechanical and simple to use. The demand oriented methods allows retailer to determine the price that will give the greatest profit but it is difficult to implement as there may be thousands of merchandise that require pricing decisions. It is important to keep in mind the action taken by competitors; otherwise it might complicate the issues. A retailer

should consider the cost, demand and competition in setting prices. The cost-oriented method would be starting point for setting the price. The competition oriented method enables to check the price prevalent in the marketplace. The demand oriented method can be used to fine-tune the strategy.

The retailer can start with the price based on the cost and profit goals, consider competition and perform test to understand the acceptable price level to the consumers so as to determine the most profitable price.

IV. Implementation

Implementation of pricing strategy involves a number of specific decisions to be taken in addition to the broad decision regarding cost, demand or competition oriented pricing decisions explained above. The specific pricing strategy are discussed below;

1. Customary and variable pricing

In customary pricing a retailer sets prices for goods and services and seeks to maintain the same for an extended period of time. The customer can take the price for granted. For eg as in the case of newspapers. One version of customary pricing is everyday low pricing (EDLP) strategy.

Every Day Low Pricing (EDLP)

In *every day low pricing*, the retailer tries to sell his goods and services in a consistently low price throughout the selling season. Low prices are set initially and the retailer reduces the advertising, product repricing cost and strives to increase the reliability of the customers regarding the prices. Low prices need necessarily means lowest price. Though the retailer using EDLP strives to keep the price low, they are not the lowest in the market. However the prices will be same everyday without significant fluctuations. The strategy emphasizes the continuity of retail prices at a level between the regular nonsale price and deep-discount sale price of the retailer's competitors. Since it is difficult to maintain the lowest price, the retailer may opt for a *low price gurarantee policy*. In low price guarantee policy the retailer gurantee that they will have the lowest possible price for a product or a group of merchandise. The guarantee is given to match or outperform the lower price in the market. It includes a provision to refund the difference between the seller's offer price and the lower price.

The benefits of EDLP are;

- The price conscious customers buy products often during the sale or discount period. The EDLP offeres cusomers prices that are fair and hence they will buy more frequently. The strategy also enables retailers to withdraw from price wars with the competitors.

NOTES

- The need for advertising is limited in EDLP. The retailer focuses more on the image-oriented message.
- Likewise the catalogs need not be changed as the prices does not change often.
- EDLP reduces the demand variation to a greater extent and hence it reduces stockout and enables inventory management in a efficient manner. More predictable customer demand pattern enables the retailer to improve inventory turnover by reducing the average inventory for special promotions and backup stocks.

In variable **pricing** a retailer alters price to coincide with the fluctuations in costs or demand pattern. Cost fluctuations can be seasonal or trend-related. If the cost continuously rise or fall, the retailer must change prices permanently. Demand fluctuations can be place or time-based. In case of place different prices can be charged for different locations as in the case of movie theatres. Time based fluctuations arise if consumer demand differs by hour, day or season. An example of variable pricing is high/low pricing discussed below;

High/Low Pricing

In high/low pricing strategy retailers prices the products sometimes above their competitors EDLP and use advertising to promote frequent sales. Retailers more often resort to increasing sales using high/low strategy. For e.g. the retailers in clothing usually resort to mark down prices at the end of the season. The retailers often chose this strategy to respond to the competitors and to capture the attention of value-conscious customers. The high low pricing strategy offers the following benefits;

- This strategy allows retailer to charge high prices to customers who are not price conscious and low prices to price-conscious customers.
- The sale offers draw more crowds and creates excitement in the minds of the customers. Low prices are many times augmented with heavy advertisements, demonstration, celebrity appearances etc.,
- Lowering the price and offering the products on sale enables to sell more.
- When the products are sold at high prices, customers will tend gauge quality as high. Later when the prices are reduced, the customer will still continue to refer to the original price and consider the merchandise as of good quality. However in EDLP the initial prices are set low making customers to feel low price as synonymous to low quality.

2. One-price policy and flexible pricing

Under one-price policy a retailer charges the same price to all customers buying an item under similar conditions. This policy may be used along with customary or variable pricing. This method is easy to manage, does not require skilled sales people, makes shopping quicker, enables self-services, and puts the customers under a relatively less pressure.

Flexible pricing allows customer to bargain over prices. The customers who are good at the same obtain lower prices, however they should have prior knowledge to bargain

successfully. Flexible pricing encourages customers to spend more time, gives the feeling that the firm is discount-oriented and generates high margins from shoppers. It requires high initial prices and good sales people. A special form of flexible pricing is contingency pricing whereby a service retailer does not get paid until after the service is performed and payment is contingent on the services being satisfactory.

4. Odd pricing

Odd pricing is a form of psychological pricing where the prices are set at levels lower than the even rupee values such as Rs.9, Rs.99, Rs.149. This pricing make the customer think that the prices represent discounts or that the amounts are beneath the consumer price ceilings.

5. Leader pricing

In leader pricing, a retailer advertises and sells selected products /assortments at less than the usual profit margins. The retailer aims to increase customer traffic for the retailer so as to sell regularly priced goods and services in addition to the specially priced items. It involves usually frequently purchased goods, national brands and high turnover products as it is easy for customers to detect low prices.

6. Multiple unit pricing

In multiple unit pricing the retailers offer discount to customers who buy in quantity or a product bundle. A retailer attempts to sell more than normal sales at a regular price. The multiple unit pricing may be followed by a firm for making the customers increase total purchases of an item. The approach enables the retailer to move the slow moving and end-of- season merchandise. It also enables to increase the sale of related items. In bundled pricing a retailer combines several elements in one basic price. This approach increases overall sales and offers people a discount over unbundled service. However the customers may not some time prefer the items put together. Hence as alternative many retailers use unbundled pricing where separate prices are charged for each item sold. Unbundled pricing is difficult to manage as consumers may buy fewer related items.

7. Price lining

In price lining retailers offer a limited number of predetermined price points within a classification. For example the retail store may offer only products only at Rs. 25, Rs.50 and Rs.100. The customers and retailers prefer price lining for the following reasons;

- The retailers as well as the consumers are saved from the confusion of having multiple price choices.
- The merchandising task for the retailer is simplified. All the products with the same price could be merchandised together. The buyers can purchase the merchandise with the predetermined price lines in mind.

NOTES

- Price lining provides greater flexibility to the buyer. Some merchandise can be bought below or above the expected cost for a price line.
 - Price lining motivates the customer to move up to a more expensive model.
 - The stock turnover increases as the number of models carried is limited.
- Difficulties that can be faced by retailers in following price lining are;
- Price lining may leave excessive gaps depending on the price points selected. In the example cited above prices were offered at Rs25, Rs.50 and Rs.100. The customers who wishes to buy a range in between cannot do so.
 - Inflationary pressures would make it difficult to maintain the price points.
 - In case of mark downs the prices of all the products offered under price lining should be reduced proportionately.

V. Pricing adjustments

In order to generate sales the retailers may perform price adjustments to the initial retail price. Price adjustments enable retailers to use price as an adaptive mechanism. Price adjustment may take the form of markdowns, additional markup, coupons and rebates.

Markdowns

Markdowns are reductions in the initial retail price. A markdown from an item's original price is used to compete with the lower price offered by another retailer or to adapt to inventory over stocked, clear out obsolete stocks, reduce assortments of limited quantity in odds and ends, and to increase the customers footfall and sales. It attracts more number of price sensitive customers and induces them to buy more merchandise. Retailers have their own set of rules for markdown decisions. They may resort to markdowns if the weekly sell-through percentage fall below a certain value or depending on how long the merchandise has been in the store. The retailers instead of relying on the arbitrary rules may use merchandising optimization software which enables to monitor merchandise sales, promotions, competitor's actions and other factors so as to determine the optimal price and timing for markdowns.

Retailers can reduce the amount of markdowns by closely working with their vendors to time the deliveries with demand. Merchandise that is delivered well ahead of demand period takes up valuable selling space and may become obsolete or damaged. On the other hand if the merchandise is delivered too late, retailer have to sell the product using markdowns.

Even after markdowns sometimes the product may still remain unsold. In order to tackle this situation the retailer can resort to the following measures; selling the marked-down merchandise to other retailers, consolidating the marked down merchandise, place the merchandise on an internet auction, give the merchandise to charity or carry over the merchandise to next season.

Additional markup

An additional markup increases an item's original price because demand is unexpectedly high or cost is rising. The additional markup can be computed as a percentage of sales or as a percentage of original price. The method of computation is shown below;

$$\text{Additional markup percentage} = \frac{\text{Total amount of additional markups}}{\text{Total amount of Net sales}}$$

$$\text{Additions to retail percentage} = \frac{\text{New price} - \text{original price}}{\text{Original price}}$$

Coupons

Coupons offer a discount on the price of specific items they have purchased at a store. It provides an incentive to price-sensitive customers to purchase more merchandise. Coupons may be issued by manufacturers and retailers in newspapers, on products, on the shelf, at the cash register, over the internet and through postal mail. Coupons are used to induce customers to try products for the first time, convert the first-time users to regular users, encourage large purchases, increase usage and protect market share against competition. The profitability of coupons depends on the product category. Coupons may have a positive impact of encouraging larger purchase than without coupons or it may steal the sales from the future period without any net increase in the sales.

Rebates

A rebate is portion of the purchase price returned to the buyer. The customer will be given a refund if the customer produced the proof of purchase. Rebates are attractive and useful when the purchase price is relatively large. Otherwise the customers may not be interested in sending the proof and earning the refund. The rebate should compensate the time and postage expenditure spent by the consumer in redeeming the same. From the retailers perspective rebates are more advantageous than the coupons as the retailer has no handling costs. From the manufactures perspective also it is beneficial as many customers never bother enough to redeem rebate. The advertisements offering low price may attract the customers, however only a limited percentage actually claim the rebate. It also enables the manufacturers to offer the price cuts directly to the consumers. In case of traditional price cut, retailers can sell the product at the same price and pocket the difference. Rebates can be called off very quickly apart from allowing the manufacturers to fine-tune inventories to respond quickly to competitors without actually cutting prices. Rebates also enables to build the database of the consumers as it requires the name, address and other details to be send for claiming the refund.

NOTES

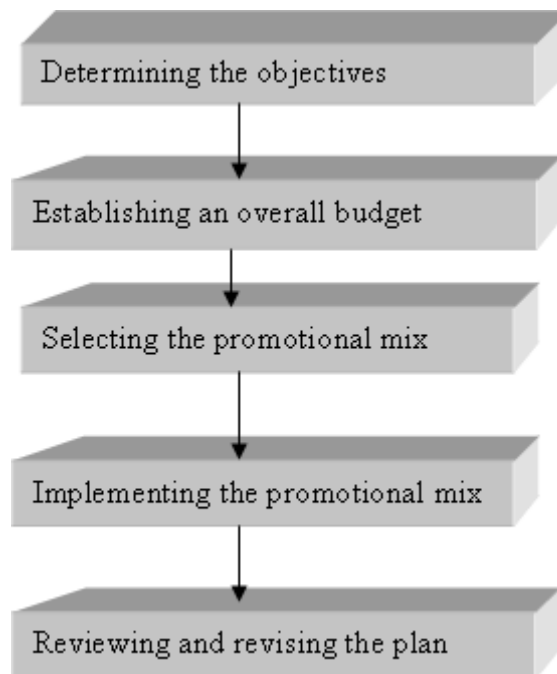
4.6 PROMOTION

Retail promotion includes any communication by a retailer that informs, persuades and /or reminds the target market about any aspect of that firm. Promotion is thus a communication program to build brand images, attract customers and encourage them to buy merchandise. The communication program informs the customers about the retailer as well as the merchandise and service it offers. It plays a major role in encouraging repeat visits and in building customer loyalty. The promotional decision of an organization can have both long term and short term effect on a retailer's business. From a long term perspective, it is used to create and maintain a strong, differentiated image of the retailer and its store brands which in turn develops the customer loyalty and creates a strategic advantage. The short term objective may be to increase the sales during a specific period of time.

This section deals with the steps involved in planning a retail promotional strategy followed by a discussion on the elements of promotional mix.

4.6.1 Planning a retail promotional strategy

Four steps are involved in developing and implementing a retail promotion program: determining the promotional objectives, establishing the overall promotional budget, selecting the promotional mix, implementing the promotional mix and reviewing and revising the promotional plan.



1. Determining the objectives

Objectives are set for promotional program so as to provide direction for people implementing the program and to provide a base for evaluating the effectiveness. To effectively implement and evaluate a promotional program, objectives must be clearly stated in quantitative terms. The target audience for promotion mix should be defined along with the degree of change expected and the time period over which the change will be realized. Some examples of retailer's broad promotional goals are listed below;

- Inform customers about the goods and services
- Increase the customers' footfall
- Increase sales
- Stimulate impulse and reminder buying
- Create and enhance the retailers image
- Build customer loyalty
- Enhance customer relations
- Popularize new retail stores
- Gain positive WOM (word of mouth)

The goals should be stated as precisely as possible. For example instead of just stating increase in sales, it could be stated as increase in the sale by 10%. This will enable to decide the type of promotion, media and the message to be delivered.

2. Establishing an overall promotional budget

The overall promotional budget could be set using any of the five methods explained below;

All-you-can-afford

The retailer first allots funds for all the element of the retail strategy mix except for promotion. The left over fund is fully allotted to promotion. The drawback of this technique is that only little emphasis is placed on promotion as strategic variable. Further the expenditure is not related to goals and if funds are not remaining then the promotion is sacrificed or only too small or relatively nonexistent amount is spent on promotion.

Incremental method

In incremental method the allocation of funds is based on the prior promotion budget. The previous year budget may be enhanced or reduced to determine the next year budget. This technique may be useful for small retailers as it provides a reference point. The budget is adjusted based on the past years experience. The current trend is also taken into account while fixing the budget. It is easy to apply but the extent of dependability is questionable.

NOTES

Competitive parity method

In this method the retailer's promotional budget is based on the competitors' budget. The retailer raises or lowers the budget based on the competitors' trend. For example if the competitor raises the promotional budget, the retailer does too. This method is useful for small and large retail concerned. This method is also market oriented and very conservative. As it is imitative in nature, it is assumed that the competitors' database is a

Percentage-of-sales method

In percentage to sales method the retailer ties its promotion budge to the sales revenue. A promotion-to-sales ratio is developed. In the subsequent years the ratio remains the constant. For example a firm could set 5 % of its sales for promotional cost. If the sales is Rs. 10,00,000 then the promotional expenditure would be Rs.50, 000. If the sales is Rs.20, 00,000 then the promotional expenditure would be Rs.1, 00,000. This method uses sales as the basis and is very much adaptable. This technique provides excess financing in times of high sales and too small a fund in period of low sales.

Objective-and-task method

Under this method the retailer clearly fixes the objective of promotion and prepares a budget to satisfy the same. The objective may be to create awareness, to capture new consumer etc. The objective-and-task method is best budgeting technique. Goals are clear, spending relates to goal-oriented task and performance can be assessed. However for small retailers, it could be a time-consuming and complex to set goals and specific tasks.

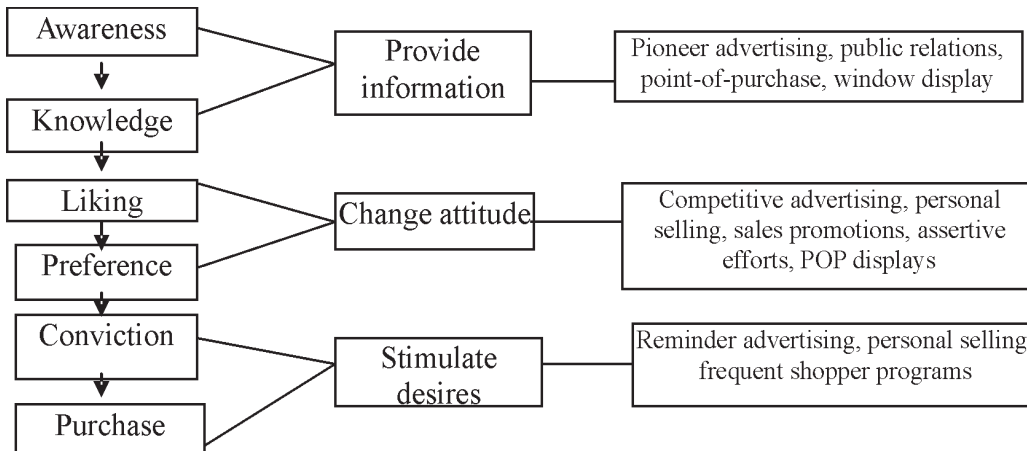
3. Selecting the promotional mix

Promotion mix consists of advertising, personal selling, sales promotion and public relations. After the budget is set, the retailer should decide the promotional mix. A retail concern with limited budget may depend on store displays, targeted direct mail and publicity to increase the customer traffic. A retailer concern with a big budget may depend on advertisement in press, radio and newspaper. Retailers use a combination of all the types of promotion. The type of retail concern, the type of merchandise dealt will also influence the decision regarding the promotion mix.

The consumers while reacting to the retailers' promotional effort, often go through a sequence of steps known as the *hierarchy of effects* which ranges from awareness to knowledge to preference to conviction to purchase. Different promotional mix should be used in each step. Advertisement, public relations, point of purchase and window display can be used to create awareness and knowledge. To change the attitudes and preference a retailer may resort to competitive advertising, personal selling, sales promotions, assertive efforts and POP displays. To stimulate the desire to own merchandise reminder and institutional advertising, personal selling and frequent-shopper programs can be used.

Hierarchy of effects
Promotional mix

Objective of promotion



4. Implementing the promotional mix

The implementation of promotional mix involves decision regarding the media, timing, message content, the sales force, sales promotion tools and the responsibility for coordination. These aspects are discussed below;

Media decisions

The choice of media should be based on the overall costs, efficiency, lead time and editorial content. Media’s efficiency relates to the cost of reaching a given number of target customers. Media rates are usually expressed in terms of cost per 1000 readers, watchers or listeners. It could be expressed as shown below;

$$\text{Cost per thousand} = \frac{\text{Cost per message} \times 1000}{\text{Circulation}}$$

Lead time required differs from media to media. Some may require the content to be delivered a week before, for some it may be a month in advance. Retailer should also decide near which editorial content the advertisement has to be placed.

Timing of promotional mix

A retailer can opt to advertise extensively or intensively. In extensive media coverage advertisement reaches many people but with low frequency. Intensive media coverage means advertisements are placed in selected media and repeated frequently. Repetition is important to develop the image of the retail store. Thus both reach as well as frequency should be taken into account while developing the media plan. Reach refers to the number of distinct people exposed to retailers promotional efforts in a specific period. Frequency is the average number of times each person reached is exposed to a retailers’ promotional efforts in a specific period. A retailer can again opt between massed promotion effort or distribution promotion effort. In massed promotion effort the retailer undertake promotion

NOTES

seasonally. In distribution promotion effort the retailer undertakes promotion throughout the year. Likewise the sales force number could vary from time to time and sales promotion also vary in their timings.

Content of the message

Content of the message is very important, whether it is spoken or written, whether delivered personally or in an impersonal manner. The theme, wordings, headlines, colour used, size, layout etc should be selected. Publicity releases should be written and in case of personal selling, the greeting, sales presentation, demonstration and closing assumes more importance. In sales promotion, the message should be composed and placed on the promotional device. Competitive advertising is also used by some retailers in order to contrast their offerings from that of the competitors. Comparative advertising enables a retailer to position the retailer stores against the competitors. In addition to that the retailer will enjoy increased awareness, maximize the efficiency of limited budget and offers credibility. However it suffers from the drawbacks viz., it may invite legal action apart from providing vicinity to the competitors.

Makeup of sales force

The types of sales force to be recruited, the required qualification, the selection process, compensation, supervision and training etc should be decided.

Sales promotion tools

Among a number of sales promotion tools, specific promotional tool must be selected based on the goals and other aspects of the promotion mix. Sales promotion tools that are inconsistent with the image of the store should be avoided. Retailers should decide the sales promotional tools based on the consumers needs.

Responsibility for coordination

In order to have a successful promotional strategy, the components should be coordinated with other retail mix elements. Sales person should be informed of the special terms of sales and should be educated regarding the product attributes and the methods of receiving, marking and displaying the same. There should be a close synchronization among the various promotional efforts taken by a retail firms and among the people who are in charge of delivering the same.

5. Reviewing and revising the promotional plan

The success of the promotional plan depends on the achievement of the promotional objectives. Reviews enable to monitor the same. In case where the pre set goals are not achieved, revision should be made. Numbers of ways are available to measure and test the effectiveness of a promotional effort. For example a study could be made to compare the

awareness before and after promotional measures. The sales performance, customers' intention to buy before and after promotion, reviewing coupon redemption etc are some other measures to evaluate the effectiveness of promotional measure. However it has to be carefully scrutinized for example the sales of a product may suddenly increase due to the non availability of the competitors' product. This cannot be taken as the effect of sales promotional measure practiced. Though it may be tough to assess the promotional efforts, it is a must for retailers to systematically study and design the promotional mix.

4.6.2 Elements of retail promotion mix

Retailers communicate with the customers using various channels. The retail promotion mix is a mixture of various modes of communication given below;

- I. Advertising
- II. Sales promotion
- III. Public relations
- IV. Personal selling
- V. Word of mouth (WOM) and
- VI. Store atmospherics

Store atmospherics has already been dealt in detail Unit III. The goals, basic forms and advantages and disadvantages of the promotional mix listed is dealt in the following section.

I. Advertising

Advertising is an essential part of every business and it assumes more significance in the context of retail sector. It helps a company to communicate the desired message to the public at large through impersonal mass media such as newspapers, billboards, television, radio and direct mail. With an increase in the customer inquisitiveness in India, as well as power of media, advertising has become more refined and more aggressive than ever before. It plays a major role in reinforcing the retailer's image and ensuring appropriate communication with the target audience.

Advertising is a paid, non personal communication transmitted through out-of-store mass media by an identified sponsor. Four aspects of advertisement needs to be highlighted.

- Advertisement is distinguished from publicity in the sense that payment is not made for the time or space used to convey the message.
- It is non personal in the sense that a standard message is delivered to the entire audience and the message cannot be adapted to individual customers
- Out of store mass media include newspapers, radio, TV, web and other mass channels apart from personal contacts
- Unlike in the case of publicity, the sponsors name is clearly spelled in advertisement.

NOTES

Objectives

Advertising can be performed by a retailer with the following objectives;

- Creating awareness among consumers and increasing the customer traffic
- Educating the customers about the goods and services or retail concerns attributes
- Increasing the short-term sales
- Developing or reinforcing the retail image
- Reducing the job of sales personnel
- Enhancing the demand for private labels

Principles of retail advertising

This section deals with the basic guidelines to be kept in mind when creating an advertisement irrespective of the medium and size of the advertisement.

- Advertisement must clearly explain the *benefits* it offers to the customers in terms of what it can contribute to the make the customer feel or look better, in terms of lifestyle improvement and the like. The prime benefit accruing to the customer should be highlighted which will attract and motivate the consumer
- Advertisement should be *consistent* in the sense, that it must be broadcasted on a regular basis and there must be consistency in the series of ads. The basis structure of the advertisement should be maintained. Consistency should also be ensured with the retail store's image.
- *New effect* could be created in advertising which will add to the interest of the consumers. Newness creates an excitement in the customers' mind which is effective in attracting them.
- Advertisement aims at thousands of people simultaneously. However it is delivered as mass message and hence care should be exercised to see that the every customer gets the impression that the message is being conveyed to them personally. Good advertisement should make customers feel that there are conversing with a live person.
- Advertisement should aim at *highlighting the core competency* of the retail store. The facts should be presented in an intriguing and fascinating manner. Advertisement should always be specific in the message it conveys and should focus on facts.
- An advertisement should be *different* every time it is newly released, yet should retain some familiar aspects so as to attract the customers' attention. It should focus on inclusion of the some issues which are topical or of current importance and is one of the uppermost issue in the minds of the customers

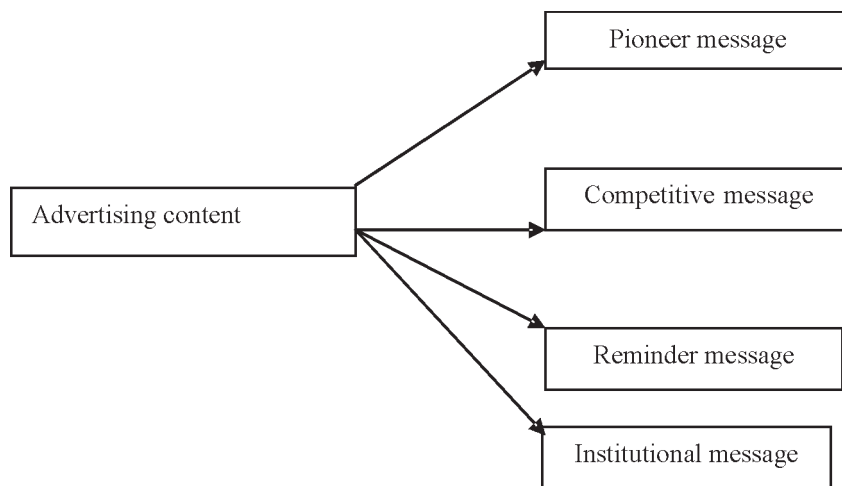
- The retailer should *create faith* in the minds of the customers. The golden rule in advertising is to deliver more than what is promised. A retailer, if not delivers more than the promise should try to deliver what is promised. If it is not done, the retailer may loose the customers forever and will not be able to bring the customers back with any amount of effort.
- The advertisement should be *interesting* and grab the attention of the audience in every aspect. The complete message would reach the audience only if the same is delivered in an interesting manner.
- The major objective of an advertisement is to stir the prospective customers to action leading to sales. Hence an advertisement must create a *sense of urgency* and make the customer act immediately.
- The advertisement must be *simple to read and understand*. In an attempt to be unique, intelligent and creative, an advertisement should not be created in a manner which is not understandable to the consumers.

Types of Retail Advertising

On the basis of content and payment advertisement could be classified as following;

Advertising Content

Pioneer advertisement mainly focuses on disseminating information. It aims to create awareness among the customers regarding the retail store and its image. *Competitive* ads have persuasion as the goal. The advertisement aims to attract customers by comparing with the competitors. *Reminder* ads focus on the customers to make then continue to extend their loyalty towards the store. *Institutional* ads focuses on the retailer than the products are services dealt by them.



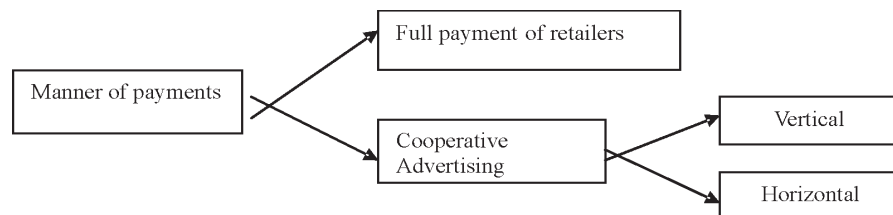
NOTES

Manner of Payment

On the basis of manner of payment the advertisement could be classified as those which are fully paid by the retailer and cooperative advertisement. They are explained below;

Cooperative advertisement may take the form of vertical or horizontal cooperative advertisement. In *vertical cooperative advertisement* the manufacturer and retailer or wholesaler and retailer share the cost of advertisement. Responsibilities are specified through contracts. The retailer can get the benefit of reduced advertisement costs, help in preparing ads, greater market coverage and less planning time. The retailer may however have less control, flexibility and distinctiveness.

In case of *horizontal cooperative advertising* agreement two or more retailers share the advertisement cost. It is often practiced by noncompeting retailers, retailers in the same shopping center and franchisees of a retail firm. In addition to benefits as available in vertical cooperative advertisement, the benefit of synergy of multiple retailers is also available.



Media

Different options are available to the retailer regarding the choice of media. The success of advertisement however to a greater extent depends on the retail store itself. Unless the retail store has adequate merchandise of good quality, ambience, good customer care and the like advertisement cannot bring success. The advertisement design and content is based on the choice of media. While making the decision regarding media, the following aspects should be considered;

- The relative merits and demerits of the various media
- Target audience need
- Reach and frequency
- Advertising budget and
- Returns on investment

Newspaper

It is the most popular media for communications and advertisement. This media is mostly used when the target audience is large and fairly spread out. Newspapers have a wide coverage and can facilitate the shortest possible response time, requires short notice,

is highly flexible and has a reasonable cost. The readers can go through the content at their own pace and convenience. Designing a newspaper advertisement is simple and the design could be developed by the retailer himself. The major drawback is the short life of newspaper. Apart from this if the retailer's advertisement is not strategically placed, it might not earn the due attention of the target audience due to the clutter of advertisement in the newspapers.

Newspaper inserts can also be used by the retailer. It refers to free standing paper inserted into newspapers. This form of advertisement has proven to be very effective as it targets on a limited number of exact customers. It is highly used for the purpose of intimating the discount sales or promotion to customers in a short span of time.

Magazines

A large number of magazines has become extremely popular with wide readership. The magazines are target and region oriented. For example there are magazines covering sports, entertainment, business, women etc. Magazines covers a diversity of topics from which the retailer can choose according to the type of prospective customer to be targeted. Magazine advertisement could be made much more attractive and richer than the dull black and white finish provided by the newspaper. Magazines lifetime can also be extended, however advertisement in magazines are relatively costlier and the content should be finalized well ahead of time of release.

Yellow Pages

Yellow pages are used as advertising medium in the recent time period. The cost of including the name and address are very minimal and hence retailers prefer the same. It enables retailers to advertise in the business category preferred by them. It has benefit of long term use atleast for period of one year and it is used by people who are ready to shop. The major drawback is the lengthy lead timer for new advertisement.

Radio

Radio has regained the audience lost with the introduction of FM channels which is used by a variety of retailer. Short messages can be conveyed at low cost through this medium. Much of the organized retailing is happening in urban India where radio has limited if not few audience. Advantages includes low cost, increased usage among car drivers and riders, short lead time and wider reach. However radio is not having the visual impact to gain attraction and retain attention. It requires to be repeated often to create memory value and the same time it should be very brief.

Television

Television appeals to more senses then the radio or print advertisement. The motion, sound and pictures appeals to the audience and hence it is preferred by more retailers. However it is often beyond the reach of small retailers. The advantages are the greater

NOTES

impact of the messages, the large market coverage, creativity etc. The drawbacks include high cost, need for brief messages, repetition and limited availability of popular times.

Outdoor

Outdoor advertising are limited to a particular area which is strategically selected by the retailer himself. Bill boards and banners are efficient and cost-effective reminder medium of advertising. The bill boards are usually often large in size and are apt to communicate special offers or promotion campaign. It may be displayed in public places, on buildings and on highways. Advantages include the high frequency of exposure, relative low costs and assistance provided in directing new customers. Disadvantages include the increased clutter of advertisement distracting audience and legislation banning the bill boards apart from the ability to display of limited number of information.

Direct mail

Through direct mail retailers send catalogs or advertisements to customers by post. It can resort to any method from a small postcard to big catalogs. This method is much more focused and be targeted on the exact customers the retailer wishes to contact. It helps in direct communication between the retailer and the customer as there is no intermediary in between. However the possibility of using direct mail depends on the availability of the database of customers. If properly used, it can elicit response from customer. Advantages include the ability to identify target customer without waste of resources, ability to customize information, quick feedback etc. The drawbacks include high throwaway rate, projection of poor image to people, low response rate and the problem of updating database which may become obsolete soon.

Online

Presence in the internet has become a must for any business, retailing is no exemption. In India the number of techsawy customers are on the raise, as well as the increase in the number of telephone connections, broadband, wireless connection etc has enhanced the usage of internet. Internet is mostly used for the purpose of gathering information and for shopping. In case of actual purchase, most of the customers would like to touch and feel the product and bargain rather than buy it on the net. Web can be used by retailers to provide information about the products dealt, location of the store, order catalogs and the like. Web enables the retailers to reach customers through advertisement on search engines and other firm's web sites and by developing their own sites.

Transit

Transit advertising is used in areas with mass transit systems. Advertisements are displayed on buses and in trains and taxis. Retailers' uses their delivery truck also for advertisement. The advantages include reach to a large number of audience, mass market,

high level of repetitiveness and geographically defined target customers. Disadvantages include increase in the number of advertisements leading to a clutter, distracting audience, restricted to travel path only and the like.

Factors to be considered

The prime focus of all advertisement is to create the maximum impact in maximum number of customers in the target market at the lowest possible cost. The decision on the type of media and type of advertisement should be based on the various factors highlighted in this section.

- The extent of *coverage* should be taken into consideration while making the decision. Coverage refers to the number of customers in the retailer's target market that could be exposed to the advertisement in a given medium. If the number of people in the target area is one lakh and if the advertisement reaches about 60,000 people, then the coverage is said to be 60 percent.
- *Reach* refers to the actual number of target customers exposed to an advertising medium. If in the above example, out of 60,000 people only 75 percent watch the advertisement then the reach of the advertisement is 75 percent of 60,000 ie 45,000 people
- *Cost* is an important consideration taken into account before finalizing the medium. Cost is measured in terms of cost per thousand (CPM) which involves calculating the cost involved to achieve the reach of every 1000 people. In the above example if the cost of the advertisement is 1,00,000 then the CPM is calculated as under;

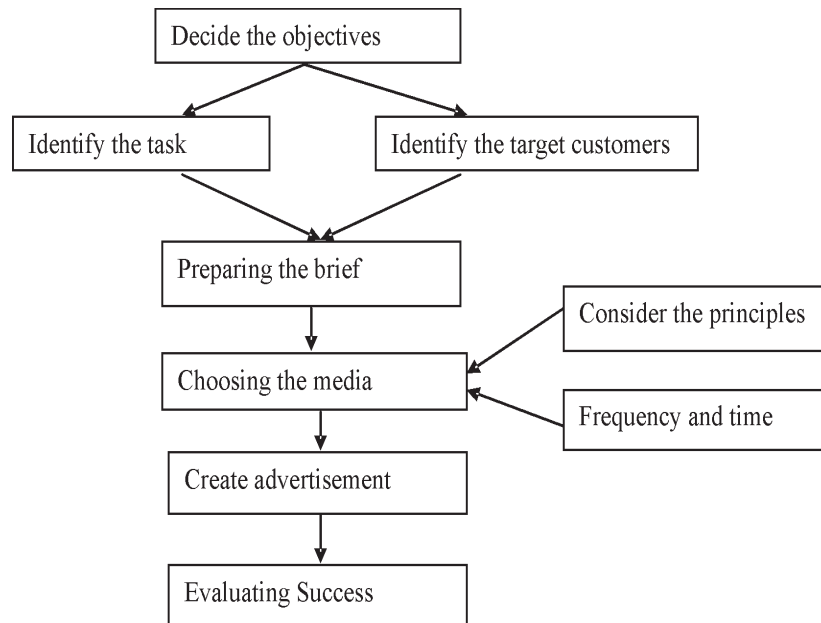
$$\frac{1,00,000}{54,000} \times 1000 = \text{Rs. } 1852$$
- *Impact* refers to the effect of the advertisement on the audience. Different media of communication has their own characteristics and importance which has to be considered in making decision. Television is considered to be very effective in gaining the attention of the customers and in changing their attitude. Magazines are popular media for enhancing the store image. New papers are useful in announcing special events.
- *Frequency* refers to the number of times a potential customer is exposed to an advertisement. Frequency will be decided by the retailer based on the objective of the advertisement. An advertisement trying to influence the buying behaviour of customers it may require a higher frequency.
- *Timing* is very important aspect influencing the effectiveness of advertisement. Advertisements in newspaper should be released on the day when the retailer wishes the customer to make the purchase or slightly before it. The retailer should avoid advertising for the product during the period of limited demand.

Implementing an Advertisement Plan

Most of the retail advertisement have a short life. The advertisement in most of the cases are designed to have an immediate impact at the lowest possible cost. In this context

NOTES

it is very important to design an advertisement so as to grab the attention of the audience. However it is a complex task which involves the following aspects;



Deciding the Objectives

The first step in developing an advertising strategy is to decide the short term and long term objectives of advertisement. Depending on the objectives the ad campaign is planned. Advertisement plays a vital role in informing, educating and persuading the customers and in building strong store image. The overall objective of all retailers is to 'increase sales' and 'increase profits'. Some examples of the specific objectives are;

- To position the store with a specific emphasis on the category of merchandise offered to customers. Positioning involves designing a communication programme to create an image of retailer in the customers mind in relation to that of his competitors. A textile store may focus on the design and styles it specializes within the category of dress materials offered.
- Retailers targeting a price conscious market may emphasize on the low price strategy to attract the customers.
- Advertisement may highlight the extra facilities provided at the store like the car parking, play room for children, free home delivery, extended timing of operation etc.

Identifying the task

Identifying the task refers to reason a retailer is planning the promotion task. It refers to the problems and opportunities the retailers face in running the business and the methods adopted to solve the same. Problems may include the following;

- Decreasing sales/ profits
- Reduction in the number of regular customers
- Lack of customer interest
- Raising customer dissatisfaction
- Decreasing store loyalty

Once the problem is identified, the retailer has to make decision regarding the advertising strategy. In the case of customer dissatisfaction, the retailer has to analyze the reasons for the same. After identifying the issues involved the retailer should design the advertisement highlighting the improvements made so as to enhance the customer satisfaction.

Identifying the target customers

The target customers could be an individual or the entire family may be involved in the decision making process. The level of involvement depends on the product, price income level etc. further the buying process may depend on various factors like the demographics, personality, lifestyle, culture and the like. These aspects have to be studied in depth in making decisions regarding the message content and delivery in an advertisement.

Preparing the brief

The advertising campaign may be designed by the retailer himself or it may be given to an external agency. In either case promotional *brief* should be prepared highlighting the following aspects;

- The problem or the opportunity which is the focal point of the campaign
- The promotional objectives to be achieved
- The target customers
- The budget allocated
- Information about the product or service, market, competitors, time frame , resources etc
- The evaluation procedure

Media decisions

The types of media to be used to deploy the message should be decided. Various factors, coverage, reach cost etc., discussed in previous pages should be kept in mind while arriving at the media decisions. The basic principles of advertising should be kept in mind irrespective of the media used for communication. It includes developing an ad with eye catching headline to attract the customers; simplicity, clarity, uniqueness, recognizable logo and the like.

Creating the advertisement

In case of large retailers with a number of stores, a in house advertising and creative department may be more cost effective as it involves constant advertising. Retailers can also opt for tie up with advertising agencies who decide and implement the campaign.

NOTES

Marketing research programs may be conducted to gather information regarding the shopping pattern, preferences and other aspects of buying behaviour of customers. Based on the inputs provided, the advertisement is created with the prime focus of ensuring that the retail store is in the customer's consideration set. Consideration set refers to the set of alternatives the customer evaluates in making a selection. After ensuring that the retail store is in the consideration set, the retailer should try to enhance the chance of the store visit by resorting any of the methods highlighted below;

- Increasing the belief regarding the store's performance,
- Adding new benefits
- Decreasing the performance belief of the competitors
- Increasing the weightage assigned by customers

Evaluating success

The success of the ad campaign should be ascertained by closely monitoring the performance of the same. The evaluations may be performed based on surveys. The general parameters to be considered include ascertainment of increase in the awareness level, knowledge level, attitudinal changes, increase in the customer base or customer footfall, increase in the sales and profits etc. The retailers cannot focus on improving performance on all aspect in one campaign; the retailer can concentrate on a single aspect which is perceived to be important by the target market.

Advantages and drawbacks

The major benefits of advertisement include;

- Attracting large number of audience
- Low cost per viewer or reader or listener
- Availability of number of alternative media
- Ability of the retailers to have a control over the content and delivery
- Ability to reuse the ads created

The major drawbacks include;

- Lack of flexibility and the inability to focus on the needs of individual customers
- The need for large investments
- Long lead time in case of some media
- High throwaway rates associated with certain media

II. Sales promotion

Sales promotions includes the range of techniques used to attain sales or marketing objectives in a cost-effective manner by adding value to a product or service. It encompasses the paid communication activities other than advertising, public relations and personal selling that stimulate consumer purchases and dealer effectiveness. It offers extra value and

incentives to customers to visit a store and purchase merchandise during a specific period of time. Sales promotion activities are usually used to influence consumers buying behaviour during a short period of time. In addition sales promotion increases the overall excitement of shopping experience for customers. The *objectives* of sales promotion includes;

- Increasing short term sales volume
- Maintaining customer loyalty
- Enhancing loyalty
- Complementing other promotion tools

Some reasons for conducting a sales promotion campaign are;

- The sales promotion is normally conducted for a short period of time and hence it is easy to measure the effectiveness of the same by measuring the impact on profit and volume of sales.
- Sales promotion can be devised and implemented in the market far more quickly than other forms of promotion.
- Sales promotion provides an element of novelty and excitement which customers enjoy and respond in a better manner.
- It enables to target a specific group of people based on socio-economic, geographic or usage groups. With the usage of computerized database it has become easier to customize the offers based on the target customers group.

Types of sales promotions

Various types of sales promotion activities are presented below;

Point of purchase promotion (POP)

POP consists of in-store displays designed to increase sales. It includes window, floor and counter displays used to remind the customers and stimulate the impulse purchases. The displays may be provided by manufacturers too. POP may facilitate self service and reduce the retailers cost if manufacturer provides the display.

Trading stamps

Trading stamps are similar to postage stamps. They usually contain the logo of the retailer and can be traded in the respective retail stores. The stamps may have denominations and they are given to shoppers as a bonus for making purchases beyond a certain value. The customer may collect a certain number of such bonus stamps and redeem the same for various gift items at the retailers' store.

Contests and sweepstakes

They are used to attract the customers by creating situations that make them participate in events and win prizes. A contest requires customers to show some skill. It may include any activity like completing a puzzle or picking a lucky number. A sweepstake requires

NOTES

participation only from which the winners are chosen at random. Disadvantages of this sales promotion tool include increased cost and excessive dependence on the offers by the customers in order to elicit continued patronage. The entries made by non shoppers may have to be included in the sales.

Coupons

Coupons are documents that enable the holder to get a reduced price or certain reduction from the printed price of product or service. The coupons may be distributed by manufacturers or by retailers through post, inserts or printed in newspapers, magazines, websites etc. The customers can take the coupon to the store for redemption and is offered the benefits stated in the said coupon. However in general only relatively less number of coupons is redeemed by customers. The retailers prefer coupons as it attracts customers and persuades them to become a regular buyer. In many cases manufactures pay to advertise and redeem coupons and retailers stand to benefit out of the same. Coupons contribute to the consumer's perception that a retailer offers good value. The effectiveness can be measured by counting the redeemed coupons. Disadvantage include the possible negative effect on the retailers image, consumer shopping only if coupons are available, low redemption rates, clutter of coupons and handling charges.

Free samples and offers

Free samples of the product promoted may be given or if the product promoted is purchased by customers, some other item may be offered free of cost. Free samples and demonstration can complement personal selling. It helps to increase sales in supermarkets, membership clubs, specialty stores and department stores. They are effective as it makes the customer to become more involved and the impulse purchase increases too. However increased cost creates problem.

Price promotions

The strategy of announcing special price is the most commonly used sales promotion measure adopted by retailers. Such promotion may be conducted for selective items or all items in the store. Price promotion may be usually conducted for a limited period. However all such promotions are not effective as the customers may stop visiting the store once the price promotion is stopped.

Special events

Retailers often invite stars or favourite celebrities to participate in special events in order to attract customers to their stores. However they are expensive means of promotion and only large retailers can usually afford the same. Generally the potential increase in consumer awareness and store traffic needs to be compared with the cost before arriving at a decision to conduct the special events

Frequent shopper programme

In frequent shopper programme customers are given points or discounts based on the value of their purchases. The points are accumulated to acquire goods or services. The advantages of the frequent shopper programme are the loyalty, increased shopping, and the competitive edge for a retailer. However some customers feel that the programs may not be really free and prefer to purchase at low price shops as they have to purchase a few times to accumulate points so as to avail benefits out of frequent shopper program.

Prizes

Prizes are similar to frequent shoppers programs however they are given with each purchase. In order to be effective, retailers' should see that the prizes are of real worth and are distributed one at a time to shoppers. It may take the form of set of glassware, silverwares etc. Prizes encourage loyalty, however the cost of prizes, difficulty in termination and the impact on image should be considered before making decision regarding prizes.

Referral gifts

Referral gifts are given to current customers when they bring in new customers. This tool is mostly used by direct marketers. It realizes the importance and value of friends in influencing purchases.

The retailers may also give away books, diaries, pens, calendars, shopping bags etc to customers. They are used to promote the retailers names. The items differs from prizes in the sense they are essentially supplements.

The above discussed promotions are only a few of the common types of promotions that retailer resort to promote the merchandise and the retailer store. The retailer can arrive other measures based on their creativity and imagination but they should see that the measures guarantee results.

Advantages and disadvantages

The benefits of sales promotion include;

- It can provide uniqueness to the retailer
- It often appeals to customers
- The customer often receives something of value
- It attracts more number of customers and helps to maintain loyalty
- Sales promotion increases the possibility of impulse purchases
- Customers will have more entertainment value in case of contests and demonstrations.

NOTES

The major drawbacks are

- It may be difficult to terminate certain promotion measures without losing customers
- The retailers' image may be affected if promotional measures are not properly used
- Many sales promotion effects have only short term effects
- It is used only to supplement other promotional efforts

III. Public Relations

Public relations includes any communication that projects a favourable image of the retailer among the consumers, investors, government, channel members, employees and general public. It may be non personal, paid or unpaid and sponsor controlled or not controlled. Publicity is any nonpersonal form of public relations whereby messages are transmitted through mass media, the time or space provided by the media is not paid for and there is no identified commercial sponsor. The basic difference between advertising and publicity is that publicity is not paid for and as a result it is not controllable. However as for the consumers are concerned publicity is more credible and reliable. Advertising and publicity should complement each other. The retailer would gain more benefit and value if publicity precedes advertisement. Public relations benefits both large and small retailers. Public relations is often performed to accomplish the following objectives;

- Increase the awareness about retailers
- Improve the retailers image by way of referring to the contributions of retailer to the society or general public
- Demonstrate innovativeness
- Present a message in a reliable manner
- Minimize the promotion costs

Types

Public relations may take the form of planned, unexpected and image enhancing and image detracting. In case of *planned public relations* the retailer outlines the activities in advance and plans for media coverage on them. The services to society, donations offered, special sales opening of new branches etc may be provided news coverage by media. As against this, *unexpected publicity* happens when the media reports on the company's activities without the retail concern giving advance notice on the same. The media may report on the retailer's performance on their own.

If the media reports on the positive aspects of the retailer and his practices it results in *image enhancing publicity*. If on the other hand the media provides a negative publicity then it may detract the image of the retailer.

Advantages and disadvantages

The major *advantages* of public relations are;

- It enables to create and enhance the store image
- More reliable and credible
- Reaches mass audience
- Gains more attention than other paid form of communication

The major *drawbacks* of public relations are;

- Most of the retailers do not rely on spending funds on enhancing the image of the retail concern
- There is little or no control over the publicity message, its timing, place and coverage
- It may be suitable for short-run. Needs to be supplemented by other measures in the long run
- Although for publicity no payment is made, there are hidden costs associated with like the cost for planning activities, costs for public relations staff and the like

IV. Personal selling

Personal selling is a communication process in which the sales people assist the customers in shopping and make sincere attempts to satisfy their shopping needs by understanding their demands thorough face to face exchange of information. It involves oral communication with one or more prospective customers for the purpose of making sales. Sales persons play a major role in retailing as they are considered as the ambassadors of the store brand. They are a part of the image of the store. Personal selling can contribute to a greater extent in developing the relationship between customer and retailers by enhancing the level of satisfaction. In this connection the behaviour of sales person towards customer is an important aspect in retailing. Retail sales people should always explore the opportunity to serve the customers. The role of sales persons starts right from greeting the customer entering the store, to guiding heim, assisting in selection of product, explaining the features and various models, demonstration and finally see that the customer leaves the store with a satisfied experience. A sales person is expected to perform the following in order to serve the customers;

- Provide information about the store, merchandise, services and policies
- Counsel the customer and assist them to perform value comparisons with the competing brands or stores
- Perform the role of public relations representative
- Performs the role custodian of merchandise and service and ensures the sales and stock turnover
- Enhances customer satisfaction by provides suggestions and advise
- Explains the features, benefits and usage pattern of merchandise
- Ensures the customers need are fulfilled and reduce the complaints

NOTES

- Develops loyalty by enhancing the personal relationship with customers

In order to perform the above the sales persons should possess right attitude, right skill set, knowledge and integrity. A positive attitude and disposition is a must for retailer apart from good communication skills, customer service skills and selling skills. The skill set is needed to convince and satisfy the customers. Sales person can satisfy the customers only if he has the knowledge about the product, process, benefits, competition and the like so that the customers questions can be answered satisfactorily. Integrity refers to having the right ethical standards, arriving to work on time, being attentive, serving the customer with cheerful attitude and the like. High integrity levels enables the sales person to have a great deal of confidence to face and satisfy the customers.

The *objectives* of personal selling are to;

- Create awareness regarding merchandise
- Persuade customers to buy
- Encourage impulse buying of items related to basic products purchased
- Help the customers in completing transactions
- Provide feedback information to the decision makers
- Provide and enhance the customer service
- Maintain and improve customer satisfaction

Types

The salespersons can be basically grouped as order getting or order taking sales persons. An *order-getting sales person* is one who is actively involved in informing and persuading customers and in closing sales. They perform the job of true salesmen and are usually engaged in selling highly priced, complex items. They should be more skilled and better paid than the order takers. An *order-taking sales person* performs the routing clerical and sales function like setting up the displays, stocking shelves, answering simple question etc. they are mostly involved in stores that operate on self-service mode.

Advantages and disadvantages

Major *advantages* of personal selling are;

- Ability to customize the message and delivery based on the needs of the customer
- Flexibility in identifying the maner to address customer needs
- Gains increased attention of customers than any other mode
- Response is higher than in case of advertisement or other promotional tools
- Feedback can be obtained and gauged immediately

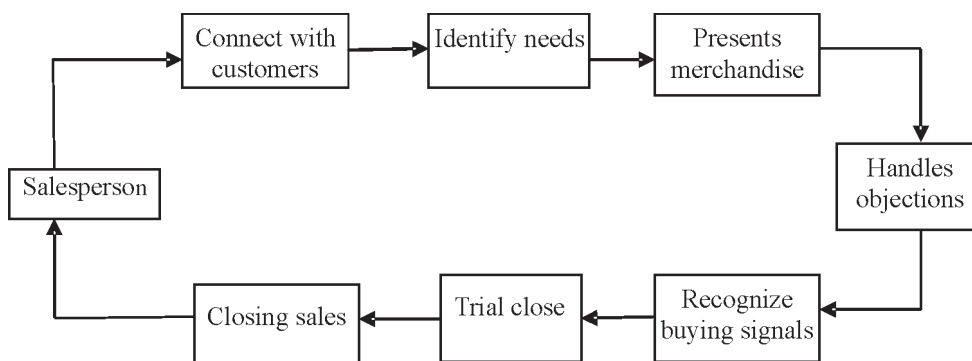
The major *drawbacks* are;

- Limited number of customers can only be handled at a point of time
- Cost of interacting with each customer is high

- Customers cannot be made to enter the store using personal selling method. Once the customers are inside, the personal selling can be initiated.
- Customers may depend on sales person for everything and self service may be discouraged
- Most of the customers feel that the salesmen are aggressive and helpful. Customer may perceive them to be intruding on the privacy.

Functions

The function of sales person's starts right from the moment the customer enter the store till the sales is successfully closed. The steps involved are depicted below;



Connect with customers

The first thing a salesperson can do on seeing the customer enter the retail store is to greet him in a cheerful, genuine manner making an eye contact. A sales person can make a positive impact with a smooth opening talk. The talk needs to be different for different type of people. A genuine approach and interest on the part of sales person will enable him to get along with customers who require different level of dealings. The sales person should be confident, humorous too in some cases while interacting with customers.

Identify the needs

The sales person can understand the needs of the customer both stated and unstated by communicating freely. Striking a harmonious note will enable the salesperson to understand the needs of customers in an effective manner.

Presenting the merchandise

The merchandise should be presented properly without the loss of time. The sales person should initiate the trail of the product by the customer and give truthful opinion. The sales person should also respect the customers need for personal space. The sales person has to be subtle and be sensitive to the needs of customers while presenting the merchandise. While making the presentation, the sales person should understand that a memorized, repetitive speech given to all customers will only give a negative impact. Demonstration of

NOTES

product would enable the customer to have a firsthand understanding of the utility of the product.

Handling objections and indecision

The doubts raised should be clarified by salesperson to the satisfaction of the concerned customers. The customer may compare the price with that of the competitors; in such cases the rationale behind the increased prices should be clearly explained. While handling objections in the case of high involvement products, the sales person can refer to trade journals, product handtags, information booklets etc.

Recognize buying signals

The salesperson must respond quickly to buying signals, which may take the form of words or body movements. For example the positive statements made by customers gives the cue needed. The salesperson should take the opportunity 'to ask' or prompt the sales. otherwise the customer may be lost.

Trail close

The trial close follows the process of asking for sale. The sales person may complement the sales by offering add-ons. The objective of offering add-ons are

- *Up-selling* : it is the process of increasing the ticket size by offering a larger value item, or an item of larger size.
- *Cross-selling*: it involves offering related merchandise. For example if a person buys a cutting board, cross-selling would mean offering knives.
- *Suggestive selling*: it involves salespersons making suggestions to customers on the best offers in the store or the latest arrivals. The responsibility of the salesperson is to suggest something.

Closing the sales

The sales person initiates the process of preparation of the cash memo for the customer and leads the customer to the cash counter for making the payment. The sales person should thank the customers for the sale and for the opportunity to serve. He should also extend an invitation to come again to the store.

Customer service is the key in the entire selling process and sales persons must be trained and re- trained if needed. To enhance the effectiveness of personal selling the sales person should be continuously monitored and evaluated.

V. Word of mouth (WOM)

Word of mouth communication is slow but is a very effective component of promotion. When the satisfied customers informs other prospective customers about the good

experiences enjoyed in the retail store, the benefit increases manifold then the same being told by a retailer with any other means of expensive promotional measures. This is because the WOM is not made by the retailer himself, but originates from a source that stands nothing to gain from the comments. WOM enhances the credibility of the retailers beyond doubt. WOM emphasizes the reduced cost of retaining the existing customer rather adding new customers to the database.

4.7 SUPPLY CHAIN AND LOGISTICS

Supply chain management is an end-to-end process in merchandise planning and movement, from planning the inventory to the point of reaching the merchandise to the customers. It involves integration of business process from end user through original suppliers that provides products, services and information that adds value for customers. It is an integrated process where each activity is interlinked with the system of information so as to ensure timely action. Retailers are the most important link in the supply chain as they connect customer with the vendors who provide the merchandise. Retailers understands the wants and needs of the customers and work with other members in the supply chain viz the wholesalers, manufacturers, transportation companies and the like so as to make sure that customers have the right product, in the right time at the right quantity in the right place.

Retailers play a major role in the supply chain and are increasingly taking the leadership position in their respective supply chained as result of their ability to collect purchase information customer by customer and transaction by transaction. The information can be shared with suppliers to plan various aspects involved in production, promotion, distribution, inventory management etc.

Efficient supply chain offers two major benefits for customers' viz., fewer stock outs and ability to get assortments of merchandise as required in time and place they want it. This in turn enables the retailer to generate more sales and increased inventory turnovers leading to more net profits. Net profits can increase either by raising the gross margin or by lowering expenses. The information system coordinating the buying staff and vendors would enable the retailer to take advantage of special buying opportunities so as to purchase products at low cost and thereby improve the margins. Retailer can lower the operating expenses by coordinating deliveries and cutting transportation expenses. If the Inventory management system of retailer is directly linked to vendor's computers then the retailer will need to carry only relatively less backup inventory to have enough stock. Since the inventory is low, the total asset is also low and the inventory turnover is high. Thus the retailer can improve the performance through effective supply chain management.

The flow of information is highly complex in retail environment. To enjoy the benefits mentioned above the retailer has to manage the information flow. The flow of information can be managed efficiently through data warehousing and Electronic Data Interchange (EDI). These aspects are presented below;

NOTES

Data warehousing

A data warehouse is the coordinated and periodic collection of data from various internal and external sources in a form amenable for analytical and informational processing. The information stored in the data warehouse is accessible by the buyers, vendors, retail stores and distribution centers. Data can be accessed at the merchandise level i.e. Stock keeping Units, on the basis of vendor categories, department level, by each division or in aggregation. The data can be accessed on time basis, yearly basis also i.e. the retailer can view at which time of day the sales is at peak, which product moves well in which season etc. Thus information can be extracted in various levels so as to have a 360-degree perspective of any situation. This enables sound marketing decisions about developing and replenishing merchandise assortments. The data warehouse also enables to target promotions based on the customer lifetime value.

The information flow back and forth from retailer to vendor and is made possible Electronic Data Interchange.

Electronic Data Interchange (EDI)

Electronic data interchange is the computer-to-computer exchange of business documents from retailer to vendor and back. The data transferred include the sales details, purchase orders, invoices, purchase returns etc. The retailers can also get from the vendors advance delivery notification which in electronic format. The details regarding the product delivered is provided in the notification. Information regarding the inventory status, promotional measures and cost details can also be transmitted between vendor and retailers. EDI also enables to exchange information regarding purchase order changes, order status, transportation routes etc. The data could be transmitted using proprietary EDI systems are through intranets and extranets.

- Proprietary EDI systems are developed by large retailers in a customized manner to suit the requirements of exchanging data with their vendors.
- EDI in intranets are secure communication system which enables transmission of data within a company. For example communication from store to buyer, buyer to distribution center and from distribution center to store could be accomplished through intranets.
- In extranet, EDI data are transmitted over internet through extranets. Extranet uses internet technology to link business with their suppliers, customers or other businesses. An extranet is generally an extension of a company's intranet, modified to allow access by specified external users.
- An advanced EDI application is CPFR ie collaboration, planning, forecasting and replenishment. It is an inventory management system which uses EDI through which a retailer sends information to manufacturer and the manufacturer uses the data to develop a computer-generated replenishment forecast that will be shared back with the retailer before execution.

Use of internet for data exchange raises the security issues. The retailer should ensure security of business process so as to ensure that the customers' information are secure. Lapse in security may result in loss of revenue and loss of essential business data leading to disputes and litigations, loss of public confidence and bad publicity. The security issue necessitates the development of a corporate security policy to deal with the set of rules that apply to activities in the computer and communications resources in an organization. The security policy should deal with authentication, authorization and integrity issues. Authentication refers to assessing whether the computer or person requiring or accessing information is really what it claims to be. Authorization refers to whether the person or computer has the permission to carry out the transaction. Integrity refers to the protecting the data from unauthorized changes.

LOGISTICS

Logistics is that part of supply chain process that plans, implements and controls the efficient 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. It is the total process of planning, implementing and coordinating the physical movement of merchandise from manufacturer or wholesaler to customer in most timely effective and cost-efficient manner possible. Logistics regards order processing and fulfillment, transportation, warehousing, customer service and inventory management as interdependent functions in the value delivery chain. Efficient logistics management will reduce stock-outs, enable to hold less inventories and improve customer service. Supply chain management includes logistics but it is more comprehensive and strategic concepts that includes customer relationship management, inventory management and vendor relations.

The logistic *goals* of retailers are;

- Fulfill all activities in logistics as economically as possible
- Place and receive order as easily, accurately and satisfactorily as possible
- Minimize the time between placing orders and receiving merchandise
- Coordinate shipments from various suppliers
- Hold enough merchandise to satisfy the consumer demand and avoid stock-out situations
- Arrange merchandise on the sales floor efficiently
- Process customer orders efficiently to satisfy the consumers
- Communicate and collaborate with other supply chain members
- Handle returns effectively and minimize damaged products
- Monitor logistics performance
- Arrange for backup plans in case of breakdown in the system

The various concepts in logistics viz., order processing and fulfillment, transportation and warehousing, customer transactions and customer service and inventory management are presented below;

NOTES

Order processing and fulfillment

In order to optimize the order processing and fulfillment task many retail firms use Quick response delivery system (QR). Quick response delivery systems are inventory management systems designed to reduce the retailer's lead time for receiving merchandise, thereby lowering inventory investment, improving customer service levels and reducing logistics expenses. QR system enables retailer to reduce the amount of inventory held by ordering more frequently in lower quantity. A QR system requires a retailer to have good relationship with suppliers, coordinate shipments, monitor inventory levels closely to avoid stock-outs and regularly communicate with supplier through electronic data interchange and other means.

QR system offers the following benefits to the retailer;

- ***Reduces lead time:*** Lead time is the amount of time between the recognition that an order needs to be placed and its arrival in the store, ready for sale. By eliminating the need for paper transactions using mail, EDI in the QR system reduces the lead time. since the vendors computer acquired the data electronically no manual data entry is required on the recipients end.
- ***Increases product availability and reduces inventory investment:*** Generally the retailer maintains more inventory so as to avoid losing customer due to stock-out situation. With QR system the ability to satisfy demand increases with a decrease in the need to maintain inventory. The retailer can make purchase commitment or get product delivery within a lesser time duration, the inventory investment is lesser.
- ***Reduced logistics expenses:*** With QR system, many retailers receive the merchandise in their distribution center, store it, consolidate shipments from multiple vendors, attach price labels and then reship the merchandise to stores. Retailers use cross docking or a direct delivery system. In cross docking warehouse system products are prepackaged and need only less storage space. Direct delivery eliminates all distribution center cost and transportation costs from distribution center to the stores.

For a manufacturer QR system can improve inventory turnover and enable to match the supply and demand by giving the vendor the data to track actual sales. A QR system works well with the following facilities;

- ***Floor ready merchandise*** refers to items that are received at the store in condition to be put directly on display without any preparation by retail workers. It has price tags and packed ready for display and sales.
- Supplier should rethink the *minimum order sizes* that will be accepted by them. In QR system the frequency of order will increase however the order size will be lesser.
- The furniture and fixture are generally designed to hold huge amount of inventory. However in QR the orders are place for less number of merchandise which requires a *refixture* in the stores.

- *EDI* enables to perform inventory planning in an efficient manner through paperless, computer to computer relationship between retailers and vendors.

Efficient Consumer Response (ECR) enables to incorporate the quick response delivery system, electronic data interchange and logistics planning. ECR is built on the QR system but is much wider in scope. It enables to improve every step in business process which results in making every step faster and more accurate.

Transportation and warehousing

Regarding transportation a number of decisions involving the following aspects are decided by a retailer;

- The number of times the merchandise needs to be shipped to the retailer
- The manner in which small order quantities will be dealt with
- The logistic to be taken care by the manufacturer, retailer or third party specialist
- The transportation form to be used
- Special consideration needed for perishables and expensive merchandise
- The way in which the shipping terms are negotiated with the customers
- The delivery options available for retailer's customers.

The type of logistics infrastructure available viz access to refrigerated trucks, airports, waterway docking, highways and the traffic congestion, parking and other factors too affect the transport effectiveness.

As regards the warehousing, the retailer focuses on the central or regional distribution centers. The retailers can also have the goods shipped right from suppliers to individual stores through direct store distribution in case of high turnover, bulky and perishable products.

The *benefits of central warehousing* are;

- Efficiency in transportation and storage
- Mechanized processing of goods
- Improved security
- Efficient merchandise marking
- Economical due to bulky transaction

Major drawbacks are excessive centralized control, extra handling cost for perishable goods, high cost for small retailers, and delay in processing orders.

The warehouses are now replaced by distribution centers which does the following; coordinating the inbound transportation, receiving and checking, storing and cross docking, getting merchandise 'floor-ready' filling orders and coordinating outbound transportation. There are three types of distribution centres viz., traditional, cross docking and a combination of the two. The traditional distribution center is a warehouse in which merchandise is unloaded from trucks and stored until the same is needed by the retailer. On receiving order the merchandise is transported to a staging area where it is consolidated and made

NOTES

ready for shipment to stores. In cross docking center the vendor ships merchandise prepackaged in the quantity needed for each store. The merchandise is ready for sale with the price tags etc. once the order is received it is loaded on the truck and sent.

Customer transaction and customer service

The management of outbound logistics i.e., transportation from distribution center to stores has become increasingly complex. It involves turning over merchandise to the customers. It can be very simple like the customer picking up the product from the shelf, pays for the same in the check out counter and takes the delivery in their own vehicle. It can also be complicated for example a customer placing an order in the web which needs shipment from vendor to the customer. To handle complex transportation problem, the center can use computers to perform complex routing and scheduling issues. The system develops most efficient route possible after taking into consideration the rate of sales in the store, road conditions and transportation constraints. This will enable to arrive at an accurate estimated time of arrival and maximum utilization of vehicles involved.

A retailer should take care of *Reverse logistics* too for customer returns. Reverse logistics is a flow back of merchandise through the channel from the customer to the store, distribution center, and vendor. It is quite a complex problem involving much cost specially when the items are damaged and requires special handling. Transportation cost will be high due to small quantities. In view of the trouble involved the retailer may sell it on auction instead of undertaking the trouble and incurring cost in returning the merchandise.

In order to streamline the operations and make more productive use of assets and personnel, retailers are resorting to outsourcing of logistics function. This may reduce the cost and enhance the efficiency. *Third party logistics(3PL)* companies are firms that enable the movement of merchandise from manufacturer to retailer but are independently owned. They provide transportation, warehousing, consolidation of orders and documentation. 3PL is especially more helpful for small retailers.

Inventory Management

As a part of logistics effort, retailer utilizes inventory management to acquire and maintain proper merchandise assortment while ordering, shipping, handling, storing, displaying keeping a control on the selling cost. The various aspects of inventory management in terms of retailers task, inventory levels, merchandise security, reverse logistics and inventory analysis are dealt.

Retailer task

In order to perform inventory management in an effective manner, the retailers expect the suppliers to perform some of the tasks like packaging, price tagging, marking etc so as to make the merchandise *floor ready* for sales. if suppliers do not perform the same it is

outsourced to third party. The inventory management activity involves identification of responsibility for source tagging with the manufacturer or retailer.

Inventory level

The retailer should balance between too much and too less of inventory level. Too much inventory will increase the inventory investment and creates a complex situation in case of fashion items. In case of too less inventory, the retailer may lose a customer due to stock-out situations. It is also difficult to predict accurately the customer demand and allocate the shelf space based on the forecast. The Quick response delivery system and Electronic data interchange enables the retailer to hold 'leaner' inventories and still serve customers in an efficient manner.

Merchandise security

Inventory shrinkage arising due to employee theft, customer shop lifting, vendor fraud and administrative errors contribute to a greater extent of retail sales loss. To reduce the merchandise theft, combination of security measures should be developed. Employees should be educated and loss prevention measures should be included as stores are designed and built. Product tags, guards, fixing of video cameras, employee surveillance and burglar alarms can be used to reduce the inventory shrinkage. Electronic article surveillance can be used where special tags are attached to products which can be sensed by electronic security device at the store exists. Mystery shoppers can also be hired to watch for shoplifting. While devising the security plan, the retailer should take into consideration the impact on its image, employee morale, shoppers comfort and relationship with vendors.

Reverse logistics

Reverse logistics as mentioned above includes all merchandise flow from retailer through the supply chain. It involves items returned due to damages, defects or less than anticipated sales. Retailer should take the following decisions regarding the reverse logistics;

- The condition under which the returns are accepted by retailers
- The refund policy to be followed for returning the money to customers
- The documentation to be provided by customer as a proof of purchase date and payment made
- Extent of employee empowerment to process customer returns

Inventory analysis

In order to assess the success of inventory management, inventory analysis should be performed in regular intervals. Computer softwares can be used to perform the same in an accurate and timely manner. In order to analyse inventory performance various measures like the gross margin percentage, inventory turnover, gross margin return on inventory and the average in stock position can be used.

NOTES

4.8 RETAIL MARKETING STRATEGIES

The growing competition in retail sector necessitates the retailer to devote more attention to long term strategic thinking. The retail strategy provides direction to the retailer to deal effectively with their environment, customers and competitors. A retail strategy is a statement identifying the retailers target market, the format retailer plan to use to satisfy the target market's needs and the bases upon which the retailer plans to build a sustainable competitive advantage. The three important elements of retail strategy viz., the target market segment, retail format and sustainable competitive advantage are discussed below. The approaches for building sustainable competitive advantage are outlined.

Target Market and Retail format

The success of a retailer depends on his ability to understand and satisfy the needs of target markets more effectively and efficiently than the competitors. Target market refers to the group of consumers with similar needs and a group of retailers using a similar retail format to satisfy those consumer needs. The selection of target market enables the retailer to focus on the group of consumers whose needs it will attempt to satisfy. The selection of retail format outlines the retail mix to be used to satisfy the needs of those consumers. The retail strategy determines the markets in which a retailer will compete.

Building a Sustainable Competitive Advantage

The business activity in which a retailer is engaged may be a basis for competitive advantage. There are some advantages which are sustainable for a long period of time while others can be duplicated by competitors. For example price reduction or offering variety of assortments and the like can be easily followed by competitors also. For establishing a competitive advantage retailer should develop some strategy to safeguard its position in the market. Establishing a competitive advantage is the key to long term financial performance. Seven important opportunities that could be explored by retailer to develop sustainable competitive advantages are discussed below;

1. Customer Loyalty

Building customer loyalty is an important method of sustaining an advantage over the competitors. Customer loyalty refers to the commitment of customers to shop with the retailer. Unique merchandise, good ambience, dedicated employees, customer service and the like will assist in building customer loyalty. Loyalty can be built by developing clear positioning strategies and by creating an emotional attachment with the customers through loyalty programs. Positioning refers to design and implementation of a retail mix to create an image of the retailer in the customer's mind relative to its competitors. Loyalty programs are part of customer relationship management (CRM) program. Members of loyalty programs are identified when they buy using the loyalty card. The information is stored in

database which is used to customize the benefits to be provided to the loyal customers based on their needs.

2. Location

Location is an important factor which influences the selection of a retail store. It is also a competitive advantage which can be easily copied. By concentrating on location a retailer should create a market presence that is difficult for competition to match. Opening stores in multiple locations will facilitate scale economies that will enable frequent deliveries of fresh merchandise.

3. Human Resource Management

Employees play a major role in providing customer services and building customer loyalty. Skilled, committed and knowledgeable employees are critical assets that support the success of a retail concern. Recruitment and training of employees goes a long way in building competitive advantage. Competitive advantage could be sustained by developing programs to motivate and coordinate employee efforts by providing incentives to foster a strong and positive organizational culture and environment.

4. Distribution and Information Systems

A well designed distribution and information system enables a retailer to deliver the right product, in right quantity at right time in the right price which is lesser than the competitors offer. This will enable to satisfy the customer need and also enable to attract customers from competitors by offering better services, wider assortments and a lesser price. Thus the data warehouse and information system can play a major role in enhancing the competitive advantage of a retailer by providing the power of information.

5. Unique Merchandise

It is difficult to develop a competitive advantage through merchandise because competitors can purchase and sell the same popular national brands. Retailer can gain competitive advantage by developing private labels. Private labels are products developed and marketed by retailer and available only from that retailer.

6. Vendor Relations

Developing a strong relation with vendors would enable the retailers to gain exclusive rights to sell merchandise in a region and to obtain special terms of purchase that are not available to competitors who lack such relations. Maintaining good relation with vendors also enables to receive popular merchandise in short supply. Relationship with vendors is build over a long time and it cannot be easily offset by a competitor.

NOTES

7. Customer Service

Given the same type of merchandise, brands, location, ambience etc., a retailer could still differentiate himself from competitors by building on good customer service. offering good customer service in a consistent manner is not an easy task as it delivered through employees who are subjected to inconsistencies. The importance of good customer service should be inculcated in employees in such a way that it becomes a part of organization's culture. The tradition and reputation of customer service cannot be build overnight, it takes considerable time and effort. However customer service is a valuable strategic asset which cannot be easily acquired by competitors.

To develop a sustainable competitive advantage a retailer cannot depend on only single approach. A combination of approaches will enable to build a niche which will enhance the market share and enable to gain sustainable success over competitors.

Growth Strategies

A retailer can pursue four types of growth opportunities viz, market penetration, market expansion, retail format development and diversification. These aspects are discussed below;

Market Penetration

A market penetration opportunity involves directing efforts towards existing customers by using present retail format. The retailer can devise strategies attract more customers in its target market who don't shop at the store or try to induce current customers to visit the store more often and buy merchandise on each visit. The retailers can open more stores in the target market or keep the store open for longer hours so as to attract more customers. the retailer can also resort to increase impulse purchases by attractive display of merchandise and training the salesperson to cross-sell. Cross selling involves selling complementary merchandise from other departments which will increase sales from existing customers.

Market expansion

A market expansion strategy employs the existing retail format in new market segments hitherto unexplored. It may be entering into a new geographic environment or targeting new customers at whom the retailer has not concentrated so far.

Retail format development

Retail format development involves offering new retail format to the same target market. The retailer can do so with a different retail mix like adding merchandise categories, exploring new channels, offering less price, concentrating on providing more customer service etc. providing a new type of merchandise hitherto not dealt requires relatively less investment.

But providing an entirely different format like e-tailing require much larger investment and involves more risk.

Diversification

Diversification is the result of trying new retail format to a new market segment hitherto unserved. Diversification opportunities may be related or unrelated. In related diversification, the present target market or retail format shares something in common with the new opportunity. The common things may be purchasing from the same vendor, using the same distribution system, advertising in the same media etc. Unrelated diversification lacks any commonality between the present business and new business.

A retailer can have a great competitive advantage in opportunities that are similar to their present retail strategy. Thus the market penetration opportunities would be successful in creating a competitive advantage. In the case of market expansion, the retailers build on their strength in operating a retail format and apply this competitive advantage in a new market. A retail format development opportunity builds on retailer's reputation and success with present customers. Retailers have the least competitive advantage when they pursue diversification opportunities which involves more risk.

SUMMARY

Retail marketing mix consists of merchandise, price, distribution and promotion. These aspects were dealt in detail. The decision regarding retail mix is pertinent in disbursing the right product, to the right consumer in the right time in right quantity at right price. The various aspects involved in merchandise planning and purchase were highlighted. The importance of retail branding, types of branding and the private labels were covered along with the need for branding the retail store. The factors influencing the pricing decisions and the various types of pricing policies and pricing methods are discussed in detail. The factors influencing the promotional decision and a detailed discussion regarding elements of promotion viz., advertisement, public relation, personal selling and sales promotion measures were presented. This unit has also highlighted the role of supply chain and logistics in satisfying the customer needs. The various retail strategies adopted by a retailer so as to build sustainable competitive advantage was presented.

In addition to the knowledge base on retail marketing mix a retailer should understand the retail shoppers behaviour so as to customize the strategies to suit their needs. This will enable the retailer to succeed in this effort. In this context the next unit provides a detailed discussion on the retail shopping behaviour in terms of shopping process and various factors influencing the retail shopping process.

NOTES

HAVE YOU UNDERSTOOD?

- Discuss the activities involved in merchandise planning
- Highlight the various aspects involved in developing a buying system for a staple and fashion merchandise
- Enumerate the role of private labels in building the image of a retail store
- What are the factors to be kept in mind by retailer in making pricing decisions? Highlight the objectives of pricing.
- Discuss the various types of pricing policies and enumerate the methods of pricing. Highlight the merits of each method.
- Write notes on the elements of promotional mix. If you are a retailer opening a store in a new market which method will you choose and why.
- Explain the role of supply chain and logistics in enhancing the customer satisfaction.
- What retail strategies would you advise to a retailer who is facing a stiff competition and loosing the market to competitors?

UNIT V

NOTES

RETAIL SHOPPERS BEHAVIOUR

5.1 INTRODUCTION

A retail strategy mix will be successful only if it is based on the consumers. It is critical to understand the customer characteristics, needs and attitudes, personality, lifestyle and the like so as to arrive at sound decisions. Such strategic decision which are based on customers will enable to satisfy their needs better than the competitors. Against this background this chapter focuses on understanding the shopping process and the factors influencing the same. The various stages involved in shopping process is dealt in detail. Understanding the various factors influencing the shopping process will enable to develop a good retail strategy. The factors influencing the purchase process viz., attitude, personality, lifestyle and perception are highlighted along with a discussion of segmentation of customers on the basis of above listed aspects. A dissatisfied customer could spread the message to many other customers by word of mouth or by a click of mouse. This will have a profound impact on the long term as well as the short performance of a retail concern. Complaints are the ways through which customer intimate their dissatisfaction. Hence it should be tackled in a proper manner failing which will lead to erosion of customer base. In this context various aspects of complaint handling are dealt in detail. A retailer can succeed in the long run only by delivering value to the money paid by consumers not only in terms of merchandise but also in terms of services provided. The various ways through which a retailer can show that he cares for the customer are highlighted in this unit. During the course of discussion the terms shopping and buying are used interchangeably. Likewise the terms consumer, buyer and shopper are used synonymously.

5.2 LEARNING OBJECTIVES

After reading this unit you will be able to understand;

- The different types of buying decisions and the buying process
- The various factors influencing the buying process
- Segmentation of customer on the basis of various factors influencing them
- Need for complaint handling and the issues involved
- Means through which value can be delivered to retail shoppers

NOTES

5.3 SHOPPING PROCESS

Shopping is an activity performed with high level of regularity and involvement. It is an activity which appeals to the inherent nature of humans. Markets are viewed not as just place to exchange goods and money but as leisure timer to socialize. Shopping is viewed as social activity and it plays an important role in the social life of every individual. The concept of shopping could be viewed from three dimensions viz., shopping environment, socio-cultural context and from the individuals perspective.

Shopping environment

Research studies shows that shopping environment has an impact on the shoppers behaviour. For similar products the information search process changes with the different types of stores. A customer may pick up new brand and try the same in a departmental store but may look for a specific brand only in case of a kirana store.

Socio-Cultural Context

Shopping is no longer looked at as a mundane chore to be performed. It is looked upon as an experience and recreation. It is a means of satisfying non purchase related motives as well as an instrumental means of purchasing. Primarily shopping is a means of collecting information to enable the shoppers to take right decision. At the same time it provides emotional satisfaction to the shoppers. Shoppers while making decision takes into consideration the information acquired before visiting the store and the information received in the store so as to arrive at the purchase decision. Some of the social motives the shopper try to fulfill through shopping are;

- Pleasure of bargaining
- Socializing with other during the shopping process
- The necessity to shop at a store due to peer group attraction and the desire to be one in the peer group or reference group
- The shopping experience enables to command attention and respect and thereby contributes to status and authority

Individuals' perspective

The shoppers many times indulge in shopping not only with the motive of buying products but for many other reasons as highlighted below;

- Shopping may be performed as an activity arising out of learned behaviour. A person internalize these behaviour and performs the shopping activity which is termed as role playing. For example the role of women in shopping for groceries is a socially learned role.

Retailing in Taiwan is very well developed and likely to enter a sluggish growth phase between 2005 and 2010, recording a constant value CAGR of 2%. Although the novelty

- Shopping may be looked as a diversion from the routines of daily life. It may be looked at as recreation. It may even be considered as stress buster to escape from the regular monotony.
- Shopping may be indulged as means for self gratification too. The emotions and moods of a person may propel him to shop
- Shopping may be considered as means of physical activity providing a considerable amount of exercise
- Shopping may be performed so as to keep oneself abreast with the new trends, products and stores.
- Shopping is viewed as a sensory stimulation and satisfactory experience as it enables the consumers to see-touch-feel during the process of buying.

The shopping process begins when the customers recognize an unsatisfied need. Once the need is recognized, the consumer tries to seek information about the means to satisfy the need, the products available and from where it can be bought. Consumers evaluate various alternative sources of merchandise and choose a store to visit. The visit to the store may provide additional information and may initiate more needs in the consumers mind. After evaluating the retailers merchandise the customer make a purchase. In some situations, the time and effort spend may be considerable less but in other situation the buying process may involve more time. Three types of decision –making process are extended problem solving, limited problem solving and habitual decision making.

Extended problem solving

Extended problem solving is a purchase decision process in which the consumers devote a considerable time and effort to analyze the alternatives. Customers face extended problem solving situation when the purchase decision involves more risk and uncertainty. There are many types of risk viz., financial risk, physical risk and social risk. Financial risk arises when customers purchase an expensive product. Physical risk assumes importance if the product under consideration may have an impact on the health or safety. Social risk arises when the customer believe a product will affect how others view them.

Customers will be engaged in extended problem solving situation when making a buying decisions to satisfy an important need or when they lack adequate information about the product to be purchased. In extended problem solving situation customers will involve themselves in searching for more information. They may rely on the friends, family members or experts and visits several retail stores before make a purchase decision. Retailer can influence the customer by offering information needed in an easily understandable manner. Sales men could be trained to provide more information needed by customers. In order to reduce the risk associated guarantee could be provided.

NOTES

Limited Problem Solving

Majority of consumer decision making process involves limited problem solving situation. Limited problem solving is a purchase decision making process involving moderate time and effort. This type of buying process happens when the customer has prior experience in the product and the risk involved is moderate. In this situation, customer places more importance on the personal knowledge than external sources. The customer usually chooses a retailer with whom they have shopped before and select merchandise which they have purchased in the past.

It will be highly beneficial for retailers to reinforce this buying pattern as it involves more reliance on the retailer. If the customers shops elsewhere the retailer needs to break the buying pattern by introducing new information or offering different merchandise or services. In some situation the customer may engage in limited problem solving situation regarding the choice of store and may involve in extended problem solving in making decision regarding the product choice.

Impulse buying is a type of limited problem solving situation. It is buying decision made by a customer on the spot after seeing the merchandise. In order to encourage impulse buying the retailer indulges in attractive display to attract customer attention and stimulate purchase decision. Display of profitable items in prime locations attracts the attention of customers and leads to more impulse purchase.

Habitual decision making

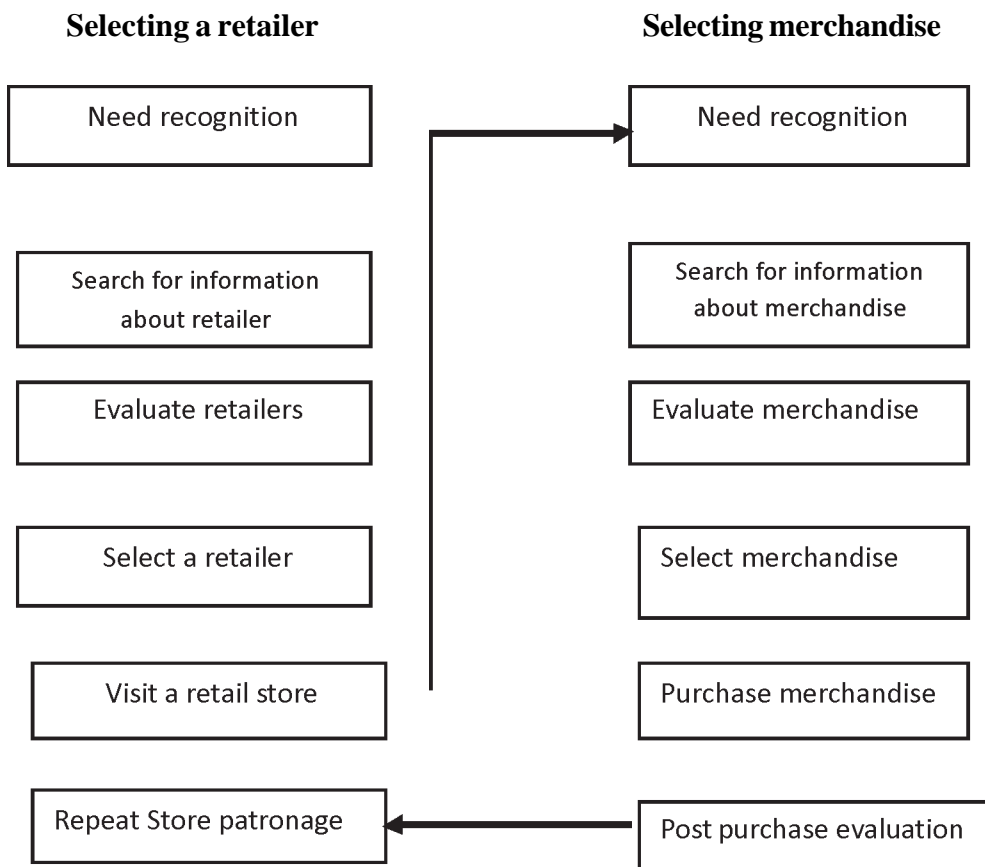
Habitual decision making process involves little or no conscious effort on the part of the consumers. Today's consumers are money rich and time poor. Due to the demand on time, the customers may simplify their decision making process. Customers engage in this type of decision making process mostly in cases where decisions are not very important or involve merchandise which is regularly purchased. Brand loyalty and store loyalty are examples of habitual decision making.

Brand loyalty means the customer specifically buy a specific brand in product category. Retailers can satisfy customers by offering specific brands desired by them. Brand loyalty creates both opportunities and problems for retailers. Customers are attracted to the store due to the popular brands dealt by retailer which provides an opportunity to retailer to develop store loyalty. However carrying high-loyalty brand involves cost as the retailer may not be able to negotiate favourable terms with the suppliers of popular brand.

Store loyalty refers to the habitual visits by the customer to the store to purchase merchandise. Retailers tend to enjoy more benefits due to increased store loyalty of customers. convenient location, offering variety of merchandise in various assortments and good quality, ambience , frequent purchase programs, customer service and the like could be practiced for enhancing the store loyalty.

The buying process

Understanding the buying process would enable retailer to influence the consumers and encourage them to buy the retailers merchandise. In this context, understanding the buying process assumes importance. The various steps involved in buying process is dealt in this section. A customer may not go through the various stages in the same order in which it is presented. In addition the time and effort spent may differ depending on the type of decision being made viz., habitual, limited problem solving or extended problem solving situation.



1. Need recognition

The buying process starts with the identification of unsatisfied need by the shopper. An unsatisfied need arises when a customer’s desired level of satisfaction differs from the present level of satisfaction. Need recognition can be straight forward and pinpointed by customer or it can be ambiguous feeling that cannot be explained or something dormant in the minds of the consumer. Needs can be classified as functional and psychological needs. Functional needs are related to the benefits that can be derived out of the performance of the product. Psychological needs are associated with the personal gratification customers get from shopping or owning a product. If the products are purchased for satisfying the

NOTES

psychological needs, the functional characteristics may not be considered as important by the customer. However a product may satisfy both the functional and psychological needs. Functional needs are referred to as rational needs while the psychological needs are called as emotional. Successful retailer should aim to satisfy both the rational and emotional needs of the customers.

Psychological needs that can be satisfied through shopping and purchasing merchandise include stimulation, social experience, learning new trends, status and power and self reward.

- Shopping may be performed as an activity arising out of learned behaviour. A person internalize these behaviour and performs the shopping activity which is termed as role playing. For example the role of women in shopping for groceries is a socially learned role.
- Shopping may be looked as a diversion from the routines of daily life. It may be looked at as recreation. It may even be considered as stress buster to escape from the regular monotony.
- Shopping may be indulged as means for self gratification too. The emotions and moods of a person may propel him to shop
- Shopping may be considered as means of physical activity providing a considerable amount of exercise
- Shopping may be performed so as to keep oneself abreast with the new trends, products and stores.
- Shopping is viewed as a sensory stimulation and satisfactory experience as it enables the consumers to see-touch-feel during the process of buying.

The retailers should keep in mind that the customers have multiple needs and sometimes the needs conflict too. For example a customer may want to have an expensive brand to gratify his status need but may not have the budget to fulfill the same. Many times customers have to make trade-offs between their needs. The customers may also be inconsistent in their shopping behaviour. They may choose an expensive, premium quality of brand in one product category and a brand of low quality in some other product category. This pattern of buying both premium and low priced merchandise or patronizing expensive, status-oriented retailers and price-oriented retailers is called as *cross-shopping*. This need has to be understood by a retailer to stimulate and satisfy the customers.

The customers have to recognize the unsatisfied need so that a retailer can satisfy the same. The retailer can stimulate need recognition and motivate customers' to visit the store by using advertisement, direct mail, publicity, sales promotion measures and the like. After the customers visit the store, visual merchandising and sales people may be used to stimulate need recognition.

2. Information search

Information search follows need identification. The search includes the need for information regarding the retailers as well as the products to be purchased. The time spent in information search depends on the type of buying process discussed above. Extended buying process may involve collecting more information, visiting many retailers and deliberating for a long time before making a purchase.

Various factors influence the amount of information searched;

- Type of product purchased
- Extent of involvement of the shopper
- The cost of the product
- Characteristics of the individual customer
- The extent of choices available in terms of retailers and the brands
- The time available
- The risk perceived

The amount of information search depends on the value the customers may gain from the search compared to the cost of search. Value in terms of the enhancement in the purchasing power of the consumers as a result of the information search. For example the search should enable a customer to find out a product at a relatively less price and good quality. The cost of search includes both time and money. Consumer should have the time at his disposal to travel to various retail shops, browse for the various choices and compare the prices. Internet has empowered the customers search for information. A click of mouse the customer may be able to fetch all information in a jiffy. Indian consumers are slowly becoming tech savvy and this will enhance their shopping experience. Information may be obtained from two sources viz., internal and external. Internal sources are information from customers' memory, their past shopping experience in different retail stores. If the information from internal sources is not enough, customers use the external sources which include the information obtained from friends, relatives, peers, sales persons, advertisements, internet and the like.

The retailers can enhance the shopping experience of the customers by providing all the information needed in the store itself. The retailer can do the same by adopting the following practices;

- The retailer should provide a wide assortment of products in terms of brands, colors, size etc which will enhance the choice available to the customers and reduce the need for searching for products outside the retail store.
- The retailer can train the sales persons to provide all needed information to the customers so that the customer need not depend on other sources

NOTES

- Every day low pricing concept discussed earlier section could be practiced which will assure the customers of the low price and earn their confidence that a better price will not be available from others.
- The retailers can provide all facilities needed by consumers in the store which will enhance the value derived from retailer and make the retail store as 'one stop' shop. For example the credit facility and delivery of products could be arranged by a retailer dealing in furniture.

3. Evaluation of alternatives

While evaluating alternatives the consumers considers the list of retailers from whom they can shop from as well as the list of brands from which they plan to make their selection. The choice of retailer as well the brand depends on various criteria.

In the context of brand choice of a consumer, the concepts like evoked set, inept set and inert set should be understood. Evoked set consists of those brands the consumers consider in making a purchase. This is otherwise called as consideration set. Inept set consist of brands that the consumer excludes from purchase consideration as they are considered as unacceptable or inferior. Inert set consists of brands towards which the consumer is indifferent.

The choice of the retailer depends on various criteria like the location of the retail store, retail store image, the ambience, customer service, past experience of the customer with the retailer, assortments available, the presence of competitors and the like.

Multiattribute model explains how the customers use information to evaluate the alternative products and select the best. The multi attribute model is based on the collection of attributes or characteristics regarding the retailer or a product. The model predicts the customer's evaluation of a product or retailer based on the performance of relevant attributes and the importance of these attributes to the customers.

The decision regarding the store is based on the objective information about the store and the benefits provided by the store as perceived by the consumer. The objective information consist of details regarding the price, delivery cost, time involved in reaching the store, checkout time, assortment available etc. The benefit is measured in terms of economy, convenience, availability of information etc. The consumer processes the objective information and forms belief about the benefits provided. Different weights may be assigned by the consumer to different attributes. The importance of the store's benefit also differs for each customer and may also differ for each shopping visit.

The customer evaluate the various retailer stores based on the performance beliefs ie the benefits from the store in terms of economy, convenience, assortments etc and assign weigths to each of these criteria. The choice of retail store is ultimately based on the overall evaluation score.

In case of the choice of products also the same methodology is followed. The criteria is identified and weights are assigned to different brands. The brands which score high are selected.

The multi attribute model enables a retailer to perform market research so as to understand the alternative stores that is considered by the consumers, the benefits sought or criteria considered in evaluating the stores, the weights or relative importance assigned to each criteria and the customers rating of each stores performance. This information will enable the retailer to reposition themselves so that they are in the consumer's consideration set.

The retailers can ensure their presence in the consideration set by following advertising and other strategies. The retailer can increase the chance of selection of the stores by increasing the belief about the store's performance, decrease the performance belief for competing stores, increase weights assigned by consumers and by adding new benefit.

- The retailer can change the performance belief of the customers on various aspects like economy, convenience, assortment etc. However it changing the belief involves cost. For eg in order to make consumers believe about economy, the price of the products should be reduced.
- Another approach is to reduce the belief about the competitor, which is not ethical. The consumers also will also not believe the negative comments given by a retailer about his competitor. Apart from this it may also invite legal action which will lead to negative publicity.
- The retailer can enhance the chance of the store being selected by altering the weights assigned by customers to various criteria. The retailer may try to do this so as to increase the importance the customers place on the benefits for which the superior performance is offered by the store compared to its competitors.
- The retailer may add a new benefit which might be considered favourably by a customer while evaluating the retail stores. For example a bouquet shop may take up the delivery of flowers to the address the customer wishes in addition to offering the flower choice.

4. Selection of a retailer /store choice and merchandise

Several factors influence the store choice behaviour of a consumer. The extent of influence of these factors differs according to the type of product purchased, type of store and type of consumer. The factors influencing the stores choice as are discussed below;

Store location

Location has an impact on the store choice and loyalty. Consumers generally prefer the stores which are closer to them. The consumers perceive location in terms of time and difficulties in reaching the location apart from the actual location. The consumers generally overestimate both the functional ie the actual distance and functional time. Location may

NOTES

also include the ability to walk to the location or the availability of public transportation to reach the store. The consumers' perception of store locations is more important than the actual locations. Perception refers to the distance and time consumers perceive they have to travel to reach and shop at the store. The differences between the cognitive and actual arise due to the factors such as availability of parking area, the road conditions, the traffic congestions etc.

Store design and physical facilities

Many shoppers select the shop based on its outside appearance of architecture and signs. The shoppers are either attracted or repelled by the store appearance. Elevators, lighting, air conditioning, convenient washroom facilities, aisle width, parking facility, carpeting etc affect the store image and choice (dealt in detail in Unit 3). The physical properties of retail environment designed to create an effect on consumer purchases are referred to as store atmospherics. The music played in the store, the colours within the store, the scent etc could be used to create a positive, attractive and relaxing environment so as to make the customer choose the store and also spend more time in the shopping activity. Not only the nonperson atmospherics discussed above but the atmospherics created by shoppers within the retail store also assumes importance. The perception regarding the crowd also affect the shopping behaviour and the shopping trip.

Merchandise

This refers to the goods or services offered by retail store. The attributes like the product quality, assortment, style, fashion, guarantee etc are important in the choice of the store. The reason as to why the specialty stores succeed is due to their ability to assemble and present assortments. Consumers generally prefer the retail stores offering wide variety of product lines, brands and prices or depth in the assortment like the sizes, colours and styles etc.

Price

Price of the merchandise offered by the retailer is an important factor considered by shoppers in making the store choice. However the importance assigned to price differs in according to the type of product under consideration. Not all consumers look out for lowest prices. There may a range of prices which are acceptable to consumers. Retailers whose offers fall within the range are selected by the shoppers. A common mistake of the retailer is to use strategy emphasizing lowest price in order to appeal to the minority of consumers who value lowest price the most at the expense of losing majority of consumers who prefer other attributes to lowest price.

Advertising and sales promotion

The consumers are undoubtedly influenced by the advertising, sales promotion, displays, etc in making the store choice. The components of various promotion mix have been dealt in detail in Unit IV. The promotional mix may not have a consistent impact but it may vary in influence depending on the product and store type. However as seen in the earlier chapter retail advertising is used to inform, persuade and remind customers of the store. It is also highly influential in building the store image.

Sales personnel

Other things being constant, a consumer would prefer to shop in a store where the sales person are helpful, friendly and courteous. Although self service is the order of the day, knowledgeable and helpful salespeople is an important factor influencing the choice of a store. Various research studies show that the personal characteristics of sales person such as the personality, temperament, age etc have some relationship on the performance, skill level and motivation of the sales person. The performance of sales person can be increased by providing proper training. The sales person's ability to convince buyers depends on the following;

- Perceived knowledge and expertise with respect to the merchandise sold
- The extent of trustworthiness emulated by salesperson
- Knowledge regarding the customers, their likings etc
- The extent of adaptability of the salesperson i.e. his ability to respond to changing customer needs and expectations.

Customer service

Retail stores may offer numerous services in order to attract customers. Services offered could be classified under three categories viz.,

- The services which increase the product satisfaction like the credit offers, providing information, installation etc
- Services aimed at providing increased convenience such as home delivery, parking facility etc
- Special benefits like compliant offices, services dealing with purchase returns and the like

The individual attention given to the shopper contributes to a greater extent in the choice of a retailer. The retailer by offering the services provides value addition to the shoppers and thereby tries to build continuous personal relationship with regular customers.

Store clientele

Consumers will tend to patronize those stores where persons similar to themselves are perceived to be shopping. The type of person who shop in a store affects the consumers

NOTES

purchase intention because of the tendency to match the one's self image with the retail store. Customers may avoid certain stores because they don't not want to be associated with the store. Thus an important matching process occurs between the consumer's self image and the store's image to in influencing the choice of retail store.

Once the consumer have selected the store based on the various criteria listed above , he visits the store. Once the customer is *inside the store*, the decision making is influenced by various factors highlighted below;

- The reason as to why the shopping trip was initiated. It may be for the purchase of a convenience product or it might be just for window shopping as a leisure time activity.
- The display type and location refer to exact in-store locations of product and the types of display ie end of aisle display, shelf display and so on.
- Product shelving has an important influence on consumers behaviour. The height at which the products are displayed and the number of rows presented can influence the sales of the products. The signs and extender can also affect the sales.
- The price of the products offered for sale affects the selection of merchandise
- The extent of deal proneness of a shopper. Deal proneness refers to the shopper's propensity to purchase products that are on sale or where some type of 'deal' like discounts or frequent shopper points could be offered.
- The feature proneness of retailers refers to the tendency of shoppers to use or not to use coupons or other promotional items in their shopping decisions.
- The extent of consumer involvement in the overall shopping experience.
- The extent to which shoppers are prone to impulse purchases.

4. Purchasing the merchandise

The customer may not always visit a retailer or purchase a brand which has a high score in overall evaluation. This may be due to various reasons like stock out, lack of budget, peer influences, associated risk and the like. The retailer can take the following steps to convert the positive merchandise evaluations into purchases;

- The retailers can have a complete assortment in different sizes, colors and choices as would be preferred by the customers so as to avoid the stock out situation.
- Offer guarantee regarding quality and price
- Providing credit facility
- Reducing the check out queue by having more counters. Many times a consumer may postpone the purchase due to the fear of customers regarding the waiting time.

According to Schiffman and Kanuk consumers may resort to three types of purchase viz trail purchases, repeat purchases and long-term commitment purchase. When a consumer purchases a product for the first time and buys a smaller quantity than usual, it is considered as trail purchase. It is an exploratory phase of purchase behaviour in which consumers

attempt to evaluate product through direct use. If the product satisfies the customer in trial then the consumer may repeatedly purchase the same which may lead to long term commitment. The same holds good for selection of a retail store too.

Loundon and Della betta focuses on two types of purchasing patterns

1. The extent to which consumers develop repeat purchasing patterns and
2. The extent to which purchases are unplanned.

Repeat purchasing patterns

Repeat purchases leads to brand loyalty. The brand loyalty can be of four types viz., undivided loyalty, divided loyalty, unstable loyalty and no loyalty. Undivided loyalty is where the consumers buy only a particular brand in any situation eg purchase of product A is made in the following sequence: A A A A A. Divided loyalty is where the consumers also tries other brand but remains loyal and shifts purchases between the two brands. This can be exhibited by giving examples of two brands A and B in the following sequence: A B A B A B. Unstable loyalty is where a consumer buys two or more brands in an unpredictable sequence: A A A B B B. No loyalty is shown in the following sequence; A B C D E F G. Brand loyalty is affected by various factors like the socio economic , demographic and psychological variable, loyalty behaviour of the leader, perceived risk involved and the like. Stock out conditions also affects the brand loyalty.

Impulse purchasing

Impulse buying as the name suggests refers to purchase not specifically planned. It is purchase decision made by a shopper after entering the store. Four types of impulse buying may happen;

Pure impulse : A novelty purchase made by a consumer which breaks a normal buying pattern

Suggestion impulse: A shopper sees the product for the first time and develops a need for the same

Reminder impulse: A shopper looks at an items and remembers a need for the same

Planned impulse: A shopper enters the shop with expectation and intention of making some purchases on the basis of special price, coupons and other price reduction measures.

A careful analysis of impulse buying would enable a retailer to plan store layout, merchandise and display location and allocation so that an increased sale and customer patronage results.

NOTES

5. Post purchase evaluations

The consumer evaluates the product and the retail store after they encounter the same by comparing with the experience with their own expectations. There are three possible outcomes of the evaluation viz.,

- Actual performance of the product/retail store matches the expectations leading to a neutral feeling
- Performance exceeds expectations known as positive disconfirmation of expectations which leads to satisfaction
- Performance is below expectations causing negative disconfirmation of expectations and leading to dissatisfaction.

The post purchase evaluation becomes a part of the customers' internal information that affects future store and product decisions. Unsatisfactory experience can motivate customers to complain about the retailers and try other retail stores. High level of satisfaction leads to store loyalty. Brand loyalty is an important strategy to build the competitive advantage of a firm.

An important component of post purchase evaluation is the reduction of uncertainty or doubt the consumer might have had about the selection. Strategies should be built to reduce the post purchase cognitive dissonance and the customers should be assured that their choice is the best. The degree of post purchase analysis depends on the importance of the product decision and the experience acquired in using the product or visiting the retail store.

In general the retailer should try to enhance the customer satisfaction by building store loyalty, enhancing customer satisfaction, offering quality products at a comparable price, providing more information and contacting customers after the sales.

5.4 INFLUENCES ON RETAIL SHOPPING BEHAVIOUR

Shopping is the act of identifying the retail store and purchasing the product. The behaviour of shoppers differs according to the place where they shop and their level of involvement etc. The purchase process in a store follows in part or whole a consistent pattern of see-touch-sense-select. According to Coonly and Firth the shopping behaviour can be classified into three categories;

- **Blinkered mode:** In this mode shopping is automatic, the shoppers confidently and efficiently zoom in on familiar brands. The shoppers don't spend much time or interest in logical label reading or studying the product attributes. Blinkered mode happens in case of low involvement and repeat purchase product category.
- **Magpie mode:** The shoppers spend time in looking at the display of different brands. The shoppers are on the outlook for a change. This mode could be witnessed in food or fixtures stores.

- **Browser mode:** In browser mode shopping is done in a more rational manner. The shoppers read the information on the package, compare the prices, ingredients and seek more information about product attributes making price value comparison across various brands. The shoppers normally engage in this mode when a greater perceived risk is associated with the purchase to be made.

Understanding the *factors influencing the shopping behaviour* will enable retailers to frame suitable strategies to succeed in the marketing efforts. Shopping behaviour is influenced by personal, psychological, social and cultural factors. The inputs regarding these factors influencing the shopping behaviour should shape the design and delivery of marketing mix strategies.

5.4.1 Personal factors

Personal factors include age, lifecycle, education, income, occupation, lifestyle and personality and self-concept. The personal factors listed has an influence on the shopping behaviour of an individual which is proven by various studies. In order to provide a background, brief discussion on the demographics at the macro level and its influence follows;

- In 1990 India's population was 85 crore. Within a decade it has increased to 100 crore. By the year 2010, it is expected to reach 1,15.2 crore and by 2035, it may reach 146 crores. The gender composition of males per 100 females was 107 in 1990, to 106.8 in 2000 and further expected to decline to 106.4 in 2010. The urban population is increasing along with the increase in the rate of urbanization.
- The life expectancy in India though is low compared to the developed countries has improved in twentieth century. In the year 1990 the life expectancy of women is 57.9 years and 57.8 years for men while in 2000 it was 62.9 years for women and 66.6 years for men. It is expected to go up to 67.8 years for women and 66.6 years for men in 2010. The increase in life expectancy has to be kept in mind for retailers as there will be a considerable volume of population in older generation who require a different approach in terms of product preference, display, delivery, promotion etc. At the same time the percentage of younger generation in the population will be more, which can be explored depending on the target segment on which the retailer wishes to concentrate.
- As said earlier, the proportion of working population in India will be higher. It is projected to increase from 35.2 percent in 1996 to 40.5 percent in 2016. Those aged 45 and above accounted for only 17.3 percent in 1995 and the proportion is likely to rise to 23.5 percent by 2016.

NOTES***5.4.1.1 Age and stage in lifecycle***

The age of a shopper will influence the extent of time spent in search of information, his willingness to travel the distance to shop at a store, type of promotion mix considered as attractive, the brands desired etc. Hence the retailer should keep in mind the type of target customers he is addressing to while arranging the products, choosing the promotion mix, display of the same, designing internal atmospherics etc. A retailer dealing in toys have to design the above keeping in mind the kids, while a retailer designing a net café near a college has to decide the furniture, interior colours, type of music to be played and other things keeping in mind the teenage customers visiting his cybercafé.

5.4.1.2 Income

Income of the consumers is increasing and the number of families in the middle class is on the raise. India's middle class is bigger than the US population and is expected to still increase. As the households is high and middle income category are increasing their purchasing power and type of goods bought has also changed. The National Council of Applied Economic Research projects that the ownership of consumer durables may go up and the demand for expensive durable goods are likely to grow. The demographic at the macro level will reflect at the micro level. The increase in the individual's consumer's income will enable him to spend more which means an increase in the market size of the retailer.

5.4.1.3 Occupation

The occupation of the consumers will reflect on his availability of time for recreation, type of goods preferred, the ambience craved for and the like. This has to be kept in mind by a retailer in developing strategies.

5.4.1.4 Number of earning members in the family

More number of earning members in the family means increase in the disposable income, less time availability for shopping and increase in the need for comforts like taking orders through telephone, emails or even SMS, home delivery, need for 24 hours shopping facilities, more specialization, need for increased assortments etc.

5.4.1.5 Personality and self concept

Personality is the inner psychological characteristics that determine and reflect how a person responds to his or her environment. Marketers have tried to attract customers by exploring the personality traits. It enables to categorize consumers into different groups on the basis of their personality traits. Personality influences the customers' reactions to advertisement, the products they purchase, the time and method of consumption, their post purchase behaviour and the like. This section attempts to highlight the nuances of personality so as to have an understanding of its influences on the shopping behaviour of the customers.

Nature of personality

Three distinct properties of personality are highlighted below;

- Personality reflects the individual differences among the consumers. The inner characteristics that constitute an individual's personality is unique and hence no two individuals are exactly alike. However many individuals may be similar in terms of a single personality characteristic, but not in terms of others.
- Personality trait of an individual is consistent and enduring. It cannot be changed by a marketer, but understanding the personality trait which influences the shopping behaviour would enable a retailer to arrive at strategies which appeal to the personality trait of the target group of consumers. Personality is only one of the many variables which influence the shopping behaviour of a person. Hence though the personality trait is consistent the shopping behaviour varies because of the socio-cultural, psychological, environmental and situational factors that affect the behaviour.
- An individual's personality may change due to major events in life, as a part of the ageing process and the like

Theories of personality

Various theories exist on personality traits, however Freudian theory, neo-Freudian theory and trait theory throw more light on the relationship between personality and consumer behaviour. These theories are briefly dealt in the following section;

1. Freudian theory

The psychoanalytic theory of personality of Sigmund Freud proposes that human personality consists of three interacting systems: the id, superego and ego. The id consists of the basic physiological needs such as thirst, hunger which are primitive and impulsive drives. An individual seeks immediate satisfaction of these needs without concern for specific means of satisfaction. The superego is conceptualized as the individual's expression of society's moral and ethical codes of conduct. It makes an individual satisfy the needs in a manner acceptable to the society. Ego is the individual's conscious control which enables to balance the impulsive demands of id and socio-cultural constraints imposed by the superego. Application of Freudian's theory to consumer behaviour leads to the belief that consumers are mostly unaware of the true reasons for buying the product or services they opt for. The consumer purchases are seen as reflection of their own personality which is emulated in their appearance and possessions.

2. Neo-Freudian personality theory

Neo-Freudians disagree with Freud's theory and suggest that social relationship is fundamental to the formation and development of personality. It is suggested that individuals have more rational goals and people continuously attempt to establish relationship with

NOTES

others. Horney proposes that individuals can be grouped into three personality groups: compliant, aggressive and detached. *Compliant individual* move towards others. They desire to be loved, appreciated and wanted. *Aggressive individuals* move against others in the desire to excel and win admiration. *Detached individuals* move away from others in the desire to be independent, self reliant, self sufficient and free from obligations. These theories could be used to understand the consumer behaviour. For example a research study by Morton I.Jaffe reveal that people who are more self reliant are less likely to be brand loyal and are more prone to try different brands.

These findings could be used by marketers in developing strategies to win over customers.

3. Trait theory

Trait theory primarily focuses on measuring personality in terms of specific psychological characteristics. Trait is defined as any distinguishing, relatively enduring way in which one individual differs from others. Personality tests/inventories are used to identify and differentiate individuals based on the specific traits. The personality inventories can be used to identify the personality traits of the individuals' and thereby gain insight into their behaviour.

Personality traits and consumer behavior

Schiffman and Kanuk in their book on 'Consumer behaviour' have discussed as to how the differentiating personality traits of consumer on the basis of innovativeness, materialism and ethnocentrism will enable the marketers to identify target consumers who can respond favourably and positively towards the product or services. A brief mention of the same follows;

1. Consumer innovativeness

Consumer innovativeness refers to the extent of receptiveness of an individual to new experiences. Consumers' can be categorized as innovators or non innovators based on the personality traits like innovativeness, dogmatism, social character, optimum stimulation level and variety-novelty seeking.

- Dogmatism measures the degree of rigidity (or openness) that individual display toward the unfamiliar and toward the information contradictory to their beliefs. A person who is highly dogmatic will be defensive, uncomfortable and uncertain in approaching the unfamiliar. On the other hand a person is low in dogmatism will readily consider unfamiliar and opposing belief. Highly dogmatic consumers will be more receptive towards new products and advertisements.
- Social character is a personality trait which ranges on a continuum from inner-directedness to other-directedness. Inner-directed consumers tend to evaluate new products based on their own inner values and standards. Other-directed consumers depend on others for direction and they are less likely to be consumer

innovators. This aspect of the personality trait is explored much in designing advertisements.

- Optimum stimulation level links the variation in the individuals need for stimulation to the consumer behaviour. Some people prefer simple, uncluttered and calm existence while others prefer novel, complex and unusual experience. Consumers with high optimum stimulation level are willing to take risks, try new products, to be innovative to seek purchase-related information and accept new retail facilities than the people with low optimum stimulation level.
- There are many types of consumer variety seeking: exploratory purchase behaviour, vicarious exploration and use innovativeness. Exploratory purchase behaviour refers to trait of experiencing new and possibly better alternatives. Vicarious exploration refers to securing information about a new or better alternatives and then contemplating the use of the option. Use innovativeness refers to using an already adopted product in a new or novel way.

2. *Consumer materialism*

Personality traits based on consumption and possession ranges from consumer materialism to fixated consumption behaviour to consumer compulsive behaviour. They are explained below;

- Materialism refers to the extent of importance the consumer places on possessions. This personality trait distinguishes between individuals who regard possession as essential to their identities and their lives and those for whom possessions are secondary.
- The idea of being fixated with regard to consumption and possession lies somewhere between materialism and compulsive consumption behaviour. Fixated consumers frequently display their purchases and share with others their involvement in the purchases made.
- Compulsive consumption refers to the addiction. It refers to consumption made out of control though the same may have damaging consequence to consumers and those around them.

3. *Consumer ethnocentrism*

Consumer ethnocentrism scale enables to distinguish between consumer segments that are likely to be receptive to foreign made products and those that are not. Consumers who are highly ethnocentric may feel it as inappropriate to purchase foreign products because of the impact it may have on the domestic economy. Nonethnocentric consumers tend to evaluate the foreign products more objectively based on the extrinsic characteristics. This trait can be used by marketers in the promotion appeals by appealing and stressing on the nationalistic theme.

NOTES

Personality and self image

Self image or 'perception of self' is closely related to personality as an individual tend to buy products and services and patronize retailers whose images or personalities closely correspond to their own self images. Consumers' are thought to have multiple selves rather than a single self image as they behave in differently with different people in different situations. Understanding the multiple selves would enable marketers to position their products within the context of a particular self or design different products to suit different selves. The following kinds of self images are depicted in various research studies;

- Actual self image - how consumers see themselves
- Ideal self image - how consumers would like to see themselves
- Social self image - how consumers feel others see them
- Ideal social self image - how consumers would like others to see them
- Expected self image – how consumers expect to see themselves at come specified future time.

Consumers may sometime wish to change themselves to become a different 'self'. Personal care products like cosmetics, accessories etc., enable the consumers to alter their self image. Retailer can position and promote the store image or private labels in such a way that it enables the consumer to create a new self image while maintaining the existing self image. Use of internet enables consumers to try different identities using virtual self.

5.4.1.6 Lifestyle

The concept of Lifestyle is more contemporary than personality and it is a popular concept influencing the consumer behaviour. Lifestyle is a summary construct defined as patterns in which people live and spend time and money, reflecting a person's activities, interests and opinions(AIOs). AIO components are explained below;

- **Activity:** an action like shopping, leisure time activity, time spend for personal care, reading etc. These acts are usually observable, however the reasons for the actions are seldom subject to direct measurement.
- **Interest:** the degree of excitement that accompanies both special and continuing attention to an object, event or topic
- **Opinion:** a spoken or written answer that a person gives in response to a question. It describes interpretations, expectations, and evaluations such as beliefs about other people's intentions or anticipations concerning future events.

Life style variables are also known as psychographic characteristics because activities, interests, and opinions are psychologically oriented variables that can be quantified. The lifestyle of consumers are changing some of which are highlighted below;

1. Change in male/female purchasing roles

The increase in the nuclear family setup and the number of working women has changed the traditional purchasing role of male and female. Women today are more affluent, independent self confident and seek identify beyond their traditional roles. The participation of men in traditional female roles like shopping could be witnessed in a nuclear family where both the husband and wife are working. However the increasing role of men in homemaking activities are not acknowledged and considered as very sensitive. Marketers should take into these changes in the lifestyle while designing the promotion mix especially advertisements.

2. Health consciousness

Consumers are becoming more health conscious as would be witnessed in the choice of organic foods, low calorie food items etc. The increase in the double income earning nuclear family and more number of working hours has left relatively less time to cook and eat healthy foods. The array of ready made foods available in the market is increasing at the same time, more number of consumers are increasingly careful to check the nutrients contents, calories, fat etc. It could also be witnessed that the consumers are willing to pay little more for the extra convenience associated with the purchase of products especially food item like the fresh juice in bottle, cut and boiled vegetable, ready to eat foods etc

3. More self-awareness

The sense of personal achievement is increasing leading to increase in the demand for products and services that offers the same. Promotional mixes for home electronics, cars and educational products are increasingly addressing this aspect of change in the lifestyle.

4. Value oriented lifestyle

The concept of value equated with only the price is slowly changing. The consumers are looking for good quality with an affordable price. The shoppers need not necessarily buy expensive items to impress others and increasing number of them prefer to buy quality merchandise at a bargain price rather than stick on to an expensive products for the sake of popularity of brand.

5. Greater time pressures

Increased pressure on time makes the shoppers to give more importance to time saving convenience. Relatively more number of hours are spent by consumers in work. They don't mind spending more for saving time. Increase in the number of internet shoppers specifically in the category of travelling, e-tickets etc emphasizes the same. Internet banking, online education, preference for email, SMS over traditional snail mails, grocery purchases over phone, increase in the number of restaurants etc stand to witness the time pressure on

NOTES

consumers. Retailers who take the extra mile to serve the time-conscious consumers can carve a niche in the market.

Measuring lifestyle characteristics

The lifestyle cannot be easily and directly measured as in the case of demographic variables like age, income etc. The most common method of measuring lifestyle is to develop an inventory of activities, interests and opinions (AIO inventory). Two types of AIO inventories could be applied viz., a generalized and product-specific inventory. A generalized inventory can be applied across product category. An example of generalized inventory is one developed by Wells and Tigert. On the basis of 300 statements measured on a six-point scale, 22 life-style dimensions are arrived. These dimensions could be used in the same manner as demographics to describe and segment consumers. A product-specific inventory may be developed by a manufacturer to identify and segment the consumers who are likely to buy the new products introduced. Another approach is to conduct a consumer survey to identify activities, interests and opinions and on this basis the lifestyle categories are developed. The Value and Lifestyle Survey (VALS) developed by Stanford Research Institute is an example. The VALS survey identifies eight groups viz., actualizers, fulfilleds, achievers, experiencers, believers, strivers, makers and strugglers on the basis of consumer resources like money, education, self-confidence, level of education and the different ways consumers see the world. A brief description follows;

- **Actualizers:** Successful, active, sophisticated consumers with many resources and high self-esteem. They place importance on their image
- **Fulfilleds:** Satisfied, mature, comfortable, reflective people who tend to be practical and look for functionality, value and durability in the products they buy.
- **Believers:** Principle-oriented, conservative with beliefs based on community, family and nation. They tend to buy proven brands and products.
- **Achievers:** Career-oriented people who like to feel in control of their lives and prefer predictability to risk and self-discovery. Their social lives revolve around family and career. They prefer prestige brands that signal success to their peers.
- **Strivers:** Concerned about the approval of others and seek self-definition, security and image of success. They emulate those they strive to be like however they lack resources to attain their goals
- **Experiencers:** young, enthusiastic, impulsive consumers who like risk-taking, variety and excitement. They like new and off-beat products and activities. Because of their age, they have not formulated life values, behaviours or political affiliation.
- **Makers:** Focus on self-sufficiency, live within the context of family and work and pay little attention to other issues. They envy only material possessions that are functional.
- **Strugglers:** Poor and usually poorly educated, have no social bonds and are concerned with issues of the moment such as food and healthcare. They are cautious consumers and seek security and safety.

The lifestyle categorization can be used to develop market segmentation, media and advertising strategies. For example a research study conducted by Parameswaran M.G.2003 classifies Indian shoppers into four typologies:

- Pre-independence shoppers are anti-British, take pride in Indian and support local produce, non-violence and sacrifice
- Post-independence shoppers are idealistic, independent-minded, non-aligned, sincere and hardworking.
- Pre-Rajiv Gandhi shoppers are socialistic, anti-rich, license-permit drivers and ape and bait the West.
- Post-Rajiv Gandhi Shoppers are capitalistic. They have a global orientation, ape the West, technology-savvy and believe in the survival of the fittest.

5.4.2 Psychological factor

The shopping behaviour of an individual is influenced by four major psychological factors: perception, attitude, motivation and involvement and learning and memory.

5.4.2.1 Perception

Perception is defined as the process by which an individual selects, organizes and interprets stimuli into a meaningful and coherent picture of the world. It can be described as “how we see the world around us”. Two individuals exposed to the same advertisement or message may interpret it in different manner. For every individual reality is a totally personal phenomenon and is based on needs, wants, values and personal experiences. Reality to an individual is merely a perception of what has taken place. Individuals act and react on the basis of perception and not on the basis of objective reality. Hence for a marketer, consumer’s perception is more important than the knowledge on objective reality. Some basic concepts associated with perception as discussed by Schiffman and Kanuk are presented below:

- *Stimulus* is any unit of input to any of the senses. For example it includes package, product, brand name, advertisement etc. *Sensation* is the immediate and direct response of the sensory organs to simple stimuli.
- The lowest level at which an individual can experience a sensation is called the *absolute threshold*. Under conditions of constant stimulation the absolute threshold increases. For example if a person is exposed to advertisements continuously then his senses tend to become dull.
- In the context of perception *adaptation* refers to ‘getting used to’ certain sensations or becoming accommodated to a certain level of stimulation. Sensory adaptation is a problem associated with the advertisement. To deal with this the advertisers regularly change their campaigns
- The minimal difference that can be detected between two similar stimuli is called the *differential threshold*. Marketers can use the differential threshold to identify the threshold level for reductions in product size or quality or increase in the

NOTES

product price which is not readily identifiable by the consumers. The same could be used to identify the minimum product improvements needed to attract the attention of consumers without wasting money unnecessarily on packaging, lowering price or increasing size.

- Individuals can perceive stimuli without being consciously aware that they are doing so. This is called as *subliminal perception* because the stimulus is beneath the threshold of conscious awareness.

Perceptual process

The consumers are constantly subjected to the onslaught of innumerable number of stimuli that are constantly and subtly changing. However the consumers recognize only certain stimuli, organize and interpret them in accordance with their needs, expectations and experiences. The selection, organization and interpretation of stimuli are discussed below:

Perceptual selection

Consumers are exposed to a number of stimuli like the product, its physical attributes, package, brand name, advertisements and the like. Consumers subconsciously exercise a great deal of selectivity regarding the stimuli to which they respond to. Stimuli is mostly selected on the basis of previous experiences and the motives. Contrast is one of most attention-compelling attributes of a stimulus. Advertisers often use extreme attention-getting devices to achieve maximum contrast. Expectation is also an important aspect which influences the selection of the stimuli. Stimuli that confirm or go in hand with the expectations receive attention. Likewise people normally perceive the things they need or want, hence stronger the need greater will be the tendency to ignore unrelated stimuli in the environment. Marketers determine the needs of the consumers using research and position the products in such a manner that it will be perceived as satisfying the needs, wants and interest of the target consumers.

Four important aspects concerning perception are :

- **Selective exposure:** Consumers actively seek out messages that they find pleasant and avoid painful or threatening ones. They selectively expose themselves to advertisements that reassure them of the wisdom of their purchase decisions.
- **Selective attention:** Consumers pay greater attention to the advertisements that deal with the stimuli to meet their needs or interests.
- **Perceptual defense:** Consumers omit the stimuli they find as psychologically threatening. They also tend to filter the information that is not consistent with their needs, values and belief
- **Perceptual blocking:** Consumers block out certain stimuli for the purpose of self protection.

Perceptual organization

Consumers do not tend to experience each stimulus they are exposed to in a separate manner, rather they are organized into groups and perceived. This method of perceptual organization make things easy for consumer. Three basic principles enabling perceptual organization are mentioned below:

Figure and ground: Stimuli that contrast with the environment attracts more attention. For example a picture or visual illustration consisting a figure in a background. The figure can be perceived more clearly, it appears well defined and solid and it is in the forefront. The ground is usually perceived as indefinite, hazy and continuous. Advertisers plan their advertisement more carefully to make sure that the stimulus they project is noticed as figure and not as ground.

Grouping: Individuals group stimuli so that they form a unified impression. Grouping can be used advantageously by marketers to imply certain desired meaning in connection with their products.

Closure: Individuals need a complete picture of what they perceive. In the process of making things complete, the consumers consciously or unconsciously fill in the missing pieces. This need of closure is used by marketers in advertising message where the audience participation is invited to arouse interest.

Perceptual interpretation

Interpretation of stimuli is also unique and it is based on previous experience, motives and interests at the time of perception. A number of influences distort the perception. Some examples are physical appearance, halo effect, irrelevant cues and the like.

Marketing implications

Understanding the perceptual process and the perception of consumers would enable a marketer to perform the following;

- Perceptual mapping enables the marketer to determine how the products or services or the retail store appears in the minds of the consumers compared to the competitors on one or more relevant characteristics. It enables to ascertain the gaps in positioning and identify the areas where the consumer needs are not being met. This would enable a retailer to occupy a niche in the market.
- Perception of a consumer regarding the price of the product has a strong influence on the purchase intentions and satisfaction. If the consumer perceives that the price as unfair, it will affect the perception regarding the product value and ultimately the willingness to patronize the retail store. Hence understanding consumers' perception regarding the price of a product would enable a retailer to crave suitable strategies to satisfy them.

NOTES

- Consumers judge the quality of product or services offered on the basis of variety of informational cues associated. The cues could be intrinsic or extrinsic. Intrinsic cues include the physical characteristics of the product such as its size, colour, flavor etc. The extrinsic cues include pricing, packaging, advertising etc. The cues provide the basis for perceptions of product and service quality.
- The retail store image has an influence on the perceived quality of products dealt and the selection of a store for shopping. Retail store image is formed by the consumer on the basis of perception regarding the various cues associated with the stores. These aspects were dealt in detail in Unit III. Understanding the perception of shoppers regarding the store would enable a retailer to influence the same so as to enhance the store image.
- Manufacturers who are perceived favourably can introduce new products which will be accepted more readily by retailers and consumers.
- Consumers make decision regarding the choice of a retailer and product in the context of perceived risk. Perceived risk is the uncertainty that consumers face when they cannot foresee the consequences of their purchase decisions. The major types of risk perceived by the consumer are:
 - Functional risk: risk that the product will not perform as expected
 - Physical risk : risk associated with the product to the consumers and other
 - Financial risk: risk that the product will not be worth the cost
 - Social risk: risk that product choice will result in social embarrassment
 - Psychological risk: risk that the product will not suit the consumer's ego
 - Time risk: risk associated with the time spent on product search if the product does not perform as expected.

The above risk can also be associated with the choice of retail store. Understanding the perceived risk associated with the choice of retailer and the product would enable marketers to formulate strategies to overcome the same.

5.4.2.2 Attitude

Attitude is the most important subject of study in the field of consumer behaviour. Attitude research forms the basis for developing new products, repositioning existing products, creating advertising campaigns and predicting store choice /brand preferences as well as general purchase behaviour. Understanding how attitudes are developed and how they influence consumers is a vital ingredient to the success of any marketing program.

Attitude is defined as the learned predisposition to respond to an object or class of objects in a consistently favourable or unfavourable way. It is also defined as an enduring organization of motivational, emotional, perceptual and cognitive process with respect to some aspect of the individual's world. The above definitions view attitude from one-dimension. Attitude can also be viewed from multidimensional perspective. This view proposes attitude towards an object as a function of (1) the strength of each of a number of beliefs the person holds about various aspects of the object and (2) the evaluation he gives to each

belief as it relates to the object. A belief is the probability a person attaches to a given piece of knowledge being true. Multidimensional view of attitude shows that consumers perceive product as having many attributes and they form beliefs about each of these attributes.

Characteristics of attitudes

Attitudes have several important characteristics viz., they have an object, have direction, intensity and degree, have structure that are learned and occurs within a situation.

- Attitude must have an object. The object can be a physical thing such as a product, or it can be an action such as buying a consumer durable. The object can either be one item or a collection of items and it can be either specific or general.
- Attitude has a direction in the sense that a person is favourable or unfavourable towards an object or for or against an object. Degree refers to how much a person either likes or dislikes the object. Intensity refers to how strongly a person feels about his conviction.
- Attitudes do not stand in isolation. They are associated with each other to form a complex whole. This implies that a certain degree of consistency must exist between them. Attitudes tend to be generalizable i.e. attitude towards a specific object tends to generalize towards a class of objects.
- Attitudes are learned. This means that attitudes relevant to purchase behaviour are formed as a result of direct experience with the product, word of mouth information, exposure to mass media, advertising etc. As learned predispositions attitudes have a motivational quality i.e. they might propel a consumer toward a particular behaviour or repel the consumer away from a particular behaviour.
- Events or circumstances at a particular point of time influence the relationship between an attitude and behaviour. A specific situation can cause consumers to behave in ways that are inconsistent with their attitudes. When measuring attitudes it is important to consider the situation in which the behaviour takes place.

Functions of attitudes

Daniel Katz suggests that attitudes serve four major functions for the individual: the adjustment function, ego-defensive function, value expressive function and the knowledge function.

- The adjustment function directs people towards pleasurable or rewarding objects and away from unpleasant, undesirable ones. Attitudes of consumers depend to a large degree on their perception of what is need satisfying and what is punishing.
- Ego-defensive attitudes help to protect the ego or self-image from threats. For example a consumer who has made a poor decision may defend the decision as correct.
- Value expressive attitudes enable the expression of the person's centrally held values. Consumers adopt certain attitudes in an effort to translate their values into something more tangible and easily expressed. Marketers who understand the

NOTES

values which consumers want to express and design products and promotional campaigns to fulfill the same will be successful in their efforts.

- The need for understanding things around us develops the attitude towards acquiring knowledge. The need to know tends to be specific. Thus out of the need to know come attitudes about what we believe we need or do not need to understand.

Sources of attitude development

The formation of consumer attitudes is influenced by personal experience, the family and friends, direct marketing, mass media and others.

- The primary means by which attitudes towards goods and services are formed is through the consumer's direct experiences in trying and evaluating them. In order to stimulate direct experience, the marketers offer free trial, coupons, samples etc. However the factors like the needs of the consumer, selective perception and personality will also influence the attitude formation.
- Attitude of an individual will be influenced by other members who are valued and with whom the individual would like to associate. Family is an extremely important source of influence on the formation of attitude. Several groups including work and peer groups, friends and relatives, experts, cultural and subcultural groups also affect the attitude formation.
- Direct marketing efforts undertaken by marketers may also have an impact on the attitude formation. The highly personalized product offering and promotional messages in television, print media etc., targeted at consumers may create favourable attitude towards the product or services.

Models of attitudes

The relationship between attitudes and behaviour is explained by several attitude models. The tricomponent attitude model, the multiattribute models, trying to consumer model and attitude towards the ad model as discussed by Loudon and Betta are presented below.

1. Tricomponent Attitude Model

According to tricomponent attitude model, attitudes consists of three major components: a cognitive component, an affective component and a conative component.

- Cognitions refer to the knowledge and perceptions that are acquired through direct experience and information assimilated from various sources. The knowledge and the resulting perception take the form of beliefs ie the consumers believe the object possesses various attributes.
- A consumer's emotions or feelings about a particular product or brand constitute the affective component of an attitude. The emotions or feeling can be captured using five point scales or rating such as favourable or unfavourable.
- Conative component is concerned with the likelihood or tendency that an individual will undertake a specific action or behave in a particular way with regard to the attitude object. It is frequently treated as an expression of consumers intention to buy.

2. Multiattribute Attitude Models

Multiattribute attitude models portray consumers attitudes with regard to an attitude object as a function of consumers' perception and assessment of the key attributes or beliefs held with regard to the particular attitude 'object'. The object could be a product or service or an advertisement etc. The attitude- toward-object model and attitude-toward-behaviour model are explained below;

- The attitude- toward-object model is suitable for measuring attitudes toward a product or service or specific brands. The consumers attitude towards the product, service or brand is a function of evaluation of certain product specific beliefs or attributes. Consumers generally have favourable attitude towards the brands they believe to possess certain positive attributes and unfavourable towards brands they believe to possess negative attributes.
- Attitude-toward-behaviour model is the individual's attitude towards behaving or acting with respect to an object, rather than the attitude toward the object itself. This model tends to correspond more closely towards the actual behaviour than the previous model and is more logical. For example a consumer may have a positive attitude towards a costly cell phone but a negative attitude regarding his prospects of purchasing the same.

3. Theory of trying to consume

Theory of trying to consume is designed to account for many cases where action or outcome is not certain, but instead reflects the consumer's attempts to purchase or consume. The desired outcome is prevented by the personal impediments or environmental impediments.

4. Attitude-toward-the-ad models

Attitude towards ad model tries to create an understanding regarding the impact of advertising or other promotional measures on consumer attitude toward product or brand. The model states that the consumers form various feelings and judgments as the result of exposure to an advertisement. These feelings and judgments in turn affect the consumer's attitude toward the advertisement and beliefs about the brand acquired from exposure to the advertisement. Finally, the consumer's attitude towards the ad and belief about the brand influence his attitude toward the brand.

In addition to creating positive attitude towards a product or a retail store, marketers may also try to change the attitudes. Like attitude, attitudinal changes can also be learned and they are also influenced by personality, personal experience and others. Altering attitude may be one of the key strategies of marketers. They may try to change the negative or unfavourable attitude towards a product and also try to reinforce the existing positive attitude of customers. Reinforcement of favourable or positive attitude is necessary as the competitors may try to win over the customers with special offers and other inducements. Attitude can

NOTES

be changes by various strategies like changing the consumers basic motivation functions dealt above viz., adjustment function, ego-defensive function, value expressive function and the knowledge function. The change can also be initiated by associating the product or service with an admired group or event. Changing consumers belief about the competitors brand may also be attempted by a marketer in order to enhance the market share.

5.4.2.3 Motivation

The survival and profitability of any organization depends on its ability to understand and satisfy the needs of the consumers in a manner better than that of the competitor. The basic needs that motivate consumer behaviour is dealt in this section.

Motivation is the driving force within individuals that impels them to action. The driving force is produced by a state of tension, which exists as a result of unfulfilled need. Needs can be physiological or acquired needs. Physiological include the need for food, water, air, clothing, shelter and sex. These are categorized as primary needs. Acquired needs are the learned needs and include the need for self-esteem, prestige, affection, power and learning. These needs are also called secondary needs or motives. An individual's specific needs are dormant much of the time. The arousal of a specific set of need may be caused by the following:

- Bodily needs such as the need for food, water, air etc is based on the individual's physiological conditions. These needs create a state of arousal until they are satisfied.
- Emotional arousal may happen due to daydreaming which might result in the stimulation of latent needs.
- Random thoughts can lead to cognitive awareness of needs. An advertisement can trigger the thought leading to arousal of a need.
- Complex and varied environment can create many opportunities for need arousal.

Many motivational theories deal with the need priorities. Abraham Maslow formulated a widely accepted theory based on the notion of a universal hierarchy of human needs. Five levels of human needs are identified viz., the physiological, safety, social, self esteem and need for self actualization. Physiological needs are the basic need which deals with the biogenic needs for food, water and the like. Safety needs are concerned with much more than physical safety; it includes need for order, stability, routine, familiarity and the like. Social needs include the need for love, affection, belonging and acceptance. Self esteem need can be inwardly- directed or outwardly directed. Inwardly directed need reflects the need for self-acceptance, self-esteem, success, independence and the like. Outwardly directed need reflects the need for prestige, reputation, status and recognition from others. Self actualization need refers to an individual's desire to fulfill his or her potential and to become everything one is capable of becoming. Maslow's theory helps marketers to understand how various products fit into the plans, goals and lives of consumers.

Consumers behaviour may be driven by rational and emotional motives. Consumers are said to behave rationally when they carefully consider all alternatives and choose those that vie them greater utility. Consumers may be totally guided by objective decision making based on various criteria like size, design, weight, price etc. Emotional motives are subjective.

Characteristic features of motivation are listed below:

- Motivation is highly dynamic in nature and constantly changes with experiences, individual's physical condition, environment and interaction with others.
- Human needs are never fully or permanently satisfied. Motivation theorist believe that a hierarchy of needs exist and that new higher-order needs emerge as lower-order needs are fulfilled.
- Needs and goals are interdependent. Individuals who successfully achieve their goals usually set new and higher goals. The level of aspiration raises with the confidence gained in achieving the goals. If an individual fails in achieving the need , a substitute goal is developed. The substitute goal may be secondary in nature and may not provide as much satisfaction as achievement of the primary goal. Failure to achieve goals will often result in frustration.
- Consumer behaviour may be directed towards fulfilling more than one need. Specific goals may be selected on the criteria that it satisfies multiple goals.
- Needs and goals vary among individuals. Motives cannot be accurately inferred from the beahviour. People with different needs may seek fulfillment through the selection of same goad and people with same need may seek fulfillment through different goals.

Understanding motivational aspects of consumers would enable the retailer s to segment the market and design specific promotional strategies to attract them. Understand the needs will also enable to position the product or a retail store. It enables to identify a niche that is not fulfilled by the competing product or retailer.

5.4.2.4 Learning

Learning is an important component of consumer behaviour. Learning can occur intentionally when a problem is recognized and information about the product which might solve the problem is acquired. However learning which occurs unintentionally can strongly influence the consumer behaviour. Learning enables consumers to adapt to the changing environment. Understanding the learning aspects of consumers is necessary for marketers as they are constantly involved in educating consumers about the product attributes, potential benefits, where to buy, how to use, how to maintain and even dispose them, how the products are different from that of competitors offerings and the like. Marketers need to communicate to the consumers' through advertisement, packaging, price, distribution etc. In order to be effective these communications has to be understood, remembered and recalled for which they need to know the nuances of learning process of the consumers.

NOTES

Learning can be generally viewed as a relatively permanent change in behaviour occurring as a result of experience. Consumer learning is a process by which individuals acquire the purchase and consumption knowledge and experience that they apply to future related behaviour. Learning is a process as it continually evolves and changes as a result of newly acquired knowledge or from actual experience. All learning is not intentional, it may also happen without much effort. Learning includes a total range of learning from simple reflexive response to the learning of abstract concepts and complex problem solving.

For learning to occur, certain basic elements must be present;

- Motive : Motivation is needed for learning to occur. Motivation provides energy and readiness to respond which is essential in learning activity.
- Cue: A cue is a stimuli which provides direction to motivated activity. It influences the manner in which consumers respond to a motive. A shopping environment has lot of cues such as promotional offer, packaging, advertisements from which the consumers can choose.
- Response: It is a mental or physical activity occurring in response to a stimulus situation. Responses appropriate to a particular situation are learned over time through experience in facing situation. It may not be possible for marketers to stimulate an immediate response but learning can create a favourable image in the consumer's mind which can be recalled at the time of purchase.

The extent to which an individual learns is influenced by three factors: reinforcement, repetition and participation.

- Reinforcement: Reinforcement is comparing of anticipated results with the actual results experienced from a chosen response. If actual results compare favourably with anticipated results, response reinforcement occurs and learning takes place. Reinforcement increases the likelihood that a specific response will occur in the future as a result of particular cues or stimuli. Consumer tends to repeat reinforced behaviour and in order to induce the same, marketers resort to continuous reminder of the brand or retail store through various strategies.
- Repetition is the act of repeating a past experience. Learning is enhanced by performing the same action several times.
- Participation is the active involvement in learning process. An active role results in the acquisition of more knowledge.

The retailers efforts regarding the learning process should be directed at enhancing reinforcement, repetition and participation. Reinforcement may take the form of return and allowance policies that confirm the retailer's intent to correct product deficiencies. Frequent advertisement of retailer's product and services is done so as to enhance the learning process by repetition. Free samples, trial sizes and demonstrations are participation devices used to guide the consumer learning process towards retailer products.

5.4.3 Social factors

Human behaviour is directed towards conformity of group expectations. Consumers buy certain products, brands and patronize certain stores so as to gain approval and support from others. Social group influences the individual buyer behaviour to a greater extent. Human interfaces affect the motivation, learning, perception, personality, life style and attitude formation. The following discussion examines the impact of the family, reference group, social class and social roles and statuses on the shopping behaviour.

Family

Family refers to a group of two or more persons related by blood, marriage or adoption and residing together as a household. Bonds within the family are more powerful and the family functions directly in the role of ultimate consumption. Family operates as an economic unit in earning and spending money. In making consumption decision family members must establish individual and collective priorities, decide on products and brands, the place from where it is to be bought and how it might be used. Hence a retailer should understand the nature of the family's influence on the shoppers behaviour.

A family can be described in terms of the nuclear family, consisting of a father, mother and their children or as the extended family, which includes the nuclear family plus grandparents, aunts, uncles and cousins. The importance of the family to planning merchandising strategies lies in the fact that every family member's behaviour is strongly influenced by the interactions that occur within the family. Family represents both a buying and consuming unit within our economy and the consuming unit has increased purchasing capabilities. Family influences on individual buyer behavior starts from the childhood. Consciously or unconsciously individuals adopt their parents' attitudes, values morals and ways of doing things. As an individual leaves the family of origin and creates his own family by getting married and having children, the influence of the spouse and children assume a primarily role of importance in the choice of retail stores and in acquisition of products/brands and the like.

Family buying roles provides a key to understand the consumer behaviour. From a merchandising perspective, a consumer is often not an individual but a family represented by an individual. Therefore the retailer must understand the various roles played by various family members within a given purchase situation. The roles are highlighted below;

- Initiator – the family member who first recognizes the problem
- User – the family member who will actually use or consume the product or service
- Decision maker- the family member who decides what will be bought and at what time, place and source
- Influencer- the family member who affects the choice of the decision maker
- Purchasing agent – the family member who actually visits the store and makes the purchase.

NOTES

- Retailer can create a successful marketing program by taking into account the roles of family members. A retailer can
- Direct the informational and persuasive advertising at the initiator to so as to create awareness
- Aim at decision influencer and decision maker to develop comprehension and conviction
- Focus on the user to provide reinforcement
- Target the purchasing agent to guide shopping trip behavior

Reference group

Reference group is a group that serves as a model or standard for an individual's behaviour and attitudes. Reference group provide individuals with a frame of reference in making purchase decision regarding what and where to buy. A reference group may consists of friends, colleagues, co-workers, neighbours etc. The influence of reference group varies by product and brand. In case of highly visible products like the cell phone, cars etc the extent of influence of reference group might be more.

Reference group affect consumers by imparting information and by influencing value expressive needs of the consumers. In case of a more homogeneous groups, group members have similar characteristics and are more susceptible to attitude changes than the group whose members are less homogeneous. There are four types of reference groups:

- **Membership and non-membership groups:** A membership group is one to which one belongs. Non-membership groups are groups of which an individual is not a member but may aspire to belong to.
- **Formal or informal group:** A formal group has a structure and some objectives and roles of members are defined. Certain rules and regulations are followed. An informal group has no structure. People come and go at random.
- **Primary or secondary group:** This grouping is done based on the frequency of contact. Primary group consists of family, close friends, peers and business associates with whom one has regular contact. Secondary groups meet infrequently and are not so closely knit.
- **Aspirational groups:** This represents the group to which an individual may want to belong to. These are known as anticipatory aspirational groups. A symbolic aspirational group is one to which a person is attached but not likely to belong to. Marketers use symbolic group by using celebrities to advertise the products. Depending on the functions performed and the kind and degree of influence exerted the reference groups can be further classified as normative group, comparative reference group, dissociative group and status reference group.
- Norms are unwritten codes or standards of conduct that are assigned to individuals within a group. The normative groups uphold the norms of the groups. These norms influence the purchase behaviour of the individuals. Normative influence is also known as utilitarian influence, which occurs when an individual fulfills group expectations to receive a direct reward.

- Comparative reference groups are groups with whom the individual compares himself and his attitudes. Individuals compare themselves to other members of the group to find out whether they support his view and attitudes.
- Dissociative group are those from which an individual would try to distance himself from. An individual would avoid purchasing a product or a brand which would associate himself with a group which he does not want to be associated with.
- If an individual refers to the status or position of the people in a group, it is known as status reference group. An individual who may not belong to this group may aspire to achieve that status and want to be a member of that group.

The degree of influence of reference group is determined by the level of knowledge possessed by the reference group and its credibility. The reference group can change the attitudes, beliefs of the shoppers. A wide application of reference groups is used in advertising by the by marketers. Prominent people like celebrities are used to promote the retail store and the brands dealt. Experts in various fields are also used in advertisement since the shoppers maybe convinced with their expertise.

Social class

Social class is defined as the division of members of a society into a hierarchy of distinct status classes so that members of each class have relatively the same status and members of all other classes have either more or less status. Status is a relative ranking of members in terms of specific status factors like wealth, power, and prestige. The concept of social class involves families rather than individuals. Members of the same family enjoy the same status as they belong to the same social class and share a common income and have similar values. Social classes usually meet the following criterion.

- The social classes are bound by certain tacit restrictions which include or exclude certain individuals, places or objects.
- All social classes have a hierarchy or stratification in terms of income, prestige and status that distinguishes them from others.
- The social class is mutually exclusive, an individual belongs to only one class and behaves and acts accordingly. However the movement form one class to another is possible and it happens with time.
- It is exhaustive in the sense that every member of a social class must fit into some class and be identified with it.
- Behavioural variations exist between the members in the social class.

Warner's index uses occupation, income, house and dwelling area as an index of social class. Bases on these variables social classes are basically divided into six major categories. The retailers can decide the target group and develop marketing strategies to satisfy the specific needs of the different strata. The shopping behaviour of each stratum is strongly influenced by the social class to which an individual belongs to or aspires to belong to. Social class is also linked to demographic and geographic data. The social classes are

NOTES

found to live in clusters and have relatively homogeneous geo-demographic segments in terms of housing, urbanization and other aspects like housing, clothing, purchases, lifestyle etc. A brief summary of the characteristics of six categories of social class is presented below:

- **Upper Upper Class** : This is the most wealthy aristocratic class having more property. This is a small sized segment and a retailer can target them for novelty, expensive and luxury goods. This class has access to property, prestige and power. The buying pattern of this class often serves as a reference point for the consumption activities of lower classes.
- **Lower Upper Class**: This class engage themselves in consumption of a wide range of highly visible personal, recreational, and household products and services. Their buying behaviour is often directed at impressing lower social classes. A primary consideration of lower-upper class purchase behaviour is social acceptability of their peer class and the acceptance of the upper upper class . their buying behaviour is directed towards achieving the status of upper upper class.
- **Upper Middle Class**: This class of consumers are quality conscious purchasers of products that are acceptable to the upper class, hence they tend to be cautious consumers of prestigious products that communicate 'who they are' to others. They are also venturesome in their willingness to try new products and seek out new places to shop.
- **Lower Middle Class**. They focus a considerable amount of buying behaviour around maintaining a respectable home within a do-it-yourself context. They are quite value conscious and seek an acceptable balance between price and quality. Standardization is the key factor in their buying behaviour. They prefer purchasing of standard products of standard design from traditional retail stores.
- **Upper Lower Class** consumers are less concerned with purchasing products that enhance status and are more concerned with buying goods and services for personal enjoyment. In comparison to other classes, they spend a lower proportion of their incomes on housing and higher proportion of their income on household goods. They tend to be impulsive buyers yet remain loyal to previously bought brands that they believe to be a reflection of good quality. They are hesitant to try new retail stores.
- **Lower Lower Class** consumers main concern is to fulfill their basic physiological needs. They need shelter, clothing food and go for economical purchases. Their first priority is price and they cannot afford any unnecessary expenditure. They use credit extensively and impulsively purchase highly visible products of personal nature. They prefer well-known brands and local stores with easy credit terms.

Roles and statuses

An individual participates in many groups like family, organization and the like. The individual position in each group can be defined in terms of role and status. A role consists of activities a person is expected to perform. Each role is associated with a status. Consumers choose the retail store to shop and products / brands to communicate their role and status

in society. The retailer should give due consideration to the status projected by his store along with that of the brands dealt in the store.

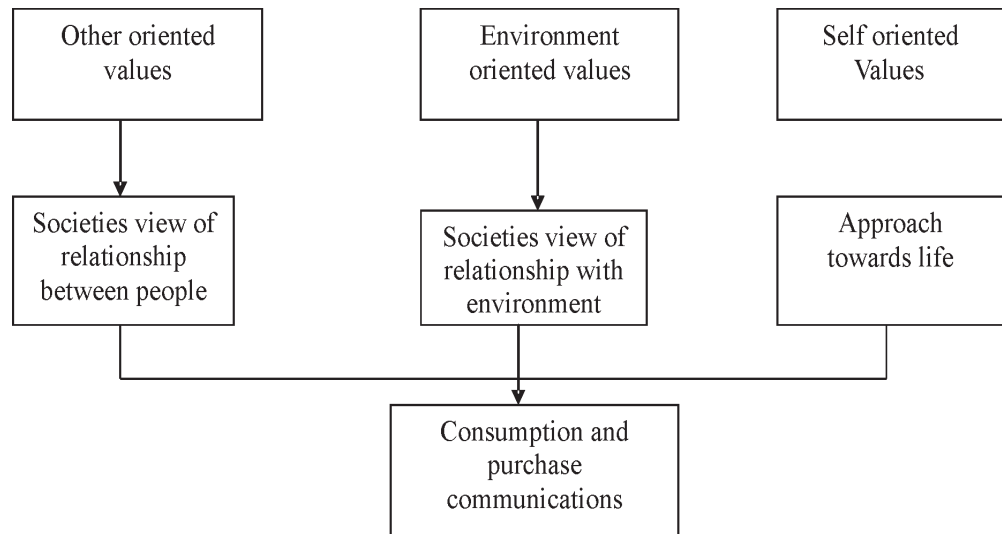
5.4.4 Cultural factors

Culture is a distinct way of life of a group of people and their complete design for living. It is the sum total of knowledge, attitude, symbols and patterns of behaviour that are shared by a group of people and transmitted from one generation to the next. The cultural traits include the profound beliefs, fundamental values and customs. The cultural environment influences are a major determinant of human behaviour. Culture influences the pattern of living, consumption, decision making by individuals. It provides a framework within which individuals and households build their pattern of living and exhibit their lifestyles. Hence it is essential for a retailer to adapt and confirm merchandising programs to the culture of the chosen target market. The characteristic of culture is explained below;

- Culture is invented by people and it consists of three independent systems or elements viz., (1) mental component that consists of ideas, beliefs, values and ways of reasoning (2) technological system that consists of the skills, crafts and art that enable humans to produce material goods derived from the natural environment (3) an organizational system such as family system and social class that make its possible for humans to coordinate their behaviour effectively with the actions of others
- Culture is learned. It begins early in life and is learned through generation. The behaviour of an individual is molded by their culture from birth.
- Culture is socially shared by people living in organized societies. The group may range from a smaller unit such as family to a whole society.
- Culture is similar yet different great variations exist from society to society which result in differences in consumer behaviour.
- Culture is gratifying and persistent. It satisfies basic biological needs as well as learned needs. It consists of habits that will be maintained and reinforced as long as those who practice them are gratified.
- It is integrated and organized. Every culture has some inconsistent elements; however it tends to form a consistent and integrated whole.
- Culture is acquired from family, region or from all that is around while an individual is growing.
- Culture forms a boundary within which an individual thinks and acts. When an individual thinks and acts beyond these boundaries, he is adopting cross-cultural behaviour.
- Cultures are gradually and continuously changing. Some societies are static while others are more dynamic

NOTES

There are three broad form of cultural values as shown below;



Other oriented values

This shows the relationship between individuals and the society. This relationship influences the retailers practices and strategies. The following issues regarding the shopping behaviour is raised;

- Whether shopping behaviour is a result of individual initiation or collective activity
- Is the family life concentrated around children or adults? What roles do children play in decision making?
- Whether society is male or female dominated or balances?
- Are prestige roles assigned to younger or older members in society?

Environment oriented values

The environment oriented values depends on the following aspects;

- The extent of stress given to cleanliness influences the scope for sale of beauty creams, soaps, deodorants, etc.
- **Performance/status:** A society can be status oriented or performance oriented. The status oriented nature of society lays emphasize on higher standard of living and chooses quality goods, established and reputed retail stores and brand names , high priced items and the like. The performance oriented society places importance to individuals performance rather than the status, hence less importance is assigned to brand names
- **Traditional/change:** Traditional oriented societies prefer the old product and resist innovation or new techniques. In traditional societies, the scope for new products is less and the demand for traditional products will be more. Some societies may prefer modern methods, new products and new model. A retailer has to

target the retail store according to the type of culture prevalent among the target customers.

- **Risk taking/security:** The extent of venturesomeness of individuals depends on the risk taking culture in the society. Security oriented societies have little chances of development and innovation.
- **Problem solving/fatalist:** A society can be optimistic and have a problem solving attitude or be inactive and depend on fate. This culture has a marketing implication on registering of complaints when consumers are dissatisfied with the purchase of the products or services of a retailer.
- **Concern regarding nature:** There are differences in attitude regarding nature and its preservation. In a culture which focuses on environmental protection, consumers stress on packing materials that are recyclable and environmental friendly.

Self-oriented Values

Based on the objectives and approaches to life, culture can take the following forms;

Active/passive: It depends on whether a physically active approach to life is valued more highly than a less active orientation.

Material/non material : In many societies money is given more importance and a lot of emphasis is given to possession of material. While in many societies comfort, leisure and relationship get precedence over materialistic possession. Materialism can be of two types viz., instrumental materialism and terminal materialism. Instrumental materialism focuses on acquisition of things to enable one to do something or achieve something. Terminal materialism focuses on owning rather than for use.

Hardwork/leisure: Some societies value hard work and consider it as fulfilling in life. This has marketing implication on labour saving equipments, instant foods etc.

Postponed gratification/immediate gratification: some societies give importance to saving for tomorrow while for some living in the present may be more important.

Humour/serious: In some culture certain issues are taken very seriously while in others people may take it lightly and laugh it off. Advertising and other promotion measures can derive input from the culture so as to design appeal for a retail store /product that is appealing to the target consumers.

Apart from the factors dealt above there are the product related, market related and environmental factors which might influence the shoppers behaviour. Product related variable refers to the price, quality, model, weight etc associated with the product evaluation. Market related variables include the availability, brand image, advertisement, promotional offers and the like. Environmental factors include the general trend of boom or depression in the

NOTES

economy, inflationary trends, climatic conditions etc which might influence the shopping behaviour.

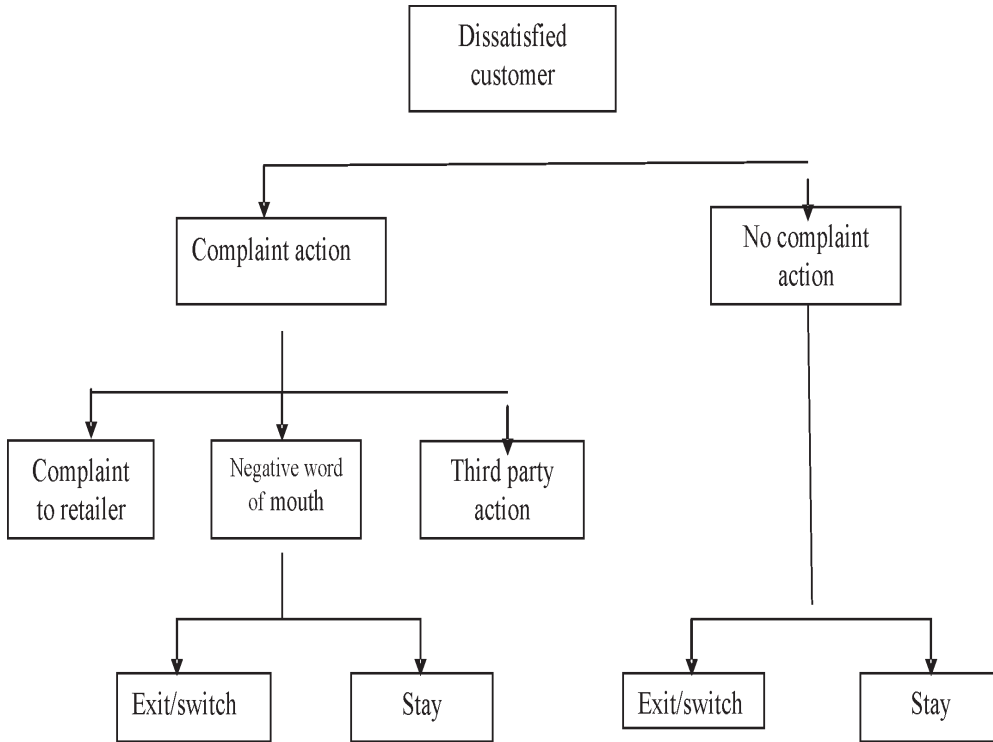
5.5 HANDLING COMPLAINTS

In the era of intensified competition, it is not a healthy sign for a retailer to have a dissatisfied customer. Having too many dissatisfied customer could be a major problem leading to the elimination of retailer from the market. A dissatisfied customer will be encountered with a variety of negative emotions like anger, discontentment, disappointment, self-pity and anxiety.

Following is a list of common situations which may lead to customer complaints in the retail stores:

- Lack of adequate parking facility
 - Dissatisfaction at the variety of merchandise offered
 - Low quality of merchandise
 - Unfair or too much price
 - Out of stock situations
 - Too much of crow during peak time
 - Inefficient billing
 - Inconvenient store timing
 - Poor replacement policies
 - Impolite sale person who are unwilling to help
 - Limited modes of payment
 - Too much bargaining and lack of fixed price
 - Lack of proper hygiene and cleanliness
 - Poor shopping environment
 - Long waiting time for billing and delivery of products
- Dissatisfied with the levels of service

A customer who is dissatisfied due to the above listed complaints may respond in a variety of ways as illustrated below:



Not all customers complain in a dissatisfied situation. Some customers are more likely to complain than others for a variety of reasons. Customers who complain believe that positive consequences may occur and that there are social benefits of complaining. They believe that compensation should and will be provided to them in some form. They believe that fair treatment and good service are the obligation of the retailer and that he has to deliver the same. Only very small number retailers are ‘complaining customers’ who complain for sake of creating trouble.

Customers who do not complain or take any action hold the opposite belief. They feel complaining as waste of time and effort. They think that nothing positive will come out of their complaints. They may not know the procedures to be followed or may not know that complaints can be lodged. The non complainer may resort to ‘emotion-focused coping’ which involves self-blame, denial and possibly seeking social support. They may feel that the dissatisfied situation may have arisen due to their mistakes and that they do not deserve redress. The relevance and importance of the purchase occasion may also influence the customer complaints. For example if a shopper has purchased a product for personal consumption, he may be more tolerant towards the product failure rather than the same purchased as a gift to someone.

NOTES

Types of customer complaint actions

A dissatisfied customer can choose any of the following actions:

- The shopper may complaint on the spot to the retailer giving him a chance to respond immediately. This is a best opportunity for a retailer to retain the customer by doing whatever is possible within his limits. The situation has to be approached by a retailer as an opportunity to learn ways to increase customer satisfaction rather than an problem to be solved.
- Customers who do not complaint immediately may resort to writing, email or may voice their problems through telephone. Retailers who react quickly has the chance of retaining the customers.
- Customers who do not complain may spread negative word of mouth about the retailer to friends, relative, neighbours, colleagues etc. Word of mouth has taken the form of 'click of mouse' which is more quick and damaging. The company has limited chances of recovery unless the negative WOM is accompanied by a direct complaint.
- Customers may complain to third parties like the consumer forums, licensing authority, professional association or take a legal action.

In case of action both action and inaction, a customer determines whether to patronize the stores or switch to competitor based on the retailer's recovery action.

Types of complainers

Singh.J in his research paper on typology of consumer dissatisfaction response style classifies people into four categories based on their response to failures viz., passives, voicers, irates, and activists.

- *Passives* are group of customer who are likely to take any action. They are unlikely to say anything, less likely to spread negative word of mouth and unlikely to complain to third party. They doubt the effectiveness of complaining, thinking that the consequences is not worth the time and effort spend.
- *Voicers* actively complain, less likely to spread word of mouth or go to third parties or switch partornage. They actively complain giving a second chance to retain them. They believe the consequence to be very positive and that it has social benefits.
- *Irates* are more likely to engage in negative word of mouth communication, however they are unlikely to complain to third parties. They are more angry and less likely to provide a second change. They will switch to a competitor spreading negative word of mouth to friends, relatives, neighbours etc.
- *Activists* are characterized by above average propensity to complain in all dimensions. They will complain to provider, spread negative word of mouth, complain to third parties. This category of consumers is also referred as terrorists.

In a dissatisfied situation most of the customers are passive, they simply don't do anything. Though action is not taken by the customer, they will decide whether to stay with the retailer or to switch to the competitor. A retailer should be careful about the dissatisfied customer who is not complaining as the customer is less likely to return. Customer passivity in the face of dissatisfaction is a serious threat to the success of the retail store.

An efficient retailer should consistently take all possible effort to record the customer complaints. This will provide an opportunity to learn the drawback and improve the merchandise and services. The retailer's eagerness in recording customer complaints will provide a positive impression in the minds of customer and at the same time, it will help the retailer to reduce customer dissatisfaction. Successful retailers often have customer oriented policies to deal with complaints. Handling customer complaints is a delicate subject and it must be done with utmost care by trained personnel.

A customer complaint with the following expectations:

- Customers in many situations are not looking for extreme actions from the firm. They expect the retailers to provide a reason for the happenings and expect them to be accountable for their actions or inactions.
- Customers expect justice and fairness in handling their complaints.

Retailers have a lot to gain by designing and delivering excellent strategies to recover the customers. Some *strategies* are highlighted;

- The first thing that can be done by a retailer is to see that the complaints are not arising by way of delivering the right product, in right quantity, at right quality and at right price. The retailer should also provide the right combination of services expected by the customer. A situation which ensures 'zero defect' will enable a retailer to gain credibility and reliability.
- A retailer should develop a system to keep track of complaints. Customer research can be designed for the purpose of conducting survey to keep track of customer dissatisfaction. Toll free numbers, pagers, email etc can be used to facilitate, encourage and track complaints.
- Customers who complaints want quick responses. Hence the retailer should take care to see that the systems and procedures are designed to act on complaints quickly. Immediate response to customer complaints is possible by empowering employees. Employees must be trained and given powers to solve the problems as they occur.
- Retailer should take adequate steps to see that the reason for situation causing customers' to complaints are properly explained to them. If adequate explanations are provided, customer dissatisfaction can be abated to a greater extent.
- The retailer should see that the customers are treated fairly in terms of the outcome they receive. Three specific types of justice should be provided to customers viz., outcome fairness, procedural fairness and interaction fairness. Outcome fairness refers to the expected outcomes or compensation that match the level of satisfaction.

NOTES

It can take the form of monetary compensation, an apology, free services, reduced charges and the like. Customers also expect fairness in terms of policies, rules and timeliness of the complaint process which is known as procedural fairness. Fair procedures have clarity and they are delivered at a greater speed without hassles. Interactional fairness refers to customer being treated politely with care and honest.

- A strong relationship with customer should be developed. This ensures that the customer will continue their patronage even in case of problems. Customers' who have good relationship will not hesitate to complain their problems to the retailer. The chances of the switchover to competitors are also arrested to a greater extent.
- Complaints detail and the situation under which it has arisen along with specific set of solution offered will enable a retailer to direct the future course of action. Further it enables to arrest the situation which might give rise to problems,
- Market research can be conducted among the lost customers so as to identify and correct the reasons for defection. This will enable the retailer to prevent the conditions leading to switchover to competitors.
- Retailer can also provide guarantee so as to encourage the shoppers belief and reduce the risk foreseen by the customers.
- Mystery shopping can be performed. In this case the retailers can hire an outside research organization to send people to the retail store and undergo the shopping experience as if they were customers. The mystery shoppers will examine all the criteria which are important to the customers.
- Customer complaints enable a retailer to demonstrate his commitment to providing quality products and service to the customers. A retailer can strengthen the customer relationship by listening to complaints and handling them in a satisfactory manner.

5.6 DELIVERING VALUE TO RETAIL SHOPPERS

Competition exists among the retailers to attract the consumer traffic and retain them. Amidst other things like the product assortment, brands choice, ambience, location etc being the same, customers would prefer to shop with the retailers who offer value for the money paid by them. Value to shoppers is the best combination of price, service quality and retail store image. Perception regarding value differs from one shopper to the other due to the various aspects:

- Need for the product requirement
- Availability of time
- Past experience with the retailers
- Competitors offerings
- Personal, social, psychological and cultural factors and
- Risk associated with switching over to a new retail store

Apart from offering right product at right time in right quantity and right quality, retailers differentiate themselves from the competitors through offering value added services. Some example of value added services offered by retailers around the world are:

NOTES

- **Car parking :** The vehicle traffic is increasing manifold everyday and one of the major hurdles faced by shoppers is parking space. Offering parking facility would be a major value addition leading to the choice of retail store. This would put the shopper at ease regarding the vehicle safety and enable him to spend more time in the retail shop.
- **Telephone orders and Home delivery:** consumers today are under constant pressure for want of time. Hence a retailer offering to take up telephone orders and home delivery would be preferred choice. The retailer could even build a database of the consumer's purchases along with the time of purchase and so that in the case of monthly order the retailer can himself initiate the order especially for food products. This will be a reminder to the consumer and the same order could be repeated except a few changes where needed to be made by the consumer. This will reduce the time taken in placing the orders through telephone. Even if a consumer prefer to place order in person, home delivery of purchase made will be appreciated.
- **Accepting credit cards:** The concept of using credit card for payment is catching up in India and many consumers prefer to use the same over the risk of carrying cash. A retailer could differentiate himself from the competitor and also provide a value added service to the consumer by accepting the credit card.
- **Credit facilities:** The major attraction of kirana stores is the monthly credit facility offered to customers. If this facility is provided by an organized retailer it will go a long way in building store loyalty. However organized retailers do not provide this facility though they honour credit cards.
- **Personal assistance in selecting merchandise:** many customers do not usually have much knowledge about the merchandise they wish to purchase. It will be a value addition to those customers if a knowledgeable sales person assist them in selecting the product. This facility is all the more important in case of retailers dealing in expensive products.
- **Demonstration of merchandise:** Demonstration of merchandise is important for consumers especially if the same is expensive. A retailer could deliver value to the consumer by giving demonstration of the items to be purchased.
- **Customizing the merchandise:** Certain merchandise may need alterations for eg, garments. If the retailer provides free alterations for the garment to fit the customer, it will be definitely be a value addition.
- **Extended store hours:** The number of dual income families is increasing rapidly leaving less time for shopping. Customers find time only in the late hours to do their shopping. Across the globe 24 hours shopping is catching up. It is predicted that competition will force retailers to remain open for long hours and also for 7 day weeks.
- **Play centers:** The number of double income nuclear family with kids is increasing. Kids accompany parents for shopping and provision of play centers to keep them engaged will be a source of attraction to the kids as well as parents.

NOTES

- **Special orders:** Honouring special orders as required by customers during festivals and special occasion would contribute a long way in developing a sticky customer.

The above is only a suggestive list services that can be offered by a retailer so as to provide value addition. A retailer who is creative can explore various services needed by consumers which will lead to sustainable success.

SUMMARY

This unit has provided a comprehensive overview of shopping process and the factor influencing the shopping behaviour. Three types of decision –making process viz., extended problem solving, limited problem solving and habitual decision making were discussed. Understanding the buying process would enable retailer to influence the consumers and encourage them to buy the retailers merchandise. In this context the various stages in the purchase process viz need recognition, information search, evaluation of alternatives, selection and post purchase were discussed in detail. A detailed discussion on personal, social and cultural factors influencing the shopping behaviour was presented.

HAVE YOU UNDERSTOOD?

- Explain the shopping process involved in the purchase of a durable item.
- Discuss with example the extended problem solving, limited problem solving and habitual decision making.
- Discuss the role of personal factors in influencing the shoppers behaviour
- Explain a buying situation influenced by culture and social factors.
- Enumerate the psychological factors influencing the shoppers' behaviour.
- Discuss the strategies that can be adopted by a retailer for handling complaints
- Enumerate the strategies available to a retailer for providing value added services.

NOTES

NOTES