

**BLOCK**

# **1**

# **INTRODUCTION TO RETAILING**

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**UNIT 1 FUNDAMENTALS OF RETAILING**

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**UNIT 2 STRUCTURE OF RETAIL INDUSTRY**

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**UNIT 3 RETAIL ORGANIZATIONS AND  
FORMATS**

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**UNIT 4 CONTOURS OF INDIAN RETAIL  
MARKET**

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## **Block 1 INTRODUCTION TO RETAILING**

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This block consists of four units, dealing with introductory concepts of retailing.

The first unit gives you an insight into the fundamental concepts of retailing which include characteristics of the retail industry along with the distribution channels that are used in retailing.

The second unit looks into the retail industry structure along with the concepts of concentration, market saturation and diversity in retailing.

The third unit provides insights into the retail organization and various formats used in retailing. It discusses the concepts of independent, multiple, and franchise forms of ownership.

The fourth and last unit of this block provides an overview of various dimensions of retailing in India including the challenges faced by organized retailing.

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## **Unit 1: FUNDAMENTALS OF RETAILING**

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### **Objectives**

After reading this unit, the learner would be able to:

- Understand the basic concepts of retailing
- Appreciate the role of a retailer in the distribution chain and society
- See the importance of the retail trade in development of the economy and employment generation

### **Structure**

- 1.1 Retailing Defined
- 1.2 The Retailer within the Distribution Channel
- 1.3 The Vertical Marketing System
- 1.4 The Consumer-Led Approach to Retailing
- 1.5 The Retail Industry - Its Contribution to the Economy
- 1.6 A Global Viewpoint
- 1.7 Employment in the Retail Sector
- 1.8 A Retailer's Position in Society
- 1.9 Summary
- 1.10 Review Questions
- 1.11 Further Readings

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## **1.1 RETAILING DEFINED**

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The word retailing has its origins in the French verb 'retailer', which means "to cut up", and refers to one of the fundamental retailing activities which is to buy in larger quantities and sell in smaller quantities. For example, a convenience store would buy tins of beans in units of two dozen boxes, but sell in single-tin units. However, a retailer is not the only type of business entity to 'break bulk'. Wholesalers also buy in larger quantities and sell to their customers in smaller quantities. It is the type of customer, rather than the activity, that distinguishes a retailer from other distributive traders; the distinction being that a retailer sells to final consumers, unlike a wholesaler who sells to a retailer or other business organizations. A generally accepted definition of a retailer is 'any establishment engaged in selling merchandise for personal or household consumption and rendering services incidental to the sale of such goods'.

There are, however, many businesses that carry out retailing activity that are not in themselves classified as retailers. For example, a factory may engage in retailing activity by selling 'seconds' quality goods in the shop attached to its manufacturing premises. In the UK, a retailer is only classified as such for government reporting if the business gains over half of its income from selling to the final consumer.



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## **1.2 THE RETAILER WITHIN THE DISTRIBUTION CHANNEL**

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From a traditional marketing viewpoint, the retailer is one of many possible organizations through which goods produced by the manufacturer flow on their way to their consumer destiny. These organizations perform various roles by being a member of a distribution channel. For example, a chocolate producer like Cadbury's will use a number of distribution channels for its confectionery, which involves members such as agents, wholesalers, supermarkets, convenience stores, petrol stations, vending machine operators and so on. Channel members, or marketing intermediaries as they are sometimes referred to, take on activities that a manufacturer does not have the resources to perform, such as displaying the product alongside related or alternative items in a location that is convenient for a consumer to access during shopping

Intermediaries facilitate the distribution process by providing points where deliveries of merchandise are altered in their physical state (such as being broken down into smaller quantities, or being repackaged) and are made available to customers in convenient or cost-effective locations.

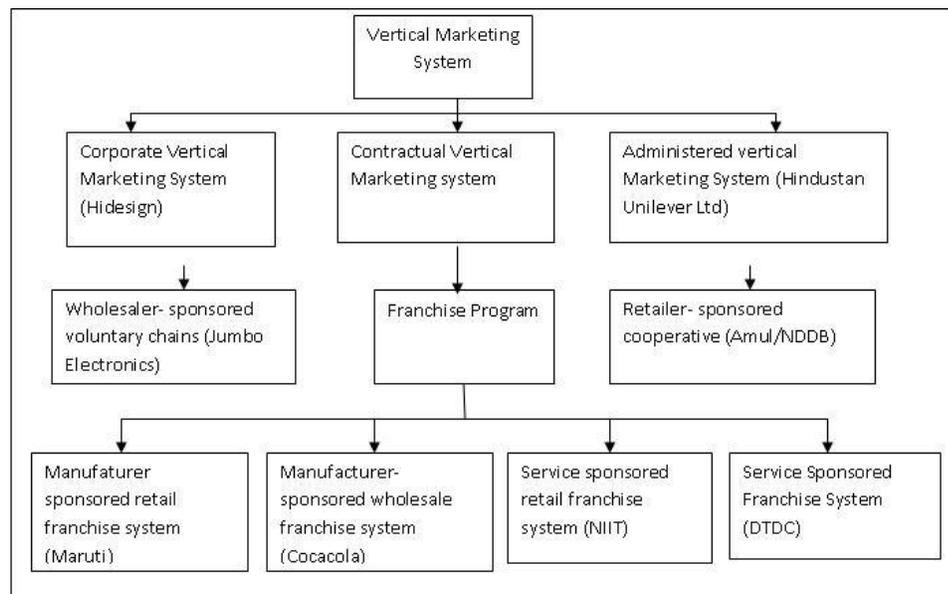
Over time, and particularly since the laws that allowed manufacturers to set prices were abolished, retailers have become more dominant in the distribution channel. Their passive distributor status has been transformed into a more aggressive one, using price as a competitive weapon,





### 1.3 THE VERTICAL MARKETING SYSTEM

Although the traditional distribution channels are used in many instances to get products to consumers, there are a large number of marketing approaches that do not fit neatly into this model. Levi Strauss, for example, has a large network of shops through which their own merchandise is sold. Their retailing activities are, in a marketing sense, of equal importance to their manufacturing activities (irrespective of the financial contributions of each activity), and the two facets of the business are highly integrated. In order to reflect this type of situation, the notion of a vertical marketing system has emerged, as shown in Figure 1.1.



*Figure 1.1 Vertical Marketing System*

The vertical marketing system usefully depicts a more realistic view of the retail industry in developed economies. Many large

multiple retailers in India like Reliance Mega Mart, MORE, Spencer's and Bharti-Walmart are actively involved in marketing functions that were at one time left to producers, such as product development, branding and advertising. Conversely, many producers are involved in retailing activities, either by running retail outlets dedicated to their own merchandise or by performing functions that at one time were the preserve of the retailer, such as allocating shelf space.

**Activity 1.3**

*Visit Wikipedia and write a short note on "Franchising Concept" [<http://en.wikipedia.org/wiki/Franchising>]*

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One of the results of the adoption of the vertical marketing system is the demise of the wholesaler within the distribution

channel. Vertically integrated manufacturers do not need to rely on wholesaling activities when they have their own network of retail outlets to distribute their products, and vertically integrated retailers gain the benefit of cutting out the wholesaler's profit margin when they go directly to the producer. The contracting wholesale industry is one of the many structural changes that make the survival of the small independent shopkeeper increasingly tenuous. Even though the demise of the wholesaler is inevitable, as retailers place orders directly with producers, the function that the wholesaler performs is still required in order to move products from a widespread (often global) supply base to a national or even international network of outlets in an efficient way. The large retailers have therefore developed a dedicated infrastructure of warehouses, distribution centres and transportation fleets in order to replace the network of independent intermediaries.

**Activity 1.4**

*Understand the concept of cold chain infrastructure of McDonalds in India and list 5 important points.*

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**CASE 1.1**

Read the following case and discuss the review points given at the end.

### **MITHAIWALA**

'Mithaiwala' has been one of India's first sweet shops, originally established in the 1920s by Lala Chandiram who had served the British Indian Army as a cook and had seen action in the deserts of North Africa during World War I.

The company started as a single outlet in the then high street area of Delhi called Chandni Chowk. From the very beginning, the company devised its own recipes and manufacturing processes which were derived from the traditional Indian ways of making various sweetmeats. The company was largely family owned. Even after Independence, they expanded their retail outlets in a few other then emerging areas such as Connaught Place, Karol Bagh and later the newer colonies of South Extension and Greater Kailash. But even then, they continued the tradition of vertical integration of manufacturing and retailing their products themselves. It was only after the liberation phase of 1992 and with the economy growing thereafter, Mithaiwala spread their network in Delhi and to neighbouring states like Haryana, Punjab and Uttar Pradesh. By the turn of the century (in 2000) they had a turnover of Rs. 10 million, by employing about 1500 sales and services staff with a network of 200 retail outlets and another 1500 people employed in their centralized kitchen or manufacturing plants. In 2001, the

current scion of the family, Peeyush Gupta returned from the US with a degree in Business Management from Columbia University and work experience with a famous chocolate company called Hersheys in the USA.

The family appointed him as the Chief Executive to head retail operations with the hope that he will build on a new retail development strategy for the company. At this time, company also decided to take a radical step that only core products, i.e., sweetmeats would be manufactured in-house but they would consider outside suppliers for providing their peripheral products like Indian savouries (namkeens), chocolates and ice-creams. Under Peeyush's leadership, the company adopted a retail led strategy. In 2002, the programme for retail site development by enlarging the number of outlets and relocating some of their existing outlets to high volume locations, (such as the newly emerging shopping malls) was embarked upon. Mithaiwala primarily competed in the boxed Indian sweetmeat market where the other "Sweet Box" brand had over 10 per cent of market share. However, with India's emerging new generation, sweetmeats as the traditional gift during festive occasions has to compete with a wide range of other products such as flowers, toiletry items, wines and other alcoholic spirits and other emerging categories for the youth of India. However, as a retailer dedicated to traditional Indian sweetmeats and salted savouries, it had no large competitors in North India. Moreover, some of such food retailers like Spencer's, Food Bazaar, Food World (to whom Mithaiwala

is also a supplier), started offering competitive products under their private labels. The products and services provided by Mithaiwala retail outlets tried to achieve differentiation by various means such as unique products, high quality, good customer relations and high level of hygiene at their outlets. Their shops offer opportunity to consumers for self selection of various types of sweetmeats and savouries. Also, they put together customized gift packs by mixing and matching various products as per consumers' budget.

Another innovation that company has done is home delivery of their products within a three hours order delivery cycle. The process adopted by them is based on the experience of home deliveries from various pizza companies. Although Mithaiwala has considered outsourcing this service, the in-house delivery service using motor cycles and scooters was retained because many of their products are perishable and most of the residential neighbourhoods in Indian cities have narrow bylanes. In a recent interview given by Peeyush Gupta to a leading business magazine, he described [Mithaiwala](#) as a market led retail business. Though committed to in-house manufacturing of their core products themselves, a philosophy adopted from Coca Cola that they have secret recipes which they do not want to part with; contract manufacturers are germane to their competitive advantage.

However, that they have outsourced the modern packaging for their products including cold packs to prolong the shelf

life of delicate paneer based products. Given their scale of multiple outlets at multiple locations, it has helped to achieve large economies of scale.

Mithaiwala's ownership of their retail outlets provides them with greater market access and higher margins than perhaps those that could be achieved by selling through retailers such as food chains. Other strategy of vertical integration has helped in keeping competitors at bay and creating barriers of entry for companies wanting to enter the Indian sweetmeat market. The fact that their outlets are in strategic prime locations puts further distance between them and other competitors. The integration of activities also helps to assimilate consumer feedback faster and helps product and service innovation. Also, specific nature of the manufacturing process limits for them the scope of outsourcing from a potential competitive manufacturer and therefore reliance on in-house manufacturing outweighs their outsourcing option due to inherent strategic outcome.

### **Discussion Point 1**

Retailers and producers have become customer-focused, or perhaps in some instances customer-driven. The customer is not just the end result (they buy or they do not); the consumer is now an integrated member of the marketing channel. To determine how the customer buys, when they buy, what product combinations are purchased, and how they respond to promotional offers, are the types of challenges that members of distribution channels are all looking to meet,









across all retail sectors and compares prices over time in order to reveal the changes in the cost to households of typical purchase needs. According to ICRIER report, the retail business in India is estimated to grow at 13% from \$322 billion to \$590 billion by 2011-12. In the same time the unorganized retail sector is expected to grow at about 10% per annum with sales turnover rise from \$309 billion in 2006-07 to \$496 billion in 2011-12.

Retailing is one of the pillars of economy in India and accounts for 35% of the GDP

**Activity 1.6**

*Write 5 critical statistics of the Indian Retail Market.*

*Visit Wikipedia: [<http://en.wikipedia.org/wiki/Retailing-in-India>]*

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sourcing and outlet operation decisions on a set of criteria that are relevant across the globe. Some of the strongest global retailers are, such as Wal-Mart, IKEA, Marks and Spencer's, Big Bazaar and some modern age retailers are having considerable success on a global basis, such as Tesco, B&Q, Carrefour etc. However, long distances, political and cultural complexities are huge challenges to retailers, which can only be overcome by the strongest contenders. International retailing activities have often stemmed from retailers seeing opportunities for formats that are underrepresented in new markets, such as the entry by the 'hard discount' supermarket operators (Aldi, Netto, Lidl) into the UK in the early 1990s and Vishal Megamart, Big Bazaar, Shoppers' Stop in India in the late 1990s.

**Activity 1.7**

(i) Visit You Tube and Watch Video [*Global Retailing – The world's power brokers*]. Write a brief summary in about 100 words.

(ii) Watch You Tube Videos: [Careers in Retail and Distribution and 10 Retailing]. List 5 major careers possible in Retail Industry

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## **1.7 EMPLOYMENT IN THE RETAIL SECTOR**

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The retail sector provides a great diversity in the millions of various jobs that it provides to the global workforce.

Although the wide variety of employment opportunities in retailing allows for a diverse application of skills and knowledge, the retail industry in the UK has traditionally found it hard to attract the best young people, and so in recent years new initiatives have been launched in order to build stronger relationships between education and retailing. Collaborations between bodies such as the British Institute of Retailing (BIR), the Distributive National Training Organization (DNTO) and the Department for Education and Employment (DfEE) aim to

provide the education and skills base for a world class retailing sector (DTI, 2000) and a basis for individual development in a challenging business sector.

In India also several business schools are offering MBA with Retail Management specialization. Several retail training establishments in private sector are coming up almost everywhere imparting basic retailing skills.

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## 1.8 A RETAILER'S POSITION IN SOCIETY

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As well as making a significant contribution to the economy, the retailer has always had a very important place in our personal and social life. From a very early age we are introduced to shopping environments, and they become familiar and comfortable places in which to spend time. As we get older we use shops as reference points when learning about the world and its opportunities.

We see some shops as places we like to be and others as places we 'wouldn't be seen dead in', whilst others might be intimidating or places that we aspire to shop in one day. Retailers therefore play an important part in our own development and the way we formulate ideas about ourselves. It is largely believed that shops have five distinctive roles in addition to the earlier identified function as breaker of bulk:

- ***Advertising and promotion.*** Shops introduce us to new products and remind us of old ones. Without shops, we would have to rely on other, often less suitable, media to discover what is on offer.
- ***Shops provide advice and guidance.*** Many shop staff are experts in their products and routinely provide relatively unbiased advice and guidance on what best meets each consumer's specific requirements.

- ***Shops negotiate and form contracts.*** Shops take the risk in what they sell, and in what they may value for part-exchange, thereby relieving those further back in the supply chain of many problems of quality, suitability, valuation and legality. For example, the shopkeeper decides whether the alcohol purchaser is over 18 or not.
- ***Shops take or arrange for payment and accept risk of default.*** Someone has to arrange for the secure transfer of funds, including funding any bridging period, and to judge which payment instrument provides the appropriate certainty of completion.
- ***Shops handle warranty claims and after-sales facilities.*** Shops provide the local points of responsibility when anything goes wrong and an entry point into repair and maintenance functions.

***Activity 1.8***

- (i) *Traditionally in India neighbourhood 'paanwala' shop serves as nerve centre to provide advice and guidance. Recount one such experience from your life.*

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Retailers also provide an arena for us to carry out social activities. We may go shopping with a group of friends for clothes, or with a partner for home furnishings, or with the family for a day out combined with a visit to the cinema. Alternatively we may go shopping alone, in the hope that we can talk to a product expert about a specialist purchase that we are interested in making. Commercially viable small shops have traditionally provided goods and services to local consumers, provided an outlet for local produce, provided local job opportunities and acted as the central hub of a community. In the future, they may need to develop their businesses to fulfil the needs of a 'modern society' by providing services such as prepared food and drinks, web ordering and delivery, social information provision and internet access.

Many retailers state that an important aspect of their business is that of contributing to society. Tesco, for example, may feel that by bringing high quality and a huge diversity of products from around the globe, in a clean and standardized shopping environment, they are making a valuable contribution to society and, many consumers clearly agree. However, Farmer's Markets offer customers a different set of values. Retailers also make contributions to society in other ways. For example, Body Shop were leaders in the field when it came to what many women would feel to be 'enlightened' yet environmentally conscious and B&Q have led the way in providing work to older employees.

### **Activity 1.9**

- (i) | *Watch You Tube Video ["Social Retailing"].*



**CASE 1.2****Hungry Kya vs. Vegetable Mandis**

In recent years, 'Hungry Kya' has become one of the largest food retailers in India. By 2009, 'Hungry Kya's share of the organized Indian food market was 13.5%, made possible by its pan-India presence of nearly 350 outlets. In fact, 'Hungry Kya' has also expanded to neighbouring countries such as Bangladesh, Sri Lanka, Nepal, Thailand, with some of their stores. Also it has few stores in New Jersey, USA and Ontario, Canada, where a large number of the Indian Diaspora reside. A typical 'Hungry Kya' store stocks about 10,000 kinds of food products and some additional offerings in the area of kitchen related utensils, cleaning agents and accessories. Its own private labelled products are an important part of their offerings account for nearly 60% of their sales. About 2500 new products suitable for the Indian taste and palate are being introduced year on year.

In contrast to this, retail behemoth, 'Vegetable Mandis' have been a traditional phenomenon in India over centuries. These 'Vegetable Mandis' provide an opportunity to small farmers to gain direct access to

local customers. This in fact also creates a unique social milieu where housewives, domestic servants, and small vendors create a social ecosystem with almost fanatical gathering. The majority of vendors or stall holders at these 'Vegetable Mandis' are mostly working out of home or are farm food producers within 50-60 kms. of the market. This assures customers about the source of the product and also gives them a feeling that they are supporting farmers in the local community to survive. -They also enjoy the experience of haggling and bargaining with these small vendors. By some estimates, such 'Vegetable Mandis' across India have estimated sales of Rs. 500 million (in 2008) as compared with 'Hungry Kya's' sales volume of Rs. 5 billion.

However, with growth of India's middle class and double income no kids (DINKS) families, it is the organized retail format that is gaining more acceptance and in large urban locales, the concept of 'Vegetable Mandis' is fading away, slowly and steadily.



nuts, etc. by Kamala Nair, a doughty Kerala woman who led her life fully and had visited many international lands. She was a globetrotter during her career as an international business development person with a leading Indian IT company. In the mid-90's, she gave up this nomadic life and settled down in Kochi, where she had grown up.

The produce range of 'Spice Exotica' has over 200 different varieties of dried fruits, herbs, spices, nuts and condiments. Her stores typically target middle aged and somewhat older people with predominance of female customers. For most of her customers, it is a trip down memory lane where they get a sense of nostalgia because it reminds them of their childhood and cooking done by their grandmothers, reminiscent of traditional Indian cuisine. Most of such basic exotic spices and gourmet items have vanished from large supermarket oriented food outlets.

The store environment of 'Spice Exotica' stores are in traditional Kerala House style with a natural wood feel, that helps to accentuate the natural feel of the products stocked by the store. The goods are largely packed in transparent packaging to protect their flavours and also depict their colour and texture to

the potential customers. It reinforces the pleasure of shopping by spreading out cushions and mats where potential customers can just sit or lie down and read old Indian recipe books. It in fact prefers to give touristy appeal and the new stores opened between 2000 and 2005 are near the seaside or in tourist towns like Goa, Ooty, , Kozhikode, Kochi, Alapuzha, etc. Some of the stores have also been opened in prosperous metropolitan areas like Mumbai, Delhi, Kolkata, Chennai, and located in some of the best malls there but still with the look and feel of the original Kochi store.

'Spice Exotica' is essentially an integrated organization with sourcing, packaging, distribution, all carried out in-house through self help groups of low income women for whom it is a source of livelihood. It is an opportunity for Kamala Nair to pay back to the society where she grew up. By 2009, the company had about 50 outlets and in March 2010 Kamala Nair was awarded the "Rising Star of Retail with Conscience" at the India Retail Awards function.

### ***Discuss point Case 3***

Comment on how retailers are creating store environments which present nostalgic memories for customers of the older generation.



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## **1.9 SUMMARY**

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Retailing is a vast and fast industry. It provides a diversity of size and character of business rarely encountered in other industry sectors. Retailers not only contribute to the general economy, but they are also part of the fabric of society itself. In this unit, the increasingly dominant role that the retailer plays in the distribution of products to consumers has been explored, along with the resulting evolution in the general structure of the industry. The modern retail industry provides a challenging arena for dedicated and multi-skilled managers, providing both financial and personal rewards that are only limited by an individual's ambition. This introductory unit has set the scene for further in-depth study of retailing, beginning with an overview of the more retail concepts retail formats that constitute the bulwark of retail management in the forthcoming units.

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## 1.10 REVIEW QUESTIONS

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1. Take an example of ice-cream maker 'Kwality Walls' and describe in detail their retail distribution channels.
2. 'Kaya Skin Clinic' has recently opened 100 outlets. What is the key to their successful retail formula?
3. Take a major brand like 'Reebok' and list various players in its Vertical Marketing System using figure 1.1 as a reference diagram.
4. List and describe 5 hot careers in retailing and the skills needed for them.
5. The awareness of the importance of retailing to smaller communities and the emergence of consumer support for new initiatives like Farmers' Markets and community-owned shops will help smaller retail organizations resist the onslaught of the larger mass market retail. Discuss.

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## **1.11 FURTHER READINGS**

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- Moe, Daniel J., (2007). Retail, The Art and Science. New York, NY: Xlibris Corporation.
- Levy, Micheal & Weitz, Barton A,. (2008). Retailing Management, New York City, NY: McGraw Hill.
- Fernie, J, Fernie, S. & Moore, C., (2005) Principles of Retailing. London, UK: Butterworth-Heinemann.

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## **UNIT 2: STRUCTURE OF RETAIL INDUSTRY**

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### **Objectives**

After reading this unit, the learner should be able to:

- Understand the dynamics and structural issues in retailing
- Understand the implications of market saturation and concentration aspects of retailing
- Appreciate diversity of retailing and the role of emerging technology

### **Structure**

- 2.1 Retail Industry Structure and Trends
- 2.2 High Provision and Market Saturation
- 2.3 Concentration Aspects of Retailing
- 2.4 Diversity of Retailing
- 2.5 Adoption of New Technology
- 2.6 Summary
- 2.7 Review Exercises
- 2.8 Further Reading

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## 2.1 RETAIL INDUSTRY STRUCTURE AND TRENDS

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Ever since the unshackling of the Indian economy in 1992, the service sector is taking a lead in driving the economy. Retailing has become an important wheel of India's growth engine. Today, after two decades of economic growth and development, the retail sector accounts for over 20 per cent of India's GDP and provides employment to more than 10 per cent of the population.

-The retail landscape in India has undergone tremendous change. Historically, a large part of retail was in the unorganized sector. But over the years there has been a distinct movement towards the organized way of retailing (as evinced in most dynamic and emerging sectors worldwide) with several players having entered the fray. As this is an industry that requires heavy initial investments in infrastructure, supply chain, technologies and inventories, and break-even has a longer gestation period, most players have not yet seen profitability. But the future does seem to be promising.

The markets are growing because India has a large youthful working population with a median age of 24 years. In urban areas, most families are nuclear and the percentage of working women has increased. Furthermore, economic and regulatory policies are becoming more favourable for the retail industry. India's booming IT sector is also creating technological innovation for facilitating operations in this sector. Modern retail has captured the imagination of Indians as cable/satellite television, through their lifestyle channels, have ignited the passion for modern retail. This has further been fuelled by real estate companies developing huge malls, large sprawling shopping centres and huge complexes which offer almost all kinds of entertainment and shopping and dining experiences under one roof.

In fact, customer buying behaviour of the new generation of Indians has altered the complexion of shopping in terms of formats and experience. Retail in India is today at an inflexion point where growth

of organized retailing is coupled with growth in consumption. These twin rockets are propelling the growth of the industry to hitherto unattained orbits. But one should be realistic about this growth story. It is important to learn from the experience of developed markets like the US and other G8 countries and re-look at structural issues such as:

- i) Consumer behaviour
- ii) Physical infrastructure
- iii) Existence of efficient supply chain mechanism
- iv) Trained manpower
- v) Technological changes
- vi) Societal impacts

Careful calibration of these parameters can help guide the future of retail in India.

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## **2.2 HIGH PROVISION AND MARKET SATURATION**

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The concept of “high level of retail provision” means that customers have a large number of choices in terms of retail outlets from where they can make purchase goods. Classically, a “retail provision” is a measure of density of retail outlets available per capita of population, in a well-defined and measurable geographical area. It is a metric which looks into the phenomenon of market saturation. However, the advent of non-physical retailing or *e-tailing*, the traditional way of computing “retail provision” does not provide a very accurate index.

In the matured and developed markets of G8 countries, in most product categories, retail provision is high, with multiple choices for the customer. In UK, for example, it is estimated that for every shopper there is a retail provision of two square meters. In India, because of the sheer size of its population and relatively less real estate under the organized retailing segment, retail provision is not even close to the figures prevalent in the West. However, in certain geographical areas, such as the famous Mall-Mile at MG Road,

Gurgaon, retail provision is quite high. In fact, for certain products and services categories a saturation point seems to have been reached.

A state of high retail provision and saturation is usually characterised by a highly competitive market scenario where players use manifold tactics to gain market share. These techniques (to attract customers) are a combination of, both, price and non-price orientation. Some of the ways in which retailers can try to garner market share in a high retail provision situation are:

- a. Be a "price warrior". Under cut competitors on the price at which merchandise is offered.
- b. Attract bargain hunters. These are the variety of customers who look for basement bargains for every product.
- c. Be a leader in customer services. Enthral the customer by sheer service experience.
- d. Offer an alluring shopping environment. Offer air-conditioned environments, hygienically maintained areas, and especially in India, the ease of vehicle parking.
- e. Provide an enticing product mix. Offer a more relevant mix of products based on social, demographic pattern of a particular trading zone.
- f. Offer more flexibility. Introduce late night shopping, early morning shopping, better credit terms, free home delivery, etc.

In a classical competitive theory, competition in the market place generally leads to new ideas and innovations. This is because competitors strive for a larger share of the customer's wallet by innovative approaches. But there is a downside as well. In a matured market, innovation sometimes gets stymied because competing organizations reach equilibrium in the market place which is difficult to dislodge.

**Activity 2.1**

(i) Visit [[www.economywatch.com](http://www.economywatch.com)] and look up indices of the retail market industry report. List 5 factors which support the statement that "The Indian Retail Industry is at an inflexion point".

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(ii) Study the fairly saturated product category of "green groceries" and the application of 7 differentiations and comment on their utilization.

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organized sector is in its nascent stages, the forces of market concentration are visible. There is a reasonable amount of market upheaval which has led to closing down of some retail chains such as Subhiksha. Some mergers and acquisitions have also taken place. A recent example is the acquisition of Vishal Mega Mart. However, in the foreseeable future, concentration is likely to happen in the departmental stores, electrical appliances and branded apparel categories.

### **Activity 2.2**

(i) *List 4 major departmental store chains in India.*

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(ii) *List 5 major Indian retail chains selling Electronic Appliances and Consumer Durables.*

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(iii) *List 5 major Indian food retailing chains.*

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The jury is still out on whether industry concentration brings advantages or disadvantages to the customers. The potential advantage, due to economy of scale and larger expertise in a particular category can result in lower prices for the customers. On the downside, smaller retail organizations get wiped out in this process of concentration. Also, a combination of high provision and market saturation tend to kill innovation among the predominant retailers, as they have no incentive to innovate. The following sections elaborate on these aspects.

### **2.3.1 Imminent Demise of the Independent Retailer**

One biggest downside of market dominance by few retailers is that smaller independent specialty stores get wiped out. This is obvious as the price levels and the variety of merchandise mix offered at the larger stores is not possible at the smaller stores. Sometimes, this leads to social upheavals and imbalances, especially in smaller towns and rural areas. This phenomenon led to closure of Reliance Stores in the state of Uttar Pradesh. There have been studies which have shown that opening of superstores in such locations have led to closure of independent retailers. This leads to a negative impact where relatively less mobile semi-urban and rural community members are deprived of local shops which also serve as their socialization hubs. However, currently, this phenomenon is not particularly visible in India, as retail penetration has not reached rural markets to that extent.



Classical wisdom shows that as markets become oligopolistic, there is a tendency for cartelization. This implies that the smaller competitors who are left to fend for themselves in a highly concentrated market may enter into arrangements with each other to keep prices inflated. At this juncture, becoming price warriors is not in their interest as it undermines their ability to generate higher profits. This certainly is not in the interest of the consumers. Even though one cannot wish away cartels, they have been around historically. The Government of India did bring out regulations under the Competition Act 2002 wherein such cartels started coming under the scrutiny of the Competition Commission of India.

### **Activity 2.4**

*How can concentration in the retail segment lead to price cartelization?  
Discuss with India-specific examples.*

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### **2.3.3 Lack of Innovation**

Another downside of a concentrated and saturated retail market is the barrier of entry for new retailers to join the fray. One major reason for this is that store properties in prime locations are occupied by dominant retailers based on long leases or actually ownership. Over

the years, because of their dominance, a sense of sluggishness creeps in and they tend to operate at less than optimum standards and space utilization is also often less productive. This means that exciting, new generation retail companies find it difficult to gain a toe hold in prime business spaces and high streets, such as Connaught Place (CP), one of the high streets of New Delhi, where the same set of retailers can be seen since the last 50 years! Many of them definitely lack innovation and new ways of retailing. Most of them continue to survive because they occupy prime space and customers in the vicinity often have no alternative options. But sometimes, such non-innovative retailers get shocked by competition when a nimble player enters a newly developed or redeveloped centre close by. But this is not necessarily the case in India as there is an abundant supply of premium retail space coming up through development of malls in new and accessible areas of the city. A case in point is the development of 'Select Citywalk' shopping mall at Saket in New Delhi, which now has metro rail connectivity as well.

### **Activity 2.5**

*Visit the Saga of Kaushlendra, an IIM-Ahmedabad alumnus who has opened Knids Green (a unique grocery chain) in Bihar.*

*[<http://rewn.wordpress.com/nothing-could-stop-htm>]. Comment.*

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## 2.4 DIVERSITY OF RETAILING

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The retail industry has always been a proponent of diversity. Formats are diverse, ranging from Mom and Pop shops to friendly neighbourhood stores to specialist outlets to large supermarkets or hyper markets. There is no 'cookie-cutter' approach to success in retailing. There have been examples of successful retail businesses run by a single person as well as those run by multinational corporations employing thousands of people. The nature of the segment is such that it is possible, even in concentrated sectors dominated by large organizations, that a nimble innovative player can exploit a strategic gap to find opportunities to develop retail business. One such example is the organic food market or market opportunities under the "fair trade" label. Today, with internet technology coming into dominance a new element of diversity has also been added - e-tailing or online retailing.

### **Activity 2.6**

Visit [www.youtube.com](http://www.youtube.com) and watch the video on Retail Technology Trends [<http://www.youtube.com/watch?v=jsimfrszrZU>]. List 5 major new technology areas that will impact retailing in a major way.

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## **2.5 ADOPTION OF NEW TECHNOLOGY**

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The adoption of technology in the retail industry has been rapid. The main driving force for this is that technology allows retailers to reduce costs and improve customer services. Barcodes and barcode scanners have revolutionized customer service in terms of reducing the merchandise checkout time drastically. A recent example is development of e-commerce in, both, B2B (Business to Business) and B2C (Business to Customers) segments, which has tremendously enhanced the efficiency of supply chain management.

Another disruptive technological innovation is internet-based retailing which is storming the bastions of traditional brick and mortar retailers. This in turn has led to development of web-enabled technologies by large retailers in hybrid formats leading to what is now termed as 'brick and click' methodology.

Technological developments that are underway are the integration of electronic appliances with retailers. A new technology being built by Toshiba is termed as 'Smart Refrigerator'. In a pilot of this project in

Japan, inventory of food products as they enter and leave the smart refrigerator is being monitored by retailers and as soon as quantities of bread, butter, etc., get diminished, a replenishment order arrives at the customer's doorstep. All this has been made possible by the magic of internet technology and embedded digital electronics.

All said and done, still there is nothing to beat the excitement and pleasure of shopping in the real world. This is because of the monotony of spending so many hours on a computer screen and mobile phones. Customers need some FQ (Fun Quotient)! Therefore, in the foreseeable future, physical retailing is definitely still going to be around.

**Activity 2.7**

- (i) *Discuss how RFID technology helps retailers in tracking and managing inventory as well as its role in curbing shoplifting and reducing pilferages.*
- (ii) *It is said that barcoding changed retailing forever. Comment.*

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## **2.6 SUMMARY**

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The retail industry in India is on a growth trajectory. However, as it enters the 'mature' phase, structure related issues will emerge, just as they did in the developed economies. The future landscape of Indian retailing should consider issues of high provision and market saturation, as well as concentration aspects, which can lead to certain debilitating factors. These factors include demise of independent retailers, price cartels and lack of innovation. New technology adoption by retailers has led to optimization, thus leading to cost cutting.

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## **2.7 REVIEW EXERCISES**

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1. Discuss how the working age population, the perceived 'demographic dividend' will drive Indian retailing in future.
2. Is Petroleum Retailing fast reaching saturation? Was this a reason for Reliance to close down its petrol pumps?
3. How does concentration lead to 'lack of innovation'? Discuss using Indian examples.
4. Why is physical shopping more interesting than online shopping? Will future generations have a different view?

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## 2.8 FURTHER READING

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- Akehurst, Gary., (2008). Retail Structure. New York, USA: Routledge.
- Rachman, David, J., (2008). Retail Strategy and Structure, New Jersey, USA: Prentice Hall.
- Walters, D. & Hanrahan, J., (2007). Retail Strategy: Planning and Control, New York, USA: Macmillan.
- Fernie, J, Fernie, S. & Moore, C., (2005). Principles of Retailing. USA: Butterworth-Heinemann.
- Levy, Michael & Weitz, Barton A., (2008). Retailing Management. USA: McGraw Hill.

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## **UNIT 3 RETAIL ORGANIZATIONS AND FORMATS**

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### **Objectives**

After reading this Unit, learner should be able to:

- Get insights into the retail organization and various formats used in retailing.
- Understand the concepts of independent, multiple, franchise forms of ownerships.
- Be able to differentiate between store and non-store formats.

### **Structure**

- 3.1 Introduction
- 3.2 Retail Ownership
- 3.3 The Independent Retailer
- 3.4 The Multiple Retailers
- 3.5 Voluntary Retail Group
- 3.6 The Retail Conglomerate
- 3.7 Franchisees in Retailing
- 3.8 Co-Operative Retailers
- 3.9 Retail Formats
- 3.10 Non-Store Formats
- 3.11 Summary
- 3.12 Review Exercises
- 3.13 Further Readings

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### **3.1 INTRODUCTION**

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Retail organizations come in a whole variety of shapes and sizes. Having defined the process of retailing in the preceding unit, the aim of the unit is to present the diversity of the retail industry in term of the variety of outlets used for the retailing activity. Retail outlets can be quite different in term of the ownership of the retail business itself, the characteristics of the premises used (the format) and the orientation of the product range. Some types of retailing have been with us for over a century, while new kinds of retail outlets emerge and develop, offering the consumer a constantly evolving choice of shopping arena which embraces an enormously wide range of businesses.

Many large retail organizations have branched off into alternative approaches to ownership, format and product orientation. It is a part of their growth and development. So, an understanding of the scope of each of these facets of the retailer is a starting point for becoming familiar with the retail industry as a whole.

In spite of the current growth in home-based shopping methods, shop-based retailing is still the predominant section of the retail industry. This Unit, which will essentially discuss types of retailers, will start by considerations, descriptions and examples of a variety of store formats. It includes department stores, variety stores, supermarkets, warehouse stores and specialist stores.

It will then discuss print-based retail offerings including mail-order catalogues and direct mail. The discussion will then move on to retailing methods that are based on technological applications. The

concluding part of the Unit will consider the evolution of the retail industry as a whole.

**Activity 3.1**

(i) *Take a mail order catalogue and discuss the offering it makes. Do you think online catalogues leap-frogged mail order catalogues which never really took off in India?*

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(ii) *What are the 5 major types of Retail Ownership?*

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[[www.retail.about.com/od/stortingretailbusiness/tp/retail\\_types.htm](http://www.retail.about.com/od/stortingretailbusiness/tp/retail_types.htm)]

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## 3.2 RETAIL OWNERSHIP

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One way of making a distinction between different types of retailers is by looking at the organization in terms of ownership and control. Most retail organizations can be placed into one of four categories, the independent retailer, the small multiple retailer, the large multiple retailer and the retail conglomerate. Other forms of ownership include Franchise, Dealership, and Network Marketing.

### **Activity 3.2**

*How is a Franchisee of Pizza hut different from Tata Motors dealership?  
List and discuss various dimensions?*

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### **3.3 THE INDEPENDENT RETAILER**

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An independent retailer is a small scale retail organization owned and managed by private individuals, with a network of less than 10 branch stores. Many independents are sole traders, or family-run business operation out of a single site. The store may offer a specialized product range, such as a butcher or a greengrocer, or a wide variety of product items as in a village store. They can be located almost anywhere; from single sites to shopping centers, and while the majority of independent retailers operate out of physically small stores, there are still a number of independent department store business in Edinburgh, which is run by the descendents of James Kennedy who managed the business in 1881, same holds true of Chandni Chowk and Sadar Bazar in Old Delhi where families still run retail business which were started in mid 1800's.

Independent retailers are often run by entrepreneurs who prefer to work for themselves and would feel vulnerable in adverse trading conditions because they do not have the financial support of a large organization. At one time independent retailers accounted for the greatest section of retailers operating in any market sector in the UK, however many have found it impossible to implement survival strategies, such as reoriented product ranges or niche marketing.

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### **3.4 THE MULTIPLE RETAILERS**

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Most 'high-street' retailers fall into the category of the multiple retailer, which is the term applied to retail organizations that have a central operational headquarters and a collection of branch stores under common ownership. Most, although by no means all, multiple retailers are public limited companies and are therefore owned by a collection of share holders to whom the directors of the companies are responsible. Private multiple retailers are sometimes family-owned and run businesses, and allow for a greater degree of personal operational control than in a publicly owned business. The size of the business will be related to the number of branch stores and the size of those stores. A small multiple retailer is one which runs between 10 and 50 stores, after which is termed a large retailer.

The multiple retailer is a term that can only really be applied to store based retailers, or to the store-based retailers, or to the store side of the business, and therefore this term may lose its meaning in the future as more retailers become multi format organizations. Nevertheless, the multiple retailer has been the success story of UK retailing in the later part of the twentieth century, resulting in a concentrated industry dominated by large and powerful corporate entities. Another term that is often used for a multiple retailer is a 'chain store'.



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### 3.5 VOLUNTARY RETAIL GROUP

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One way in which independent retailers have been able to fight against the might of the multiple retailer is by becoming a member of a voluntary retail group. Such groups operate in a variety of ways, but the main objective is to gain some of the buying power advantages of multiple retailers by collating orders from a number of independent retailers and negotiating with suppliers through a central buying organization. Members pay a subscription that may also cover the provision of additional retail services such as marketing and training. Some voluntary groups have a strong brand identity brought about by the requirement of members to trade under a common fascia and to stock a range of own-label products.

#### **Activity 3.4**

*Are Independent Retailers a dying breed? Support your answer with examples.*

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### 3.6 THE RETAIL CONGLOMERATE

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As retailers become increasingly powerful corporations, there has been a growing amount of financial organizational activity in term of mergers, takeovers, alliances and joint ventures. In many cases companies have been amalgamated under one retail brand, but in others separate brands or fascias have been retained with the holding company trading as separate identity, giving rise to the retail conglomerate.

A recent high-profile retail acquisition in the UK was the Wal-Mart-ASDA takeover in 1999. A key strategic decision will be whether Wal-Mart should retail the ASDA brand indefinitely and exclusively in the UK, and the extent to which the UK customer should be introduced to the Wal-Mart retail brand.

#### **Activity 3.5**

- (i) *India has a tradition of co-operative Retail Groups. Khadi Gramodyog and Indian Coffee House are examples. Discuss whether these can outlast FabIndia and Café Coffee Day*

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(ii) Is Reliance Retail a true Indian retail conglomerate? What challenges it is facing?

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### **3.7 FRANCHISES IN RETAILING**

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Franchises are operated on the basis of an agreement between two separate business organizations. One (the franchiser) provides a product and/ or a retail format, whilst the other provides the means by which an outlet is run. The franchisee provides the human resources and the finance required for the premises, is responsible for the operations management of the outlet and pays a royalty to the central organization. The problem with this type of organization is that the issue of ownership and control is often the cause of disputes between franchiser and franchisee. However, it does provide a method by which retailers can expand a successful formula very fast without the need for high levels of investment, and it offers outlet managers more autonomy as they are essentially running their own business. Franchising was used extensively in the 1980s by retailers such as Body Shop and Tie Rack to expand both domestically and internationally, although both of these companies have bought back a number of their franchised outlets in order to facilitate modernization programmes. Franchising is successfully used in the running of multiple food retailers such as McDonald's, Pizza Hut and Costa Coffee. In India, successful Franchises have been NIIT, APTECH in It education, Café Coffee Day and Barista in Coffee Bar segments.



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### 3.8 CO-OPERATIVE RETAILERS

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The beginnings of co-operative retailing in the UK can be traced back to 1844, when a group of men known as the 'Rochdale Pioneers' began a trade in grocery produce based on the 'new' principles of fair prices for reliable quality goods. A cooperative is managed on the basis that the customers of a business are also the owners of the business. Each customer is entitled to become a member of the co-operative society, thereby receiving in the UK reached its heyday between the world wars, when the co-operative movement accounted for 11 per cent of total retail sales and a quarter of the grocery trade. But the fragmented organizational structure has prevented timely reactions to changes in the retail environment. Also, the co-operative retail movement has literally been left behind in the face of strong competition. In some European countries, however, co-operative retailers emerged as leading players. In Switzerland, for example, the dominant retail concern, Migros, is run on the basis of a 12-region co-operative structure which includes hypermarkets, large and small supermarkets, and specialist stores in a number of non-food sectors.

#### **Activity 3.7**

- (i) *How do you think franchising is a good idea in beauty and looks business? Consider example of VLCC and discuss?*

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## 3.9 RETAIL FORMATS

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Many large retail organizations have grown using a particular retail format. The particular format used, to a certain extent, can be considered to be part of a successful strategy for that retailer, and by adopting a successful format and repeating it on a geographical spread, the retailer obtains economies of scale, efficiency and a strong identity. Therefore, an understanding of the different retail formats used is important for gaining an understanding of a successful retail strategy.

### 3.9.1 Store-based Formats

Even though stores are increasingly under threat from more recent retail format developments, they are still responsible for the major part of the retail trade, and so the different types of stores will be discussed.

#### **Activity 3.8**

*List as many retail formats as you can*

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[[www.axaptaretail.com/org/formats](http://www.axaptaretail.com/org/formats)]

### 3.9.2 Department Stores

Department stores are the oldest form of large stores. This format emerged in the early nineteenth century as a way of offering a collection of personal and home furnishings goods under one roof to the increasingly discriminating and affluent Victorian middle-class customers. They are still a powerful presence in today's retailing landscape, providing the focus for shopping centers around the world. A department store is a multi-level store (at one time six or seven stories were common, but today there tend to be from two to three stories) which are split up into clearly defined areas or departments according to product category. Any department stores offers width and depth in the product range so that almost every shopping need can be met, but other department stores concentrate on fewer (Table 3.1) categories and aim to offer a great choice within those categories.

Department stores in principal cities around the world are not only retailers; they also act as tourist attractions and sources of entertainment. Table 3.1 lists some of the famous stores around the world.

*Table 3.1*

World's Top Shops 2005
• Top Bookshop: Harvard Book Store
• Top Cashmere: Loro Piana
• Top Cheese: Murray's Cheese
• Top Chocolate: Jacques Torres Chocolate Haven
• Top Crystal: Waterford Crystal Visitor Centre
• Top Department Store: Harrods
• Top Duty-Free Shopping: Dubai
• Top Furs: J. Mendel
• Top Golf Clothes: Pringle of Scotland

• Top Jeweler: Life of Circle
• Top Lifestyle Store: Ralph Lauren
• Top Lingerie: La Perla
• Top Picnic Supplies: Fortnum & Mason
• Top Shoes (Men): John Lobb
• Top Shoes (Women): Manolo Blahnik
• Top Shotguns: Purdey
• Top Sporting Goods: Orvis
• Top Stationery: Cassegrain
• Top Tailor: Anderson & Sheppard
• Top Textiles: Soma Shop
• Top Ties: Hermes
• Top Tobacconists: JJ Fox and Robert Lewis
• Top Toys: FAO Schwarz
• Top Wine Shop: Berry Bros. & Rudd
<i>Source: Forbes.com</i>

Department stores have recently been through something of a revival. In the 1980s, many traditional stores found they were faced with stiff competition from increasingly sophisticated retail offerings from a growing list of specialist stores, particularly in fashion, their most important product classification. Many department stores were suffering from outdated shop-fits and ineffective operations and systems that gave an old-fashioned image. During the 1990s, leisure shopping and a fashion trend that favoured designer branded goods helped the department store sector back onto its feet, and towards the end of the 1990s, a number of department stores went through regional expansion.



### 3.9.3 Variety stores

Variety stores emerged as a store concept at the turn of the twentieth century, when Woolworths, an American store chain, opened their first store in the UK. It is the format traditionally used by Marks and Spencer and British Home Stores (BHS), and is a tried and tested formula. Variety stores are so named because they offer a large variety of goods under one roof, including both food and non-food items.

In terms of describing large stores, the boundaries of definition are becoming increasingly blurred. Some variety stores like the larger Marks and Spencer stores are becoming very much like department stores, as increased space allows the width and depth of the product range to be expanded. In contrast, some department stores traded down as a survival strategy in the late 1980s and early 1990s, leading to the evolution of the 'discount department store'. This format combines the product and brand choice of the department store with the low price orientation of the variety store, with service level and store environment lying somewhere in between.

#### **Activity 3.10**

- (i) *Would you consider Big Bazar to be India's equivalent to Wal-Mart? Give reasons*

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### 3.9.4 Specialist stores

Although some department stores might be considered specialist stores because of the restricted product range (for example Harvey Nichols) or the customer market that they target (for example Harrods), most specialist stores are smaller, in line with the size of the product range offered. The majority of stores found in shopping centres or central retail areas are specialist stores due to the distinguishing feature of one product area dominating the retail offer. However, a store that targets a narrowly defined customer market segment such as the left Hand Shop in Soho, London, can also be described as a specialist store.

Again, example of successful retailer that do not fit neatly into the defined terms can be found. Lilywhites is a large, multi-level store that specializes in sports goods, but has a store environment that is reminiscent of a department store. Planet Organic is a supermarket that only stocks organic foods, so this retailer crosses the boundary between a specialist store and a supermarket.

Specialist retailers are not restricted to the selling of products; many speciality outlets offer service products to consumers. Examples include fast-food outlets, cafes and restaurants, banks and building societies, repair centers and dry cleaners, hair salons, nail bars and beauty salons. Boots, for example has tried specialist services such as chiropody, dental and personal health care, facials, manicures and hair removal in its larger outlets, to complement its already established service offer in the Boots Opticians chain.



### 3.9.5 Category killers

The term category killer, which originated in the USA, describes the large specialist retailer that is typically found in an out-of town or edge-of-town retail park or site. The product range is geared to a restricted merchandise area, but the large size of store allows a very extensive selection within that classification. Comet, PC World, Toys R Us, IKEA, B&Q, Petsmart and Staples are all examples of this type of retailer. The stores are based on a one-level format and the economies of scale and inexpensive locations allow a value driven price offer. Many of the stores offer goods that satisfy complex needs (for example a computer or a carpet), and therefore specialist help is usually available, but the service orientation is relatively low.

#### **Activity 3.12**

- (i) *ARCUS, tried to be a category killer store for hardware items?  
But it got killed itself. Why?*

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### **3.9.6 Convenience Stores (C-stores)**

As yet, no official definition of a convenience store has been established although the following criteria generally apply to this format: self service, 1,000-3,000 sq ft selling area, parking facilities, open 7 days a week for long hours, a wide range of goods, but limited brand choice, including groceries, CTN (confectionary, tobacco and newspaper) products, toiletries, OTC (over-the-counter) medicines, alcohol and stationery. Other products and services that might be offered are take-away foods, toys, video hire, film processing and petrol.

It make the distinction that small, local supermarkets which only open during normal shopping hours are not C-stores, but the term could include a local 'corner' shop, a petrol forecourt shop, a shop at a travel terminal, as well as a clearly defined convenience store on a major route (such as Six 10, or Apnastore). The convenience store Concept has been the saviour of many small retail businesses who have seen their trade taken away by large grocery orientated multi-outlet retailers. By adapting to provide an emergency, impulse purchase and top-up service, many small retailers have found a living with a product range that is reoriented towards convenience.



### **3.9.7 Supermarkets, superstores and hypermarkets**

Supermarkets, a store concept imported from the USA in the twentieth century, have been a highly successful retail format. The real advantage that the supermarket offered the customer was self-service, and therefore a much faster method of shopping. Instead of requesting products over a counter, the supermarket allowed the customer to get involved with the product prior to purchase. The ability to peruse the product offering, try new products and impulse purchase, appealed to the increasingly affluent postwar customer. In addition, the space and labour-saving factors allowed retailers to offer a wider choice of product at lower prices. The supermarket was therefore quickly adopted as the principal method for acquiring 'every day goods'. Supermarkets now dominate the retail industry; they have grown into superstores, offering more and more products, adapting changes to provide the most convenient method of shopping for the majority of household goods for the majority of households.

Supermarkets, superstores and hypermarkets can be considered in the same 'family' of retail format, in that the stores are self-service, usually on one level and laid out in a functional grid pattern of aisles and shelving. Supermarkets are the smaller variant, usually located in a town centre or neighbourhood location, with a product range that concentrates on food and household consumables. Superstores are 25,000 square feet (approximately 8,000 square meters) or more, are usually in an edge or out-of-town location, and they have an extended product range featuring product categories such as clothing, home furnishing and home entertainment goods (for example ASDA and - Casino). A hypermarket is a huge retail outlet (over 50,000 square feet) in a out-of-town location, which offers an extensive range of



### **3.9.8 Warehouse clubs**

A warehouse club is a retail outlet that stocks a limited range of grocery and household products, some home-oriented goods and some clothing products (usually 3,000-4,000 product lines). The distinguishing feature of a warehouse club is that you have to become a member to shop there. Prices are low, and the store environment is extremely basic. Most warehouse clubs operate in a similar way to a cash and carry outlet in that the goods have to be purchased in larger quantities, but some (for example Costco), allow customers to purchase smaller quantities of some lines.

### **3.9.9 Catalogue shops**

The best-known examples of catalogue shops (sometimes referred to as catalogue showrooms) in the UK are Argos and Index. These are the store-based outlets for the product ranges of catalogue retailers Argos and Littlewoods. Very little product is displayed in the outlet in comparison to the range as a whole, but the catalogues are available for customers to browse through if they wish to. Having specified the product and made a payment, the customer waits for a short time while the product is retrieved from a stockroom attached to the 'showroom' or store front. If the customer wishes, they can arrange for the product to be delivered to their home. In today's era of flexible shopping methods, the catalogue shop is a cost-effective way of providing a 'high-street' outlet. The format, however, introduces some problems in terms of product interaction and display, because of the reliance on the catalogue for representation rather than 'real' products.

**Activity 3.15**

*Why in India, Catalogue Stores never got developed? Is it Indian psyche of 'look and feel' and then buy the reason? Comment.*

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**Activity 3.16**

*Would the Bharti-Wal-Mart tie up bring a true discount store to Indian retail space?*

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### **3.9.10 Discount Stores**

Defining a discount store is not an easy task, because the key characteristic is the price of the merchandise, which is subject to individual customer perceptions. However, there has been a growing interest in the 'discounter' approach to retailing, fueled by its popularity in the USA. A discount store is a retailer that sells merchandise at a price level that is lower than 'typical high-street stores'. A discounter uses an everyday low pricing policy, where prices remain constantly low, rather than a high-low pricing policy where prices only drop at promotion times.

Discount stores are sometimes run on the basis of a product range geared by opportunistic buys by the retailer, or they have planned ranges, sold with an unusually low profit margin. Discount stores can be small, such as Pound stretcher in the UK, or they may be large departmental stores, like T. J. Hughes or T. K. Maxx, whilst some of the most well-known discounters are supermarkets, for example Aldi, Netto and Lidl. Discount stores can be extremely minimal in terms of store environment and service, but a synthesis of the discounter and the specialist chain store has emerged in the form of the value retailer, who combines carefully planned product ranges, good service and store layout with an everyday low pricing policy. Examples of emerging strong players who have adopted this type of format are Reliance, West Side, Trent and Raymond's in the clothing sector.

### 3.9.11 Factory outlets

A close relative of the discount store is the factory outlet. Factory outlet retailers offer customers a range of seconds-quality and/or previous season's goods. It gives manufacturers and retailers an opportunity to sell off unwanted merchandise without damaging the image of the main product or retail brand, and allows accessibility to customers who might not normally be able to afford the brands, or who are motivated by bargains. Factory outlet may be single-site retailers, or they may be located on one of the growing number of factory outlet villages.

#### **Activity 3.17**

*Factory outlets have now become popular especially if factory adjoins a major Highway? List 5 examples of factory outlets you see on National Highways in India.*

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### **3.9.12 Charity shops**

Charity shops are usually run on the basis of selling stock that has been donated, although some, for example Oxfam, also have a range of specifically sourced products. Charity shops are often located in the 'quieter' areas of major cities or towns, or in smaller town or local precincts. The charity retail sector has grown considerably over the last decade or so with the more 'professional' approach to organization and outlet operation adopted.

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## **3.10 NON-STORE FORMATS**

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The opportunities for consumers to purchase products using a method that does not include a store at all have increased dramatically in recent years. In particular, growth has been significant in direct mail retailing and internet retailing. The great opportunity is to offer the consumer a higher level of convenience in the shopping process, in that shopping can be done at home, or in the case of internet shopping, from the office or via a handheld device.

### **3.10.1 Mail Order**

Mail order retailers rely on printed media as the basis for their format. Catalogues are sent to consumers who order from the catalogue either by telephone, by post or online. In agency mail order, the consumer is offered the chance to order on behalf of friends and family, and to obtain a commission those sales, but increasingly catalogues are issued on a direct basis whereby customers simply order for themselves and their families. In the UK there are a small number of large players who dominate the catalogue retail sector (Great Universal Stores, Littlewoods, Grattans, Freemans, Empire Stores, and N. Brown).

The rest of the mail-order sector is made up of an increasingly wide variety of specialist retailers who issue smaller catalogues to consumers via the postal system, or as enclosures with other

publications. Mail order also includes printed media-based advertisements that rely on consumer response for the transaction to be completed.

**Activity 3.18**

*Mail order never took off in India; will online order be a success?*

*Comment!*

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**Activity 3.19**

*Direct selling has been a mixed bag as far as success is concerned.*

*Comment.*

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### **3.10. 2 Direct selling**

Direct selling is the term used to describe one-to-one proactive offers from producers to consumers, and may take the form of direct mailing (to individual consumers), telesales, and personal retailing. It would also include any approaches made to individual consumers via the internet. Direct mail is increasingly being used as part of a direct marketing strategy that builds on one-to-one relationships between goods and service sellers and their database captured customers.

### **3.10. 3 Personal Retailing**

Personal approaches are perhaps the oldest form of retailing, grounded in the activity of the 'peddlers' who travelled from house to house with their wares. Door-to-door selling is rarely seen nowadays, but more organized approaches to direct selling have emerged. The party-plan formula is one example of this type of retailing, used successfully by companies such as Bettaware, Vie and Ann Summers. Another example is pyramid selling, used famously by Amway cleaning products, where sellers not only earn commission on sales, but also on the people they persuade to join the organization.

### **3.10. 4 Technology-based Retailing**

Like most aspects of life, retailing is heavily influenced by technological developments. The ways in which technology has changed retail operations are discussed in a later retail technology unit, but these are generally concerned with the improvement of the service that traditional retail formats can offer to the customer. The issue that is currently uppermost in every retailer's mind is the impact that

technology is having on the shopping process itself. We are beginning to experience a fundamental change in the way in which we shop, and this change is being driven by technology.

### **3.10. 5 Vending**

The oldest form of technology-based retailing is vending. Vending machines first appeared in the USA in the 1880s selling gum to New York City travelers and have since grown increasingly sophisticated as technology has improved. In 2005, vending accounted for over £1 billion of retail sales with clothing items (hosiery and jeans) being added to the growing list of convenience products sold in this manner.

#### **Activity 3.20**

*Why vending Machines could not succeed in a big way in India?*

*Vandalisation of vending machine is a great risk? Discuss in brief these two issues.*

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### **3.10.6 Telesales**

Another well-established method of retailing that is based on the application of technology is telesales, where product offerings are made by a personal telephone call from a seller to a consumer. Regarded by many as intrusive, telesales has a further, serious disadvantage of not being able to provide any product representation, and therefore its usefulness in many product categories is extremely limited. However, the telephone is a common method of consumer response to non-store retail offerings and so with call centers playing an increasingly major part in many retail transactions, the telephone is an important part of both inward and outbound communications between customers and retailers.

### **3.10.7 TV Shopping**

The earliest form of shopping via the television was by means of information provider networks such as Ceefax in the UK. This method of retailing suffers from the same product-presentation drawback as telesales, but has been useful for services retailing (travel, entertainment, insurance) when the product is intangible, information-based and the price offer is variable. More recent TV shopping developments have used the three-dimensional visual representation abilities of a screen image to provide dynamism to print-based retail offerings, first in the form of videos, and soon after in the form of a shopping channel, QVC, which was launched in 1983. One of the difficulties of programmed retail offerings is the need to provide the



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### **3.10.8 Internet Retailing**

As a sophisticated and interactive medium, the internet accessed by personal computer is showing every sign of being accepted as a mainstream shopping mode by an increasingly computer-literate society. Using the internet to access information has been accepted as part of everyday life for many sectors of society, and in the process of shopping it has become very useful to customers as a way of accumulating information about retailers' product and service offerings in a relatively fast and convenient manner. As a way of accessing specialist retailers that might be geographically remote from consumers, the internet provides a channel of discovery for the consumer, and a way of providing home shopping services for a wider target market for the retailer. The internet is also an efficient home-shopping device, enabling time-poor or less mobile consumers to order and take delivery of routinely purchased items such as basic groceries and household items.

Irrespective of the way we access the e-retailer, whether it is via the PC, the mobile phone or the hand-held personal organizer, consumers increasingly expect retail organizations to be able to offer flexibility in terms of information gathering (to supplement pre-sale shopping), purchase transaction, and taking delivery of the product or service (post-sale activity). By using a number of different retail formats, retail businesses are better able to allow consumers this flexibility. Most large retailers in the UK now fall into the category of the 'multi-

channel' retailer, which is a term used to describe the strategy of using more than one 'route' to consumer markets. Typically, the multi-channel retailer runs stores and has a transactional website (the so called 'clicks-and-mortar', or 'clicks-and-bricks' approach), but other combinations might be stores/catalogue, stores/catalogue/website, stores/website/ direct mail. Offering alternative ways to shop may encourage customers to remain loyal to a favoured retail brand as lifestyles change, but it can also present retailers with new operational and competitive challenges.

**Activity 3.22**

(i) *In India several Specialised Pharmacy store have emerged?*

*Give Examples.*

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(ii) *Do you think this category will succeed in India?*

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### 3.10.8 Generalist and Specialist Retailers

Another way in which a retailer might be viewed, whether they use stores or any other format, is according to their degree of specialism. Many retailers, such as supermarkets, could be considered as generalists who supply a relatively wide range of products to satisfy a large number of consumer requirements. Other retailers, however, offer a range of products that satisfy a particular or narrowly defined consumer need, and could therefore be considered to be specialist retailers.

Specialist retailers, whether they are a clothing specialist such as River Island or a computer games specialist such as Game, only offer the consumer a limited number of product categories. However, the depth of product variation within those categories is great. A generalist retailer offers a large number of categories of merchandise, but little product variation or brand choice within each product type. A neighbourhood supermarket, for example, will have a product range which is wide enough to satisfy the majority of basic consumer needs, but does not have the space to offer the brand and product variation in terms of flavour, colour and size that a superstore can. Superstores, like department stores, offer both depth and width in their product range and so cannot be easily classified as generalists or specialists. A small number of retailers successfully trade with a narrow and shallow product assortment. Travel kiosks illustrate this type of approach.

The largest sector is the mixed retail (non-specialist) sector into which many of the largest retail organizations fall. This is because many of the more successful retail players have reached their dominant position by extending their product ranges into more and more categories. All of the following retailers are classified as non-specialist, and therefore could be seen to be taking a generalist approach to their product offerings: Marks and Spencer, Argos, Woolworths, W. H. Smith, BHS.

A difficulty with the generalist/specialist approach to retail classification is that some retailers specialize in part of their product range, but adopt a generalist approach to others. Boots, for example, specializes in pharmacy, health care and beauty products, but adopts a more generalist approach to household goods and stationery. Petrol fore court retailers specialise in products for the motor vehicles, complemented by a range of general groceries.

**Activity 3.23**

*India typically had a term 'General Store'. Are we ready to move towards specialist store? Discuss*

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### **3.11 SUMMARY**

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The different approaches to classifying a retail business point to the complexity of the retailing industry which includes many variations of store-based and non-store-based forms of retailing, different forms of ownership and varying degrees to which retailers offer specialization in their product ranges, was discussed in great detail in this unit.

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### **3.12 REVIEW QUESTIONS**

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1. Compare and contrast various kinds of retail ownership?
2. Is demise of independent retailer imminent? Or a few can have survival strategy. Discuss
3. Which are fast emerging Retail Conglomerates in India? Do you think they will break-even in near future?
4. Differentiate between supermarket, super-store and hypermarkets?
5. Write a short note on Technology based Retailing.

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### **3.13 FURTHER READINGS**

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- Morgan, Gareth., (2008 ). Images of Organization. CA, USA: Sage Publication.
- Carthage, Phillip, I., (2007). Retail Organization and Accounting, USA : Cornell University Library's Reprint Kit.
- Fernie J, Fernie, S. & Moore, C., (2005). Principles of Retailing. Burlington MA, USA: Butterworth-Heinemann.
- Levy, Michael & Weitz, Barton A., (2008). Retailing Management. USA: McGraw Hill.

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## **UNIT 4    CONTOURS OF INDIAN RETAIL MARKET**

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### **Objectives**

After reading this unit, the learner should be able to:

- Understand various contours of Indian Retail scenario
- Appreciate the benefits that Organized Retail brings to customers
- Comprehend the implications of various challenges faced the Organized Retail in India to gain its further development.

### **Structure**

- 4.1 Introduction
- 4.2 Benefits of Organized Retail
- 4.3 Organized Retailing in India
- 4.4 Challenges to Organized Retail Industry
- 4.5 Summary
- 4.6 Review Questions
- 4.7 Further Readings

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## **4.1 INTRODUCTION**

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In India, the development of consumerism is a rather unique phenomenon. In direct address with China, whose growth has largely been investment driven, the economic development in India has been driven by consumption factors. Ever since 1992, with the economy was unshackled, there has been a rapid growth of Indian middle class. The new generation of middle class who are largely professionals engaged in service sectors, are unlike their parents who tend to save for rainy days. This new class is impetus and wants things here and now; and therefore, riding a never ending shopping spree.

According to a study by McKinsey Global Institute, India is likely to join the premier league of the world's consumer markets by 2025, leading to improvements on its current 12<sup>th</sup> position to 5<sup>th</sup> position.

History shows invaders came from various foreign lands in the past in search of riches, as India was then known as 'gold bird'. From last few decades of economic growth, the new invaders which are the Organized Retailers of the world are coming to India to have a share of Indians' wallet. This is reflected in the great Indian shopping

bazaar where customers are lapping items such as “white goods”, mobile phones, notebooks, fast food, luxury goods to name a few. In fact, the list is never ending.

This metamorphosis of India is also depicted by growth numbers in sectors such as Aviation, Tourism, Hospitality, Retail, FMCG (Fast Moving Consumer Goods) and Telecommunication. This has given Organized Retail a clocking growth rate of about 30 per cent per annum. One of the major drivers of this is “the FMCG sector”, which is likely to triple the size from \$11.6 billion in 2003 to \$33.4 billion by 2015.

The consumption, by the Indian middle class companies, are carrying out with low prices of products, economical tariffs, low interest financing option and many other marketing gimmicks to net more and more buyers.

A great example of this is the predominance of low cost airlines which has revolutionised the air travel segment. (In between 2006-08, we saw a tremendous growth ranging around 20 per cent in airline passengers) Similarly, by lowering of mobile telephone tariffs, the mobile penetration in India has been phenomenal. Currently, Indian mobile phone subscriber base is around 200 million, with about 5 million subscribers added every month.

Further, India has adopted the Mall culture with vengeance. It is visible largely in metropolitan cities and other B class towns.

**Activity 4.1**

(i) Why do you think that in recent times Indian middle class has shed its 'saving mentality' and adopted 'spending attitude'?

List a few critical reasons.

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(ii) India has been a great market for "Cellular Phone Services" and consumer of "mobile hand sets". What have been drivers of mobile telephony revolution in India?

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(iii) Visit You Tube. View the set of videos under selection "Great Indian Retail Story".

List 5 important issues highlighted by the presenters?

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*(iv) What is the concept of 'demographic dividend'? Do you think that retail sector is utilizing this concept to the hilt? Explain.*

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*(v) Can you draw a parallel sketch of the phenomenon of 1970's Baby Boomer Generation in the USA? Did they also fuel retail growth in USA?*

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Currently, the demographics of Indian population is heavily biased, as over 900 million people are below the age bracket of 45 years. Such a young and vibrant population with paying capacity leads to a great retail opportunity. It is the one force that has

taken India to the big league, making it a potential economic powerhouse.

As a result of economic growth, household incomes have risen at a fast pace. As per an NCAER study "The Great Indian Middle Class", in 1995-96, barely three per cent of population used to earn above \$4,877 (Rs. 2 lakh) per annum. In 2002-3, that proportion rose to six per cent (or roughly 60 million people) and today, it is estimated to be around 100 million. By 2011, this number should rise to around 150 million, with roughly 10 million earning over \$24,384 (Rs.10 lakh) and more.

"India's continued high growth rate, since 2003, represents a structural increase rather than simply a cyclical upturn," says a recent Global Economics Paper, brought out by Goldman Sachs India. The recent growth spurt is achieved primarily through a surge in productivity and is sustainable. As per this report, India's contribution to world growth will be "high and increasing." India's GDP (in dollar terms) could surpass that of the US before 2050, making it the second largest economy after China, it says.

The change in consumer mindsets in the post-liberalization era has been drastic. In the pre-liberalization era, most Indian households saved for a rainy day. Today, the Indian consumer thrives on loans and credit cards. With a job scene that is booming, a host of avenues are open to even college students. Retail chains, BPOs, KPOs, mobile phone companies, data processing firms have all contributed to the job explosion. This has a multiplier effect, in the sense as new jobs get

created, it leads to growth of disposable income, which in turn fuels the growth of retail markets.

**Activity 4.2**

*Has employment of youth in BPO sector helped to fuel consumerism? If so list a few reasons.*

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With the growth of India, there has been an upsurge in growing consumerism. With upward moving class in India (taken at average annual salary Rs. 1.million) growing to 140 million by 2011, definitely propensity to spend will increase. With rising income, the shape of the country's

income pyramid will also change dramatically. “Over 291 million people will move from abject poverty to a more sustainable life, and India’s middle class will swell by more than ten times from its current size of 50 million to 583 million people by 2025,” says a recent study *‘Bird of Gold’: The Rise of India’s Consumer Market* – brought out by McKinsey & Company. By 2025, over 23 million Indians will be more than the population of Australia today are expected to be numbered among the country’s highest networth individuals<sup>1</sup>.

With rising incomes, aggregate consumption in India is expected to grow four-folds in real terms – from \$420.7 billion in 2006 to \$1.73 trillion in 2025. India has entered a long-term virtuous cycle in which rising income leads to rising consumption which, in turn, creates more business opportunities and employment; thereby further fuelling GDP and income growth. It is believed that India is going to be next economic powerhouse<sup>2</sup>.

One of the benefits of Organized Retailing is the economic benefits that percolate down the chain. If we take case of agro-commodities; the organized activity not only eliminates the middle man but also leads to creation of robust infrastructure like grain warehouses and cold storage chains. This provides to better prices to agro-producers for their produce, yet the customers get at lower prices, because of the margins savings of middle man.

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<sup>1</sup> India Brand Equity Foundation

<sup>2</sup> lbef.org



Corporatization of retail has also accounted resistance in India. It is probably the Indian mindset that looks into privatization or corporatization with a suspicion of making great profit. In many ways, it is similar to the restriction in futures' trading in commodities because a large section of Indian consumers thought that it would lead to increase in prices on day to day food items. Same arguments are being put forward in organized corporate retail. In some states like Uttar Pradesh, due to vote bank pressure, organized food chain of Reliance and others have been closed down.

Another anti-opinion against corporate retail is the premise it would lead to loss of livelihood for small traders, particularly in grocery items and day to day home used items. In a country as large and populated as ours, these tirades snowball and become a social issues though irrational movements. Therefore, it is important to realize the Indian psyche which is hugely change-averse. We, as a nation, are comfortable with status-quo. This perhaps was the reason that our economy grew only 2 to 3 % in the days prior to liberalization and had come to be known in economic circuits as the "Hindu Rate of Growth". However, by the late 90s this thought changed. The phobia against organized retail would also end accordingly.

#### **4.1.1 Fear of Competition**

Another interesting aspect is that, we as a nation are, always greatly scared of competition. Perhaps, it is our socialistic mindset that performs a protected regime. Competition always requires a high order performance which most of us rather

under deliver. Yet another interesting aspect of competition is that it changes the balance of power wielded certain entrenched groups. For them, it is their toppling off from perch of comfort and power. In retail scenario, these can be middlemen, aggregators or some old established trading houses. Further, the irony is that we perhaps have the legacy of long British Rule; do not like transparency. Obviously, if the systems are not clear and mandatory discretion not observed, it results to undue profits. An interesting example of this is our PDS (Public Distribution System) which also got shaken by organized retail and some well entrenched minor bureaucracy might get impacted. Another idio-synergy is as nation, we always say that our system do not work; but we always try to bent the rules to achieve benefits for ourselves. Therefore, the systemic working of organized corporate retail makes us jittery. Several social activists exist in our society only to block progressive move. They use irrational arguments to put blockage in such developmental activities. Such movements are immediately pounced upon by political parties to suit their own political benefit. Therefore, it is important that we must, as a nation, as a society, change from these deeply rooted attitude and move away from the shackle of the past. In fact, our new generation is far more progressive and competition savvy. We do hope they will act as catalyst for new age retailing.

#### **Activity 4.4**

(i) *Why have there been protests against Organized Retail?*

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*(ii) What are the socio-political issues at work?*

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*(iii) What is the factor that is most responsible for slowing down Organized Retailing in India?*

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## **4.2 BENEFITS OF ORGANISED RETAIL**

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At the outset, let us look into the concept of organized retail. After that we will dwell on what benefits does it bring to economy and quality of life.

The concept of organized retail implies that there are well defined players viz. producers, vendors, suppliers, customers and service providers. The players interact with each other with predefined and organized processes, resulting in overall efficiency in the buying and selling value chain with benefits accruing to all the players.

One of the outcomes of organized retailing is truncation of value chain and elimination of intermediacy layers, resulting in key economic benefits to bulwark of this process viz. both the producers and consumers.

Therefore, benefits that accrue due to Organized Retailing can be enumerated as follows:

- i. Better prices to producers (i.e., farmers, manufactures, craftsman) as intermediaries are eliminated from the process.
- ii. Better prices to consumers as large retail chain leverage economy of seals to drive larger discounts from producers, and therefore, able to offer lower prices.
- iii. Creation of better infrastructure (e.g., shops, stores, warehouses) leading to better storage and display of products, enhancing consumer's experience.
- iv. Job creation across the value chain (e.g., sales people, storekeepers, IT support, and transporters) thereby, opening up multiple employment opportunities of newer kind.
- v. Tax revenue optimization for Government and municipalities as all taxes and levies are paid across the chain with fewer avenues of avoidance.

#### **Activity 4.5**

(i) *What are the major benefits of Organized Retail? List a few important ones.*

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[\[www.pwc.com/in/en/pressrelease/population-pyramid.jhtml\]](http://www.pwc.com/in/en/pressrelease/population-pyramid.jhtml)

*(ii) One of the biggest challenges in Indian social milieu is preservation of demise of small retailer/shopkeeper. What could be a solution to this?*

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**4.2.1 Small Retailer and Large Chain Link-Up**

It must be understood that the so-called 'hole-in the wall' or 'neighbourhood stores' have symbiotic relationship with Indian households. This is because such stores have traditionally been offering following value added services which have led to such a deep rooted loyalty towards the:

- Great facilities
- Availability of small quantity purchasing
- Free home delivery
- Customized services
- The proximity of location

However, there is a possibility of win-win situation that small retailers join hands with the large retail chains. This can lead to a larger presence, through franchise operation, using such a neighbourhood retailers as their franchisee. This would enable large retailers a larger footprint, yet the neighbourhood stores will not lose their livelihood option.

#### **4.2.2 Trader-corporate link-up**

In the recent times, large corporate organizations which are manufacturers as well as operate their own chains are getting associated with small retailers. The mechanism of such relationship is that such associated retailers get merchandise almost at same price levels as those provided to large retail conglomerates. What such small traders do is that they give more focus on display of products of such manufacturers on their shelves.

In an emerging scenario, a concept of value added reseller is developing. In such a mechanism, small self employed vendors can become partner employees of large food retail chains and operate small kiosk through their traditional places. As described earlier, local store owners can also become franchisees and offer more consistent products to their end customers.

As we move towards more organized form of retailing, grass root level resistance becomes much more prominent. The reason is the vote bank politics and its impact often claims organized retail as its victims. Ultimately, we must look beyond parties interest and look for building a more prosperous and developed nation. In this movement, organized retail will definitely play a great role and it is bound to happen.

#### **4.2.3 Higher resistance**

Opening up the retail sector is akin to killing the proverbial 'holy-cow' of economic reforms. The problem is immense as the sector has been traditionally unorganized. The organized retail sector's adaptability to reforms has been better, though initially, even at this level, there were issues regarding adoption of reforms.

Once we move to the unorganized sector, the level of resistance increases. Further more, there is already talk of foreign investment in this sector and the 'vote-bank' politics, becomes a more vulnerable target as that it impinges upon Organized Retail.

However, there are viable solutions, as described earlier, if we are willing to look beyond narrow interests. We should consider them rather than impeding the retail revolution that is bound to happen.

#### **Activity 4.6**

*What are the reasons for capping FDI in organized retail?*

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*[<http://toostep.com/topic/should-there-be-cap-on>]*

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### **4.3 ORGANIZED RETAILING IN INDIA**

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Some estimates put Indian retail industry at the fifth position for worldwide packing order. It largely comprises of unorganized sector, however over the last decade Organized Retailing has made major in-roads. This has happened due to several reasons, some of them are:

- i. Higher disposable income.
- ii. Change in taste and preferences of consumers.
- iii. Global exposure to majority of Indians thorough satellite television.
- iv. Entry of large Indian corporate in the fast growing retail sector.

It has resulted in scorching pace of growth of this industry pegged at 25 -30% annually. In fact, it has tripled the size from Rs.35,000 crores in 2004-05 to Rs.110,000 crores in 2010-11. This is corroborated by the 8<sup>th</sup> Annual Global Retail Development Report of consulting firm AT Kearney which prognoses that retail trade share has risen from 12% of GDP in 2009 to 20% plus in 2010. Another report from Northbridge Capital share of Organized Retailing in India has grown to 20% of the total retail market in 2010 from 7.5 % in the year 2007. This data implies that Indian retail industry is also on a similar trajectory as of the more developed world where organized retailing is a way of life.

The changing altitude and preferences of Indian consumer and growing acceptance of more advanced retail formats has tremendously improved the attractiveness of this segment. It has advanced the movement into this sector by several large Indian corporate. In fact, Indian retail market is considered to be the second largest in terms of

growth potential, as likely to receive investments of the order of Rs.200 billion by the end of 2010.

Initially, the majority of organized retail boom (of the order of 85%) was largely in big metropolitan cities. Over the years, it has been percolated down to smaller cities and tier II towns. This is a very positive trend for the industry which expects 20-25% of retailing growth to come from this segment.

The categories that are most amenable to Organized Retailing are as follows:

- Food and grocery
- Consumer electronics
- Home solutions (furniture, appliances)
- Health and beauty care (medicine, cosmetics)
- Apparel and clothing (branded and private labels)
- Books, music and gifts
- Entertainment (multiplexes, bowling alleys, game zones)

The following are the major organized retail groups:

### **Future Group**

One of the biggest retailers in India with more than 450 stores across the country, is active in almost in all the categories listed above. Some popular stores are like Big Bazaar and Pantaloon.

### **RPG Group**

This group is one of the early entrants in Indian retail market with Spencers' chain in South India. Today, it has major foray in grocery and food through Foodworld stores.

It also has beauty and pharmacy stores under brand name of 'Health and Grow'.

**Tata Group**

Another respected group has entered into retail market with subsidiary Trent with store brands such as Westside for apparel and Star India Bazaar.

**Reliance Group**

Reliance has emerged as the biggest player in Indian retail industry. With 300 Fresh stores and Marts, Reliance has gained great popularity among Indian retail firmament.

**AV Birla Group**

This group also has strong presence in Indian apparel trading. It has rights for India for great brands such as Louis Phillipe, Allensolly, VanHeusen and Peter England. This group has launched 'More' as retail grocery store.

**Activity 4.7**

*(i) What are the imperatives for next growth frontier of organized retail in India?*

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*(www.tsmg.com/download/article/TSMG-Review-June2006)*

- a. Visit You Tube and watch video Gurgaon Shopping Malls. Comment why India's youth is embracing mall based shopping. What other advantages malls offer?*

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#### **4.4 CHALLENGES TO THE ORGANIZED RETAIL INDUSTRY**

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It is important for all of us to look into certain aspects which would be important to drive retail momentum to enable its sustained development. One of the biggest stumbling blocks for Organized Retail is competition from the unorganized sector in India. Unorganised retail is largely owner operated with low cost structures, and overheads and thereby, results in much lower labour costs, avoidance of taxes to a large extent. On the other side, Indian consumers since generations have great familiarity

with these formats and use to their advantages by haggling for bargain and seeking monthly credit terms.

One of the largest impediments to Organized Retailing is higher labour costs, better and larger physical infrastructure, employee benefits and government taxes to pay. This give rise to much larger expenses than the unorganized sector. Further, the availability and costs of a good retail space is a major area of concern. However, with private sector Real Estate developers built large malls in tier I and tier II towns, availability of space has improved but the rentals are high.

Another major area of concern for Organized Retailing is the properly trained sales personals and skill upgradation of the existing personals. Though many private and some government sector retail training institutions have come into being to cater to the needs of capacity development in this sector. Also, development of supply chain management and organization and management of mass procurement activities and proper inventory management are areas where Organized Retailer needs both private and public sector intervention.

Even though, India is on the investment map of large global retailers, some of them still feel that Indian regulatory framework and policies regarding foreign direct investments in retail needs clarification before they embark on major investment in this country. There are other issues of brand protection and anti-piracy of designs that also need to be addressed at IPR protection level.

Despite these issues and impediments, the organized retail momentum is growing. The Government must enumerate clear policies and regulatory framework to ensure it's sustained growth.

**Activity 4.8**

(i) *List 5 major challenges to Organized Retail*

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(<http://ezinearticles.com/organised-retail-challenges>)

(ii) *How can Indian retailers become global? What are the challenges?*

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**4.5 SUMMARY**

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This unit covered various facets of Indian retail firmament. Right from painting socio-economic backdrop for retail industry, it covered the various aspects of organized retailing in India. It also enumerated many benefits of organized retail as well as

multitude of challenges being faced by this sector. The issues regarding socio-political opposition on FDI in retail were also discussed.

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#### **4.6 REVIEW QUESTIONS**

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1. Write a review on how India is regaining its status of 'bird of gold', in view of resurgence in its economic development.
2. What are your views in terms of FDI caps imposed on retail sector?
3. Write an essay on benefits and challenges of Organized Retail in India.
4. How Organized Retail and small shopkeepers can have symbiotic relationship?

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#### **4.7 FURTHER READINGS**

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- Krafft, Manfred & Mantrala, Murli K., (2007). Retailing in 21<sup>st</sup> Century: Current and Future Trends. , New York, USA: Springer,
- \_\_\_\_\_, (2007). Indian Retail Sector – A Primer. New Delhi: ICFAI University Press.
- Mehrotra, Nitin., (2008). Indian FMCG Industry, A Primer, New Delhi :ICFAI University Press

**BLOCK**

**2**

## **RETAIL OPERATIONS**

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**UNIT 5 FUNDAMENTALS OF RETAIL  
OPERATIONS**

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**UNIT 6 ELECTRONIC RETAIL  
OPERATIONS**

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**UNIT 7 RETAIL AUTOMATION**

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**UNIT 8 SUPPLY CHAIN MANAGEMENT  
IN RETAILING**

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**UNIT 9 RETAIL FRANCHISING**

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## **BLOCK 2 RETAIL OPERATIONS**

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This block consists of five units providing an overview of concepts regarding retail operations.

The fifth unit whilst providing an over all perspective on store operations also provides detailed inputs on store operating processes. It also covers the performance measures and standards including reporting activities.

The sixth unit provides insights into electronic retail operations. It deals in-depth with issues pertaining to online retailing including pitfalls and growth strategies.

The seventh unit dwells on various aspects of retail automation and software. It describes the usage of various retail automation tools & equipment and associated software.

The eighth unit describes the concepts of supply chain management for retailing. It also focuses on concept of logistics and functions of back end merchandise management.

The ninth unit consists of concepts of retail franchising and practices. It also outlines different types of franchising operations and agreements.

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## **UNIT 5    FUNDAMENTALS OF RETAIL OPERATIONS**

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### **Objectives**

After reading this unit, learners would be able to:

- Understand of store operations
- Comprehend the scope of functions in store operations.
- Explain different store operating processes, and their significance in smooth running of retail operations
- Define the various store operating parameters in the areas of customer service, stock management, staff management and space management
- Enumerate the process of designing performance measures and standards for retail store performance
- Define a few activity reports to set goals for future action

### **Structure**

- 5.1 Retail Operations
- 5.2 Store Operating Parameters
- 5.3 Using the Strategic Resource Model in Retailing
- 5.4 Designing a Performance Programme
- 5.5 Summary
- 5.6 Review Questions
- 5.7 Further Readings

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## **5.1 RETAIL OPERATIONS**

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Some important features of retail operations, which help a retail store in its smooth functioning, are as follows:

- Retail Selling Process
- Store Staffing and Scheduling
- Retail Floor and Shelf Management
- Store Administration and Facilities Management
- Warehousing and Supply Chain Management
- Loss (Shrinkage) Prevention
- Point of Sale (POS) / Cashiering Process
- Visual Merchandising and Displays

### **5.1.1 Retail Selling Process**

This means ensuring efficient attending on the customer for all the time he/she is in the store. From the time he/she enters, selects the merchandise, pays and leaves. Steps involved in selling in the retail sales process are elaborated subsequently.

### **5.1.2 Store Staffing and Scheduling**

Store Staffing and Scheduling is very vital and integral part of retail operations as store level human resource planning and management. An appropriate work schedule and flow chart ensure effectual attending of customers and services.

### **5.1.3 Retail Floor and Shelf Management**

This process involves planning and managing products, stocking and restocking shelves and beautifully & noticeably arranging

merchandise. This not only leads to efficient utilization of store space, but also helps in managing the merchandise inventory.

#### **5.1.4 Store Administration and Facilities Management**

In retail operations, store administration looks into the suitable planning of store operations, including the compliance of prevailing law and regulation, for instance the Labour Law, Shop and Establishment Act etc. It also oversees the security aspects of the retail outlet, housekeeping, maintenance, vehicle parking, washroom facilities etc.

#### **5.1.5 Warehousing and Supply Chain Management**

The process of merchandise re-orders, planning and organizing merchandise receipts, storage, transportation, information management in the supply chain etc. are dealt with in detail in a later unit of this block.

#### **5.1.6 Loss (Shrinkage) Prevention**

The activity of loss prevention in retail operations is vital because if administered properly, the shrinkage prevention can add to a better profit margin of the retail outlet. Installation of devices like closed-circuit cameras, EAS (Electronic Article Surveillance) systems at strategic places within a store curtails shoplifting, theft etc. The topic is discussed in detail in a later unit of this learning material.

#### **5.1.7 Point of Sale (POS)/Cashiering Process**

Both front end cashiering and back end cash management including banking form an important part of store operations.

The process is greatly enabled by POS and back end automation systems.

### **5.1.8 Visual Merchandising and Displays**

These are done at the store level. They involve both conceptualization of themes and Visual Merchandising operations as well. These are elaborated in *Visual Merchandising and Displays* in a later unit in this learning material. In this unit, we will see in detail the various operating parameters that help a retail store to perform to its maximum potential.

#### **Activity 5.1**

*Suppose you are the store manager of "Archies" (gifts, cards, mementos selling store popular in North India). How would you handle these two situations?*

#### **Situation 1**

*Valentine Day falls within a week. What emphasis will you give to Retail Floor and Shelf Management and why?*

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## **5.2 IMPORTANCE OF STORE OPERATING PARAMETERS**

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The modern retailer has a great deal of access to information, thanks to the growing technology usage, he is required to be conversant to optimize the information for the benefit of his store. Mostly, the retailers are confused with too many information given by ERP software, such as POS packages and they mull over as to find what is vital to the success of their outlets. As far as the front end retail operation is concerned, it is very important for a retailer to know the performance of the outlets at least on a day to day basis. The person in-charge should, therefore, be always equipped with 'dipstick parameter' to gauge the operation of a retail store

### **5.2.1 Dipstick Parameters**

Dipstick Parameter helps to identify the strengths and weaknesses of certain aspects of retail operations at a given point, such as customers, space, finance, staff etc. These aspects are discussed in detail in the following paragraphs.

### **5.2.2 Customer Transactions**

How many customers came into the store compared to the corresponding period last year? What was the percentage that bought **something** (conversion rate)? Has the conversion rate

gone up? How does the day-to-day average cash memo value or ticket size be compared with the average value of last month or last year? How much has this gone up during a promotion and hence what is the threshold cash memo size that should be considered to increase sales for the forthcoming promotion? The answers to these questions will help achieve the store's objectives.

$$\text{Customer Conversion Rate (\%)} = \frac{\text{No. of Customer transacted}}{\text{No. of Customer Visited}} \times 100$$

The percentage indicates the retailer's capability to convert a prospective customer into a purchaser which is called 'percentage yield rate' or 'walk to buy ratio'. A small figure points out that the marketing efforts are not being turned into business sales. Or, it suggests the sales efforts are required to be reassessed from the beginning. If automatic counting methods are not documenting customer traffic, periodic customer traffic surveys are needed to get a representative figure. Transaction data can be collected from cash register tapes as it maintains a record of the time of transaction. Information can also be gathered, by having staff record.

### **Returns to Net Sales Ratio**

$$\text{Returns of Net Sales} = \frac{\text{Total Returns and Allowance}}{\text{Net Sales}} \times 100$$

This percentage gives an indication of customer satisfaction by showing the value of returned goods and allowances as a percentage of net sales. An increase in this figure gives an early warning to the retailer. This could mean that customer expectations are not being met, and therefore, the quality of the merchandise needs to be examined.

$$\text{Return to Net Sales (\%)} = \frac{\text{Total Return and Allowance}}{\text{Net Sales}} \times 100$$

### ***Transactions per Hour***

It enables retailers to maintain a trail of the number of sales that they are performing per hour, day, week or season. Hourly sales deviations are valuable in order to schedule store hours, staff planning especially for cashiers. This information can be derived from the cash registers, as it maintains a record the time of transaction. Information can also be gathered by maintaining a staff record.

$$\text{Transaction Per Hour} = \frac{\text{Number of Transaction}}{\text{Number of Hours}}$$

### ***Sales per Transaction***

For any product category or SKU, this ratio can be computed for by evaluating in terms of percentage the quantity of that specific product or SKU sold from the stock.

$$\text{Sales Per Transaction} = \frac{\text{Net Sales}}{\text{Number of Transaction}}$$

### ***Hourly Customer Traffic***

Retailers apply this method to measure the track of customer traffic on hourly, daily, weekly or seasonally basis. Hourly Customer Traffic can be employed to a whole store or a particular department to plan staff levels and store hours. If automatic counting methods are not documenting customer traffic, periodic customer traffic surveys are needed to get a representative figure.

$$\text{Hourly Customer Traffic} = \frac{\text{Customer Traffic In}}{\text{Number of Hours}}$$

### ***Stocks and Selling Price Comparison***

To ascertain the strength of one's stock holding, the average selling price requires to be drawn out compared to the average stock price. In case both occur to be close to same value, then the situation becomes quite ideal. With this measure, retailers are able to determine whether their outlet is overstocked or under stocked, in any category.

$$\text{Average Selling Price} = \frac{\text{Total Value of Goods Sold}}{\text{Total Quantity Sold}}$$

**Look at the Stock-turn ratio.**

$$\text{Average Stock Price} = \frac{\text{Total Value of Goods in Stock}}{\text{Total Quantity of Stock}}$$

Turning stock around efficiently yields better profits. More the retailer turns his stocks, the higher are his returns. This can be found for any category or SKU any time by checking the percentage sold from the stock of a specified category or SKU. For example, in the category where the dipstick is employed, if daily sales account for 2% of stock, it will take 50 days to sell all the stock. Then, dividing the number of days in the year (365) by 50, you get the number of stock turns for the year (7.3 times). This allows retailers to compare it with the store's target for stock-turns and initiate corrective actions, if needed. Remember, it is the gross margin return on inventory (GMROI) that matters.

$$\text{Stock Turnover/Inventory Turn Over Rate} = \frac{\text{Net Sales}}{\text{Average Retail Value of Inventory}}$$

In a given period of time, this ratio which is stated as number of times, shows the frequency of inventory, is sold and replenished. The ratio 'cost of goods sold' divided by 'average value of inventory at cost' is also being used by some retailers. Excessive inventory is a possibility provided by one of these ratios decline.

$$\text{Percent Inventory Carrying Costs} = \frac{\text{Inventory Carrying Costs}}{\text{Net Sales}} \times 100$$

Lately, the high interest rate has resulted increase in inventory carrying costs and therefore, the ratios have become more significant. To reduce obsolescence of stock and to prevent blockage of working capital, this measure is used. The fixed costs of maintaining inventory indicates net sales. This measure is used to track the percentage of their net sales.

$$\text{Gross Margin Return on Inventory} = \frac{\text{Gross Margin}}{\text{Average Value Inventory}}$$

Expressed in monetary terms the parameter GMROI provides comparison of the margin on sales vis-a-vis the original cost of merchandise. This computation provides the value of return one achieves on investments in a specific merchandise. Though inventory can be evaluated at:

- (a) retail price
- (b) cost price

Most retailers tend to use the value at retail price because it is more easily available. However, lacuna in this is that it may not give a realistic picture of investments in specific merchandise.

The two parameters which can bring about huge changes in GMROI value are:

- (i) Gross Margin

## (ii) Inventory Turnover

$$\text{Markdown Goods (\%age)} = \frac{\text{Net Sales at Markdown}}{\text{Total Net Sales}} \times 100$$

This is the percentage of marked-down merchandise to sales. If the ratio increases, the retailer may need to take a closer look at merchandising practices, particularly pricing. Markdowns may be symptoms of other problems, such as poor buying, advertising or store layout.

$$\text{Shrinkage to Net Sales} = \frac{\text{Actual Inventory} - \text{Book Inventory}}{\text{Net Sales}} \times 100$$

Retailers use this control ratio to determine the percentage of net sales lost due to shrinkage. It does not indicate the cause of the shrinkage, but it does indicate the magnitude of the problem.

**5.2.4 Space**

Utilisation of space in a productive manner is the key to have success in retailing. Consequently, parameters which evaluate space productivity have been developed. One such parameter is known as GMROF (Gross Margin Return on Footage). This parameter essentially measures the gross profit margin achieved by a specific retail store divided by the total square footage of the sales area or of the store.

Essentially, space from which a retail store operates is a key element. Essentially, its productivity can also be measured using various other elements of retail costs viz; (i) Stock (ii) Customer (iii) Employees (iv) Facilities.

In monetary terms, these performance parameters can convert occupancy cost into a money value per unit of selling space. These parameters give an idea of the quantum of gross margin in money value for each unit of space that is deployed for retailing to achieve full coverage of occupancy cost.

$$\text{Occupancy Cost Per Sq.Ft. Selling Space} = \frac{\text{Occupancy Cost}}{\text{Square Feet of Selling Space}}$$

Whether expressed in quantity or value this parameter is useful to compare alternate deployment of space on variety of product lines. It is also useful to compare performance on different departments within store by applying a standard benchmark. This ratio will change depending on the variety of merchandise and the methods used for retailing. This parameter is utilised by retailers to compute percentage of total space that is actually used as sales space. Again it varies depending upon the variety of merchandise and the methods used in retailing.

$$\text{Sales per Square Foot} = \frac{\text{Net Sales}}{\text{Square Feet of Selling Space}}$$

$$\text{Stock Per Square Foot} = \frac{\text{Net Stock}}{\text{Square Feet of Selling Space}}$$

$$\text{Percentage of Selling Space} = \frac{\text{Selling Space in Square Feet}}{\text{Total Space in Square Feet}} \times 100$$

For example, catalogue showrooms have little selling space, while shoe stores have little non-selling area. Changes over time, or in relation to competitors, can help track the efficiency with which space is being used.

### **5.2.5 Employees**

The usual way to measure employee productivity is to assess with the sales turnover that is achieved. Such parameters are normally divided by total sales of a day by total number of sales persons deployed. In free access format the parameters generally used divides total number of cash memos / customer handled by a specific sales person. It is again the gross margin return on labour employed (GMROL) for that matters.

$$\text{Net Sales Per Full Time Employee} = \frac{\text{Net Sales}}{\text{Total Full-Time Employees}}$$

Expressed either in terms of quantity or rupee value, this measure represents the average sales generated by each full-time employee. It is also used by many retailers to set targets of performance for sales personnel.

$$\text{Space covered/customer Served Per Full time Employee} = \frac{\text{Selling Space in Square Feet}}{\text{Total Space in Square Feet}}$$

Expressed in square feet, this measurement represents the space covered and number of customers served by each full-time employee. This is extensively used by large free-access format retailers like department stores.

$$\text{Labour Productivity} = \frac{\text{Total Labour Cost}}{\text{Net Sales}} \times 100$$

This parameter computes the productivity of labour by evaluating the labour cost component to achieve a targeted sales turnover.

$$\text{Gross Margin Per Full time Employee} = \frac{\text{Gross Margin}}{\text{Total full time Employees}}$$

Expressed in monetary terms, this ratio represents the gross profit generated per employee. It can be used to find out sales employee's performance. Though this is not the only measure of an employee's performance, it can provide a starting point for closer examination.

$$\text{Suppliers-Quantity or Value Purchased per Buyer} = \frac{\text{Total Suppliers/Quantity or Value Purchased}}{\text{Total Buyers}}$$

This parameter provides an average of the number of suppliers per buyer in a store or it can also provide a estimate of quantity or money value of goods purchased per buyer in a store. This could be useful for the management to relate to, what is known as "ticket size".

Some studies show that an average buyer decision regarding buying diminishes if there are wide varieties of suppliers.

### **Activity 5.2**

*Suppose you run an "Exclusive Women Apparel Store" owned by a leading fashion Designer. In anticipation of ensuing wedding season she got lots of expensive dresses fabricated. You need to guide her whether she is understocking or overstocking. The following data after 15 days of season is available to you:*

- a. *Total Value of garments sold = Rs. 20 Lakhs*
  - b. *Total Number of Pieces Sold = 2000*
  - c. *Total value of garments in stock =Rs. 35 Lakhs*
  - d. *Total Number of pieces in stock = 3000*
- (Hint: use the appropriate calculation and advise)*

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8. Operations & Administration	5
9. PBDIT	8
10. Interest	1
11. PBDT	7
12. Depreciation	2
13. PBT	5

**Activity 5.4**

*You are operating a small mobile phone sales store. Your monthly sales and service revenues are Rs. 1.0 lakh. What should be your typical staff costs and rental of shop cost per month?*

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### **5.3 USING THE STRATEGIC RESOURCE MODEL IN RETAILING**

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Over the years, several models have been built to understand the performance parameters of retail outlets. One such popularly known model is as SRM (Strategic Resource Model). This model has three major resources viz,

- Retail space (square footage),
- Labour or human capital (number or pay role cost)
- Retail inventory (number or merchandise cost)

These three are the key resources in performance evaluation. As discussed and defined earlier in this unit, SRM largely works on following three measures:

- GMORI
- GMROF
- GMROL

This model evaluates how these three parameters are optimized for higher gross profit based on these three resource inputs.

The optimization implies that if the retail performance is to remain constant, a price reduction (which translates into reduction of gross margin) requires certain increase in merchandise productivity (implying higher buying conversion

rate) and improvement in space and labour productivity. The SRM model is an analytical tool to see effect of change in parameters on others keeping overall retail performance constant. Alternately, a model can also be used for looking into retail performance improvements or otherwise by change in one or multiple resource inputs factors. Therefore this model serves as a management tool to discover which areas within the retail stores needs management intervention.

### ***EXHIBIT 5-A***

<b>Margins</b>	<b>Inventory</b>	<b>Space</b>	<b>People</b>
Gross margin is the spread between buying and selling prices. Readjustment of markdowns and shrinkage may make all the difference.	High cost of holding. Extremely high cost if holding the 'wrong' kind!	Costs 20-40 percent of operating expenses could be a major fixed cost.	Typically 15-40 percent of operating expenses.

Optimised technology investments improve net margins.	50-80 percent of working capital, 40-60 percent of all assets.	25-50 percent of all assets. Cost Rs. 4,000 to Rs. 10,000 per square foot to build.	Costly to get and retain. Not enough people with the right skills and attitudes.
Favorably bought	Wisely chosen	Wisely chosen and utilized	Intelligently selected & trained.

### 5.3.1 SRM Sensitivity Analysis

The SRM model suggests that retailers can develop strategies that vary on the following factors:

- (a) Level of gross margin.
- (b) Level of inventory productivity.
- (c) Degree of merchandise intensity.
- (d) Degree of service (by people) intensity.

Merchandise intensity is defined as 'inventory per square foot'. Its multiplication with the margin on inventory produces results on the space productivity result.

If sales increase and eventually stocks turn more number of times, the other factors of space and staff remaining constant,





then amongst of available data, the data pertaining to profitability and growth must be extracted and compared with the desired performance parameters. Therefore, it is important to have appropriate data mining and data analytic tools available to sort out the relevant information from amongst the huge maze of data.

#### **5.4.2 Selecting Key Performance Indicators**

It is important to predetermine the key performance indicator for a specific store. As discussed earlier in this unit, key performance may include such measurements. For example,

- GMROI
- GMROF
- GMROL
- And many more parameters on which performance measurements can be evaluated.

#### **5.4.3 Studying the Results**

It is important to understand the context of analysis in which performance indicators have a desired relevance. For instance, if we look into the customers' conversion parameter, it has relevance only if we compare this figure on a time based trend chart. Modern retail data analysis provides time line analysis to compare performance year on year or week on week.

An interesting example is that if analysis shows decline in sales per sq.ft, one may find that it may not necessarily be a bad result. If put into the context of improvements in GMROF, it



#### **5.4.4 Setting Goals for Action**

The whole purpose of performance measurement system is goal setting. This helps a retailer to methodically develop an action agenda. This can include solution to critical problem and constant feed back mechanism to improve operational efficiency. As the operation grows, it is important to improve the scope of analysis leading to higher sales and better profitability.

The success of any performance measurement programme requires following key factors:

- i) Involvement of all personnel responsible for the performance of the store
- ii) Appropriate collation and analysis of information
- iii) Review and goal setting mechanism

To sum up, if a performance plan is developed properly, appropriately executed and measured accurately, it would always lead to excellent result even in economically tough times.

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## **5.5 SUMMARY**

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The function of retail store operations is to ensure that the store runs smoothly and efficiently through thoroughly defined processes in every area.

Retail operations must ensure that every process in the store is both customer friendly and cost effective.

Setting performance standards is critical to the efficient functioning of a retail organization. Such standards have to be clearly defined.

Measuring performance through defined reports provides an indication about the health of the retail store in every area of its operations. A periodic process audit done enhances the opportunities for achieving store operating efficiency.

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## **5.6 REVIEW QUESTIONS**

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1. Elaborate on the store operating parameters in the areas of:
  - a) Customer Transactions
  - b) Merchandise and Stock Management
  - c) Space Management
  - d) Staff Management
  
2. What are the key factors you would consider while designing a performance programme for a retail store?
  
3. Design a template that describes the operating financial parameters for retail store operations. Use Excel modeling for sensitivity analysis.

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## **5.7 FURTHER READINGS**

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- Fernie J, Fernie & Moore, C, (2005) Principles of Retailing, London, UK; Butterworth – Heinemann.
- Levy, Micheal & Weitz, Barton a, (2008), Retailing Management, USA ; McGraw Hill.
- Tang Angie & Lim Sarah, (2004) Retail Operations: How to Run Your Own Store, USA; Prentice Hall.

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<sup>i</sup> Public Domain

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## UNIT 6 ELECTRONIC RETAIL OPERATIONS

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### Objectives

After reading this unit, learners should be able to:

- Elaborate on the current status of online retailing in India while providing a glimpse of its future.
- Discuss the factors that impact online retailing.
- Compare online retailing with brick-and-mortar retailing.
- Comprehend the pitfalls of online retailing and the strategies of a few survivors in India.

### Structure

- 6.1 Online Retailing or E-Retailing
- 6.2 Essential Elements of Online Retailing
- 6.3 The New Online Retail Categories
- 6.4 Pitfalls of *E-Tailing*
- 6.5 Summary
- 6.6 Review Exercises
- 6.7 Further Readings

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## **6.1 ONLINE RETAILING OR E-RETAILING**

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Online retailing is achieved real predominance in the heady days of dot.com ventures and a great sobering effect post debacle of the dot-com bust in the years 2000-01. Though the net-access and Personal Computers/Lap-top use in India is growing by leaps and bounds, online retailing is still in the early days. According to a recent report by the Indian Market Research Bureau (IMRB), about 60 lakh households in India have had first-hand experience of the net and the domestic PC and Laptop market is growing by about 70%.

The rate of growth of online retailing in the USA has been encouraging: it went up from \$27.3 billion in 2000 to \$156 billion in 2009, growing on an average of 12-15% year on year. In India though the current turnover in *e-tailing* is fledgling, the opportunities are immense given the current rate of growth in Internet usage. As Metcalfe's Law of Networks says, "The value of a network increases exponentially as the size of the network grows arithmetically." Even then from a current size of US\$0.5 billion it is set to grow to US\$2.0 billion by 2014, as per an estimate from Channel Push Online Services.

Currently India's online retail industry size is meager only US\$0.5 billion vis-a-vis say in a small country like UK where it is US\$15 billion. But the online retail in last few years has seen 30% year on year growth. With India poised to be third largest net user country by 2013, and with the growing economy and

worsening road traffic conditions, Metcalfe's law will surely come into play.

As in brick-and-mortar retailing, online retailing too has its twin challenges:

- (i) Getting clicks which are equivalent to footfalls in physical store retailing.
- (ii) Conversions into buying from among the clicks, which is equivalent to conversion from footfalls.

The major advantages of online retailing are as follows:

- Break shackles of physical space and move to a virtual space.
- Move beyond location boundary limitations.
- Larger range of customers spread across geographic spread.
- Non-geocentric buying habits of customers.

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## 6.2 ESSENTIAL ELEMENTS OF ONLINE RETAILING

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The following are the major elements to be considered while considering online retailing:

### 6.2.1 Online Store Front - Creating a Look and Feel

Websites used for *e-tailing* mimics physical retailing by creating through look and feel approach virtual storefronts, sometimes replicating identity and imagery of physical counterparts. The online store typically has features that hooks on a customer and persuade them to buy their product offerings. The navigation implicitly triggers browser buttons and the software technology features such as “cookies” persuade the customers through the site’s offerings leading from one virtual shelf to another.

#### **Activity 6.1**

*Go to popular online shopping store*

*www.shopping.indiatimes.com. Look at the Store Front.*

- 1. How is visual appeal of the store front?*
- 2. What are various categories of products available?*
- 3. What is the ease of navigation?*
- 4. What is the experience with shopping cart function?*
- 5. Try to do some dummy shopping.*

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**Activity 6.3**

*Compare two popular online shopping site shopping.indiatimes.com and shopping.rediff.com. Comment which has better visual density and wider choice of merchandising.*

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**Activity 6.4**

*Visit a popular price comparison site www.Naaptol.com . Describe your experience regarding ease of price and product comparison with advent of such online retailing sites.*

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### 6.2.3 Online Merchandising

Online merchandising brings many advantages because of its virtual nature. Some of these advantages are:

- (i) Since it is only visual or pictorial representation, a large number of SKUs (Stock Keeping Unit) can be displayed.
- (ii) As the product offerings is of multitude in nature thereby a wider customer base can be addressed.
- (iii) Because of virtual nature, there are no physical merchandise hence issues of perishable goods and obsolescence of products do not arise.

Therefore, because of the above reasons, the risk of physical storage space and inventory costs are minimal. This leads to lower expenses and therefore higher margin in *e-tailing*.

The table below depicts across genders the predominance of product categories which are most amenable for online retailing.

*Table 6.1: Most Shopped Categories Online*

Product/Service	Gender Ratio	
	Male	Female

Groceries	25%	75%
Flowers	31%	69%
Travel /Ticketing	50%	50%
Books	57%	43%
Computers	75%	25%
Mobile Phones/Ipods/Electronic Gadgets	50%	50%

**Activity 6.5**

*Briefly describe why jewellery and apparel are not so popular on online shopping? Why Indians have penchant for look and feel for these things.*

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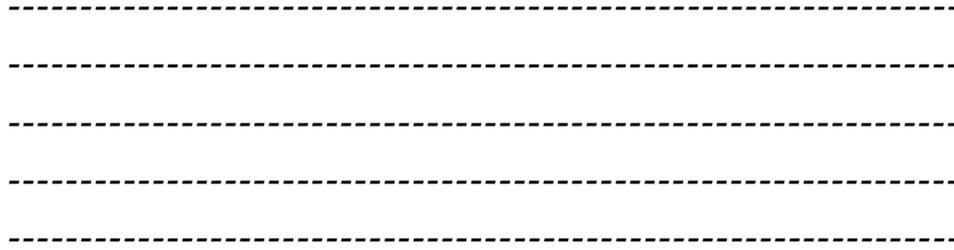
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### 6.2.4 Online Pricing

As discussed in the previous section, because of the cost savings in terms of virtual inventory, no physical storage, no shop personnel; generally the price of merchandise in online stores is lower than the physical stores. In fact, it is the power of internet which leads to major reduction in operating expenses which are generally passed on to customers.

#### The Jargon of Online Retailing

Table 6.2: *E-tailing Phrases*

<b>TIRED (brick and mortar)</b>	<b>WIRED (online)</b>
Demographics	Technographics
PC	E-mail Address
User	Participant
Marketplace	Marketspace
Location, location	Mindshare

Store	Point of Sale
Geocentric Shopping Habits	Online Freedom
Façade	Electronic Store-Front

### **Activity 6.6**

*While deciding online pricing, following need to be answered. Take example of online shopping for digital camera and try to answer following questions?*

- 1. How many competitors are there at a point in time?*
- 2. What is the position in the product life cycle?*
- 3. What is the price sensitivity or elasticity of a product?*
- 4. What level is pricing set?*
- 5. Are rivals monitoring price?*
- 6. Are we stuck in the middle?*

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One of the important reasons for online retailing to succeed is that it should be backed by a well managed logistic and supply chain. This enables the customer to receive his purchased product at his place in a timely fashion. In the online retail scenario, once a customer has placed his purchase in the so called 'electronic shopping card' and affected the payment through any of the electronic payment roots; the backend supply chain is automatically triggered. For this to happen efficiently, following aspects become important:

- i) Sourcing and vendor management
- ii) Warehousing
- iii) Transportation
- iv) Courier/home delivery services

For compliance of above factors, there are specialist logistics support provides who help *e-tailers* in order to fulfilment of the process.

### **6.3.2 Promotions online**

Online promotions provide much larger scope for running multitude of promotional campaigns for a wide variety of products. Many online retailing portals host web links of products and services offered by several companies in the same line of trade for a predetermined fee. Advances in new media technologies have led to raise many online advertising formants. Some of them are listed below:

- (i) Banner Advertisements

- (ii) Pop-up windows
- (iii) Crawlers
- (iv) URL links
- (v) Browser Buttons

In online retailing, it is important to bring online traffic (analogue to footstall in a physical store) to *e-tailers* portal. This can be done by using other online media such as email, TV, Radio advertisements and running various promotional contests.

**Activity 6.5**

*Visit two popular real estate sites [www.99acres.com](http://www.99acres.com) and [www.magicbricks.com](http://www.magicbricks.com) List few interesting promotions regarding various housing and other real estate projects.*

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## **6.4 PITFALLS OF E-TAILING**

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### **6.4.1 No Theatrical Ambience**

The online retailing can not match a physical retail store ambience in terms of visual delight, sounds and smell which can be experienced by the walk in customers. Today's shopping malls provide an ambience which has become a part of Gen-NXT lifestyle. This is what *e-tailing* has to compete with to get a wallet – share of young generation.

### **6.4.2 No Emotional Experience**

The fun element of shopping is missed by most customers in *e-tailing* as the use of senses of touch and feel are missing as one would experience in a traditional physical store. A whole generation has had emotional experiences of buying greeting cards and gifts in famous Archie's stores for near and dear ones, which is hard to replicate on say 'Archies Online'.

### **6.4.3 Intangible Merchandise**

The merchandise in a virtual store is an intangible one as it cannot be held, smelt, felt or tried. Indian psyche is deep rooted in touch and feel, specially for products for personal use like apparel, jewellery, shoes and perfumes.

### **6.4.4 Security Issue**

One of the biggest issues about online transactions is the security of electronic payments. The credit card organizations are trying to make them tamper proof on a regular basis, but

the hackers on the other hand are indulging in e-frauds and keep on finding new ways to break these security features. Therefore, in the customers psyche, the feeling that online credit/debit card transactions are not foolproof persists. Therefore, the reluctance to do online transactions especially for 'big ticket items' continues.

#### **6.4.5 Impersonal Customer Service**

Most Indian consumers are accustomed to the pampering provided by sales personnel which of course the online retailing can not emulate.

Some instances of Indian companies retailing on the net:

- Rediff.com does a good deal of merchandising on its site with innovative product offerings and prices.
- Indiatimes.com is a popular internet selling site with multi-faceted merchandise offerings.
- eBay India is a very widely known site in India for its "bidding sale".
- Fabmart.com does ethnic product retailing.
- PlayWin is an online lottery that is catching on with the masses.

Since online retailing was rather slow to pick up in India, several organisations adopted the hybrid model. This means that they created *e-tailing* presence along with their physical store operations. However, the online retailing momentum is now picking up in India and

several categories of merchandise like music, books and gift items are performing well in this retail format.

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## **6.5 SUMMARY**

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The e-commerce scenario has been on upsurge in India. In retail banking, Indian banks have been pretty successful in adapting the technology to provide customers with facilities like real-time account status, transfer of funds, bill payment and so on.

The future does look bright for online retailing in India and the areas expected to grow include financial services, travel, entertainment books and music. For those considering opening a virtual storefront, the forthcoming technology and agreements on standards will not only help establishing online stores easier; but will also safeguard them against payment fraud.

On the downside, some experts feel that it will be increasingly difficult for smaller sites and the online version of mom-and-pop shops to attract customers. On the other hand, big stores and large organizations with established brand names and deep pockets may do well.

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## **6.6 REVIEW QUESTIONS**

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1. What are the factors that impact online retailing in India?
2. Briefly describe the online categories frequently shopped and why?
3. Discuss the pitfalls of e-Tailing.
4. Can e-Tailing be a successful independent format of retailing? Discuss.

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## **6.6 FURTHER READINGS**

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- Court Y., Logan K., Kilby M & Myer H. (2006) Online Retailing: The Impact of click on brick, UK: British Council of Shopping Centre.
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- Tan, Patrick (2003), Success with online Retailing: For small Business, US:iUniverse.

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## **UNIT 7 RETAIL AUTOMATION**

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### **Objectives**

After reading this unit, the learner would be able to:

- Appreciate the development of retail automation over the years
- Understand the inter-twinning of retail management and automation leading to a greater customer experience
- Know about the application aspects of various retail automation solution both hardware and software
- Appreciate the impact on business optimisation of various retail automation technologies

### **Structure**

- 7.1 Introduction to Retail Automation
- 7.2 Retail Management and Automation
- 7.3 Retail Automation Solution
- 7.4 The Business Impact on Retail Automation
- 7.5 Summary
- 7.6 Review Questions
- 7.7 Further Readings

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## **7.1 INTRODUCTION TO RETAIL AUTOMATION**

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With the advent of automation technologies, the retail sector has also benefitted. In retail, like any other industrial process, automation leads to reduction of human intervention. It must be noted that automation, unlike mechanization, reduces the application of human sensory and mental abilities. It is this in fact which has led to rapid development of retail automation technologies and today it is a significant component of global automation industry.

Another set of factors that has accelerated the development of retail automation applications are as follows:

- a. Intertwined and electronically linked to supply chain management
- b. Development of IT solutions for storage, tracking and sales of merchandise.
- c. Ever increasing cost of labour
- d. High attrition rates and training needs for retail staff
- e. Reduction in cost of technology

Therefore, it is believed that due to above mentioned reasons, retail automation has become instrumental to operate efficient retail business. In fact, good retail automation coupled with great IT, backend provides the retail business owners a cockpit view of their business and makes it easy for them to measure the performance matrix and successfully run the business.

Technological application in retail have multitude of intertwining and emerging technologies. Some of them are listed below.

- i. Barcode technology with barcode readers, scanners and printers
- ii. RFID (Radio Frequency Identification) for automated tracking and inventory management of merchandise
- iii. Smart card technologies including smart card readers with embedded chips
- iv. Development of mobile telephony leading to mobile payment and auto SMS features for better customer relationship management
- v. CCTV network cameras and video management leading reduction in shop pilferage
- vi. EDI (Electronic Data Interchange ) automating the B2B transactions

This array of technologies help in various aspects of retail business and can be deployed depending upon the size, efficiency and need for security of specific retailer.

One of the critical success factors in the competitive retail world is proper implementation of retail automation. The justification for an efficient retail automation system arises from the requirements viz;

- i) Streamlining of operations
- ii) Faster return on investments
- iii) Quantifiable bottom line

In fact, the days of cash registers have been long over. Today's retail automation system comprises of efficient sub systems;

- i) Point-of-Sale Terminals (POST)
- ii) Automated Inventory Management (AIM)
- iii) Direct to Supplier order through electronic means
- iv) Auto replenishment
- v) Management of customer loyalty and membership programmes
- vi) Self-checkout
- vii) Integrated video surveillance
- viii) Detailed MIS reporting

The advent and proliferation of e-tailing or online retailing has led to a set cyber crimes affecting the retail industry. These cyber crimes include hacking and phishing. Therefore, it become obviously essential for owner of online retail business to invest into anti-cyber crime measures like installation of firewall, antivirus and early detection of hacking attempt. Also, it is advisable to get third party IT security audits to have a reality check on vulnerability of one's business to the perpetrators of cyber crimes.

### **Activity 7.1**

*Visit a few stores in your nearest Mall and observe various technology based solutions deployed by them. List few of them below*



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## **7.2 RETAIL MANAGEMENT & AUTOMATION**

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Business process reengineering leading to integration of various process and technologies is absolutely essential to develop efficient and reliable retail automation solutions. Following are the list of primary process that could be easily automated;

- a. Processing systems
- b. Back office applications
- c. Point of Sale transactions
- d. Inventory management
- e. Store accounting

What retail process reengineering does is that it eliminates duplication of efforts within the organization which is often the cause for discrepancies in data. It further eliminates redundancy between various departments and groups.

The biggest value addition that properly implemented process reengineering brings in is that the organizational realignment happens across all roles and process. This prepares the ground for effective implementation of retail automation leading to competitive advantages.

### **7.2.1 Emerging Trends of Retail Industry Using the Retail Automation**

Essence of retail automation implies that a set of computer software application and related hardware to operate them; are properly selected. This then leads to automating the various

retail business processes such as back-office sales transaction, merchandising and inventory management.

Any development of retail automation technology, obviously it is the big players who establish the standard and set the benchmarks. In the recent times the growth of retail industry has largely been influenced by technological advancement in retail automation. The various landmark technologies initiated over the years are listed as under.

- i. Electronic cash register (ECR)
- ii. Point of Sale Terminals (POST)
- iii. Electronic Fund Transfer (EFT)
- iv. Wireless Equipments (such as Scanners, Readers, Printers etc) directly connecting to their retail hardware.

Electronic fund transfer has enabled the wide usage of secure credit card or debit card transactions, online payment and now mobile telephony payment can be effected through the technology of electronic wallet, details of which is discussed later in this unit.

In fact, it was the development of Electronic Cash Register which revolutionalized the retail industry, to the extent that the entire record of customer sales can be electronically managed. This development coupled with POS have ensured efficient and secure handling of customer and really turned around retail industry.



component is essentially a data base of users self supplied record such as bank account, pin code, and other secured features. This, when amalgamated into a digital wallet enable customers to pay retailer through electronic medium. Next step beyond e-wallet is mobile phone based electronic payment. This in fact, is the new emerging trend in the retail industry. The Asian continent including India has leap frogged other retail technologies and have adopted this medium of online transaction much more rapidly than the developed world. This is because in India and other Asian countries, the density of mobile phone has become very high. In the mobile based electronic payment, customer can use his mobile effectively for electronic payment for purchases of various goods and services. These can be utilized through following modes:

- Mobile Web Payment
- Direct Mobile Billing
- Through SMS transaction
- Contactless NFC (Near Field Communications)



*Figure 7.1: Electronic Wallet*

The combined worldwide market for such payments is likely to reach \$ 600 billion by 2013.

**Activity 7.3**

*Study what kind of options Indian Cellular Services operators offer for mobile e-commerce. List few of them.*

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**7.2.2 Business Intelligence (BI)**

Today, Business Intelligence (BI) has become a key competitive tool to garner market share. BI permits a retailer to take reliable and quick initiatives particularly in pricing and category management initiatives. Therefore, BI software has become a part and parcel of the retail automation suite. This tool facilitates in acquisition of BI as well as disseminating it to key decision makers.

Business Intelligence will see new heights in the coming years through medium of small handheld devices. The emergence of smart phones such as Apple iPhones and Android platform are leading the shift for the next generation of BI softwares. By using such smart phones or Android based phones, one can retrieve data, secure competitive data and analyse data online in real time using their cell phone or handheld devices. From these devices such competitive data goes to company server where with the use of data mining technology, it is managed and then disseminated to decision makers, retail managers and

retail associates using again smart and tablet PCs or even at POS terminals.

This is one of the many examples of the rise of mobile device access to business intelligence software, data and analytics tools, which are going to be a major part of retail management.

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## **7.3 RETAIL AUTOMATION SOLUTION**

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### **7.3.1 Retail Automation Solutions leading to Operational Efficiencies**

Focusing on solution that best fits the retailers' need is the first step in quest of efficient retail automation. For this, following aspects which lead to operational efficiencies, need to be considered.

- ***Transformation of the store.***

Customer experience in the store, transformed by configuring it to the delight of the shopper on real time basis, is a need of retail automation solution. This could be as mundane as bar-code-reader to full mobile phone based electronic wallet.

- ***Enablement of the workforce***

This can be done by providing access to sales associates to the self-service tools that they need to do their jobs. This is important from a CRM perspective so that customers an enhanced shopping experience. Therefore customer centric technologies are being developed to empower sales workforce to achieve customer delight.

- ***Focus on the supply chain***

Key focus of the supply chain is to provide right products at the right time to a correct location in order to meet customer demand. This should be the ethos of the automated supply chain. This includes the aspects of e-procurement and e-tendering along with just in time delivery schedules which can be electronically tracked on real time basis. This we will discuss in detail in the next unit.

- ***Operate on demand***

Leveraging the retailers' retail automation infrastructure ensures that new innovations can be deployed in stores quickly. This means the automation should be amenable to deployment of new promotional strategies and visual merchandising options.

### **7.3.2 Empowering the customer**

It is important to understand what customers want. Therefore, many retail stores require extensive customer insights before planning the integration of retail automation with their stores. The retail automation should have appropriate tools to integrate customer feedback. The whole reason for retail automation to succeed is to empower customers to have better buying experience in a retail store. This has led to many technology interfaces like RFID, e-commerce, self-checkout, touch screen information kiosk etc. All these enable a retailer to inspire their customers to buy in a bigger and better ways.

Shoppers generally hate to wait while shopping, either in bulk or in retail environment. Keeping this in mind, the point-of-sale (POS) solution should include touch screen terminals and applications which enhance the speed of check-out. By implementing such solutions, retailer can also monitor and accelerate their sales associates' productivity levels. This leads to faster movements of shoppers through the check-out lanes, thus better buying experience for them. Such implementation in turn optimizes store lay-out, appropriate equipment installation and their maintenance.

### **7.3.3 Business Process Automation (BPA)**

The properly implemented business process retail automation leads to agility and adaptability in a retail organization. This is because such implementation provides and integrates various IT tools, technologies and infrastructure to automate the retail process. This implementation in turn helps increase retailers' competitive advantage and provides value addition in their customers and business partners.

- **Increase Organizational and Personnel Productivity**

The whole purpose of automation of retail business process is to eliminate the manual tasks which are prone to error. Good solution also provides best practices and obviously due adoption of such practices improves efficiency, individually and team-wise. Such improvements lead to faster and better results with great consistencies for the retail organisations.

- **Better Decision Making**

Good implementation of retail automation as discussed earlier also provides access to business performance parameters and through BI proactive alerts.

This leads better and broader insights to critical business processes both at store and corporate level. This in turn leads to better decision making resulting in performance improvements.

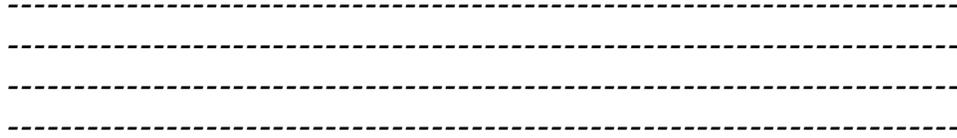
- **Enhance Operational Excellence**

The consistent high quality experience for a retail customer requires good implementation of automated business processes. In fact, as discussed earlier, good retail automation leads to transformation of efficient key processes which includes Point of Services (POS) experience, efficient Supply Chain Management (SCM) and integration of various entities. This leads to enhanced store excellence and creates satisfactory shopping experience for the customers. Repeat business and thus profitability of a retailer, is ensured by adopting such technology.

#### **Activity 7.4**

*Briefly list the various technologies that lead to better customer empowerments.*

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## **7.4 THE BUSINESS IMPACT OF RETAIL AUTOMATION**

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The point-of-sale (POS) solution from large IT companies help retailers to build a reliable POS environment. Efficient deployment of such systems improve operational efficiency for almost all types of retail outlets. Some of the major benefits are as follows.

- i) Enhancement of shopping experience by acceleration of check-out process.
- ii) Efficient management of promotional initiatives such as loyalty card programs through real time customer sales tracking.
- iii) Completion of sales process by helping sales associates to locate a product from another store location.
- iv) Improvement in sales associates' productivity by providing user friendly iconic based interfaces.
- v) Integration of new media technologies to have audio/visual communication with customers at many touch-points in the store.
- vi) Integrating the web based technologies and optimizing hybrid "click and brick' model.

### ***Sophisticated POS Terminal***



*Figure 7.2: Point of Sale (POS) terminal*

This POS solution should include, inter alia the following;

- i) Toughened terminals to withstand harsh retail environments
- ii) Faster yet accurate check-out operational software
- iii) Iconic based touch screen technology
- iv) Industry standardized printers for barcodes, check-out bills
- v) Aesthetically designed hardware which runs with pleasing retail environments
- vi) World class retail applications from leading software providers.



**EXHIBIT 7-A*****An Implementation Example of Retail Automation***

*The mass merchant division of a department store chain in North India needed to reduce operational costs and wanted to create an upscale brand image.*

*By standardizing on IBM point-of-sale (POS) equipment across all stores, they were able to achieve their goals.*

*Business benefits:*

*Increased checkout speed to improve customer service.*

*Improved productivity by reducing cashier training time and cost.*

*Reduced the cashier need for help when completing complex transactions.*

*Customer facing impact:*

*Customers felt more control with the ability to see the scrolling receipt as they observe what the cashier scans.*

*The POS equipment design reinforced the store's new branding program to be perceived as a more upscale, high tech, customer-friendly store.*

*The point-of-sale (POS) solution from IBM is designed to help the retailer install a long-lasting, durable POS environment that can:*

- Increase customer loyalty by speeding checkout.*
- Increase revenue by enabling promotions and advertising at the point of sale.*
- Reduce lost sales by integrating supply chain and inventory information across the enterprise. <sup>i</sup>*

- *Reduce labor costs by simplifying cashier training.<sup>1</sup>*

## **EXHIBIT 7-B**

### **Kiosk solutions from IBM**

*Maximize customer traffic with an exciting, interactive shopping experience. The retailer can comfortably expand its business without compromising its budget.*

#### **Kiosk**

*A Kiosk helps in delivering fast, convenient self-service in virtually any environment.*



*It provides the retailer with important advantages, as well as designed for style and engineered for performance, Kiosk solutions help the retailer drive revenue as the he tries to create a differentiation of its brand, streamline operations and enhance the customer experience. Dependable infrared (IR) touchscreens, spill-resistant features and internal components selected and tested for high availability and reliability mean Kiosks can withstand the rigours of unattended use. Multiple peripheral and enclosure options and multimedia-ready capabilities help enhance the retailer store's self-service environment. Kiosks facilitate easy, rapid implementation — and their compact design is ideal where space is at a premium.*

*Kiosk solutions:*

- *Support the retailer's unique business and environmental needs with flexible design options*
- *Present a rugged yet elegant design and high-availability features to resist the wear and tear of frequent use*

<sup>1</sup> Source: Promotional literature of IBM

- *Provide flexible, customized kiosk solutions that can evolve with the retail business*
- *Facilitate service on demand to enhance the customer experience*
- *Help the retailer to meet increasing customer demands while reducing costs and competing effectively.*

### ***Anyplace Kiosk Solutions From IBM***

*A solution to revolutionize the customer experience and influence decisions as they happen*

*When customers have instant access to information, special services and e-business transactions — no matter where they are in the retail store — retailers can exert powerful influence over their purchasing decisions. IBM developed IBM Anyplace Kiosk solutions to address this issue in a comprehensive manner. These compact kiosks combine an advanced infrared (IR) flat-panel touch-screen, an Intel® Celeron M Processor 320 (1.3GHz), and optional peripherals in a slim, space-saving design that is easy to place, like signage. They are cost-effective to install, service and manage, and they are ideal for pervasive installation. Retailers could easily locate kiosks in the aisle, on the shelf or on an end cap to deliver a truly compelling interactive experience virtually anywhere in the store.*

- *High-powered multimedia technology creates new opportunities to revolutionize the in-store experience — now and in the future.*
- *Multiple mounting options enable kiosks to be located at touch-points that are convenient to customers and employees.*
- *External attachment points enable the retailer to add signage, faceplates or additional peripherals — such as a receipt printer.*
- *Added flexibility with choice of two barcode scanners (optional)*

- *Select models available with Windows Embedded for Point of Service preloaded and a 40GB hard drive standard*<sup>2</sup>

#### **7.4.1 Retail ERP Systems**

The term ERP has become widely recognizable technology jargon. And similarly is the case with SCM (Supply Chain Management). However, RMM (Retail Merchandise Management) and MMS (Merchandise Management System) terms do not have wider recognition beyond retailing.

These systems are also known as retail ERP solution or the enterprise back office software solution respectively. In fact, it is in these solutions that a large number of retailers rely upon to manage and operate their retail stores. The exhibit 7-C & 7-D give highlights of some of the retailer ERP solutions developed by famous ERP software development SAP corporation of Germany.

#### ***EXHIBIT 7-C***

##### **SAP All-in-One (SAP A1)**

SAP All-in-One application software is a basic pre-packaged solution for wholesale and retail designed with a focus on medium sized companies. They include optional modules (eg. CRM, design tools) and optional partner enhancements (eg. Functional modules: e-Commerce, HR and industry solution modules) which can be combined to fit the needs of the medium business.

<sup>2</sup> Source: Promotional literature of IBM

- ***Increase your profit in the mid-market***

Mid-market customers are often misunderstood. Mid-sized business need products and solutions designed to address their specific needs. Scaled-down large enterprise solutions don't fit the configuration and low-functionality small offerings are not scalable and cannot facilitate the journey to becoming competitive on demand businesses.

Mid-sized retailers need to provide performance and scalability at an affordable price and need to grow to keep up with the market conditions. Flexibility to innovate their businesses in a modular fashion is a definite market imperative.

As large retail brands want to grow and evolve into successful on demand businesses, and outpace the competition, IBM and SAP, with their understanding of the mid-market customer needs, have integrated IBM's scalable, reliable and agile e-business solutions with SAP's Enterprise Resource Planning solutions into pre-packaged solutions which can enable mid-sized businesses to speed up IT adoption to meet the dynamic changes in the marketplace.<sup>3</sup>

### ***EXHIBIT 7-D***

#### ***SAP Business One (SAP B1)***

'SAP Business One application software' is a base pre-packaged solution for wholesale and retail with additional modules (e.g. CRM, design tools) and optional 'SAP Business One partner

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<sup>3</sup> Source: Promotional literature of SAP

enhancements' (e.g. Functional modules: e-Commerce, HR and industry solution modules)

- The SAP Business One suite was designed with a specific focus on small companies, where speed of implementation and an intuitive, user-friendly interface are mandatory.
- SAP Business One is a very easy-to-use product with a wide range of functionality, including accounting, reporting, logistics, sales force automation, customer management information, financial operations, and warehouse management.
- In addition to addressing the core operational needs of SMBs, SAP Business One also provides companies with analytical tools that can be used to understand an organization's operations, online alerts for collaborative event tracking and problem solving, and customizable reports.
- SAP Business One is also equipped with standardized interfaces to internal and external data sources, hand-held computers, customer relationship management applications, and various reporting programs
- SAP Business One is the product for companies with 10 to 250 employees and simple processes.

SAP Business One Standard version is primarily used by small and medium sized businesses in the wholesale, trade and service sectors.<sup>4</sup>

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<sup>4</sup> Source: Promotional literature of SAP

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## **7.5 SUMMARY**

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This unit covered the various aspects of retail automation. The spectrum covered was from the introduction of basic elements to key developments in retail automation. It also provided an overview of emerging technologies such as RFID, EDI, POS and Retail ERP, as also details of both hardware and software aspects of retail automation. Towards the end, details of some of special solutions for retail automation provided by leading IT companies were presented.

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## **7.6 REVIEW QUESTIONS**

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1. Discuss how retail automation evolved over the years.
2. Describe following in brief:
  - a. RFID
  - b. Retail Kiosk
  - c. Electronic Wallet
3. What is RMM? Why they are also known as retail ERP?
4. What is an ideal configuration of Retail Kiosk?
5. List the uses of Business Intelligence Software for Retail Management.
6. What are the benefits of Retail Automation?

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## 7.6 FURTHER READINGS

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- Schreiber Harry, (1996), Retail Working Papers: The Strategic Impact of Automated Systems on Retail Enterprise, US: Hexagon Press.
- \_\_\_\_\_, (2010), Retail POS Systems, US: Books LLC
- Corada, James W. (2003), Digital Hand: How Computer Changed the Work of American Manufacturing, Transportation and Retail Industries, UK: Oxford University Press.
- Heike, Rawe (2008), SAP for Retail, US: SAP Press

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<sup>i</sup> Source: Promotional literature of IBM

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## **UNIT 8 SUPPLY CHAIN MANAGEMENT IN RETAILING**

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### **Objectives**

After reading this unit learner would be able to

- Define the supply chain process in the retail environment
- Elaborate on the channel elements and the value contributions of channel enablers
- Focus on the details of logistics and the functions of back-end merchandise management
- Explain the relevance of the current concepts in supply chain management to optimize efficiencies

### **Structure**

- 8.1 Essentials of Supply Chain Management In Retailing
- 8.2 Integrated Supply Chain
- 8.3 Efficient Consumer Response (ECR)
- 8.4 Retail Automation and Supply Chain Management
- 8.5 Summary
- 8.6 Review Questions
- 8.7 Further Readings

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## **8.1 ESSENTIALS OF SUPPLY CHAIN MANAGEMENT IN RETAILING**

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In the retail world, the essence of Supply Chain Management (SCM) is that it is a tool which helps right from planning, inventory (preparing the purchase order) to acquisition of merchandise from manufactures and ultimately reaching the appropriate customers. Therefore, SCM is a seamless process where the activities enumerated above are interconnected in utilizing the power of IT to optimize the each step in the process and reduce the cycle-time.

Previously, individual activities of SCM process – for instance, warehousing, distribution, transportation (inbound and outbound) etc. – were done separately. Later, the process moved on to logistics where every activity was carried out in a logical sequence following a specific timetable. Now, an information backbone supporting the SCM process has helped retailers in greatly reducing cycle times and attaining efficiency.

### **8.1.1 Efficient Inventory Planning**

Efficient inventory planning enables a retail organization to achieve its strategies and benchmarked standards of customer deliveries, at the same time reducing supply chain expenses. Inventory planning has already been discussed in the Unit on merchandising.

The concept of beginning of month (BoM) and end of month (EoM) inventory are essential for forward planning. This process also requires sales forecasts and efficient OTB (Open to Buy) plans. In a retail store, efficient inventory planning achieves following benefits.

- (i) Optimization of purchase control
- (ii) Achievement of planned stock terms
- (iii) Ensuring freshness through 'JIT' (just-in-time) concept
- (iv) Achievement of customer delight through multitude of product offer.

### **8.1.2 Pre-Purchase Order (PPO) and Purchase Order (PO)**

Once the inventory planning for specific retail season is completed, most retailers follow two step processes. The first is to build a tentative plan of purchase which is placed to an appropriate vendor through a final purchase order.

Second, once the season commences and sales become visible, the PPO quantity is confirmed from time to time through confirmed purchase orders for actual supply.

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## **8.2 INTEGRATED SUPPLY CHAIN**

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The power of information technology is harnessed to achieve end-to-end integration of supply chain functions and elements. The fundamental aspect of integration of supply chain implies that as and when a customer purchases an item at retail store, there is trigger at manufactures of that item to produce more.

Many a benefit accrues if supply chain is integrated. Some of them are as follows:

- i) Inventory reduction
- ii) Faster fulfillment in terms of time
- iii) Productivity improvement at retail level
- iv) Better capacity utilization at manufacturer level
- v) More accurate sales and therefore procurement forecasts

All the above lead to lower supply chain costs and better experience for a retail customer.

### **8.2.1 Vendor Management**

An optimum vendor management implies that one selects an appropriate vendor who has following attributes:

- i) Capacity to provide right quantities
- ii) Ability to provide them at acceptable standard of quality

- iii) Deliver the goods both in quantity and quality at the present timelines

Therefore, the efficient vendor management enables a retailer to achieve right 'hit ration'. This ration is infact a measure of gap between the delivery made at a store to the time the purchase order was placed to the vendor. In good and efficiently managed supply chain, 'JIT' (just-in-time) delivery is made at store by good vendors.

This leads to the concept of 'VMI' (Vendor Managed Inventory) which is very useful to retailers, as for them it eliminates the costs of inventory management. In this concept vendors manage every aspect of flow of supply chain and manage every aspect of supply chain information flow leading to 'JIT' deliveries. Application of 'VMI' also implies that suppliers are able to withdraw slow-moving or non-moving products, thereby lessening the markdown losses for outlet and optimize their profitability.

### **Activity 8.1**

*Watch 'You Tube' Video "Perishable Inventory Management is most complex in Retail" and list Mr. Kumar Vembu, CEO GoFrugal Technologies views as how it could be efficiently managed. List few of your ideas as well.*

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(also referred as distribution centre (DC) is used for following critical functions:

- (a) Receipt of ordered product stocks
- (b) Carrying out checks on price of merchandise and putting MRP tags as well as REID or other security tags
- (c) Checking quality and quantity of products both upon receipt and dispatch
- (d) Transportation of merchandise to retail store locations
- (e) Receipt of returned or defective merchandise from retailer
- (f) Transportation of returned merchandise to vendor for either refinishing or returns.



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#### **8.2.4 A Goods Received Note (GRN)**

Goods Received Note, popularly known as GRN is a formal document which is prepared upon receipt of product at retail warehouse from vendors/manufacturers. This is done after quantity and quality parameters are checked against information provided in the purchase order (PO). In most SCM systems GRN is used as the instrument to trigger payment process to vendor from the receiver accounts department. Post preparation of GRN material is tagged and properly binned in the warehouse.

#### **8.2.5 Inter-Transfer Note (ITN)**

Inter-Transfer Note usually referred to as ITN is prepared when merchandise is shipped from warehouse to the retail stores. There is also a concept of reverse ITN (or ITN out) which is prepared by retail stores when products are returned to warehouse by them. This ITN out is the instrument used by retailers to trigger a debit note to the suppliers / vendors account department.

#### **8.2.6 Transportation**

Efficient and proper transportation is key to meet delivery schedules of retailers to meet their timely need of merchandise. This delivery is time lined as per purchase orders or replenishment orders. Multi modal transportation is used

depending on quantity and type of merchandise to achieve cost efficiency as well as speed of delivery.

### **8.2.7 Efficient docking**

Efficient docking in retail SCM refers to optimization of space utilization in a warehouse. Docking plans or layouts are usually developed on first-in-first-out (FIFO) principle. This ensures prevention of ageing of merchandise specially needed when perishables are docked. Further advancement in docking of merchandise especially needed for apparel trade is to do it ready to sell state, for example, garments on hangers.

### **8.2.8 Value Chain**

In fact the concept of an efficient SCM is akin to value chain where value addition is done at every process step to enhance its efficiency. Therefore, time to time re-engineering is done to debottleneck any steps. Many value added features, specially using power of modern technology, are introduced to achieve cost-efficiency and timely deliveries. Since SCM is the heart of retail operations, it is important that it addresses 4R's of retail success

- i. Right Product
- ii. Right Place
- iii. Right Time
- iv. Right Cost





- iii. The large geographic spread of our country which in turn implies complex logistic issues.
- iv. Multitude of state and central tax structures (sales tax, VAT, GST)

Therefore, to have efficient supply chain work leading to customer satisfaction is an onerous task. The only salvation is automation and information technology. These technologies are now pervasive across the value chain of retailing.

In early 1960s, automation technologies in retailing started to emerge specially in the more developed world. The introduction of automated cash register was the first instance of emergence of technology. Over the years, developments such as barcodes, handheld PCs, universal product codes (UPC) are products of development in information technology. It is only now that RFID (Radio Frequency Identification), which was discovered approximately three decades ago is becoming one of the major technologies in retailing. This technology is the bridge to connect physical merchandise to logistics as seamless identification technology.

In India, though the organized retailing was introduced only in the last decade, yet there has been an early adoption of established and emerging technologies. India's large retailers like RPG group, Future Group, Reliance, etc are now insisting their vendors to use mandatorily these technologies. In fact, in India both UPC barcodes and RFID are becoming a norm.

RFID devices are also being used to stop thieving from the stores as in case the tag is not removed at the point of sale, it will activate the radio sensors at the exit of the store. So, it is proved to be a great security device as well.

Indian retailers in the organized sector will have to access locally developed software to manage their frontend and backend operations. To fulfill this niche, several Indian software companies are building packages to meet the needs of the Indian retail industry. These packages embrace the global standards and are customized for Indian intricacies.

The following companies are active in developing retail automation software products services:

- Wipro Infotech
- Tata Consultancy Services
- Polaris Retail
- NCR Technologies
- VMoksha Technologies
- Zenzar Technologies

Some of these companies have tied up with several large retail groups and are working exclusively for them. Some others have brought out standardized products such as Retail Excel, Retail Price, Retail Magic etc which are used by smaller retailers and are available at affordable prices.

Some of the large IT companies in India support implementation of ERP packages like JDA, SAP-Retail for the large organized retailing groups. In short, retail automation

activity in India is buzzing with action and is supporting implementation of efficient retail chains.

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## 8.4 CASE STUDIES

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Let us now take a look at how two organized-sector retailers tackled the challenges of establishing efficient supply chains:

### **CASE 8.1**

#### **GOLDSHOPPE**

Goldshoppe is India's one of the largest business houses. It evolved from the need to have a distinct gold jewelry brand which will have ethical business practices and offer high standards of gold purity. Over the years, it has become a widely accepted fine jewelry brand with national footprint.

Goldshoppe chain has over fifty exclusive stores at thirty different locations in India. This network provides backend support by a selected network of twenty clearing and forwarding agency (CFA).

Goldshoppe is looking for growth by increasing the number of outlets and having a pan India footprint along with increased efficiency in the supply chain. After much deliberation, Goldshoppe selected The Computer Solution from one of India's leading IT solution companies to put together an internet based solution to facilitate the flow of information between various entities connected in supply chain. This software called Goldnet offers an integrated IT platform to sales, manufacturer and management team of Goldshoppe to monitor performance parameter across the distribution chain. This IT led platform was also able to tie-in together the existing IT application in the outlets without any major modifications. This solution was

developed using dot net framework of technology by using ASP.net as the interface layer.

### **Reduction of Cycle Time**

The key issue for Goldshoppe management team was to achieve significant reduction in cycle time and thereby reduction in costs such as tracking of ornament movements, sales intending, order status, sales reports and exception reporting which is important in high value transaction.

### **Tracking of Goods**

It was important that this new system keeps a tag on how goods are being moved from factory to the CFA (Clearing and Forwarding Agency) and then further on to the outlets. This feature also provides the reverse track that is stock return from outlets to CFA and then to factory. It was important for Goldshoppe management to track goods in transit and have an effective check on loss of ornaments, if any.

### **Indenting of ornaments**

This application also automated the ordering of ornaments by the outlets. Through this application, store managers can refer to online product listing and prices and then order stocks according to their needs. Goldnet also enabled online intending for (i) replenishment and (ii) customer specific indenting. Management could setup stock and inventory norms for each store through Goldnet system. This was based on sales trends and customer history of each outlet. Depending on prices and performance history, the norms could be set for each store separately.

### **Order Status**

The Goldnet application also made possible the information on status of order by any outlet to the factory. This was achieved by synchronizing backend applications at the factory level to the

new web solution. This gave the outlet managers a convenience to check the status online using Goldnet.

### **Sales Performance**

With sales data coming in through the Goldnet from the outlets, the management had an effective handle on aggregate sales valuations, town wise, regionswise and outletwise. This also gave them a handle on what range of jewelry is selling well and at what price points. With this data the outlets which were lagging behind could also adopt some of the best selling products and boost their sales.

### **Communication and Exception Reporting**

A platform for dissemination of information through bulletin board, content updates and online ticker on gold rate prevalent was made possible by the Goldnet application. Since the company has over 25,000 product variance, this system also provides the details, such as product catalogues, promotions and seasonal market trends. This also gave rise to discussion between factory managers and outlet managers to improve the product availability. It has also a feature of exception reporting whenever a major anomaly from the trend happens.

### **Further Developments**

With the success of Goldnet, the management at Goldshoppe is emboldened to get a full fledged data warehousing application developed. This will also have advanced data mining features using SQL technology and will further facilitate the business intelligence and competitive intelligence in a real time in order to further enhance their business. In fact, it is the market leaders like Goldshoppe, who established benchmark in retail automation and has prompted many other in the industry to follow.

**Activity 8.4**

*Describe as to how "Goldmine" will help Tanishq acquire competitive advantage among its category of stores.*

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**CASE 2****CUSTOMERS' CAMP**

Customers' Camp, one of the largest super market chains in India, has got world famous retailer ERP system JDA implemented. It is JDA's merchandise management system that now performs the buying process and merchandise management control practices. Pursuant to range of product width and assortment plans, purchase orders are issued to suppliers through the central merchandising function. The actual delivery of stocks is then based on overall inventory on a weekly basis. The ERP package acts as a tool to control the overall inventory position. The delivery authorization is issued to vendors on a weekly basis based on the previous week's actual sales and on the forward sales plan (forecast). The vendors then dispatch the goods to the distribution centre based on the purchase order and delivery authorization. Every distributions

centre gets a copy of the delivery authorization issued for the week. At the distribution centre support is provided by the 'warehouse management system' (WMS) of JDA, which manages the warehousing function most efficiently.

The challenge at Customers' Camp is the spread of thirty stores across the country which range from sizes as small as 25,000 sq.ft. to above 1,00,000 sq.ft. Since it is a super store, it has large SKU base and more than 500 suppliers who provide merchandise to its five geographically specific distribution centers. Five distribution centers in North, South, East, West and Central India, further distribute the merchandise to its respective stores. In any super market, it is important to have wide variety of merchandise in order to deliver great experience to the customers.

### **Growth and profitability Issues**

The management at Customers' Camp thinks that an efficient Supply Chain Management is the key to sustain growth with profitability. It has a belief that a retailer ERP system like JDA can help in reducing costs by cutting down both the cycle times and inventory stocks.

Another facet of achieving profitability is to ensure retailer's control over the shipments of vendors' merchandise to the retail distribution centers. This however, leads to complex intra-entity relationship between vendors, third party distributors and retailers. However, supplier-retailer collaboration brought together implementation of retail ERP to provide timely exchange of information on customers' demand and thus enabling appropriate product flow.

### **Customers' Camp Quest for Efficient SCM**

SCM plays an important role at Customers' Camp and it is now an efficiency enabler. ERP enabled SCM integrates links with movement of merchandise, provides service and inform through a web of seamless processes, all entities in the Supply Chain.

These could be manufacturers, vendors, transporters and its own various departments. Through effective implementation of retail ERP, there is a smooth supply chain coordination and an outstanding information dissemination system.

At Customers' Camp, Supply Chain Management is a strategic initiative. Most of the Indian retailers struggle with mundane issues like month and sales peaks forecasting inaccuracies even after implementation of ERP. However, at Customers' Camp the first step they view in an efficient Supply Chain Management is merchandise planning and sourcing. Therefore, the strategic challenge is the development of a balanced range on merchandise which provides an appropriate mix of colour, price and styling, so that customers always have a best choice available to them. The strategic goal of the company is also to increase its own label participation to drive store loyalty through exclusivity. However, the next strategic challenge for the buying department is to select suppliers on considered parameters who will supply the range of merchandise to achieve this objective. Implementation of retail ERP provides how to seamlessly integrate these set of suppliers to achieve the effectiveness of the whole supply chain to deliver the varied merchandise to customers in time.

### **Further Developments**

IT related intervention at Customers' Camp is the set up of ADC (Automated Data Capture) at the distribution centers. This ADC can be extended such that it interfaces at point-of-sale terminals and at stock-taking process. Another IT intervention is to integrate its various vendors with its Supply Chain system through internet enabled EDI. To achieve this, it is getting a B2B (Business to Business) enabled procurement solution. The whole idea is to have ability to gather and disseminate data faster at a marginal cost. The online transaction with business partners will also achieve higher speed of transaction processing.

In the essence, it is the SCM which is the key factor in creating possibilities of enhancing sales and customer relationship. Customers' Camp, therefore, has taken a well thought strategic initiative in aligning retail ERP implementation in its quest for excellence.

**Activity 8.5**

*Customers' Camp have been pioneer in many a retail technologies. After reading this case, briefly describe 5 of them that they have deployed.*

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**8.5 SUMMARY**

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Supply chain management forms the heart of retail operations. It reduces cycle times and speeds up operations. It enables the supply of the right merchandise to the end-consumer at the

right time. An efficient supply chain management system reduces operations cost substantially.

Information management is the key to attain efficiency in supply chain management. Using the right technology, information flow will help dynamic decision-making across functions.

A planned and documented process flow will ensure efficiency in the supply chain. Processes need to be audited to improve cycle times and attain cost efficiencies. Innovative and new technologies should be adopted as soon as they are available.

The efficiency of the entire supply chain process depends on how retailers seek, understand, assimilate and respond to consumer responses.

Retail automation plays a significant role in ensuring timely operational deliveries and achieving efficiencies.

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## **8.6 REVIEW QUESTIONS**

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1. Supply chain management is a progression in the value chain from sourcing to satisfying customer needs. Discuss.
2. Describe the significant benefits of vendor managed inventories in retailing.
3. Explain the key documentation involved in an efficient warehouse management system.
4. Discuss the advantages of retail automation in supply chain management.

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## **8.9 FURTHER READINGS**

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- Bierre, M. & Kotzab, M. (2005), Retailing in a SCM Perspective, Copenhagen, Denmark: Copenhagen Business School Press
- Fernie, J. And Spacks, L, (2009) Logistics and Retail Management: Emerging Issues and New Challenges in Retail Supply Chain, US; Kogan Page
- Gustafsson, K (et al), (2009), Retailing Logistics and Fresh Food Packaging: Managing Chain in Supply Chain Management, Copenhagen, Demark, Copenhagen Business School Press.
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## **UNIT 9 RETAIL FRANCHISING**

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### **Objectives**

After reading this unit, learner will be able to:

- Provide a clear understanding of franchising as a form of retail business
- Enlighten students about franchising practices in India
- Outline the different types of franchising
- Provide insights into types of franchise agreements
- Identify the success factors for retail franchising operations in India

### **Structure**

- 9.1 Introduction to Franchising
- 9.2 Franchising in India
- 9.3 Types of Franchise Agreements
- 9.4 Franchise Operations Arrangements
- 9.5 Key Success Factors in Franchising
- 9.6 Summary
- 9.7 Review Questions
- 9.8 Further Reading

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## 9.1 INTRODUCTION TO FRANCHISING

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Franchising is a format of business that is used extensively in retailing. Large retail companies often use this technique to scale their geographical presence through partner organizations that are given franchise rights to run the organization's business in their name and style. The large organization becomes the **franchisor** and gets a sum of money, or a fraction of the income that the business partner organization (**franchisee**) generates, from operating such **franchised** business. In the case of start up business, the franchisor often protects the interest of franchisee by providing guarantee of a specified minimum income.

Globally, franchised businesses generate an estimated \$1 trillion in income—roughly **ten times** the size of India's current GDP. Franchising also results in increased employment, earnings and entrepreneurship. It is a particularly good developmental tool in countries where financial resources are inadequate, and the need to stimulate individual initiative is acute. Franchising helps promote sharing of technology, trademarks, marketing techniques, intellectual property and business design rights. It also has the effect of creating relationships between one economy and another—thereby benefiting developing countries or nations shifting to a market economy.

In fact, franchising has two beneficial aspects. The first is for franchisee, for which it reduces the risk since the business is



### 9.1.1 Franchising in India

Franchising as a way to expand retailing came to India only in early 90s. In contrast to the US experience where franchising in was initially popularized by the fast food industry, in India the IT education companies like NIIT and APTECH put franchising on a growth trajectory.

In recent years, there has been a huge influx of foreign brands into the country since India is viewed as an ideal place for new business ventures. Rapid changes in consumer attitudes in the country—despite the fact that many people live in villages and have limited purchasing power—have encouraged many global brands to set up shop in India. The country also has a large and growing middle class with a growing disposable income, and a significant number of wealthy consumers. Franchising allows India to build its retail infrastructure, and develop its domestically-oriented businesses, in a way that is efficient and profitable for the national economy.

The Indian franchise economy currently accounts for five percent of the country's GDP, with organized Indian retail franchise market estimated at approximately Rs. 450 crores (US \$ 1 billion). Franchising is expected to spur the growth of the economy because it encourages private enterprise. It also reduces the risk of flight of capital, while offering the potential to deliver products and services that meet global standards. Franchising also offers the growing band of small entrepreneurs in the country an opportunity to realize their dreams with lower risk and capital outlay.



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## **9.2 TYPES OF RETAIL FRANCHISING**

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In today's retail, two kinds of franchising arrangements are in vogue, (i) Business format franchising (ii) Product/Trade name franchising

### **9.2.1 Product/Trade Name Franchising**

In such franchise agreements, the franchisee gets the right to use trade names, trade mark and or products from the franchisor. For example Arrow, Scullers, Tommy Hilfiger, etc. are brands franchised in India. Walt Disney has been successful in having its label on all kinds of goods for children, like clothing, toys and school equipment.

### **9.2.2 Business Format Franchising**

In this type of franchise arrangement, the franchisee acquires the right to use a format of conducting business and the best practices associated with it. These include a typical set of product and services that are sold under the franchisor's trade name and trade mark. In India, business format franchising is done in the case of McDonalds, Bata, KFC, etc. Such franchisees maintain the styling and design aspects determined by the franchisor in their retail environments, right from store design to service standards to deliveries. There are also a whole host of local franchisees from India that have become well known. One example is 'Jetking' the computer hardware training institution. They have been able to establish a pan North India presence

through 40 franchisees. Another example is Cafe Coffee Day which has more than 250 Cafe Coffee Day outlets all over India.

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### **9.3 TYPES OF FRANCHISE AGREEMENTS**

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In the following section we discuss variety of franchise agreements that are popular globally. Our analysis also includes the merits and demerits of each.

#### **9.3.1 Direct Franchising Format**

The most elementary arrangement is the direct franchising format wherein a franchisee is granted the right of franchise by the franchisor under an execution of business contract. The control and monitory aspects of operations rests with the franchisor. Therefore, the singular advantage for the franchisee is that he gets a readymade and established business format that can be replicated. The converse side of this arrangement is that franchisee is bound to operate within strictly defined operation guidelines and has little room for flexibility or improvisation.

#### **9.3.2 Subsidiary Franchising**

Wherever laws and regulations allow foreign organizations to set up their subsidiaries in India, franchising is done through a subsidiary. The franchiser controls the subsidiary directly. The important advantage of this approach is that through the subsidiary company the franchisor has a physical presence in the country as body corporate. In this case, the franchise

contract can be framed in accordance with domestic contract laws, and is subject to the jurisdiction of local courts. Most foreign automobile companies work this way; franchise rights for retailing and dealerships are given to other entities by the subsidiary office in India, which controls all the processes in retail and distribution. Here the subsidiary office enters into an agreement with the franchisees.

### **9.3.3 Regional/Area Franchiser or Multiple Franchising**

Here the franchiser offers franchise rights to a franchisee only for a region, or a specific geographic area. There are separate franchisees for each area or region in the country. This kind of arrangement is also known as multiple franchising, since more than one franchisee is given the franchise rights for the same brand. One example is McDonalds in India where franchise rights are given to different organization in every region. Such agreements offer the franchisee the right to open a multiple outlets according to a predetermined schedule and within a given area.

### **9.3.4 Unit Franchiser**

The franchiser offers rights to a franchisee to open and run just one store through an exclusive agreement. This arrangement involves many franchisees. The strength of this format is that each franchisee pays full attention to his store and its performance. In India, Himalaya Ayurveda of Bangalore has adopted the unit franchising method for its ayurvedic concept stores. Many Titan Watches' 'World of Titan' stores fall under this category too.

### 9.3.5 Master Franchising

In master franchising agreements the franchise rights or a specific geographical spread is granted to franchisee by the franchisor. Such franchisees are designated as a master franchisee that in turn appoints franchise outlets by itself or appoints sub-franchisees to cover the geographical territory. The legal implications of this format are two sets of agreements, one signed between franchisor and master franchisee, and the other between master franchisee and sub-franchisees. Many footwear store brands are franchised in this fashion. The major advantage of this kind of franchising is the rapid increase in scale following specified standards and processes. Further, since the sub-franchisees often are familiar with the local market, business viability can be ensured.

#### **Activity 9.3**

*Scan the Indian economic environment and give at least two examples of each of the 5 types of franchise agreements listed.*

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## 9.4 FRANCHISE OPERATIONS ARRANGEMENTS

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#### **9.4.1 Franchiser Owned and Franchisee Operated**

The franchiser owns or has the property lease so that it is sure of the location for a long time. It allows the franchisee to operate the business for a consideration. The capital investments are made by the franchiser, but the operations are handled by the franchisee that follows the norms and standards agreed upon. Commissions are generally lower in such arrangements. Fuel retailers like Hindustan Petroleum Corporation (HPCL) and Bharat Petroleum Corporation (BPCL) operate many of their outlets through such unit franchise/dealer agreements.

#### **9.4.2 Franchisee Owned and Franchisee Operated**

In this kind of franchise agreement, the franchisee is accountable for the operation as well as all the financial investments. The franchisor provides only the operating guidelines and expertise. The products that are sold through such outlets often bought outright by the franchisee, or sometimes on a consignment basis. Under this mode the franchisee makes more commissions when compared to the franchisor-owned and franchisee-operated option. This is the most popular method of running retail outlets in India.

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### **9.5 KEY SUCCESS FACTORS IN FRANCHISING**

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Over the years studies have proved that a franchising model is successful only if;

- i. The prospective franchisor has developed the brand, and has tested its goods and services in actual market conditions
- ii. Franchisors have gained both brand and operating experience through the establishment and operation of their own outlets before seeking expansion via franchise methods.

#### ***9.5.1 Implementation of a Pre-Tested Model***

Franchising will yield good results if it is done after creating a brand and testing it for successful operations. Retail organizations should look at establishing a successful Company-Owned and Company-Operated (COCO) model before seeking expansion through the franchise route.

#### ***9.5.2 Transfer of Knowledge and Inputs by the Franchiser***

A well-known and trusted brand automatically draws customers. The relevant inputs that a franchisor must provide its franchisees are:

- a. Operating best practices
- b. Training of personal
- c. Store design and lay out
- d. Advertising to build the brand
- e. Various seasonal and value-based promotions

In some cases, companies also provide minimum sales guarantees, though these are rare since they reduce the incentive for franchisees to sell. Another advantage for franchisees is that they have to interact only with one supplier, greatly simplifying business operations.

### ***9.5.3 The Franchisee is the Franchisor's Face to Customers***

At the operating level, it is franchisee that faces the customers. Therefore, it is important that a franchisee conform to established standards and procedures for the store interiors, layout, visual experience and portfolio of merchandise carried. Any deviation from this may lead to customer dissatisfaction with the brand. Usually, the franchise agreement will specify the guidelines and standards. This is important, because by doing so the entire brand experience gets translated to ultimate customer. It is very important that both franchisor and franchisee present a 'single face' to the customer to ensure a win-win situation for both.

### ***9.5.4 Creating a Win-Win Situation by Reducing Risks***

In a franchise arrangement, both the franchisor and the franchisee must stand to gain. Risks in a franchise agreement can be reduced if both franchisor and franchisee agree to share the investment costs and profit. This ultimately leads the growth of both the franchisee and franchisor. There is larger possibility of failure when a franchisor insists that all costs are to be borne by franchisee while wanting a substantial share of returns.

### ***9.5.5 An Attitude of Ownership and Shared Responsibilities***

Most franchisees fail when they do not feel that they really own franchise. This happens because they feel that they are running franchisor's business, and it is the franchisor's responsibility to

make things happen. It is therefore very important that in a franchise relationship nothing should be left vague; all the responsibilities should be clearly defined, for both the franchisee and franchisor.

#### ***9.5.6 Periodic Performance Review***

Periodic performance reviews are important if a franchise is to succeed. These periodic reviews highlight potential areas of concern, and enable proactive planning and remedial actions to be taken to eliminate such concerns. Another purpose of such review is to bring out gaps in the deliverables and expectations of either franchisee or franchisor. If any gaps are found, they should be handled with speed and concern.

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## **9.6 SUMMARY**

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In the absence of permission for FDI in retailing in India, franchising is the principal mode for foreign multinationals to operate in India.

Franchising is an effective method of rolling out retail stores in order to establish a network quickly in a country like India, whose geographical spread is vast.

The franchising agreement and operating model needs to be selected based on its relevance to the kind of retail business and its objectives.

A robust franchising agreement ensures a lasting relationship between the franchiser and the franchisee.

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## **9.7 REVIEW QUESTIONS**

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1. Briefly describe the franchising form of retailing, and its advantages for retailing in India.
2. Outline the major types of franchising.
3. What are the different types of franchise agreements, their advantages and disadvantages? Explain with suitable examples.
4. Describe the key success factors for successful franchising in India.

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## **9.8 FURTHER READING**

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**BLOCK**

**3**

**RETAIL DESIGN  
AND  
MERCHANDISING**

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**UNIT 10 RETAIL MERCHANDISING**

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**UNIT 11 RETAIL DESIGN AND VISUAL  
MERCHANDISING**

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**UNIT 12 MERCHANDISING WITH  
PLANOGRAMS**

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**UNIT 13 MARKUPS AND MARKDOWNS IN  
MERCHANDISING**

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## **BLOCK 3 RETAIL DESIGN & MERCHANDISING**

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The block consists of four units, dealing with various ideas and concepts of Merchandising and Retail Design

The tenth unit gives you an insight into the essential concepts of Merchandising which includes planning, hierarchy and other related tools. It also covers the concept of 'Open to Buy' (OTB) and category Management

The eleventh unit covers the role of design in retailing along with the various concepts of visual merchandising viz., layouts, displays and product presentation. It also dwells upon the need to make retail space more productive and how this productivity can be measured.

The twelfth unit is about using the technique of planograms for merchandising. It provides the objective and approaches used in a planogram design.

The last unit of this block i.e., unit 13 looks into the details of mark-ups and mark-downs in merchandizing. It also explains in greater detail the concept of shrinkage in merchandize management.

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## **UNIT 10 RETAIL MERCHANDISING**

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### **Objectives**

After reading this unit, learner would be able to:

- Provide a basic understanding of the merchandising concept.
- Underline the relevance of merchandise planning in a retail organization.
- Provide information on merchandise grouping, defining the concept of merchandise hierarchy.
- Provide an insight into the concept of planogram in merchandise presentation.
- Explain merchandise buying and replenishment planning.
- Understand the use of the forward planning tool of 'Open to Buy' in the buying process.

### **Structure**

- 10.1 Introduction To Retail Merchandising
- 10.2 Merchandise Planning
- 10.3 Merchandise Hierarchy
- 10.4 The Buying Function
- 10.5 Category Management
- 10.6 Summary
- 10.7 Review Questions
- 10.8 Further Readings

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## **10.1 INTRODUCTION TO RETAIL MERCHANDISING**

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A term that is often used in retail sector is merchandising. This is part of a jargon that is related to Retail Trading. Merchandising is defined as a specific practice which retailer employs to accomplish the sale of product to a customer. If we look at retail store level, Merchandising refers to the following aspects:

- i) Range of availability of variety products
- ii) Visual display of products in an enticing way
- iii) Process of Product Inventory Planning and Management.

Therefore, appropriate management of merchandising typically leads to increase on ROI and thus profitability of a store.

As mentioned earlier, merchandiser (retailer) needs to pay greater attention to all aspects of merchandising to ensure profitability of the retail outlet. Some of these aspects are as follows:

- i) Types of products at outlet for sale
- ii) Optimum presentation of such products to customers
- iii) Determination of reasonable retail price of such products

In the initial days, the merchandising was a practice that was confined to physical format of retailing. However, now with the

advent of online retailing the same principles of merchandising also apply to the virtual or online formats.

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## 10.2 MERCHANDISE PLANNING

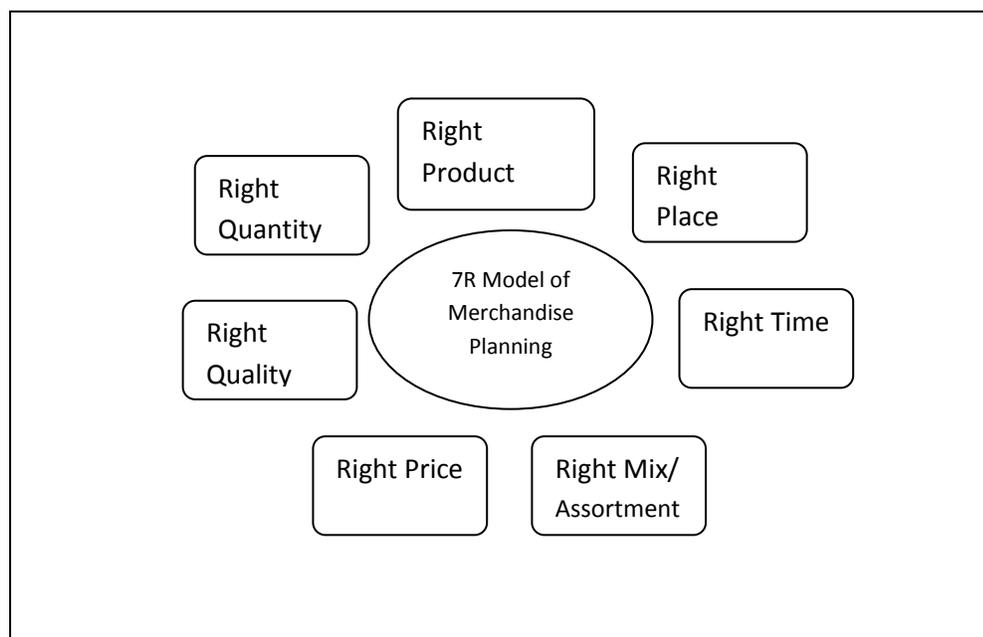
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The concept of merchandise planning is based on a process-oriented approach. The obvious outcome of such planning process is:

- i) Optimisation of sales
- ii) Minimisation of inventory holding costs
- iii) Maximisation of sales through-put
- iv) Minimisation of losses arising either from markdown or stock-out

The essence of merchandise planning is enshrined in the 7R model as shown in Fig. 10.1 below.

*Figure 10.1: 7R model of Merchandising Planning*





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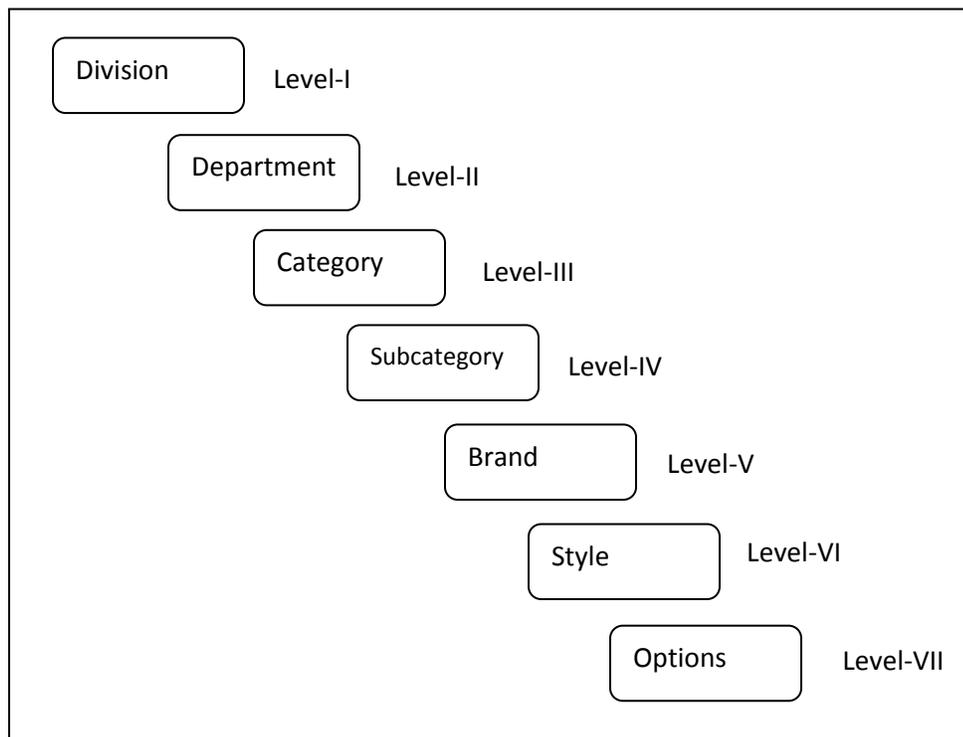
### 10.3 MERCHANDISE HIERARCHY

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The merchandise hierarchy defines the planning of the merchandise mix for a retail organization. The merchandise hierarchy is defined as the organized group of the merchandise mix at different levels, depending on the complexity of the retailer and product that he wishes to sell. The grouping can have up to seven levels as depicted in Figure 10.2.

The definition of merchandise hierarchy establishes the fulcrum to develop a retail outlet merchandise mix. The hierarchy starts with the division of a large organization and percolates down to a specific stock keeping unit (SKU).

*Figure 10.2 Merchandise Hierarchy*



Utilizing the concept of merchandise hierarchy to develop a store merchandise mix leads to the following advantages:

- i) Quantification of merchandise mix elements at each level of merchandise hierarchy. It helps in concrete ordering and stocking information.
- ii) In case of any problem, analysis can drill down to rungs of hierarchy right up to SKU level.
- iii) Development of mix enables a merchandiser to add or remove mix elements based on real time performance feed back.

This also helps in developing a decision matrix amongst the management hierarchy which is aligned to merchandising hierarchy. That, in turn, escalates remedial issues at an appropriate level.

In case of supermarket as an example for using merchandise hierarchy, the levels can be defined as:

Division:	Food
Department:	Packaged Food
Category:	Sauces
Sub-category:	Tomato
Brand:	Maggi
Options:	250g, 500g, 1 Kg.



merchandising. These largely include the figures for sales turn over and stock quantity to be acquired.

Subsequently, a category level merchandise plan is developed to determine margin at each level (right upto SKU level) that leads to over all profitability of the store. This, in turn, helps in developing 'Open to Buy' purchase plan. It is usually the first critical factor in the process of merchandise planning.

Next level plan is known as assortment plan. It refers to the items that need to replenish the store stock to minimum and maximum stocking level for the various products.

An example of the assortment of a shirt for 20 pieces in stock:

Small /2, Medium/6, Large/7, X'tra Large/4, X'tra X'tra Large/1  
=20 pieces.

In the example shown above, the assortment ratio is built on stock turn of 20 pieces for a specific type of shirt. This results in establishing the replenishment cycle depending on the category of a merchandise.

### **10.3.2 Planogram**

The physical representation of merchandise assortment is termed as planogram. The major advantage of a planogram is that it moves a step beyond pure numeric type of planning to a visual orientation. Software packages for store space planning support planogram methodology. This involves stock mapping utilizing graphic representation. This, in turn, leads both ease in replenishment as well as optimal store space utilization.

Therefore, merchandise assortment planning can be implemented utilizing both numeric and visual methodology. The whole purpose is to improve GMROI and GMROF. The planogram technique is detailed in a later unit of this block.

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## 10.4 THE BUYING FUNCTION

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Merchandise buying is a critical function for any retail organization. As discussed earlier, the first step in this process is the development of OTB plan. Development of such a plan helps retailer to project and control future buying. Proper development of such plan leads to the right flow of merchandise to the store, aligned with anticipated sales levels at desired stock turn values. This process, if managed well, leads to positive cash flows. The benefits of OTB planning are:

- i) Prevention of over buying
- ii) Elimination of confusion
- iii) Enablement of a store towards profit maximization

OTB plan has the following characteristics:

- Process of sales forecasting
- Alignment of purchases with sales
- Budget setting for sales
- Determining merchandising inventory levels
- Monitoring OTB amount outlay

It is important for retailers to use an OTB plan. As most of the retailers tend to overstock when sales are on upsurge and many times understock when they feel sales are on downswing. In a sense, OTB helps a merchandiser to get a focus on the actual amount of stock that should be in his inventory at the start of a month as well as the levels that should be received during the month.

In the Exhibit 10.A, a primer on OTB terms has been presented.

<b>EXHIBIT 10-A</b>	
<b>PRIMER OF 'OTB' TERMS</b>	
<b>TERM</b>	<b>DEFINITION</b>
<b>Forward Sales Planning</b>	The sales planning should be prepared for the entire year with month wise details of sales. A good OTB plan helps in determining variations in sales.
<b>Forward Cover</b>	This implies quantities to be held on the planned stock turns for the retail outlet. Three month stock is the ideal forward cover of 'stock turns' for four times in a year.
<b>Stock Required</b>	This is based on the forward cover planned for the store.
<b>Opening Stock</b>	The value of the opening stock is a merchandise inflow calculation. The first entry is an estimate for first month. Subsequently, the opening stock is the closing stock figure of the

	previous month.
<b>Intake Requirement</b>	This is the difference between the required stock and the opening stock.
<b>On Order</b>	These are stocks that have been already ordered and due for delivery during the relevant period.
<b>Open to Receive</b>	This figure is arrived at by deducting the stock on order if any, from the intake requirement. It is inverse of 'open to buy' quantity.
<b>Closing Stock</b>	To arrive at this figure, one needs to take the opening stock, subtract the sales, and add the on-order and open-to-receive quantities.

#### 10.4.1 Advantages of an Open to Buy Plan

The advantages that a retailer derives from an OTB process are as under:

- i) Enables a retailer in estimating working capital requirement needed to be deployed in inventory, month on month.
- ii) Attainment of best possible GMROI by ensuring right inventory levels.

- iii) Restrains a retailer on merchandise purchase commitment and enables a store to receive right amount of merchandise on right time.
- iv) Enables an inflow of fresh merchandise for a store during a particular sales season.
- v) Provides a comparison of performance as per the established plan and remedial action to be taken in any specific area.
- vi) Assists merchandiser in getting his store maximum profitability.

**EXHIBIT 10.B : A Sample OTB Plan**

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Forecast Sales						
Months Forward Cover						
Stock Required						
Opening Stock						
Intake Requirement						
On Order						
Open to Receive-OTB						
Closing Stock						





Figure 10-3 : New "Shopper Centric Retail" Model

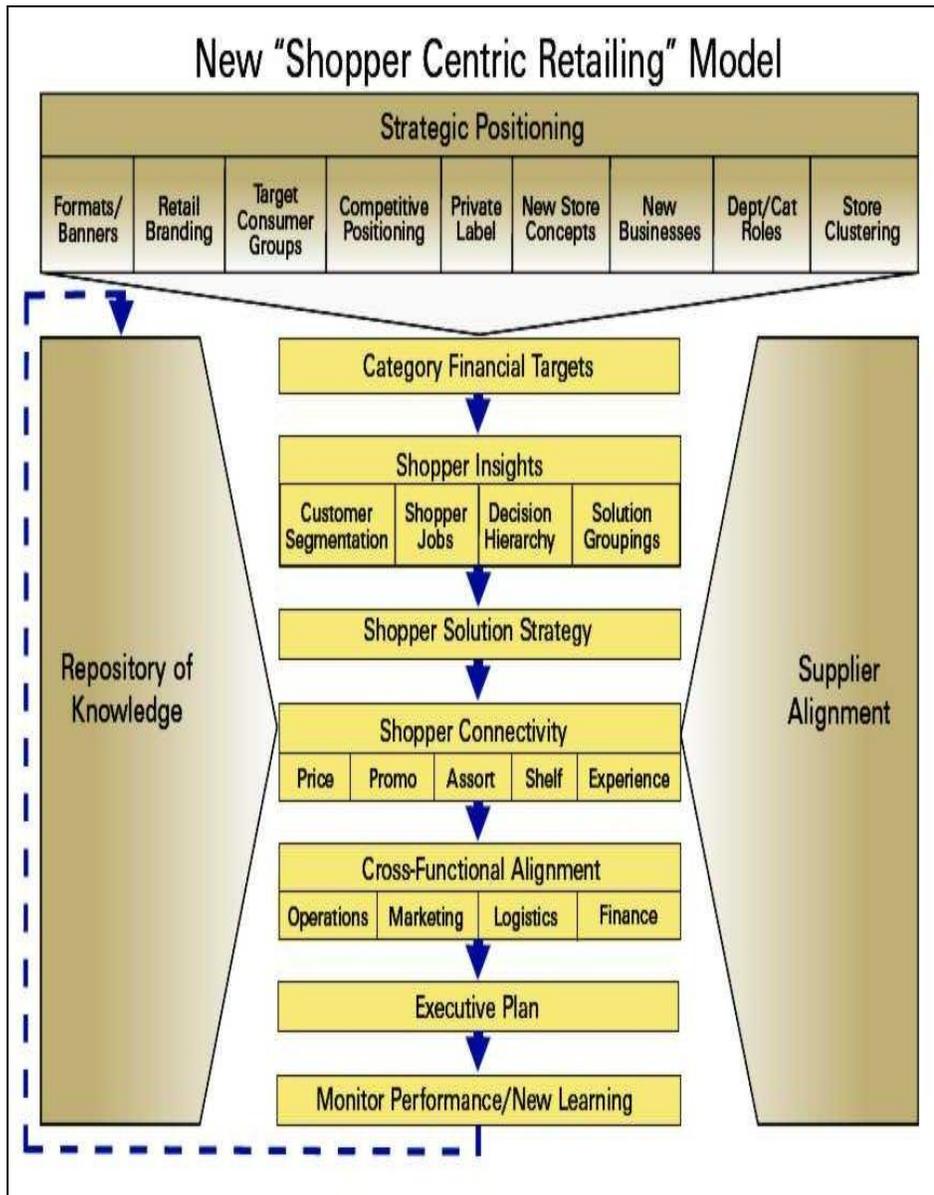


Figure 10.3 shows a shopper centric retailing model which utilizes category management. In exhibit 10.C, various terminology utilized in category management are depicted.

**EXHIBIT 10-C**  
**VARIOUS TERMS ASSOCIATED WITH CATEGORY MANAGEMENT**

<b>Category Vision</b>	This refers to the view of top management on each category, which is must for leaders in order to achieve customer satisfaction or value offering and the differentiation.
<b>Category Definition</b>	This is based on customer segmentation and the specific SKUs belonging to the category. For example, a broad category definition can be 'soft drinks', a sub-category can be 'aerated soft drinks' and one of the SKUs within the same can be 'Pepsi 500 ml'.
<b>Category Assessment</b>	The category assessment is done to identify gaps, if any, between the category vision and the existing SKUs contribution to the category. This assessment helps improve the category's business by identifying opportunity gaps in sales, stock and profits.
<b>Category Balanced Score Card</b>	This helps to measure the performance of the retail business. It establishes specific business targets to the category while reflecting on its performance.
<b>Category Strategies</b>	These aim at achieving the best of customer off-take from the Shelves, ringing in the maximum number of transactions, earning maximum margins and achieving certain subjective goals like excitement, sensationalism etc. for customer satisfaction.
<b>Category Tactics</b>	Category tactics refer to the tactical requirements to achieve the score card targets. These tactics are compared with others to create a competition to attain the best advantage and edge. They are centered around the areas of assortment, pricing, space planning, promotions, etc.
<b>Category Implementation and Review</b>	This refers to the store-level execution of the category business plan and strategies and monitoring category performance against the plan to take action on an ongoing basis.

Successful category management in retailing is a customer-driven process. It enables the retailer to have the right category mix through the preparation and implementation of an efficient category plan.

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## **10.6 SUMMARY**

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Merchandising is more than simply the arrangement of products on the shelf. Merchandising and display are the important parts of the marketing plan. In today's competitive retail environment, a retailer cannot afford to consider merchandising as a 'frill'. Everyone is competing for the customers' money. There are more choices out there for consumers than ever before. Therefore, merchandising is an integral component for the business brand.

In this unit the important spectrum of merchandising and its related aspects were covered. It included the concept of merchandising; planning, grouping and hierarchy. It touched upon in great detail the concept of 'Open to Buy' and how it can help maximize retail profits. It also reflected upon various aspects of category management and how it helps in implementing 'shopper centric retailing' model.

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## 10.7 REVIEW QUESTIONS

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1. Briefly describe the concept of merchandising as applicable to retailing. List 7R (rights) of merchandising with the help of examples taken from pharma-retailing.
2. What is merchandising hierarchy? How is it useful in Range Planning?
3. List and describe eight important elements of an efficient OTB plan.
4. Describe six advantages of OTB plan? How do they maximize retail profitability?
5. List and discuss seven aspects of Category Management.

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## 10.8 FURTHER READINGS

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- Bierre, M. & Kotzab, M. (2005), Retailing in a SCM Perspective, Copenhagen, Denmark: Copenhagen Business School Press
- Fernie, J. And Spacks, L, (2009) Logistics and Retail Management: Emerging Issues and New Challenges in Retail Supply Chain, US; Kogan Page
- Corada, James W. (2003), Digital Hand: How Computer Changed the work of American Manufacturing,

Transportation and Retail Industries, UK: Oxford University Press.

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## UNIT 11 RETAIL DESIGN AND VISUAL MERCHANDISING

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### Objectives

After reading the unit, learner will be able to:

- Understand the role of design in retailing, and how it can be used to differentiate a retail offer.
- Understand the scope of visual merchandising, which deals with layouts, displays and product presentation, as a specialized area of retail management.
- Gain an understanding of the need for retail space to be productive, and the ways in which space productivity can be measured;
- Appreciate the key principles of planning and allocating space to various product categories that makes up a retailer's offer.

### Structure

- 11.1 Introduction
- 11.2 Designs in Retailing
- 11.3 Store Design
- 11.4 The Strategic Role of Store Design
- 11.5 Retail Website Design
- 11.6 Visual Merchandising
- 11.7 Store Layouts
- 11.8 Product Presentation
- 11.9 Fixtures
- 11.10 Displays
- 11.11 Space Allocation
- 11.12 Summary
- 11.13 Review Questions
- 11.14 Further Readings

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## 11.1 INTRODUCTION TO RETAIL DESIGN

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After finalizing the decision on the location and type of outlet from which the retailer is going to run a business, it is necessary to consider how that business will physically appear in terms of look and feel to potential customers. The environment in which the retailer-customer interface takes place needs to be designed so that target customers feel comfortable, interested and encouraged to purchase. Developing the appropriate sales environment is a two-stage interlinked process. One is the design of the outlet itself, and the other is the presentation of the product-service offering within.

Retail outlet design is a long term strategic decision. This is because the physical store development and fittings are big investment for a retailer. These investments can have a long and indirect pay back period. Retail design often comprises the very essence of a retailer's strategy because it communicates, in the first instance, what a retailer stands for. The following matrix shows the key elements of the physical design of a retail outlet.

<b>Strategic Inputs</b>	<ul style="list-style-type: none"> <li>• The market positioning</li> <li>• The brand impact</li> <li>• Comfort space for customers</li> </ul>
<b>Tactical /Operational Inputs</b>	<ul style="list-style-type: none"> <li>• For convenience of shopping process</li> <li>• The product display</li> <li>• Outlay of fixtures in the retail space</li> </ul>

The aspects that can change according to merchandise assortment are referred to as visual merchandising. It is the visual merchandising that constitutes a strong bond between the retailer's identity and the management of the product range that it proposes to sell.

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## **11.2 DESIGNS IN RETAILING**

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The physical design aspects of retailing have always been of paramount importance. A retail outlet that is visually pleasing and has logical layout is, of course, appealing to customers. In this quest, one should not lose the sight of making efficient use of space since it is a major contributor to the profitability of a retail outlet. Innovative design has been used in saturated and mature markets as a way of differentiation from competitors. An outstanding design that combines an optimization of the sales space coupled with great product design and display, leads to the strengthening of a particular retail brand and its corporate identity. Even in small retail operations, owners or managers need to consider design in addition to day-to-day running of their businesses.

However, large retail chains have specialist departments of design management. Some times they also outsource work to retail design agencies. Any retail manager must have appreciation for the role of proper retail design. This is because retail designs lead to:

- Reinforcement of the strategic aim of the retailer
- Facilitation of day-to-day operations



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### **11.2.1 The Corporate Identity**

The external façade of a retail outlet is useful for reinforcing a retailer's corporate identity. The initial impression that the retailer makes with the exterior of the store or the web site homepage of website (for an *e-tailer*) is very important. The retail fascia, which includes stylized visual features above and around any windows and doors into the outlet, communicates the name of the business. It may also incorporate a logo that helps customers to recognize the retailer from afar. This has led to development of a totem-pole or roof-top signage.

Fascias usually use distinctive corporate lettering and colors, which can then be linked to other elements within the outlet. These include in-store signage, point-of-purchase materials and carry-bags. The corporate identity may be extended further to own-label packaging and product information sources like leaflets. It is simpler to reinforce a corporate identity within the store environment. Non-store retailers can incorporate colors and lettering within a website, or use a catalogue linked to the packaging used in home delivery.

Large retail chains like 'Reliance Retail' frequently use the same or a similar corporate identity across all formats in order to transfer the positive associations built up across the formats.



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### 11.3 STORE DESIGN

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In this section the design of physical stores will be discussed, followed by designs for other retail formats.

#### FIVE ELEMENTS OF PHYSICAL STORE DESIGN

Physical design of a retail store is a combination of five key design elements.

- the exterior,
- the interior space,
- fixtures,
- merchandise
- people

In the above listing, the physical store elements, i.e. exterior and interior space, are considered to be relatively constant. Therefore, the design methodology used for these elements has to be on long term basis. The third element, fixtures have to be considered on a medium basis. Therefore, the design should have elements of flexibility and replacement. The last two factors for physical store design constantly undergo changes. The changes in merchandise are based on layouts, displays and product presentation are based on seasonality, and different sets of people visit the store at different points in time. Therefore, it is important to build into the design of the store the flexibility to accommodate the changing nature of merchandise and people.

### 11.3.1 The exterior

The exterior of most retail outlets includes the fascia. The fascia constitute of following:

- Store entrances
- Size of store doors and windows
- Architectural features of the building housing the store

These exterior parameters are important in the overall exterior design to portray the feel of store format, and the products that it offers. If one looks at the exterior design of super market, hyper market or category killer store, we find that they have very bold fascia and wide entrance doors that enable easy access to the store. Such stores hardly use window displays. However, standalone stores have to adhere to the guidelines of the municipality or the town planner. Further, they may also have to adhere to the building guidelines in terms of signage, window display, etc. However, a key issue for these retail outlets is to provide entrances that allow easy access to all strata of society.

*Figure 11.1. Exterior of a furniture shop*





### **11.3.2 The interior**

In many ways, the interior of a store is very similar to our personal living spaces. The interior of a store generally comprises of:

- Walls
- Ceiling
- Flooring
- Lighting
- Fixtures for merchandise presentation
- Fittings for specialist retail equipment
- Provision for check-out counters together with electronic cash registers

Therefore, the principle of interior design of a retail outlet is to apply the above-mentioned fixtures to create an optimum design for a particular type of outlet. For example, in making the selection of materials to be used for interior of the store, designers have to consider the kind of products being sold, the cost, store traffic, health, safety and environment issues.

### INTERIOR DESIGN EXAMPLE 1

For a fast food retailer, the interior design considerations include easy of cleaning, hygiene, and the ability to handle high levels of customer footfalls. Therefore, high quality durable tiling and easy-to-clean laminates are kind of material that must be considered for floors, countertops and tables. Walls should be painted with plastic emulsion paints that are easy to clean.

### INTERIOR DESIGN EXAMPLE 2

While designing interior of youth-oriented fashion store, one design consideration is that re-fit is likely to happen in less than five years. Therefore, one could use fashionable furnishing materials that may be less expensive but are high on visual appeal. This may include use of glass and shiny materials to create glitz and glamour.

However, all interior design elements of a retail outlet must conform to HSE (health, safety environment) and other such standards that are prescribed under national policy and laws related to shopping establishments.

*Figure 11.2: Interior of modern retail shops in shopping malls in Gurgaon*



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### 11.3.3 Atmospherics

Atmospherics includes the creation of an aura or an outstanding ambience in retail outlet through a combination of different types of:

- Aromas
- Sounds
- Colour
- Lighting
- Textures
- Temperature and humidity control

By simulating customer senses retailers can try to enhance the shopping experience. In the exhibit 11.A below, are listed various elements that can be tweaked to create relevant atmospherics. In consultation with the retail store management, the retail interior designer can choose appropriate sets of elements to create an ambience that is suitable for the type of products being sold, and the kind of customers that are likely to visit the store.

**Exhibit 11.A**

<b>Aromas</b>	Bread, coffee, chocolate, floral, pine (for seasonal festivals).
<b>Sounds</b>	Popular music, classical music, 'mood' music, voice (announcements), radio.
<b>Colours</b>	Neutrals such as black, grey, white; natural materials, warm colours (reds, oranges, pinks, yellows), cool colours (blues, pale greens, white) earthy colours (browns, greens, oranges).
<b>Lighting</b>	Cool lighting (blue, bright), warm lighting (orange, yellow pink), subdued spotlights (to pick out and highlight), ambient (general lighting), sculptural light (in alcoves, behind panels, and so on), illuminated paneling and signage, neon.
<b>Texture</b>	Shiny and smooth (chrome, gilt, marble), metallic (brushed, galvanized, embossed), textile (carpet, fabric, fur, jute), wood (polished, raw, smooth, knotted), stone/brick.



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## **11.4 THE STRATEGIC ROLE OF STORE DESIGN**

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Large retailers have enormous investments tied up in physical assets with their retail outlets. The strategic intent of store design is to ensure high levels of customer footfalls at the store to get an adequate return on investments. A good store design must keep the customer comfortable, inspired and even entertained. This helps the store ensure that customers are interested in store-based shopping.

The new generation customers are highly design savvy, and they will not tolerate poorly designed and badly decorated retail spaces. In addition, the competitive threats from new formats like online retailing and television-based shopping have compelled retailers to pay greater attention to the design of retail outlets.

The advent of international fashion retailers such as Mango and Zara in India who offer very clean cut and modern store interiors have set new standards. This has inspired home-grown retailers of women apparel to do makeover of their stores to meet international benchmarks.

Store design also supports other elements of retail strategy. An interior that comprises of plush carpeting, elegant sofas and marble embellishments denotes high quality merchandise. It can also lead to the inference of a 'high price positioning'. At the other end, bins and baskets and plain vanilla lighting bring the notion of 'basement bargain' to a consumer's mind. However, with maturing of retail marketing, retail outlets have become a means to achieve a strategic end. In India, Spencers has

revamped its store designs to position itself as a good value fresh and quality grocery retailer. Stainless steel paneling, vitreous floors and tiling, and focused CFL lighting are used to create impression of freshness and hygiene. Fine details in retail outlet design help focus attention of a customer onto the value proposition that an organized green grocery retailer can provide. This gives Spensers an opportunity to compete against myriad small-time greengrocers in the unorganized sector.

#### **11.4.1 Concept of Flagship Stores**

The large chain retailers with multiple stores often have a 'flagship store'. A flagship store generally operates in a very prestigious high footfall and high-street location. Such stores set gold standard for that particular retail chain. Typically, flagship stores likely to be large in size, furnished with latest interior store design concepts, and stock the high end of the product range of that retail chain. The flagship stores are often located in cities famous for high fashion like London, Paris, New York and closer to home international shopping destinations like Singapore and Dubai. The flagship stores ensure top-of-the-mind reinforcement of the retailer's brand coupled with high financial performance. They also perform a media relation function by hosting general and trade media to view new product ranges, or retail concepts. Because of these strategic functions, the operations and investments in a flagship store is cross-subsidized by other stores in the chain of that retailer.

Flagship stores are found not just in fashion retailing. Many other formats like supermarkets, variety stores and category

specialists also use the concept of 'model store' for market testing. These include:

- i) New product lines
- ii) New ways of visual merchandising
- iii) New retail design concepts

In fact, many manufacturers also set up retail flagship stores to put their brands on a higher pedestal. One such example in India is, company owned and operated 'Bata' shoe stores.

In India, the concept of flagship stores is rapidly emerging. In large retail districts of lower Parel in Mumbai and MG Road in Gurgaon several retailers have flagship stores.

*Figure 11.8: Reliance flagship Store at Ambience Mall, Gurgaon*



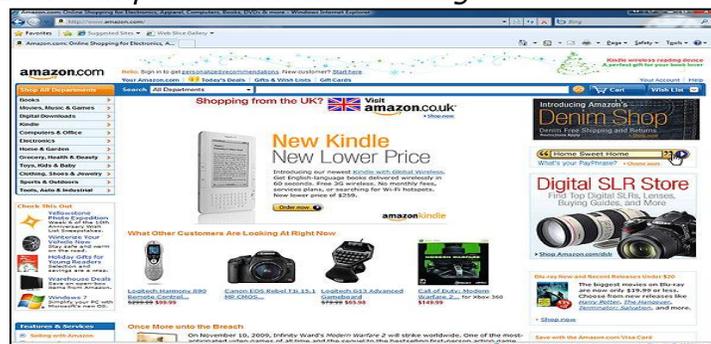
## 11.5 RETAIL WEBSITE DESIGN

Many retail entrepreneurs have tried to use sophisticated design as a way of overcoming the shortcomings of virtual retailing. While many of the ideas have been innovative and attention-grabbing, their incorporation into a fully integrated online retail experience needs to be fully developed.

Most retail web sites follow a set formula: an opening page, company information, categories of products that link to pages of tiny product photos that can be clicked for a closer look, and finishing with an ordering facility. Whilst this type of standardized navigation helps the user become familiar and functionally proficient, it does not provide much opportunity for differentiation.

A successful retail website needs to balance visual interest with ease of navigation and use. The whole attraction and competitive advantage of website shopping is based on convenience. So, reminding the customer of the frustrations incurred in store shopping such as not being able to locate items, waiting for images to download, or complex checkout procedures is bound to cause shopper dissatisfaction.

*Figure 11.3: Sample retail website design*





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## 11.7 VISUAL MERCHANDISING

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Visual merchandising is concerned with presenting products to customers within the retail space. It is a term that is sometimes used as an alternative to merchandise display. However, these days it is generally understood to encompass all activities concerned with the presentation of products within the retail outlet, including the choice of store layout, the method of product presentation, the choice of fixture and fittings, the construction of displays, and the use of point-of-sale material. It also has a very close connection with the allocation of space within the outlet. Visual merchandising is more important in some retail sectors than others. For example, fashion and home furnishing retailers have always devoted considerable resources to displaying products in a visually appealing way, whilst discount grocery retailers are much more concerned with space efficiency. However, the need to adapt to style-conscious twenty-first-century customers is as relevant to the way products are presented as the way a store environment is designed.

*Figure 11.4: Visual Merchandising*



The implementation of a visual merchandising strategy within a retail business is not standardized across the industry. In some retail companies, visual merchandising could be the responsibility of corporate communications, promotion or marketing department. In other organizations visual merchandising is given the status of a specialized function.

Often a multiple outlet retailer will employ a team of regional visual merchandisers who rotate through a number of stores in a given area. The creative aspect of the visual merchandiser's role attracts people with a design training or background, although specific training for visual merchandising is becoming more common.

One of the advantages of using a centralized team is that the retail brand identity can be controlled across all outlets, and visual merchandising can tie in with other corporate communication themes and messages. There is, however, a danger that the centralized approach may prevent the retailer from adapting to local themes, preferences and competition in the visual merchandising activity.

Visual merchandising helps educate customers about the product/service in an effective and creative way, and draws the attention of the customer to enable him to make a purchase decision within shortest possible time, and thus augment the selling process.



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## 11.8 STORE LAYOUTS

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In retail stores, many different kinds of layouts are prevalent. The selection of layout depends on following:

- i) Nature of the product category
- ii) Width and depth of the product range
- iii) The fixtures and accessories utilized
- iv) The physical size and shape of the retail store

Therefore, the whole objective of an efficient store layout is to improve customer touch points with the merchandise.

One widely used store layout is known as the 'grid'. This layout is generally used with shelving fixtures (the gondola is the most popular shelf type for this). The shelves are separated by aisles through which customers move. The grid type of layout is a space efficient and logical, but it is rather inflexible and standardized. It is not amenable for developing new and interesting kinds of products displays. This layout is popular in supermarkets as it is the most efficient way to display a very wide range of products.

As was discussed earlier, one of the important objectives in retail trade is to maximize GMROF (Gross Margin Return on Footage) which is often influenced by the store layout.

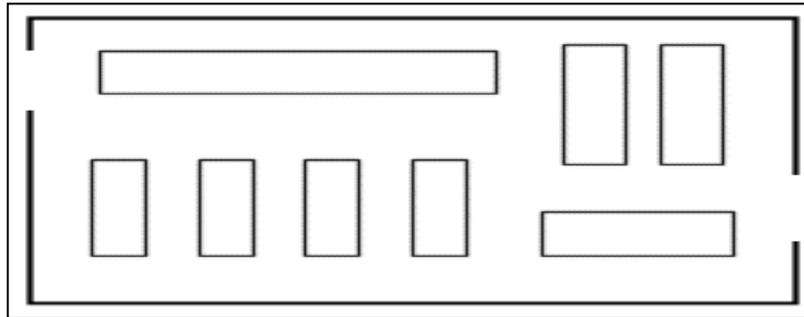
Store layouts generally depict the size and location of the various departments of supermarkets, and any permanent structures. Also, various fixture locations and customer

movement patterns are marked on it. We will now present several standardized store layout format.

### ***Straight Floor Plan***

This is very optimal and useful store layout that can be applied to almost all types of retail stores. It makes use of walls and fixtures to create small defined spaces within the retail store. It is also a very cost efficient design.

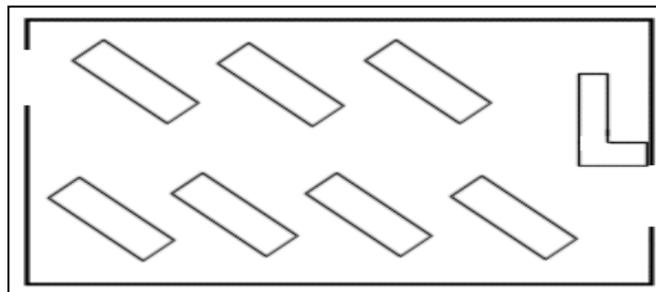
Figure 11.5: Straight floor plan



### ***Diagonal Floor Plan***

A good store layout that is useful for self-service retail outlets is the diagonal floor plan. It offers the advantage of outstanding visibility to both cashiers and customers. This plan, shown in Figure 11.6, helps customers move easily within the store.

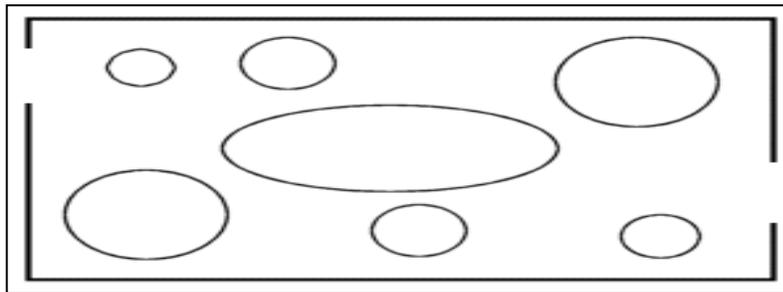
Figure 11.6: Diagonal Floor Plan



### ***Angular Floor Plan***

The angular floor plan is often adopted by high-end specialist stores. This employs differently shaped and curved fixtures to develop a luxurious store design. The soft angles provide a more elegant way to move customers within the store.

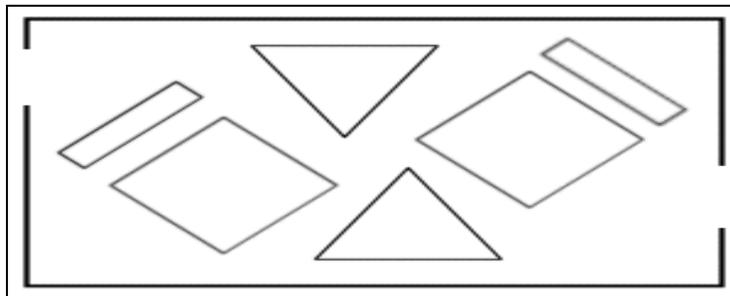
Figure 11.7: Angular Floor Plan



### ***Geometric Floor Plan***

The clothing and apparel outlets typically use a geometric floor plan. In this design, as shown in Figure 11.8, utilizes racks and fixtures to develop an interesting store design without incurring high costs.

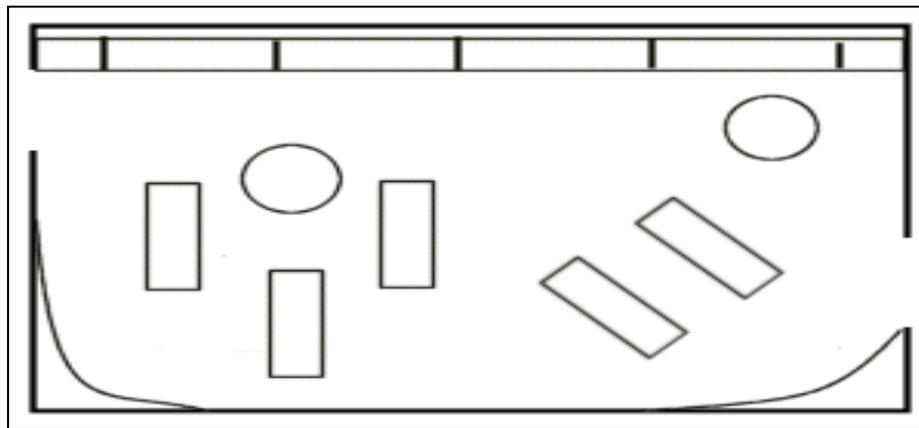
Figure 11.8: Geometric Floor Plan



### **Mixed Floor Plan**

Such floor plans utilize the elements from the diagonal and angular floor plans to create a function-specific store layout. This layout facilitates the movement of customer traffic towards the wall and the back of the store. This layout generally used by stores which stock intimate products.

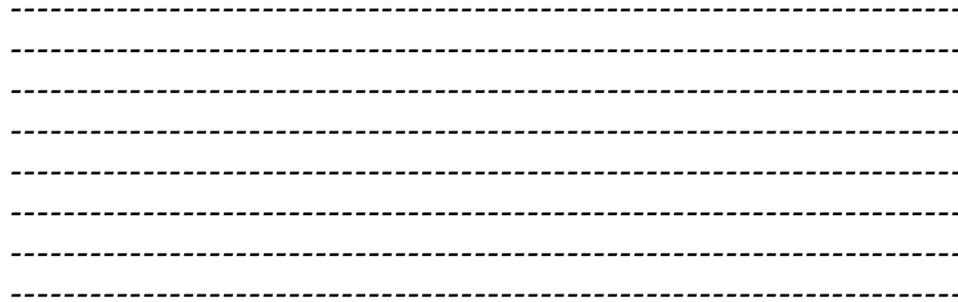
Figure 11.9: Mixed Floor Plan



In the recent times, many retailers have experimented with variations on the basic grid layout. One such variation is called 'fishbone' layout where the grids are angular instead of being straight. Some specialist store retailers use combination of freeform layout for high end range products combined with a grid layout for mass merchandise. The freeform layout is less systemic than other types of layouts. However, it can accommodate a wider variety of fixtures, and is more conducive to browsing.

A retailer who has limited range of merchandise often uses a 'boutique layout'. In this, customer is surrounded with





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## **11.9 PRODUCT PRESENTATION**

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Merchandise in a retail store is generally presented in two ways. One way is to place or stack the merchandise on variety of fixtures. This provides a neat and elegant way of presenting the merchandise to customer. Sometimes, promotional items or markdown items dumped in baskets or bins which enable customers to rummage through to find an appropriate piece. The other major way to present a product is to hang the product either on hangers, on specially made pods. It also involves using specially designed packaging. This is common for items like necktie, scarves, set of socks etc. Some times, mannequins (both male and female) are used to show how a garment, when worn, will look on a person.

After one has decided how a product is going to be presented, the retailer looks at various ways to improve product presentation through the use of appropriate fixtures or packaging. The whole idea is to improve the visual appeal of the merchandise, especially for clothing and apparel. Many times clothing is presented according to colour themes, or as a set of mixed and matched accessories. Other ways of product

grouping are employed in an electronics or consumer durables store based on price ranges, technical features, or size.

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## **11.10      FIXTURES**

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Fixtures are necessary to create appealing visual display of merchandise to prospective customers. The selection of fixtures depends on the type of merchandise to be displayed, and how best the retail space can be utilized. Fixtures also depend upon the kind of retail layout a store selects. Below is a list of commonly found fixtures in retail outlets:

- shelving
- gondolas shelving
- two-way/ four-way display rack
- round fixtures,
- bins, baskets and tables.

### ***Two-Way Garment Display Rack***

A two-way garment display rack is a very orthodox, yet cost effective way to display clothing. Such racks are adjustable in height, and are available in either chrome plated or black enamel paint finish. The rack is also available in a variety of arm choices, straight and slanted. Generally, such racks have a flat base but can be supplied with caster wheels.

*Figure 11.10: 2-Way Chrome Garment Display Rack*



### **Four-Way Garment Rack with Slant Arms**

This again, is another reliable and popular apparel hanging fixture. It is generally supplied with slant arms studded with small pegs to separate the hangers. The construction and finish are similar to a two-way garment rack.

*Figure 11.11: Four-Way Chrome Garment Rack With Slant Arms*



### **Body forms and mannequins**

Body forms and mannequins depict how a garment, when worn, would look on a body. There are many kinds of mannequins available to retailers today. The high end ones include robotic

features like walk and animated voice, while low-end traditional ones are torso forms and wire forms.

*Figure 11.12: Body forms and mannequins*



### **Round Rack**

A perennial favorite of retailers, this kind of rack comes in many sizes. The size variations can be in terms of the height of legs and / or the diameter of the circular ring. The circular ring can support circular baskets on it and the ring can also be used to hang the hangers. It is generally available in chrome and black finishes.

*Figure 11.13: Round Rack*



### **Cube Units**

Cube units can be constructed in glass, plastic or wire forms. Many times these are custom built in laminated wood by the

retailer to fit a specific layout or wall space. These are useful for stacking related items that need separators to distinguish colour themes or sizes.

*Figure 11.14: Cube Units*



### **Grid Merchandiser**

The Grid Merchandisers are light weight, flexible fixtures made out of wire frames. Such fixtures are typically available in black, white and chrome finishes. The grid fixtures provide a sleek look to retail outlet and are useful in displaying a large amount of merchandise in relatively small space. It provides great flexibility as it can easily be assembled into many configurations.

*Figure 11.15: Grid Wire Mesh Merchandiser*



### **Slatwall Merchandiser**

Such merchandisers are built using slat boards, and bring a modern look to a retail outlet. These fixtures can be assembled using slat wall hooks and shelves. Since it comes in a variety of laminations, it can be adapted to virtually any kind of store décor. However, slat wall is heavy and is difficult to move around unless mounted on caster wheels.

*Figure 11.16: Slatwall Merchandiser*



### **Wrap Counter**

Wrap counters are generally used for storage rather than product display. These are modular units constructed from laminated wood, and generally have adjustable shelving. The purpose of these counters is to stock various items.

*Figure 11.17: Wrap Counter*



### **Full Vision Display Case**

Full vision display cases are typically used by retailers who deal in high-end products like jewelry, mobile phones, watches, digital cameras, etc. They generally have sliding doors and are equipped with a locking mechanism. They also have provisions for interior lighting and shelf adjustments to create stunning visual displays.

*Figure 11.18: Full Vision Display Case*



### Corner Rack

A corner rack is generally built by combining different kinds of fixtures, to build a unique functional yet attractive display unit.

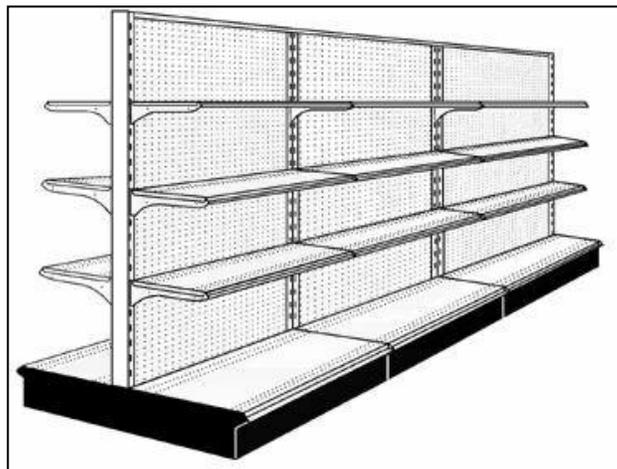
*Figure 11.19: Corner Rack*



### Gondola Shelving Unit

This type of unit has been around since the early days of retail. It provides immense versatility, and is easy to install or re-configure. Gondola shelving units come in several heights and depths, and are available in variety of colour schemes. These are generally used to put together wall units, centre aisles and end caps.

*Figure 11.20: Gondola Shelving Unit*







Another type of off-shelf display is known as promotional display. Such displays are frequently used in supermarkets. Any items being sold on a promotion is displayed in huge quantities on dedicated fixtures, generally at the end of the gondola (end cap)

Another displaying device in retail is the 'show windows'. It is through such windows that customers are attracted to walk into the stores. Window displays are generally open which implies that customers can see behind what is displayed in the window, and into the store. A variant of the window display has a closed back, but the display itself is very elaborate and acts as a beacon to a shopper. Studies prove that open window displays are more welcoming to the customers, with the closed back of a window acting as a visual barrier between customer and the store.

Display design studies also show that following design principles are of importance while designing a window display:

- Balancing
- Emphasis
- Proportion
- Rhythm and harmony

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## **11.12 SPACE ALLOCATION**

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The space allocated to products often depends upon the need to optimize the financial productivity of a retail store and maximize GMROF. Naturally, high priced and high margin products get better displays and space allocation. In fact, space management looks into the following long term objectives;

- i) Market positioning
- ii) Customer loyalty

At the same time it also needs to fulfill short term objectives like:

- i) Stock turn ratios
- ii) Sales turnover
- iii) Profitability

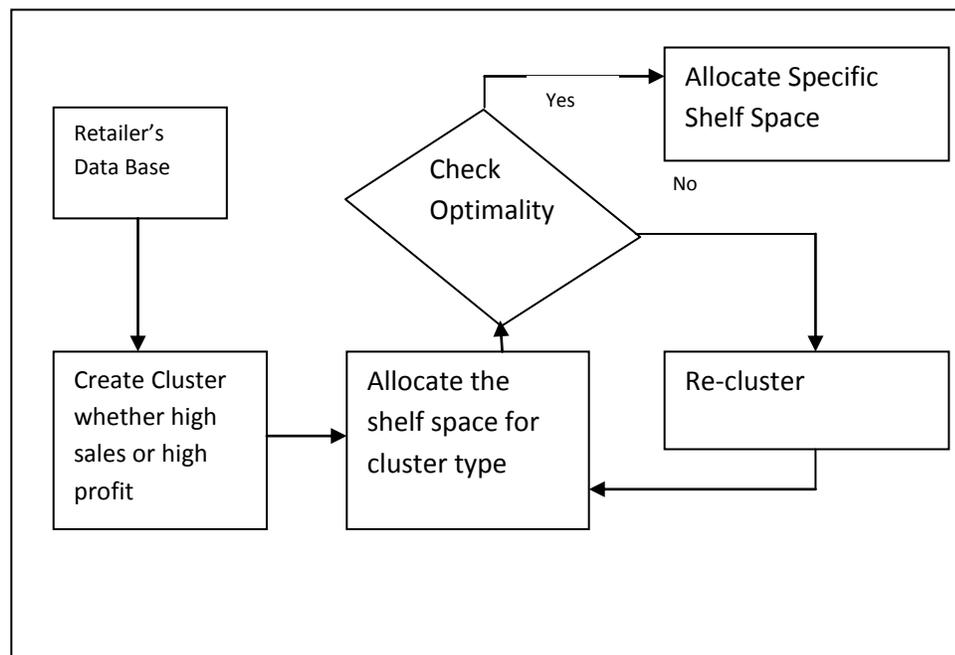
A great looking retail store may not survive if it does not stock and sell enough products to keep the business afloat. Similarly, if the store is too full of merchandise, many customers may perceive that it is too crowded and may not enter the store. Therefore, retail space utilization has to be optimum to aim at the targeted GMROF.

While GMROF has often been used to assess the return on value of retail space, new techniques look at cubic measurement as it is felt that other space like ceiling, walls can also be utilized to display merchandise. Yet another parameter of space allocation is quality of space. Certain areas which are towards the front of

the store and close to checkout counters yield higher productivity. Further complication in space allocation arises from pragmatic consideration in placing merchandise that are heavy or have odd size and shape. Therefore, it is important to understand that space allocation has multiple variables.

As we discussed in merchandise hierarchy, the space allocation decision also need to be considered at various levels of this hierarchy. Some times, a store looks into historical data while at other times it may consider the usage pattern of a similar competitive store. Though time series analysis and competitive benchmarking are useful, but at the end of the day each retailer has to make several trade-off decisions in order to maximize return of retail space. The Figure 11.21 looks into various pathways for space allocation, depending on whether a product has high sales or high margins.

*Figure 11.21: Alternative Space Allocations*



It should also be noted that an excessive emphasis on just the financial objectives can lead to a store being purely space planned and its merchandise difficult to locate. Retailers must realize that long term profitability is based on customer satisfaction and loyalty. Therefore, space allocation must always keep in mind the need to enhance the shopping experience of customers.

As is our wont, wherever there is complexity we turn to computer-based decision support systems (DSS). For modern retail space allocation, many DSS have been developed to use a wide variety of quantitative and qualitative data like:

- Sales forecast
- Product cost
- Product sizes
- Complementary purchase potential
- Types of fixtures

The output of such DSS is an optimum space allocation plan or a planogram that depicts how the merchandise can be displayed on variety of fixtures, and a specified layout plan.

Although, these sophisticated methods have helped retailers make more productive use of space, they still have limitations. In the case of large chain retailers, the stores may differ in size and shape. Unless store specific data is input an effective customized plan for each store cannot be developed. To partially overcome this problem large chains grade their stores into A, B & C categories depending upon their size, shape and location. Recent research also shows that the profile of the customer in a

store's catchment area often gives better inputs for space allocation than the just size of the outlet. This has led to further refinement of retail space allocation DSS. This in turn implies that such DSS have become very expensive, and they are perhaps beyond the reach of small retail stores. Therefore, it is advisable to use a professional services organization to do such planning for smaller organizations, using a sophisticated retail DSS they may possess.

### **CASE STUDY**

#### ***Sephora***

*Sephora is a beauty retailer who has used store design and visual merchandising in a bold and innovative way to carve out a distinctive positioning in a crowded marketplace. Sephora faces many strong direct and indirect competitors. The retail market for beauty products in the UK encompasses department stores, health and beauty specialists like Boots, Superdrug and Body Shop, fashion retailers like Karen Millen and Miss Selfridge, who have extended their product ranges; and even supermarkets. Traditionally, beauty-store environments have used polished materials like marble, glass, gilt and mirrors to create a luxurious and clean feel, with pale and cool colours such as white, cream, grey and pale green to relax the customer and provide a neutral backdrop to the colourful merchandise. Sephora, however, has taken a very different stance, combining a bold and rich colour theme with distinctive design features in both the store's architectural design and the presentation of the products themselves.*

*The two most prominent features of the store's interior design are the deep-red plush carpet, which covers the floor of the store, and the bold black and white tiling that is used on pillars to break up expanses of space within the store and on the floor to create a sharp edge around the red carpet. The black and white theme is reflected throughout in the fixtures, the signage, carrier bags and the outfits that the sales associates wear.*

*In addition to this unique store design, Sephora has devised some extremely clever, attention-grabbing product design and presentation combinations. One of these involves' the display of beautification tools such as nail files and make-up brushes in glass cubes full of tiny metal balls. The resulting display method allows ungainly objects to be housed neatly and effectively, with the repetition in the size and shape of the containers providing a creative impact. The use of extensive colour blocking is also used; for example in the bath time products where circular bottles of bath foams, oils, soaps and novelties provide shape and colour impact when the customer enters the store; and the vast spectrum of lip, eye and nail colours displayed on low level counters.*

*Sephora's strategy is concentrated on the product and the selling environment. The company does not advertise, and prices are competitive and displayed discreetly. The stores play loud, dramatic and atmospheric music. There is a Hollywood-style make-up demonstration area in the centre of the store, and staff wear a black glove on one hand which continues the dramatic theme right to the point of sale. Yet, the store atmosphere is far from intimidating, the accessibility of the*

*product encourages involvement and trial, combining a sense of fun and theatre within the store.*

*In the words of the company: we seek to defy the traditional 'selling methodology' to give you what you want - Freedom, Beauty and Pleasure. Freedom in the form of a hands-on, self-service shopping environment" where you are free to touch, smell and experience each and every product. You are also free to choose the level of assistance you desire, from individual experience and reflection, to detailed expert advice. Beauty comes to you through a splendid international array of unique and luxurious beauty products. Pleasure comes through an environment designed to stimulate your senses - a blend of expert advice, personal freedom, and special service displays bringing you the latest beauty tips and treatment breakthroughs.*

*Sephora has a chequered history, starting out as a small specialist chain in its home country of France, owned for a short time by Boots who then sold the chain in 1997 to luxury branded-goods conglomerate LVMH. The backing of this multinational company has enabled Sephora to grow into a major international force, with 70 outlets in the USA, 150 stores in France, and around 90 stores in the rest of Europe in 2002. <sup>1</sup>*





*Source: Promotional literature of Sephora.*

**Discussion Questions:**

- a. Discuss how Sephora's unique store design influences its clientele?
- b. What is Sephora's product strategy?
- c. What is the pleasure quotient of a Sephora Customer?

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### **11.13 SUMMARY**

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In a retail industry where the consumer is growing increasingly style-literate, the 'persona' of the retail outlet, whether it is a store, a catalogue or a web page, needs to connect with the customer, both functionally and psychologically. Customers must be attracted to and then enticed into the retailer's space. Once inside they need to be filled with positive emotions and associations, and their shopping needs both in terms of the product and the process have to be understood and fulfilled. The design of the retail outlet has to find a balance between creating an original and enthralling arena, and a place where shopping can be carried out efficiently. The objectives of store design and visual merchandising may be different according to the role that individual outlets play within the retailer's portfolio, with flagship stores and internet sites frequently taking brand-building rather than productivity-orientated roles.

Store design and visual merchandising in most retail businesses however, have very clear objectives concerning the enhancement of products, generation of sales and the augmentation of profitability. All this revolves around an understanding of the relationship between customers, space and the product range. The superstore retailers, who have been traditionally focused on space allocation and its impact on sales and profits, are now widening their horizons to consider visual merchandising from the viewpoint of the total store environment and its ability to interest, enthrall and entertain.

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### **11.14 REVIEW QUESTIONS**

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1. Explain why retail design is a strategic issue for organizations operating in mature retail markets.
2. Outline the aspects of retail management that come under the umbrella term 'visual merchandising'. Explain why the term may have a different emphasis in different product sectors, such as grocery retailing and fashion retailing for example.
3. By using observational research in your nearest shopping centre, make a critical analysis of the use of design in a retailer that you think has a pleasant shopping environment. Then find a shop you do not feel comfortable in and try to analyze why you feel that way.
4. Retail stores have been referred to as a form of free advertising. Do you agree with this assessment? Explain.
5. Discuss the main considerations for retailers embarking on a space allocation exercise.
6. Using a large multi-channel retailer of your choice (one that you can visit), compare and contrast the design and visual merchandising found in the various store and non-store outlets that are used. To what extent is the retail brand reinforced and supported by the different retail formats.

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### **11.15 FURTHER READINGS**

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- Bierre, M. & Kotzab, M. (2005), Retailing in a SCM Perspective, Copenhagen, Denmark: Copenhagen Business School Press
- Fernie, J. And Spacks, L, (2009) Logistics and Retail Management: Emerging Issues and New Challenges in Retail Supply Chain, US: Kogan Page
- Morgan, Tony (2008), Visual Merchandising: Window and In-store Displays for Retail, US: Laurence King
- Barr, Vilma and Field, K. (2001), Stores: Retail Display and Design, US: Vhps Rizzoli



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## 12.1 EMERGENCE OF RETAIL PLANOGRAMS

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Planogram is a visual representation that depicts how products or merchandise should be placed on various types of retail displays. The whole idea behind developing planogram is to optimize sales of a retail outlet. This is achieved by maximum utilization of shelf space. There are determinants affecting merchandise on display:

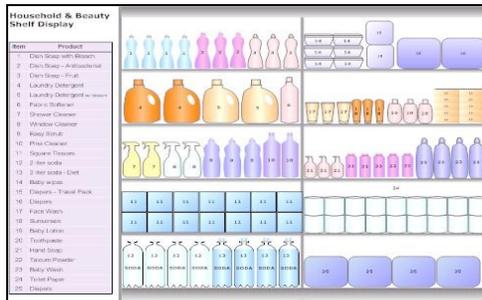
- i) Absolute quantity of merchandise on the shelf.
- ii) Visual appeal to attract potential customers' attention.

Different types of planograms are utilized at different segments of retail sectors. For example, FMCG (Fast Moving Consumer Goods) organizations and supermarkets use planograms to achieve the following:

- i) Optimization of shelf space
- ii) Faster inventory turns
- iii) Higher profit margin

Such planograms are known as "text and box" based planograms. However, in apparel merchandising and clothing stores the planograms must provide the visual look, so as to analyse how such merchandise be displayed and identified. Therefore, they generally use pictorial planograms. The example of this are shown in Figure 12.1 & 12.2 respectively.

Figure.12.1



A planogram for Bottle Merchandizing

Figure. 12.2



A planogram for Apparel Merchandizing

To assist the retailers in achieving their twin objectives of maximizing product display and increase in sales, some of the more evolved suppliers have also started developing planograms for retailers. In this case, suppliers send the planograms to the retailer even before they deliver their products. Such planograms give suggestions to retailers as to exactly where a particular supplier's products can be placed and displayed once they arrive.

### 12.1.1 Key business benefits:

The whole purpose of developing store specific planograms is to increase customers' loyalty to a store by providing him an ease in selection. The planograms also lead several other business benefits, some of which are enumerated as under:

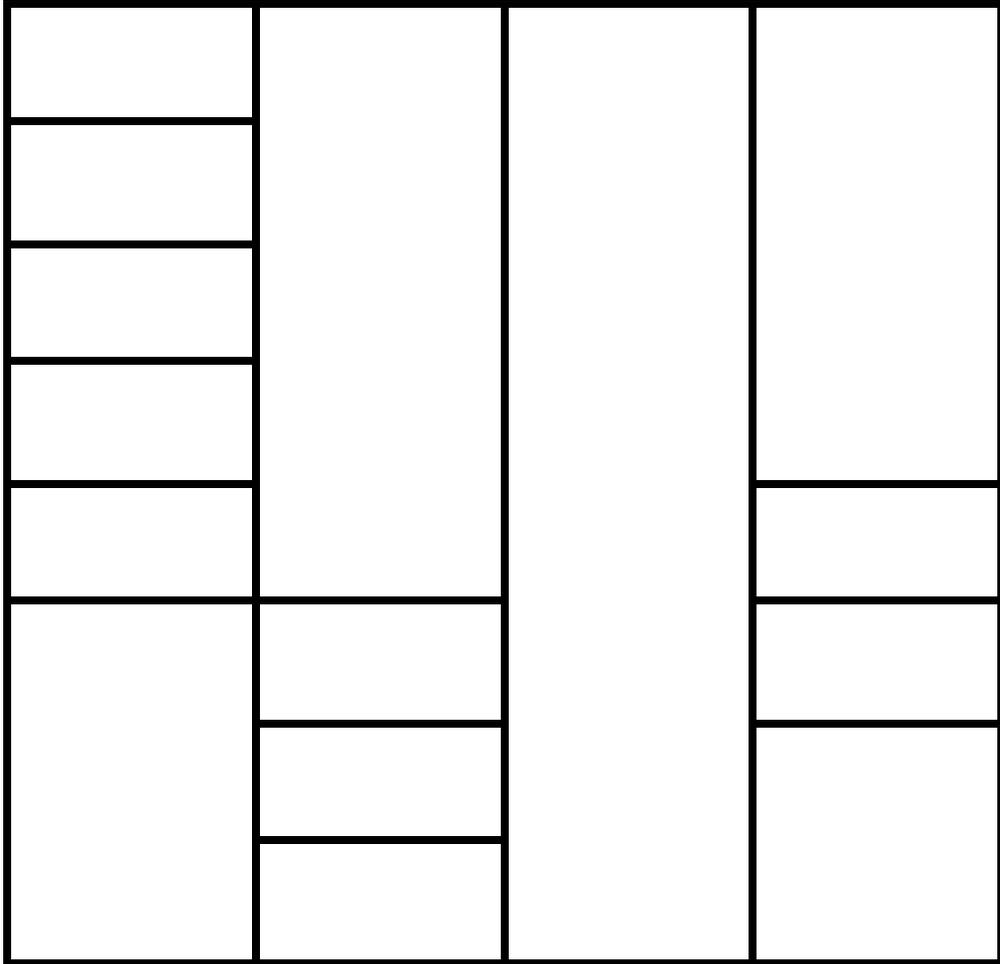
- Store specific planograms lead to an accurate visualization of product display in a store. It leads to conformity between the various stores operated by a large retail chain.
- The store specific planograms also help in maximization of supply chain efficiency. This achieves to most efficient

space utilization, maximization of inventory stock turns. Thus, resulting in higher availability of products to customers.

- Store specific planograms can be customized and arranged for assortment for a particular store. It helps in meeting the true local demand and better financial result.
- Market strategies, specific goods for particular consumer and new product's launch can be evaluated by a planogram that is designed specifically for such purpose.
- One of the major tangible results of the planogram's application is that both the planning and streamlining of display space is achieved. It increases space productivity of stores and provides optimization of the capital investments.
- In addition, utilization of planogram technique leads to following:
  - Increased sales and profitability
  - Reduction in stock and operational cost
  - Lower carrying cost and decrease in excess inventory
  - Overall maximization of bottom line

**Activity 12.1**

*Draw a pictorial planogram for displaying ladies accessories like bags, belts, hats and scarves etc, in the space provided below.  
Use pencil.*



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## **12.2 CREATION OF PLANOGRAMS USING PROFESSIONAL SERVICES**

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The increased sales potential and enhanced shelving efficiencies through utilization of services of merchandising service organizations, can only be achieved by creation of proper planograms.

Big brand stores and larger retailers typically hire merchandising service organizations to assist in developing planograms or they may have their own in-house planogrammers. As planogram software is expensive, small and independent retailers resort to using word processors or paper and pen to optimize shelf layout. With the increase in competition, retailers are becoming more aware of the importance of correctly merchandising their products. This awareness is giving way to better point-of-sale displays, planograms and other marketing aids.

*Table 12.1 Depicts Merchandising activity vis-à-vis accruing of benefits using planogram techniques.*

<b><u>Merchandising Activity</u></b>	<b><u>Benefit Measures</u></b>
1. Implementing and maintaining planograms	<ul style="list-style-type: none"> <li>✓ Percent of planogram compliance</li> <li>✓ Sales lost because of slower implementation</li> </ul>
2. Cutting-in new items	<ul style="list-style-type: none"> <li>✓ Speed to shelf</li> <li>✓ Sales lost due to slower speed to shelf</li> </ul>

These two areas as shown in Table 12.1 are brought out by category management. They are chosen because of the increase in the demand for these activities and the introduction of new products.

### **Activity 12.2**

*Visit <http://www.tcs.com> and see Case Study 'TCS uses Planogramming to enhance a a major Hollywood Studio's category management systems'. Comment on this innovative use, by a professional services organisation*

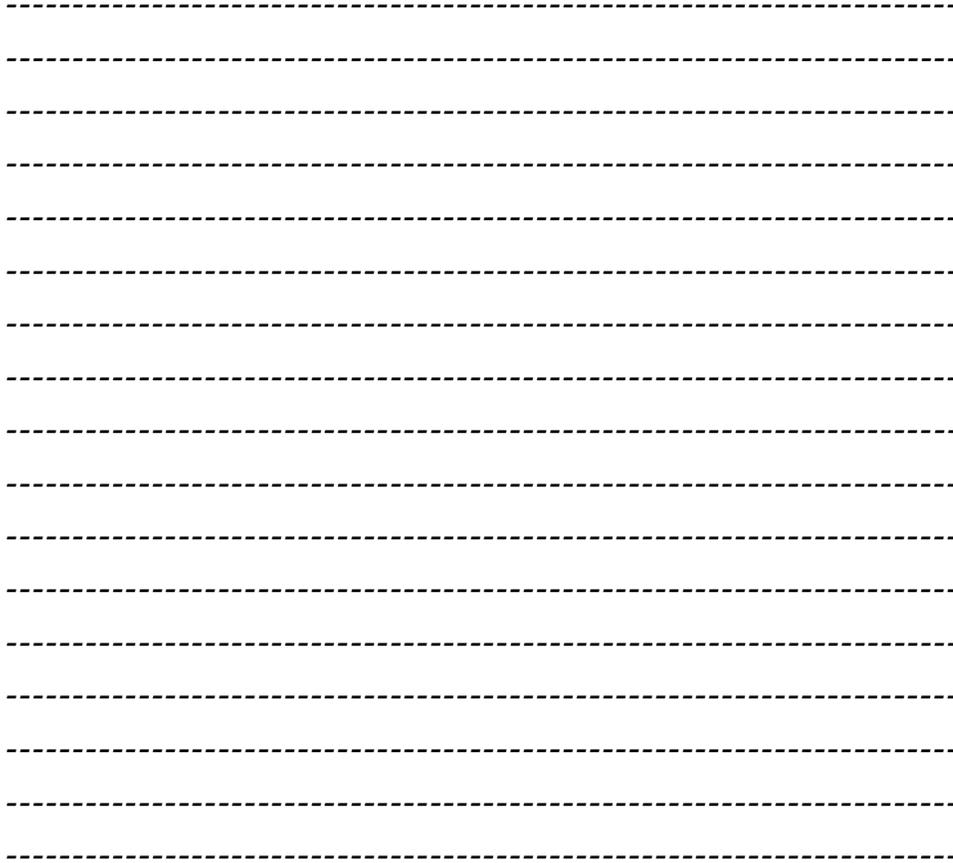
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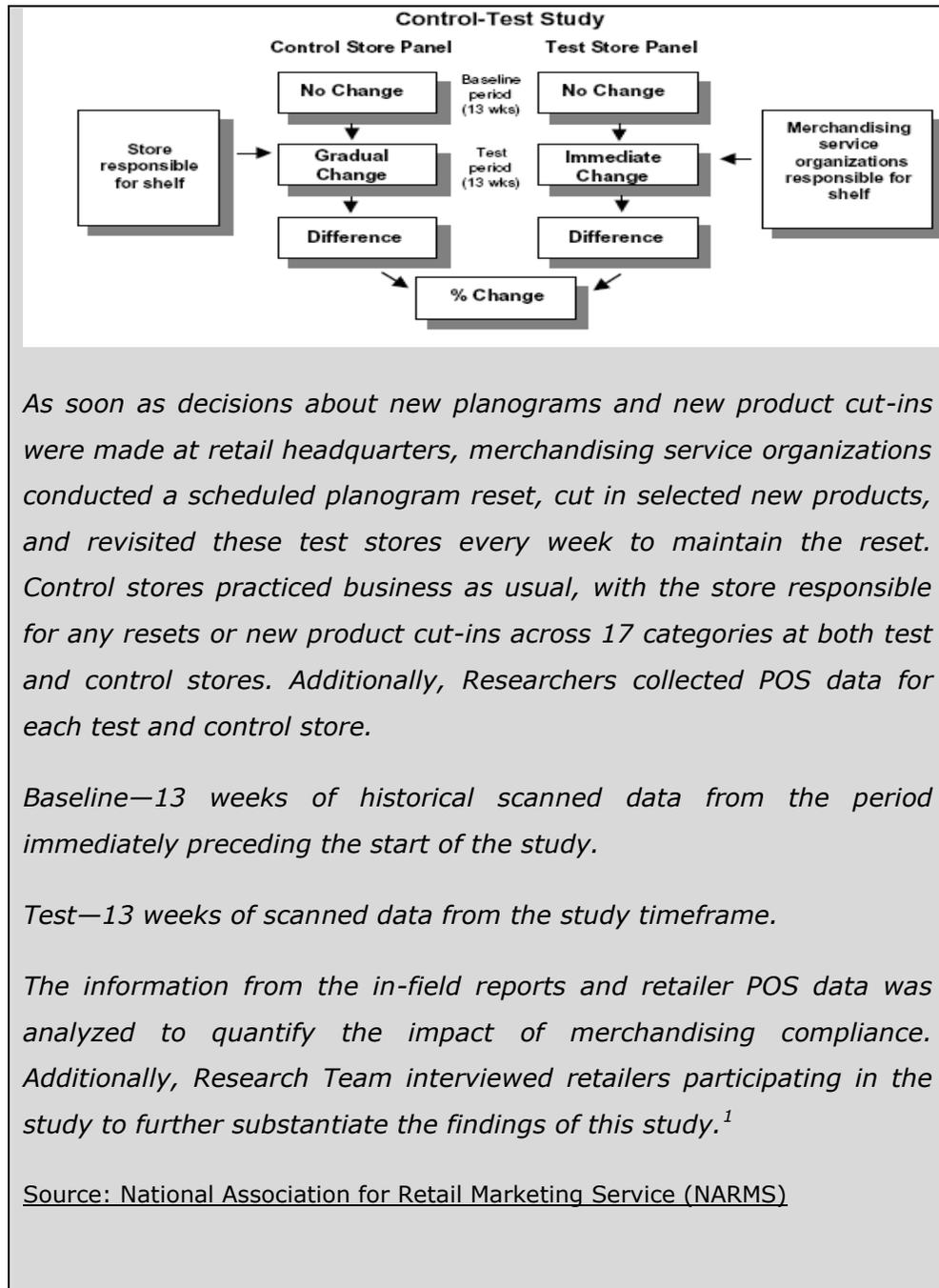
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***EXHIBIT 12.1***

A research project featuring a 13-week test and control store study at two leading retailers.

*A group of study stores were chosen and divided into two matched panels.*



<sup>1</sup> Source: National Association for Retail Marketing Service, The International Marketing Community (NARMS)

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### **12.3 IMPLEMENTATION STRATEGIES FOR PLANOGRAMS USING MERCHANDISING SERVICE ORGANISATIONS**

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Merchandising Services Organizations (MSOs) by virtue of their professional competency develop and imply higher quality of planograms. The role of such professional MSOs are as follows:

- i) Demonstrate better and constant planogram compliance than to traditional methods used by retailers
- ii) Quicker and faster planogram resets is achieved
- iii) Planogramming implementation can increase category sale on an average 7 – 8 percentage.

Merchandizing Service Organizations (MSOs) resolve retailers' problem of lack of internal resources by maintaining category resets. As mentioned earlier, the service provided by MSOs is superior, relevant across the outlet and bring about better and faster productivity gains.

Having said that, it is imperative for management of retailers who engage MSOs, to pay greater attention to the implementation process. The three key guidelines for the same are:

- i) Evaluation of how planograms implementation is currently happening and subsequently, identification of the areas of improvements. They must also focus on whether in-house resources to be utilized efficiently.

- ii) Before putting forward a reset they must look into the fact that the suggested planograms by an MSO would produce a significant increase in sales and fully utilize the parameters of import for store operations.
- iii) For every reset they must see that the implementation team whether in house or provided by an MSO has following professional tools:
  - a. List of new products and discontinued products
  - b. Detailed coloured planogramms with supporting documents
  - c. Shelf tags
  - d. Various associated equipments and supplies

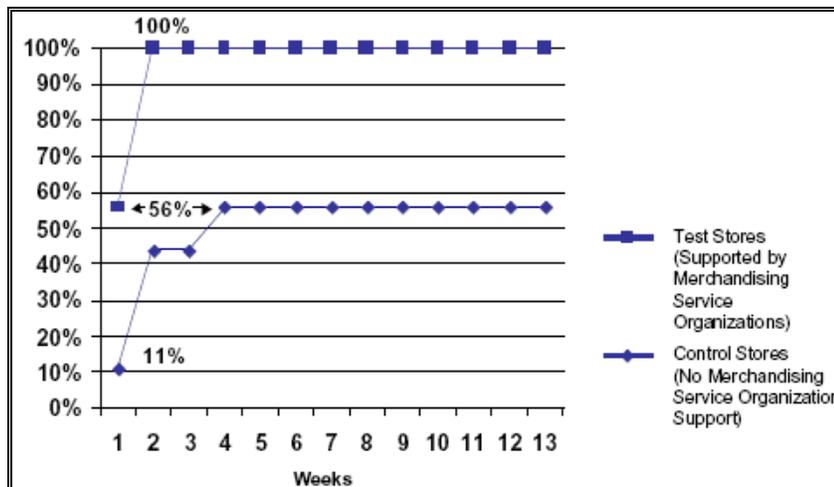
Therefore, it is recommended that wherever possible the retail stores should use professional merchandising organizations to implement planogramms.

Three key findings are obtained from the research on retailers and brand marketers to achieve the significant benefits by using professional merchandising service organizations for planogram implementation. Based on this research following planogram implementation strategies emerge:

### **12.3.1 Merchandising service organizations implement planogram resets faster.**

It is found that when retailers engage MSOs to implement planogram, it resets within two weeks. But when retailers try to do themselves, about 44 % of stores are not able to complete the project even upto four months. Chart below shows such a data.

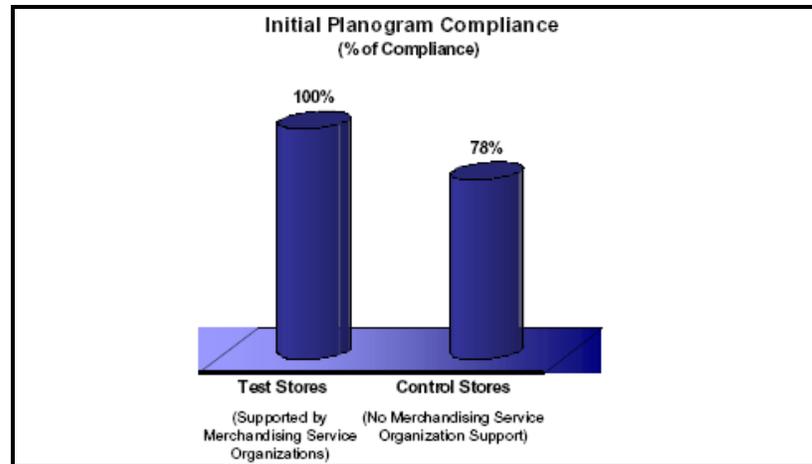
Chart 12.1 Duration of Time to Implement Planogram Reset (% of Stores Implemented)



This is because in-house support is stretched thin as they have many other tasks also to perform. Hence, it is concluded that it is important to engage MSOs for such a task as their entire focus is to get this job done.

### 12.3.2 Merchandising service organizations provide higher quality of initial planogram compliance than retailers current methods.

Again, it has been found by the studies that when retailers engage MSOs, the reset happens to 100% compliance with the planogram. On the contrary, when the retailers try to achieve compliance with the planogram, a compliance success rate of only 78% is achieved. This is because MSOs are single-mindedly focus on achieving this compliance and their professional staff has the core competencies to do so. MSOs focus not just on achieving the reset but also ensure compliance with planogram.

*Chart 12.2 Planogram Compliance*

### **12.3.3 Merchandising service organizations help in sales and profit lift.**

Due to faster and accurate planogram implementation and compliance achieved by MSOs, it has been observed that in a typical category a sales lift of 7–8 % can be achieved. Commensurate with the sales lift, the retailers also achieve 8.1 % increase in profitability. However, it must be seen that the amount of sales lift could vary between the categories. The other parameters that could impinge on sales lift are the impact of new planogram and the status of shelf prior to implementing reset.

Chart 12.3 : Sales and Profit Lift

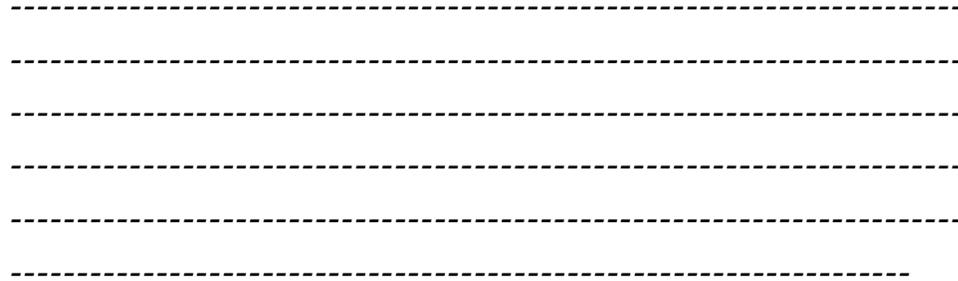


\* Lift is the incremental increase in test stores over and above changes in the control stores.

**Activity 12.3**

What makes MSO's deliver higher quality of planogram compliance?

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## **12.4 NEW PRODUCT CUT-INS STRATEGIES**

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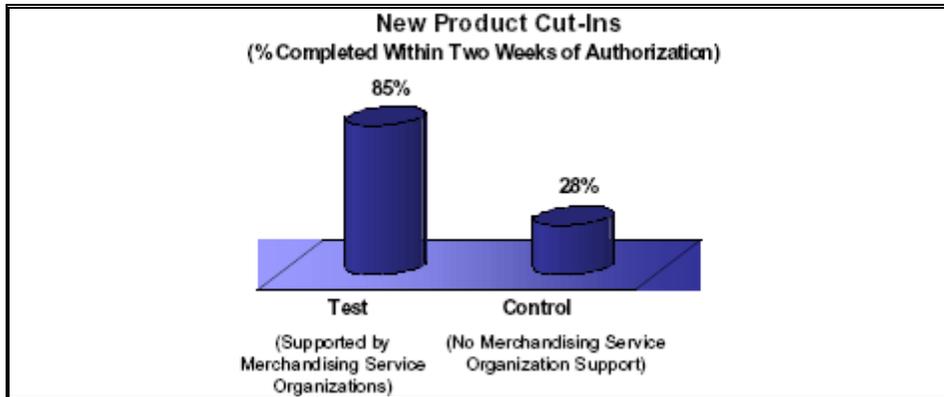
New products require a rapid introduction in the store concurrent with acquiring shelf placement. This is extremely important for any new item to succeed in the market. Again, the studies prove that if retailers engage Merchandising Service Organisations (MSOs) the new product can be brought to shelf quickly building high category sales along with enhanced customer satisfaction.

### **12.4.1. Merchandising Service Organizations get new products on the shelf in a fraction of time.**

With retailers and other core staff is busy in doing multiple things. Generally, new products cut-ins become a low priority for them. Consequently, it takes several weeks or sometimes months to cut-in new product. When such retailers employed MSOs for new product cut-in, they achieved 85% completion within two weeks of authorization of new product cut-in. On the contrary, when the stores tried to do it themselves, only 28% of new product cut-in was achieved in first two weeks. Further more, the reason for MSOs not achieving 100% new product

cut- in in such stores were for two reasons. Either the product did not arrive to the stores on time or the product entries were not made in the POS system.

*Chart 12.4 New Product Cut-Ins*



### **Activity 12.4**

*Why do many retailers have difficulty in cutting in new products? How can MSO's be of help to them?*

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### 12.4.3 Faster implementation of new product cut-ins can provide substantial increase to the bottom line.

This faster product cut in does provide substantial increase in bottom line of the store. Researchers have found that wherever faster implementation of new product cut in were done by MSOs, such stores achieved 45% more revenues from the new product compared to the stores where lower implementation of new product cut-in was practiced by retailers themselves. Chart 12.5 below shows this phenomenon.

*Chart 12.5 Sales from New Product Cut-Ins*



This proves that retailers and brand managers can not afford to the risk of introducing the new product on shelf because:

- i) Retailers would loose the competitive advantage of newer product assortment.
- ii) Brand managers will not be able to visualize the impact of new product with regard to customer's acceptance of the product.

It is important for them to put significant investment to build a specific product and brand. Hence, employing MSOs for new product cut-in help both retailers and brand managers. At times the cost of engagement of MSOs is shared between them.

MSOs bring a sense of urgency to bring new products faster to shelves. This provides brand managers and retailers with value added benefits. To achieve this MSOs, retailers and brand managers must ensure that following are available at each store:

- i) Sufficient quantity of new products
- ii) Prices and codes of new products entered into the POS system
- iii) Specific planogram developed for new products
- iv) Appropriate shelf tags

To conclude, the financial health of retailer and FMCG (Fast Moving Consumer Goods) industry depends on development of better retail execution plan that induce to efficient and disciplined implementation of category plans and faster new product introduction.



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## **12.5 SUMMARY**

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In this unit, an overview of a very important tool for retail merchandising viz, Planogram was discussed. Based on scientific research this unit showed that Merchandising Service Organisations (MSOs) play a great role in deployment and compliance of planogram methodologies. It was also explained with facts and figures that MSOs are also very useful in new product cut-ins and they help to achieve great speed-to-shelf metric for new products.

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## **12.6 REVIEW QUESTIONS**

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1. What is a Planogram? What are its applications?
2. How are merchandising activities related to Planogram applications?
3. Discuss the role of MSOs in Planogram implementation.
4. How MSOs are useful in new product cut-ins?
5. What do you understand by speed-to-shelf concept?

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## **12.7 FURTHER READINGS**

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- Gormen, Greg, M. (1996) Visual Merchandising and Store Design Workbook, US; ST Media Group.
- \_\_\_\_\_, (2007), Visual Merchandising, US; ST Media Group.
- Pegler, Martin, U. (2006), Visual Merchandising and Display, US; Fairchild Publications.

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## **UNIT 13 MARKUPS AND MARKDOWNS IN MERCHANDISING**

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### **Objectives**

After reading this unit, learner would be able to:

- Understand the application of markups and markdown in retailing industry
- Know about reasons for retail shrinkage and how it can be reduced
- Appreciate the need for optimization of Gross Margin Return on Inventory (GMROI)

### **Structure**

- 13.1 Markups and markdowns in merchandise management
- 13.2 Shrinkage in retail merchandise management
- 13.3 Gross margin return on inventory
- 13.4 Summary
- 13.5 Review Questions
- 13.6 Further Readings

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## 13.1 MARKUPS AND MARKDOWNS IN MERCHANDISE MANAGEMENT

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### 13.1.1 Concept of Markup

Markup is a standard technique used while pricing merchandise. Markup serves as a guide in pricing merchandise and in providing the desired operating profit.

**Markup** is the percentage amount (calculated on cost) added to cost in order to arrive at the maximum retail price for a product. Hence,

Markup = percentage of margin calculated on cost added to arrive at the maximum retail price.

Cost = Maximum Retail Price – Margin

Margin = Maximum Retail Price – Cost

Maximum Retail Price = Cost + Markup

Markup is based on cost and is expressed in percentage terms.

**Example:**

What is the markup percentage for a dress that costs Rs. 200 and retails for Rs. 400?

Markup % = Difference between MRP and cost (Rs. 400 – Rs. 200) ÷ Cost (Rs. 200) x 100

= Rs. 200 ÷ Rs. 200 x 100

= 100%

Sometimes the retailer needs to look at the cost of an item and determine what that item should retail for. It is fixed if the target customer is willing to pay that price.

The calculation of markup on retail provides retailers to plan prices, stock and sales in retail value.

### **Activity 13.1**

*Handmade belts for men's store cost Rs 4800 a dozen store if a 60% markup is required what unit retail would achieve this markup.*

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### **13.1.2 Concept of Markdown**

Though retailers would prefer to sell most goods at the original retail price. However a decrease in prices in sometimes necessary to provide successful merchandising options.

Markdown is the amount reduced from the maximum retail price (MRP) to arrive at new retail price. Markdown is calculated as a percentage of MRP.

**Example:**

What is the markdown percentage for a dress whose original MRP is Rs. 400 and the new retail price after markdown is Rs. 200?

Markdown % = Difference between old MRP and new MRP after markdown

$$(\text{Rs. } 400 - \text{Rs. } 200) \div \text{old MRP (Rs. } 400) \times 100$$

$$= \text{Rs. } 200 \div \text{Rs. } 400 \times 100$$

$$= 50\%$$

Markdowns are done when product sales are low or when the season draws to a close and the product line needs to be cleared from the shelves. Merchandise is also marked down when inventories are high, when saleable merchandises get shop-soiled or when certain price-off promotions are done. Markdowns are also effected when products that have manufacturing defects but are still saleable, are found at the floor level. It is essential that the markdown percentage is kept at the lowest, as it directly affects the returns on gross margins in a retail store.

The purpose of mark downs is:

- To simulate the sale of merchandise to which customers are not responding well
- To attract customers to stores by offering 'bargains'
- To meet competitive prices
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### **13.1.3 Causes of Markdowns**

There are several causes of Markdowns. Some of them are:

- **Buying Error**
  - Overbuying in Quantities
  - Buying wrong sizes
  - Buying poor styles, quality, materials and colour
  - Poor timing in ordering of goods
- **Pricing Errors**
  - Setting initial price too high
  - Not being competitive in price for summer goods
  - Deferring markdowns too long
  - Calculated risk of carrying "prestige" merchandise

- **Operational Errors**

Poor stock keeping and failure to maintain a periodic check on slow moving items

- Careless handling resulting soiled and damaged goods
- Failure to display merchandise properly
- Uninformed sales people

### **13.1.4 The Amount of Markdown**

Generally it is difficult to have a formula for markdown because right price depends upon:

- The nature of merchandise
- The quantity on hand
- The original markup
- The reason for reduction

However, following rules are generally considered:

- a) The first markdown should be sharp enough to move a considerable amount of goods.
- b) Markdown should be sufficiently large to make goods attractive to customers who rejected it earlier because of high price.
- c) Small markdowns are generally ineffective.
- d) Markdown should also not be so large as to invite suspicion.

**Activity 13.2**

*A clothing store received 4 dresses in western style that retailed for Rs.2000. All 4 dresses were reduced to Rs.1500 before they were sold. What is markdown per centage on this style.*

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## **13.2 SHRINKAGE IN RETAIL MERCHANDISE MANAGEMENT**

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Shrinkage is a very important parameter in retail merchandise management. It is defined as the difference between the actual stock on 'store floor' or inventory held vis-a-vis, that is listed on the stock account books. The difference between the two represented as percentage of that store turnover is known as shrinkage. Typically shrinkage can range from 0.2% to a high of 2 - 3% depending on type of a store and its operating profits. There are three reasons attributed for shrinkage to happen:

- i) Incorrect paper work leading wrong entries in the books.
- ii) Customer theft through acts of shop lifting.
- iii) Pilferage by employee.

Among the above, incorrect paper work only contribute about 10% of total shrinkage of a particular store. The balance 90% generally divided equally amongst customer theft and employee pilferage.

As the organized retail in India is increasing, it is also been found that India has the highest incidence of shrinkage with average shrinkage rate of 3.1%. In this survey, it was also found that customer theft contributed nearly 45% of the shrinkage and the employee pilferage led shrinkage was about 25%. About 10% is also contributed under deliveries by suppliers. However, what is of grave concern is the administrative errors contributing to about 10 - 11 %. These errors include wrong recording of invoices, wrong receipting of merchandise and incorrect issuance of credit notes.

### **13.2.1 Employee Pilferage**

This is also known as internal shrinkage and is generally caused by employees of a store indulging in pilfering both merchandise and cash. Another important aspect of this is employee assisted theft and embezzlement of account. Cashiers also cause shrinkage by wrongly recording the transactions, forging the receipts and misusing the cash register. Worldwide almost 95% of retail businesses experience employee theft. However, with better financial and inventory control and electronic monitoring devices, some of these transactional issues can be checked. Devices like CCTV, store surveillance and better employee management can help in curbing such shrinkages and restrict employee pilferage.

### **13.2.2 Shoplifting**

This is one of the most prevalent petty crimes worldwide. Many studies shows that almost 8% of all customers are prospective shop lifters. Since shop lifting requires privacy, stores should minimize blind spots in their stores. Expensive merchandise must be kept locked in display shelves. Usage of CCTV and RFID devices which can cause sensors beep alarm are other important technological aids in reducing incidence of shop lifting.

### **13.2.3 New technologies to curtail shrinkage**

RFID and other security products play an outstanding role to combat retail shrinkage and prevent shoplifters from hiding expensive products into their pockets or bags. RFID tags are used in tracing specific product information.



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### 13.3 GROSS MARGIN RETURN ON INVENTORY

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The critical performance measure for merchandising and buying in retailing is the Gross Margin Return on Inventory (**GMROI**). Every retail organization must strive to ensure profitability by achieving the best possible **GMROI**.

**GMROI** is calculated by dividing the total margin earned by the average inventory held during the period. The average inventory held may be considered either on cost or at **MRP** value, but consistency needs to be maintained while measuring growth in **GMROI** or comparing the same for different periods.

#### Example

What is the **GMROI** for a retail store if its margin earned is Rs. 30 lakhs and the average inventory held during the month is Rs. 2 crores?

Margins = 30,00,000 (Turnover at **MRP** – Cost of Goods sold)

Average Inventory Holding =  $200,00,000 \times 100 = 15\%$

The significant means of achieving better **GMROI** is by:

- (a) Reducing the Cost of Goods Sold (**COGS**) by achieving better buying efficiencies.
- (b) Increasing the stock turnover rate by reducing the average inventory held.
- (c) Increasing sales constantly; retaining the same average value inventory held.

**GMROI use by retailers and wholesale distributors**

GMROI has been a traditional measurement used by retailers and wholesale distributors. Many are able to measure and report GMROI down to the item level. Since these organizations typically resell the items they purchase without any manufacturing value added, the calculation is straight forward.

**GMROI use by manufacturers**

GMROI has been used much less frequently in manufacturing organizations, most likely because of the difficulty of associating raw material inventory with specific end item products. However, with much more extensive databases and data collection along with a shift to the greater use of contract manufacturing, it can be possible to calculate and track GMROI in manufacturing organizations as well.

At a minimum, GMROI can be computed at the organizational level based on published financial statements. And if inventory is categorized in a way that allows discrete chunks of inventory to be grouped together, such as product line, project or program. GMROI can be evaluated on that such categorized groupings.

What is a good number for GMROI? Generally, the higher the better. To set a GMROI benchmark for the organization, use either current financial statements or budgets for the future. Retailer should measure GMROI of every appropriate segment against this target. He should identify groups that are

exceeding the targets and also those that are not pulling their own weight.

While most organizations have some "loss leaders", it is important to understand which items/groups that are under-performing. Choices are to live with the performance, improve the margin, improve the turnover or in extreme cases, discontinue the poor performing product.

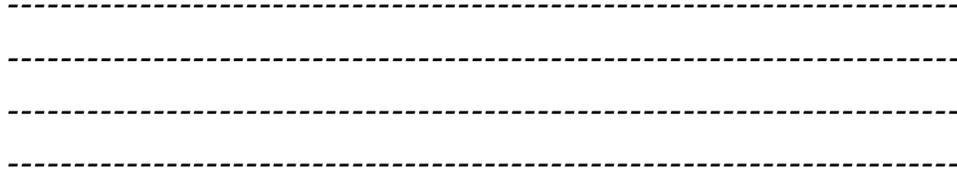
### **EXHIBIT 13-A**

#### TYPICAL USE OF GMROI (Product Line Extension)

In one organization, a product line extension was under way. Part of the financial evaluation was to project the margin and the turnover. Historically, these had been plugged numbers, identical for all items in the product line. However, when better estimates of turnover at the item level were calculated based on historical demand history (which was highly reliable). Coupled with the lot sizes required for production, the GMROI for some items was found to be very low. A decision was made not to include the low GMROI items in the product line extension.

A high GMROI is not always good. If a product or group of products has an abnormally high turnover, there may be service issues not reflected in the GMROI.





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## **13.4 SUMMARY**

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In this unit, the application of markups and markdown in retailing industry were covered. It also reflected upon shrinkage in retail merchandise management and how new technologies help to curtail shrinkage. The unit touched upon Gross Margin Return on Inventory (GMROI) and how one does achieves higher GMROI. Careful planning of merchandise performance of the store by understanding the concept of GMROI can lead to highest margins for the store.

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### 13.4 REVIEW QUESTIONS

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1. Determine the markup percentage on a child's dress that cost Rs.450/- and retails for Rs. 1000/-
2. A buyer of men's accessories paid Rs.3600/- for a dozen of wallets. What units retail will provide a 55% markup?
3. For a Season Ending Sale, 24 blazers were reduced from Rs.8000/- to Rs.6000/-. During the sale 14 blazers were sold. After that the remaining 10 blazers were remarked to original Rs.8000/- price. Determine the total markdown cancellation.
4. The manager for a music shop received 200 CDs priced at Rs.195/- 50 CDs were sold at this price. The remaining CDs were marked down to Rs.155/- for a special college festival sales event. During the sale, 85 CDs were sold. After the sale, the Manager repriced the remaining CDs to Rs.175/- and sold all of them. Find
  - a. Total Markdown
  - b. Markdown Cancellation
  - c. Net Markdown Amount
  - d. Net Markdown Percentage
5. What are major reasons for retail shrinkage? How can be retail shrinkage curtailed?
6. How one does achieves higher GMROI? List some ideas to achieve this.

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### **13.4 FURTHER READINGS**

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- Bond, Ronald L., (2008), Retail in Detail,US; Entrepreneur Press
- Kingaard, Jan, (2007), Start Your Own Successful Retail Business, US; Entrepreneur Press
- Segel, Rick (2008), Retail Business Kit for Dummies, US; For Dummies Press

**BLOCK**

4

**COMPETITIVE  
ENVIRONMENT OF  
RETAILING**

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**UNIT 14 DETERMINANTS OF RETAIL  
COMPETITION**

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**UNIT 15 COMPETITION FRAMEWORK OF  
RETAILING**

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**UNIT 16 RETAIL CUSTOMER BEHAVIOUR**

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**UNIT 17 FUTURE DIMENSIONS OF  
RETAILING**

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## **BLOCK 4 COMPETITIVE ENVIRONMENT OF RETAILING**

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The block consists of four units dealing with competitive environment of retail together with outlook for future.

The fourteenth unit provides insights to frameworks for analyzing retail competition as well as appreciation of competition regulation in retailing.

The fifteenth unit elaborates upon the competition framework of retailing including competition based on price, variety and assortment.

The Sixteenth unit dwells on issues of retail consumer and his behavior. It covers various aspects regarding how today's consumer is changing in habits and patterns and therefore impacting retail segmentation.

The last and final unit., i.e, the Seventeenth unit looks into future dimensions of retailing including cyberspace, technology and related aspects.

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## **UNIT 14 DETERMINANTS OF RETAIL COMPETITION**

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### **Objectives**

After reading this unit, learner would be able to:

- Understand the nature and dynamics of retail competition.
- Explore the various ways in which retail competition can be measured.
- Distinguish between different types of retail competition.
- Provide a framework for analyzing retail competition at industry level.
- Understand the nature and role of strategic groups in retail competition.
- Appreciate the role of competition regulation in retailing.

### **Structure**

- 14.1 Introduction to Competitive Retailing
- 14.2 Measures of Retail Competition
- 14.3 Types of Competition
- 14.4 A Framework for Analyzing Competition
- 14.5 The Threat of New Entrants
- 14.6 Economies of Scale
- 14.7 Bargaining Power of Shoppers
- 14.8 Threat of substitutes
- 14.9 Intensity of Rivalry
- 14.10 Competition Regulation
- 14.11 Summary
- 14.12 Review Questions

### 14.13 Further Readings

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## **14.1 INTRODUCTION TO COMPETITIVE RETAILING**

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The way a retail firm operates, the demand for its products, and the cost structures that it faces in the running of the business, are all affected by the competitive behaviour of other retailers in the sector. It is therefore crucial that retailers understand their competitors and the competitive situation facing them. Retailing is increasingly characterized by intense competitors. Evidence of this is disappearance of 'Subhiksha' one of the early entrant into Indian retail landscape due to bankruptcy in 2009. It is also mirrored in the problems encountered by Marks and Spencer whose profits declined from a high of £1,116 million in 2000 to just £467 million in 2009, resulting in a major restructuring involving the closure of all its European stores, and the sale of its catalogue business and its US interests - Brooks Brothers and Kings Supermarkets.

If one looks at international arena, the fashion retailing has come from the emergence of new value-driven retailers such as Matalan and Primark, and the arrival of more fashionable retailers such as the Spanish fashion retailers Zara and Mango and the American chain Gap. The merger of Kwik Save and Somerfield in the grocery market resulted from squeezing of the two retailers by hard discounters such as Aldi and Netto at the bottom end of the market, and ASDA, Tesco and Sainsbury's at the other.

The reasons for the intense competition include slow market

growth and the increasingly mature nature of many retail sectors. Other reasons include the emergence of new retailing formats such as the internet and changes in consumer expectations. Retailing competition has a number of unique features including intra-type and intertype competition, the coexistence of large chains and small independents despite the increasing concentration, and the importance of local competition.

With increasing internationalization of retailers domestic competitors are not the only ones that retailers have to worry about. Whilst Indian retailers are looking abroad for markets, foreign retailers have been entering Indian markets. Other significant entrants into the India include Walmart. The entry of foreign retailers leads to intensification of competition in the sectors that they enter.

The purpose of this unit is to facilitate the analysis and understanding of the nature and dynamics of retail competition.

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## **14.2 MEASURES OF RETAIL COMPETITION**

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A frequently used measure of the degree of competitiveness of a market is a matter of the degree of concentration in the market. Retail concentration can be measured in a number of ways, but the one that is used most often is the percentage of the total market that is controlled by the largest four to five retailers in a particular sector. An alternative measure of concentration is the Hirschman Herfindahl Index (HHI), which is the sum of the squares of the percentage market shares of all the competitors. The HHI ranges from approximate zero depicting perfect competition (large number of firms each with a miniscule market share), to 10,000 indicating a monopoly situation. This measure has the advantage of giving more weight to retailers with the highest market share. However, it has the disadvantage of being a little more difficult to interpret. The trend in most of the developed countries is one of increasing concentration or dominance of the market by a small number of players.



The increase in concentration, in the main, is a result of organic growth, that is, by the addition of extra branches rather than by mergers and acquisitions. Internationally, it is particularly true of food retailing where rapid expansion of store numbers and size of stores in the 1980s and 1990s by the leading market chains has led to a situation where the top five retailers have a share of 65 to 70 per cent. More recently, the relatively slow growth of mature retail markets has also helped to increase the degree of concentration. For instance, grocery sales in the UK grew by only 3.2 per cent in 2008, barely keeping up with the rate of inflation. One of the main reasons for the slow growth is the fact that retailing expenditure is declining as a proportion of total income. In the UK, the proportion of expenditure on retailing declined from an estimated 40.4 percent in 1984 to 35.6 per cent in 1999 to almost 30% in 2008. As a result intra-type and inter-type competition has intensified in the retailing sector.

### **Activity 14.2**

*Give an example each of intra-type and inter-type competition in retailing sector.*

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A feature of retail concentration is that it tends to be much higher at the local level than at national level. This has led to some discussion of local monopolies, that is local retailing being dominated by one or two retailers. The variation in local competition can lead to different levels of intensity of competition and hence retailers will tend to vary their competitive strategies depending on the local competition.

Whilst measures of retail concentration and market shares are good indicators of the intensity of competition, the data required for these measures are not always available. An alternative measure is the number of retail outlets of a particular type per thousand of population. The higher this ratio is, the higher the competitive intensity. When the ratio of stores to the population gets too high, the market is described as *overstored*. That is, the size of the population is insufficient for all the stores to operate profitably, leading to intense competition as competing retailers try to improve their sales and profit performance. Conversely, if the ratio of stores to population is relatively small, the market is said be *understored*. In this situation, there is unsatisfied demand and existing retailers will enjoy high profits. This leads to existing retailers expanding their operations and also attracts other retailers into the market. The above discussion assumes that all competing stores are of the same size. A more accurate measure is the total amount of retail space occupied by a particular type of retailer per thousand of population (or per head of population).

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### **14.3 TYPES OF COMPETITION**

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In retailing, measures of concentration are usually likely to understate the level of competition faced by retailers because such measures usually only include direct competitors; that is intra-type competition. Intra-type competition is direct competition between similar *types* of retail formats or styles. The more similar the stores in terms of format more intense the competition. To reduce the impact of competition from similar retail formats, retailers must differentiate themselves from in competitors. However, retailers also face intertype competition.

Intertype competition is competition between different types of retail formats selling the same type of merchandise. For instance, music retailers such as HMV face competition not only from other specialists such as Planet M, but also from consumer durable stores such as Chroma Jumbo, and supermarkets such as Big Bazar and Reliance. Hence, when developing competitive strategies, retailers have to take into account intertype competition as well as the direct competition from direct competitors.

Competition can also occur between different parts of the distribution channel. Vertical competition is competition between retailer and a producer, or a wholesaler selling products to the retailer's customers. For instance, if a retailer stocked a merchandise line that the producer was also offering through the internet, the retailer and the producer would be engaging in vertical competition.

Another type of competitive strategy in retailing is corporate system competition. This is where the manufacturing, distribution and retailing controlled by single-management. In India examples are in Petro-retail sector such as HPCL, BPCL and IOCL. Corporate systems can be formed by either backward or forward integration. Forward integration occurs where a manufacture sets up distribution and retailing chains.

An example being Benetton which began as a manufacturer and then set up company-owned retail outlets as well as an international franchise network. Backward integration involves retailers becoming involved in the distribution and manufacturing of products, such as Vishal Megamart.

However, major retailers attempt to achieve the same control without total ownership of the systems. For instance, Marks and Spencer is famous for its control over its suppliers; they and other large retailers are able to achieve this control because the suppliers may have few (if any) alternative customers, and may be solely concerned with retailer branded products. Another method of exercising control is by franchising parts of the system, for instance, the vast majority of car dealerships are operated as franchises by the major car manufacturers.



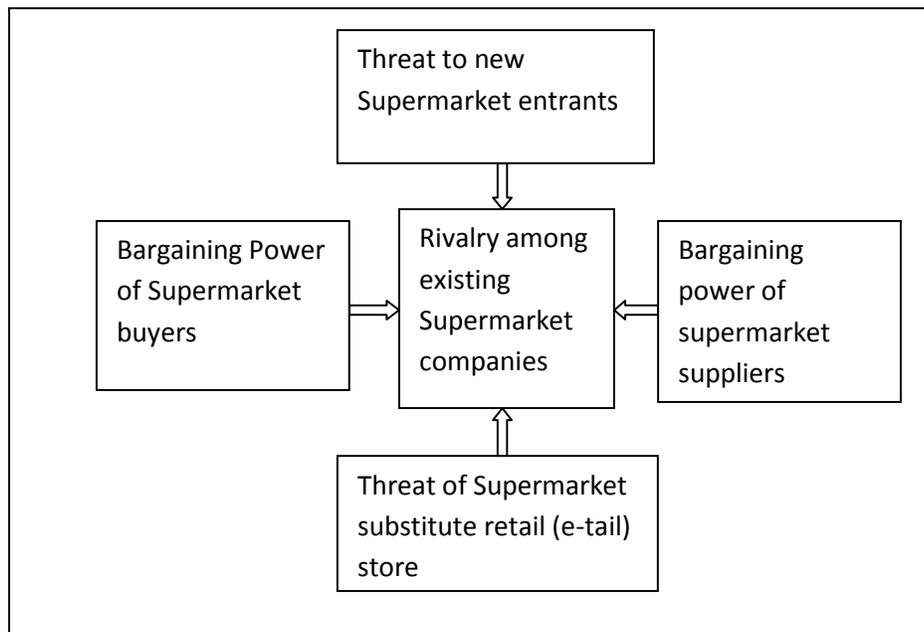
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## 14.4 A FRAMEWORK FOR ANALYSING COMPETITION

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A useful model for analysing the forces driving competition is Porter's five forces model of competitive structure. According to Porter, the forces that drive competition within an industry are threats of potential entrants, the threat of substitute products or services, the bargaining power of suppliers and the bargaining power of buyers. The different aspects of the model from supermarket retail industry are discussed below.

*Figure 14.1: Forces driving retail competition*



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## **14.5 THE THREAT OF NEW ENTRANTS**

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A major force driving competition within retailing is the threat of potential new entrants into the industry. The degree to which potential entrants find a particular sector of retailing attractive to enter depends upon the level of profitability of the sector and the barriers to entry. Generally speaking, the higher the profitability of a retail sector, the more attractive it is to potential entrants. Similarly, the lower the barriers to entry, the greater is the likelihood of entry of new entrants.

Assuming that there are sufficiently high levels of profits within retail sector, the threat of new competitors entering the industry depends on the height of entry barriers to the industry including capital requirements, economies of scale, access to customers, access to suppliers or distribution networks, the degree of differentiation, brand identity and store loyalty, and expected retaliation.

### **14.5.1 Capital requirements**

The amount of capital required to enter into retailing is relatively small compared with other industries. For instance, the capital required to set up a bookshop is minimal compared with cost of entering capital-intensive car manufacturing or aircraft manufacturing industries. However, to be competitive against national retailers requires far more capital. This is because greater investment will be required in stock, stores, promotion,

IT and other management systems. This is what is being leveraged by large chains such as Reliance Retail and Big Bazar.

#### **14.5.2 Economies of scale**

The ability to achieve a reduction in costs through efficient large-scale operation can prevent the entry of new competitors. In retailing, major scale economies can arise in the areas of buying, distribution and promotion.

#### **14.5.3 Access to customers or availability of sites**

In order to get access to customers, the main problem for new entrants is to find suitable sites/locations for their stores. New entrants will normally find that at the best sites are already occupied by existing retailers. It also takes time for new retailers to acquire suitable sites and open new stores, which gives existing retailers plenty of time to formulate their competitive strategies to combat the threat posed by new entrants. New entrants wishing to open large stores find it particularly difficult to enter the market because of strict planning regulations.

#### **14.5.4 Differentiation, brand identity and store loyalty**

New entrants into an industry also have to overcome brand/store loyalty developed by existing retailers. New entrants may have little recognition in market and will therefore require extensive promotional effort to inform potential customers about the retailer and to switch customers away from their existing stores. The cost to customers of switching to a new store may also make entry difficult for new entrants.



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### **14.5.6 Expected retaliation**

The strength of retaliation by existing retailers can put off potential new entrants. Such retaliation may be in the form of changes in pricing, advertising and promotions, merchandising, and service depending on the strength or perceived strength of the new entrant.

The potential entrants could be divided into two types. One type uses a similar strategy and similar format to that already existing to enter a particular sector. For example, Wal-Mart's entry into the UK market via the acquisition of ASDA. Another type of entrant is one that uses a new type of retail format to enter the market. Examples include the Danish retailer Netto who entered the UK market using the hard discount format. New format entrants are potentially more difficult to deal with, as their basis of competition (or competitive advantage) is different from existing retailers. In the case of Netto (and other discounters), for example, it is able to offer prices 20-30 per cent lower than those of large supermarkets on a limited number of lines.

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## **14.6 BARGAINING POWER OF SUPPLIERS**

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The dominance of the majority of the retail sectors by large retailers has transformed the power relations between retailers and suppliers. In the past, big brand manufacturers could virtually dictate to retailers the shelf price, product range, shelving and promotion of products within stores. However, with the introduction of MRP (Maximum Retail Price) concept loosened the grip of suppliers on pricing. The development of own brands and the increase in number of retailers (and their resulting concentration) has further eroded the power of suppliers. An indication of the power of retailers is that large supermarkets can nowadays demand slotting allowances (or fees) from suppliers for stocking their merchandise in the stores. In the grocery sector, where concentration is the highest, concern over the buying power of retailers led to referral to the UK's Monopolies and Mergers Commission in 1977 on retailers' ability to obtain discounts and other special terms.

The influence of suppliers on retailers depends on the relative size of the suppliers to the retailers. Some of the larger manufacturers such as Nestle, Unilever, Procter and Gamble, and Pedigree Pet Foods, have market shares far in excess of retailers in their respective markets and are in a position to negotiate terms of trade. These suppliers derive their power from the strengths of their brands and the loyalty of customers to them.

Smaller retailers, on the other hand, are particularly vulnerable to pressure. They can be forced by suppliers to carry products they do not particularly want in return for the right to sell the products that they do want from the suppliers. Suppliers may also apply pressure on retailers to sell products within an acceptable price range. Franchisees are particularly prone to such pressures because of the contractual basis of the franchise relationship.

**Activity 14.5**

*How does a retailer play with major suppliers like Unilever and P&G who have competing projects on shelf space to get better deals? Comment.*

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**14.7 BARGAINING POWER OF SHOPPERS**

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Shoppers as individuals have little impact on retailers'

competitive strategies. The main reason for this is the fact that shoppers' purchases are normally small in comparison to the retailer's total sales. Shoppers are also relatively immobile and uninformed; immobile in the sense that they are not willing (or unable) to travel long distances to find the right products, and less informed than retailers about product prices, availability and quality, and so forth. However, the emergence of the internet has reduced the mobility and information barriers to some extent.

On the other hand, the relative smallness of shoppers' transactions means that the cost of switching from one retailer to another is also relatively small, hence retailers can find that shoppers are quick to switch when more competitive offers are available from another retailer. Retailers also have to be careful not to exploit their advantage in the market too much as they are likely to see their activities regulated and circumscribed by legislation and regulatory authorities. The Competition Commission reports are examples of regulatory authorities responding to consumer concerns.

### **Activity 14.6**

*Comment on fickle mindedness of customers, as they switch retailers on basis of pricing advantage they get. Can a retailer command customer loyalty.*

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Retailers can also face threats from outside of the retailing industry. For instance, eating out in restaurants competes directly with expenditure in grocery stores. The supermarkets have responded by providing increasing the quality and choice of convenience meals. Retail expenditure also competes with other forms of expenditure such as holidays and entertainment.

**Activity 14.7**

*Discuss how online retailing is fast becoming a substitute to virtually all other forms of retailing.*

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**14.9 INTENSITY OF RIVALRY**

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The intensity of the rivalry between retailers in a particular sector depends on a number of general market-related factors, and factors related to the firms competing in the market. For instance, slow market growth, high concentration, maturity of markets, low differentiation, and high exit costs of leaving the market are likely to lead to intense competition between retailers. The relative balance between competing retailers and

their competitive retail marketing strategies also influences the intensity of competition. For instance, competition is likely to be fiercer where there are a number of roughly similar sized competitors pursuing a similar strategy.

#### **14.9.1 Strategic Groups**

The dimension(s) chosen to define strategic groups relate to shoppers' choice of store - price of goods, merchandise assortment (range), location of store, and service. The actual variables chosen depend on the retail sector concerned. In the clothing sector for instance, quality, fashion orientation and selection could be used to identify strategic groups in the sector. These dimensions can then be used to map the competitors within the industry/sectoral competitive space.

The intensity of competition between firms in different strategic groups depends on the 'distance' between the strategic groups in the competitive space. Competition between neighbouring groups is likely to be most intense as there is likely to be some overlap between their respective target markets. Conversely, competition is least intense between firms belonging to strategic groups furthest apart. Also, where a strategic group is placed between two other groups it will face competition from both.

Although the strategic groups are relatively stable due to mobility barriers that the degree of movement between groups, they are constantly evolving due to rivalry and the emergence of new types of retailing. In fashion retailing for instance, mid-market retailers such as Marks and Spencer have lost market share both to specialists (such as Gap, Hilfiger) and the new

discount retailers such as Matalan, New Look, etc. Marks and Spencer has found it difficult to compete in these circumstances as its cost base is too high to compete with the discounters and its merchandise is not sufficiently fashion-oriented to compete with the specialists. As a result, Marks and Spencer's market share declined from 14.0 per cent in 1997 to 11.3 per cent in 2000 to 8% by 2008.

Competition is most intense within a strategic group because members pursue similar strategies on the relevant competitive variables such as target markets, merchandise assortment, pricing, location and so forth. These similarities lead to consumers not being able to distinguish between retailers and - making decisions based on price. For example, in petrol retailing, consumers cannot distinguish between the quality of petrol offered by different retail and will therefore tend to purchase petrol from the cheapest retailer. Hence where petrol stations are located near to each other, prices tend to be the same to prevent loss of business to the neighbouring retailer. Also, when prices are changed by one retailer, there is a reaction from competing retailers.

In order to gain competitive advantage, therefore, retailers need to differentiate themselves from other members of the strategic group. The major methods of differentiation in retailing in addition to price are location, sales promotions, store atmospherics, merchandise assortment, and service. However, once a store is built, the location of the store is fixed and can only be changed in the long term. As price is easily imitated and has direct impact on profitability, retailers are more likely to rely

on merchandise assortment promotions, store atmospherics and service to differentiate themselves from competitors. Nevertheless, discount retailers use price as their main differentiating feature.

**Activity 14.7**

*Why competition is most intense in a strategic group? Discuss taking case of Reliance Megastores and Big BaZar.*

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**14.10 COMPETITION REGULATION**

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In order to ensure that there is fair competition between competing retailers, and that consumers are not exploited because of their weak buying power, competition needs to be regulated. In India, it is regulated by the Competition Commission of India, which has the power to decide on anti-competitive practices for a ruling.

For instance, too close a relationship between retailers and suppliers can lead to anti-competitive practices. The practice of obtaining differential discounts (receiving goods at prices lower than competitors and exclusive supply arrangements/preventing suppliers from dealing with other retailers) can give a retailer a big advantage over existing competitors and can make it very difficult for new competitors to enter the market. Regulatory authorities in the UK have taken a fairly lax attitude to these practices preferring to allow them as long as they were not against consumer interests. In the USA, however, the Robinson-Patman Act actually prohibits differential discounts unless it can be justified by differences in costs or product differences.

Retailers can also improve their competitive advantage in the market by mergers or acquisition. It has the advantage of not only increasing market share, but also of improving buying and other economies of scale. Where a merger or acquisition is likely to significantly affect the competitive balance (or have a negative impact on consumer interest) the regulatory authorities can prevent such mergers or impose conditions on the merger before it can proceed.

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### **14.11 SUMMARY**

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Retailers are facing an increasingly competitive environment due to the relatively slow growth of the retailing sector, increasing maturity and concentration of many retailing sectors, the emergence of new retailing formats such as the internet, changes in consumer expectations and expenditure, and competition from international retailers. Retail competition can take the form of intratype, intertype, vertical and systems competition. In addition local competition can add to the complexity of decisions regarding competitive action.

The major drivers of competition within the industry are the threat of new entrants, the threat from substitute forms of retailing (that is, intertype competition), the bargaining power of producers, the bargaining power of shoppers, and the intensity of rivalry between firms. The relative balance between competing retailers and their competitive retail marketing strategies also influences the intensity of competition. For instance, competition is likely to be fiercer where there are a number of roughly similar-sized competitors pursuing a similar strategy. Such a group of firms is referred to as a strategic group. Strategic group analysis is used to simplify analysis of competitive strategies and make predictions about competitive behaviour within and between strategic groups. For instance, it predicts that competition between neighbouring groups is likely to be most intense as there is likely to be some overlap between their respective target markets. Conversely, competition is least intense between firms belonging to strategic groups furthest

apart.

In order to gain competitive advantage, retailers need to differentiate themselves from their competitors. The methods that are likely to be most successful are likely to rely on merchandise assortment, promotions, store atmospherics and service. Competition is regulated by government bodies to ensure that it is fair, and to prevent the exploitation of consumers.

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### **14.12 REVIEW QUESTIONS**

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1. Describe the main methods used for measuring retail competition and discuss their relative advantages and disadvantages.
2. Outline the differences between intra type and intertype competition.
3. Outline the differences between vertical and systems competition.
4. What major barriers are potential entrants likely to face when entering a retailing sector such as the grocery market?
5. How far do you agree that shoppers are relatively powerless in relation to retailers?
6. What is a strategic group? How useful is this concept for analysing retail competition?
7. How can retailers best achieve competitive advantage in an increasingly competitive environment?

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### **14.13 FURTHER READINGS**

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- Ezarchi A & Bernitz U., (2009), *Private Labels, Branded Goods and Competition Policy: The Changing Landscape of Retail Competition*, UK; Oxford University Press
- Lincoln K and Thomassen L., (2009), *How to Succeed in Retail: Winning Case Studies and Strategies for Retailers*, US; Kogan Page
- Stone, Kenneth E (1995), *Competing with Retail Giants*, US; John Wiley
- Ander, Willard N. & Stern, Neil Z. (2009), *Winning at Retail: Developing a Sustained Model for Retail Success*, US; Wiley

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## **UNIT 15 COMPETITION FRAMEWORK OF RETAILING**

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### **Objectives**

After reading this unit, the learners would be able to:

- Understand nuances of retail competition on several formats, price, variety and assortment
- Appreciate the impact of non-traditional formats on traditional ones
- Know how price sensitivity can impact retail competition
- Understand impact of variety and assortment of merchandise amongst retailers
- Understand the importance of location in competitiveness of a retail store

### **Structure**

- 15.1 Retail Competition
- 15.2 The Impact of Non-Traditional Formats
- 15.3 Retail Price Competition
- 15.4 Retail Variety Competition
- 15.5 Retail Assortment Competition
- 15.6 Retail Location Competition
- 15.7 Summary
- 15.8 Review Questions
- 15.9 Further Readings

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## 15.1 RETAIL COMPETITION

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If we review the retail landscape, especially of organized retail in India, we find it has become more and more competitive in the last two decades. Let us take an example; in the past if one had to buy green grocery, then the only option was to get it either from a neighborhood grocer or from a wholesale vegetable market (*sabzi mandi*). However, today though the traditional outlets are still available, there are many more options in terms of large retail outlets like Reliance Fresh, Food World etc. These retailers provide such green groceries in much more hygienic conditions. Also, they are large aggregators and their price points are lower. Therefore, such increased number of options for buying green grocery illustrates the high intensity of retail competition in the category of products which have mass consumption or mass appeal.

With the advent of technology, the new generation techno-entrepreneurs have started online retail portals which provide efficient location of products coupled with delivery of merchandise at home. The multiple ways of electronic payments are also facilitating such developments.

The above scenario depicts that in many retail product categories, multiple retail format options are available. The various retail formats that have come into vogue in recent times are;

- (a) mass merchandisers
- (b) super stores

(c) discount stores;

apart from the traditional formats that we had known earlier.

The rapid emergence of such new formats in India shows that the organized retailing in India has come of its age. This further implies that retail competition has also increased manifold.

It is, therefore, obvious that in the retail sector, the competitive wars are hotting up between the traditional formats and new emerging ones. Each type of format is trying to outgun other in quest of larger share of sales in the product categories that they have in common. This type of competition is referred to as inter-format competition.

The other competitive trend is for the share of customers' wallet between the same types of formats. This is known as intra-format competition. Obviously, in many formats the types of product categories are similar. Thus, the competitive retailers in the intra-format competition tend to leverage:

- a) Category Assortment Range
- b) Price Point
- c) Location Advantage
- d) Customer Service Quality to achieve a higher share of sales

In this section we will look into the various competitive aspects of the two types of competition as enumerated earlier. This discussion will hinge upon;

- (i) identification of key trends and options

(ii) outlook for future.

For this purpose, a four dimensional retail competitive grid would be utilized. This grid consists of the four major parameters.

<p><b>Price:</b></p> <p>Prices of items within and across categories. Variation may occur from week due to promotions</p>	<p><b>Assortment:</b></p> <p>Depth, or number of items within a category</p>
<p><b>Location:</b></p> <p>Location of the retail store is located and how this affects consumers' cost of shopping</p>	<p><b>Variety:</b></p> <p>Breadth, or number of categories typically carried by the retail outlets</p>

The above grid could be used to discuss the competitive strategy within the competitive frameworks as stated earlier.

### **Activity 15.1**

*Look at Indian Retail landscape and discuss that if your wish to buy a mobile handset, how many formats can you explore?*

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But, predicting that these formats will vanish is rather too early in the day. However, what is evident is that; emergence of such formats will change the retail scenario in terms of market shares between the various formats.

According to the study conducted by Cox School of Business of Southern Methodist University<sup>1</sup>, following findings emerged.

- i) Typically, opening up of a super centre close by a super market leads to reduction of latter's business by 17%, as there are fewer visits by customers to super markets.
- ii) Most customers who start patronizing the super centre, still visit the super market, although not regularly.
- iii) The competitive parameter between inter-formats is actually the number of store visits and not the number of customers.
- iv) The more times a particular household visits a mass merchandiser; it also visits the grocery store almost equal number of times. This leads to the conclusion that visits to mass merchandise do not necessarily leads to substitution of visits to grocery stores.
- v) Savvy customers visits multiple formats to optimize their spend.

Therefore, on the whole, the traditional retail format must focus on ensuring client patronage through multiplicity of their visits. This will eventually leads to reasonable share of their wallets.

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<sup>1</sup> Source: Research on Retail Management by Cox School of Business of Southern Methodist University<sup>1</sup>

Another outcome of the competitive threats from newly emerging formats is that most traditional formats are into the phase of consolidation. The data also reveals that the consolidation is due to phenomena of mergers and acquisitions amongst them rather than the organic growth. The obvious reason of this happening is that it leads to creating a scale for larger merchandisers leading to "economies of scale". Therefore, it is imperative on larger retailers to achieve lower cost structure by exploiting their scale. This essentially implies that to do so, the following needs to be achieved by them to do so:

- i) Elimination of overheads
- ii) Centralization of operations
- iii) Elimination of redundant functions
- iv) Negotiations of higher concessions and discounts from their suppliers.

### **Activity 15.2**

*Visit a Mass Merchandiser like Retail Super Mart for grocery. What at times you still will have to go to local grocer to supplement the purchases? Why is this particularly true for green groceries?*

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disposable income and are likely to be price sensitive. In fact, this trait is so deeply ingrained in Indian psyche that even high income households practice the same. Therefore, in package good category (which include like biscuits, detergents, jam etc) the purchase level of lower and higher income households are virtually similar.

Another interesting trend that comes out with today's higher income households with both spouse working, they spend more money eating outside the home. This may in fact lead to reduction in purchase of grocery items.

The conclusion that could be drawn by the retailers is that to serve the market of mass consumers, they must price their goods to the value proposition that the customers are looking for.

### **Activity 15.3**

*Visit Big Bazar and observe content of shopping carts of buyers from high middle class and compare that with those from lower middle class?*

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through these pricing strategies is the competition among super markets. The customers who have time and are bargain hunters, can indulge in cherry picking of low price products from multiple stores that follow high low strategy. The customers, who are time poor, and want quick and efficient shopping generally frequent EDLP stores.

The other set of customers who visit EDLP stores are those who have larger families and whose shopping card size is larger. Another group of customers who visit EDLP stores are brand loyal customers who do not want to buy a substitute brand at a lower price offered by a HiLo store.

Many times, large majority of shoppers flip-flop between EDLP and HiLo depending on their purposes of shopping trip. When the idea is to stock up, generally an EDLP store is frequented but if they want to buy only a few products in small numbers, a HiLo store is visited. On a whole, it is found that if a customer makes multiple shopping trips in a month, he or she is likely to visit HiLo stores more number of times. Therefore, the challenge for EDLP supermarkets is to increase number of visits by them. This is done by offering large volume discounts and loyalty cards and other such means. This scenario creates an interesting inter format competitive dimension.

### **15.3.3 Between-Format Price Competition**

The consumers' outlook towards price consciousness coupled with advent of IT intervention have led to price competition between various retail formats. The various IT intervention have

already been studied in detail in the units pertaining to retail automation and retail technologies.

The way mass merchandisers approach this competitive scenario is by keeping prices low for a given set of merchandise. The reason that the mass merchandiser keeps prices low (there is already substantial price difference between their prices and prices offered by other formats) is that their model is heavily dependent on economies of scale. It is important for them to preserve this cost leadership and extend this competitive advantage for their long term successes. Therefore, they have a much focused approach on cost efficiency. Hence, it can be concluded that in intra format price competition, mass merchandiser in the foreseeable future will keep their cost leadership advantage.

#### **Activity 15.4**

*How mass merchandisers can offer significantly lower average prices than other formats for a given basket of goods? List 2 -3 points to support your arguments.*

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#### **15.3.4 Small-store formats are becoming more cost-efficient and offering lower prices.**

The mass merchandiser, super centers and hyper markets are not only one that practice cost leadership. In fact, a format known as discount stores has also become a huge proponent of this strategy. Such formats operate large number of small stores which are conveniently located for customers. By leveraging technology for flexible logistics and optimization of inventory and people cost; they are able to match their cost structure of large format stores. In fact, there is an argument that a tightly managed network of small stores can drive the same scale of economies as those of mass merchandisers. In India, Reliance Mart has rolled out neighbourhood store format offering products at same price as those offered at its larger stores.

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## **15.4 RETAIL VARIETY COMPETITION**

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### **15.4.1 Consumers Prefer One-Stop-Shopping**

Shopping convenience has three key aspects.

- i) Physical location convenience
- ii) Transactional convenience
- iii) One stop shopping convenience

These conveniences lead to competitive advantages. In fact majority of the shoppers prefer one stop shopping which implies that a store must have a large variety of products.

### **15.4.2 Variety Competition between Formats**

Variety competition parameter is a relevant comparison between the formats. The wider and deeper the product range is, the competitive advantage in terms of range is achieved but on cost may get detrimental due to higher inventory cost.

### **15.4.3 Growing popularity of broad-line retail formats.**

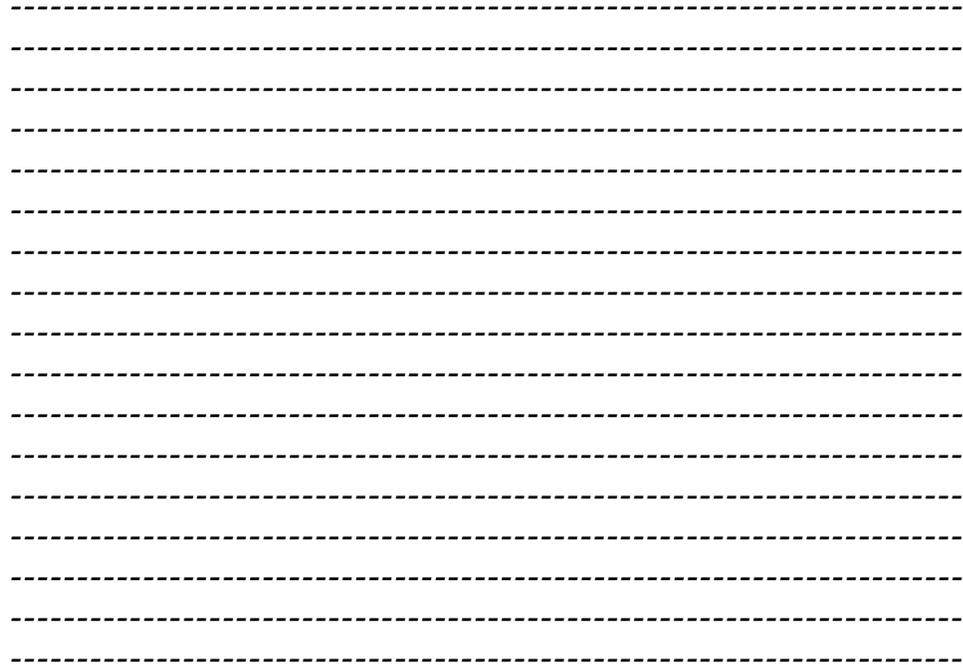
Broad line retail format such as mass merchandisers and supercenters again emphasise customers' strong desire for one stop shopping as these stores can offer almost anything under the sun.

### **15.4.4 Blurring of retail formats**

If we look into all these dimensions we find that strong definition of different kinds of retail formats is getting blurred.







### **15.5.2 Within-Format Assortment Competition**

Assortments are also customized to meet the local markets' preference. Therefore, the size and composition of the retail assortments depends upon the characteristics of households and demographics in their trade areas. For example: grocery stores in markets with larger South Indian populations offer more authentic South Indian food items; pharma stores in markets with more elderly populations carry larger assortments of incontinence products while pharma stores in markets with more young children and families will carry larger assortments of diapers; department stores in trendier urban markets offer more haute couture fashions. This leads to a phenomenon of micro marketing. In fact micro marketing is nothing but customizing assortments for specific stores in line with the demographics of



### **15.5.3 Between-Format Assortment Competition**

Different retail formats, as discussed earlier, offer different variety of categories. However, intra format assortment competition also mean that they would offer different assortment levels within such categories. It is well known that for packaged goods category in a supermarket, the assortment range would be nearly twice than that of a mass merchandiser. Therefore, competitive wars can be fought based on the customers tendency and performance to seek a particular assortment level.

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## **15.6 RETAIL LOCATION COMPETITION**

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### **15.6.1 Consumers Balance Convenient Retail Locations and Low Prices**

Store locations is perhaps one of the most strategic decisions that retailer makes. This is because location is one of the key parameter in defining retail competition. As discussed earlier, customers seek a great convenience factor. So, the stores located closer to customers are more convenient. In order to have a large retailer to be closer to its customers, it must open a chain of small stores. In trying to achieve this, efficiency of scale are lost and the ability of convenience stores to offer lower prices gets diminished. Therefore, convenience comes at a cost. For example, Kendriya Bhandar's inexpensive rural store sites are an important component of its low cost structure. The consumer's store choice decision represents a balancing act

between paying high prices for goods in more convenient outlets and low prices for goods in less convenient outlets.

### **15.6.2 Within-Format Location Competition**

Again, there is the question of not just the location convenience but also one stop shopping convenience. This leads to the case of agglomeration which implies locating complementary stores next to each other so that a virtual one stop shopping convenience is achieved. In fact, the whole premise of shopping malls is based on this. This leads to following two benefits for the customers:

- i) Achieve multiple objectives of eating out, shopping, banking, getting cloths dry-cleaned achieved on a single shopping trip.
- ii) Customers can also search across similar category stores to optimize the variety of products they seek. That is why one sees the creation of food court in a shopping malls or a floor dedicated to consumer durable stores.

### **15.6.3 Between-Format Location Competition**

Location wise convenience, i.e., the proximity of store to customer also depends on the format type. In this category mass merchandiser, super centers are not in near proximities to consumer vis-v-vis the neighbourhood stores. The former does offer much better products prices than the later. In a sense, again a prospective customer has to trade off convenience with price. So, these factors then lead to a competitive strategies of location between the different kinds of formats.

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## **15.7 SUMMARY**

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This unit looked into various aspects of retail competition. It reviewed various dimensions of competitive retailing across the parameters of price, variety, assortment and store location. It also gave an overview of impact of non-traditional formats of retail competition. It also explored the issue of inter and intra retail format competitive issues

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**15.8 REVIEW QUESTIONS**

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1. Discuss the four major parameters on which retail competition can be evaluated.
2. Are traditional retail formats in decline?
3. Is there any evidence of greater consolidation across retail sectors?
4. Which is a better option, promotional or everyday low pricing? Why?
5. Are small-store formats becoming more cost efficient and offering low prices?
6. How is retail segmentation of markets done?
7. How do consumers balance convenient retail store locations and low prices?
8. What is the impact of Between-Format location competition on prices?

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## **15.9 FURTHER READING**

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- Ezarchi A & Bernitz U., (2009), *Private Labels, Branded Goods and Competition Policy: The Changing Landscape of Retail Competition*, UK; Oxford University Press.
- Lincoln K and Thomassen L., (2009), *How to Succeed in Retail: Winning Case Studies and Strategies for Retailers*, US; Kogan Page.
- Stone, Kenneth E., (1995), *Competing with Retail Giants*, US; John Wiley.
- Ander, Willard N. & Stern, Neil Z., (2009), *Winning at Retail: Developing a Sustained Model for Retail Success*, US; Wiley.

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## **UNIT 16 RETAIL CUSTOMER BEHAVIOUR**

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### **Objectives**

After reading this unit, learner would be able to:

- Understand the persona and psychological make up of retail customers
- Appreciate the changing profile, demographics and working pattern of retail consumers
- Understand the shopping behavior and variety of shopping missions
- Know the various factors that lead to retail outlet choice

### **Structure**

- 16.1 Retail Customers
- 16.2 Retailing and Consumption
- 16.3 The Changing Consumer
- 16.4 Shopping Missions
- 16.5 Retail Outlet Choice
- 16.6 Retail Segmentation
- 16.7 Summary
- 16.8 Review Questions
- 16.9 Further Readings

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## **16.1 RETAIL CUSTOMERS**

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Retailing activity is, as we saw in the earlier units, defined as selling goods and services to final consumers for their personal, or their family's consumption. It is therefore, in the interest of any retailer to gather as much information about the final consumer as they can in order to check that the goods and services offered remain relevant to consumers. All consumers are potential customers to a retail business, however what is more appropriate for retail managers is the identification of a group of consumers who are likely to become actual customers or purchasers within their own outlet. These groups of people may be defined in terms of their geographical location, for example, or they might be more conveniently grouped according to product or service need. Questions retailers might ask about their customers could be:

- Who are they?
- Where are they?
- What do they need?
- What do they like?
- How old are they?
- How much can they spend?
- How do they like to shop?

There may also be questions to ask about customers' relationship with all retailers in the sector. For example:

- Who are our current customers?
- Who are our competitors' customers?
- In a saturated marketplace, can we convert them?
- Would this be economically viable (given that converting new customers is much more costly than keeping existing ones)?
- Who will be our customers in the future?
- Are customers changing?
- Do the changes have a positive or negative effect on our business?
- Are there different customers that have poor retail provision?

Retailers who are in touch with their customers and their needs and wants are more likely to find retail formulae that are relevant to consumers. For example, in the late 2008, the Tata Group launched Chroma Stores, a new chain of stores that focused on personal communication products, in response to the growing market. The new stores allowed the retail group to respond positively to an opportunity presented by a change in consumer lifestyles.

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## **16.2 RETAILING AND CONSUMPTION**

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A retailer's role in the arena of personal consumption is that of distributor and facilitator. A retailer provides a convenient point for a consumer to obtain goods and services, either by being in a location that is closer than that of the producer and by selling in quantities appropriate to the needs of the consumer, or by providing added value in the offer such as range assortment or additional services. In a developed society, retailers play a greater role than the distribution viewpoint would imply. They provide an information service, they provide an environment in which new products can be discovered, new fashions followed and lifestyle patterns endorsed. Retailers have the benefit of direct interface with the final consumer, therefore they should have an advantage over producers when it comes to gathering information about customers in terms of who they are and how and what they buy. However, all too often retailers make too many assumptions about their customers and do not have a thorough and researched awareness of how their customers' needs, wants and preference can change over time.



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### **16.3 THE CHANGING CONSUMER**

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It is claimed that modern societies are increasingly organized around consumption and so the trends in the consumption that emerge over time are very important for retailers to observe and understand. Consumer trends describe how the body of consumer changes over time and make predictions about how those people will consume in the future. The retailer can therefore build up a 'customer profile' that gives an indication of who might 'typically' use their outlet. A retail customer profile is affected by the macro (general) business environment. The macro-economic policies a government pursues in relation to personal taxation and interest rates affects the spending power of retail customers, and the extent to which we are familiar with technology will affect our propensity to use technologically based retail formats to undertake shopping activity.

A retailer's customer profile is also influenced by the microenvironment, the specific business arena in which the individual retailer operates. For example, the entry of Amazon.com into the book retailing market gave traditional retailers like Barnes and Noble, and Oxford Book Store new competition, not only in the form of a new company, but also a whole new way of shopping. Subsequently, store-based retailers have put more effort into creating a pleasant store environment, conducive to browsing and sampling a book over a cup of coffee, something that internet retailers are unable to offer. Book retailers might therefore be able to group their customers

according to the ways they like to shop for books, and address their needs accordingly. Some of the most radical changes in consumers in developed economies like Europe and the USA are those that emanate from the changes in society itself; the changing nature of a population's age profile, the changes in the numbers and type of activity of the working population, and the way in which lifestyles themselves are changing. The resulting manifestations of alterations in shopping behaviour and product preference are of interest to the retailer, as they may require some adaptation to the retailer's business in order to maintain an adequate customer flow.

**Activity 16.2**

*How DINKs (Double Income and No Kids) families have changed the shopping parameters in India? Comment.*

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- **Demographics**

One of the most fundamental changes to the consumer body is concerning demographics. This is the study of populations in terms of measurable aspects such as birthrate, age profiles, working patterns and occupations, family and household structures, education levels, and total income and expenditure levels. These changes are generally not in retailer's control, depending very much on the social and economic development of a given population, and they are usually relatively slow-moving changes. However, retailers must be aware of the implications of such changes, so that they can be accommodated in a retailer's long-term strategic planning. Some of the demographic changes that are likely to have an impact on retailers are now explored in more detail.

- **Age profile**

The age profile of the consumer market can be extremely relevant to a retail business. Although out of a retailer's control, the death rate and birth rate influence the 'bulges' in generation cohorts, which may have positive or negative effects on the potential customer base. Retailers of young fashion may struggle due to a falling population of teenagers, at the same time as children's wear retailers are thriving due to an upturn in the birth rate. Clearly, some retailers are more directly influenced by changing age patterns than others, when their product range is directly linked to the age of the consumer. For example, prams and buggies have a direct link to babies; after the first four years of a child's life, retailers of this type of

product cease to be relevant to the consumer (whether they are parents or grandparents). However, the market for personal computers is much wider, with income rather than age being a more relevant criterion for the identification of customers. One key challenge for retailers in the early part of the twenty-first century is how to adapt to the ageing population; however, unlike most other consumer groups the 'grey market' is both time and cash-rich in spite of being less mobile.

There are a number of ways in which retailers can adapt to a more elderly clientele. These include training staff to recognize the needs of senior people, and respond to them with clarity and respect; designing the store environment with the older customer in mind (good lighting, consistent layouts, rest areas); providing information in large print and in forms that customers can take away to study; and finally to employ old people who may be better able to empathize with the customer base.

### **Activity 16.3**

*How has younger age profile of India's demographic changed retailers outlook? Give few examples?*

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- **Working patterns**

The trend for more women to enter the workplace is continuing in Europe and occupations have moved from the traditional manufacturing industries to the service sector. This type of employment, characterized by part-time and flexible working hours and 'lighter' work (such as keyboard and telephone operators, catering and shop work) generally suits female employees, and with the growth of communication and information technology, many job roles can actually be carried out from the 'home-office'. At the same time, the proportion of time spent by individuals in the workplace is increasing.

The trend for more women to work both in part-time and full-time occupations has had a number of very important influences on the way the retail industry has developed. Some of these are highlighted below:

**The influence of working women on retailing:**

- The growth of convenience products in the grocery market, for example ready-prepared meals was a product category initially pioneered by MTR in India, and now most supermarkets have take-away food bars.
- The increased offer of products and services under one roof - the one-stop shop, or perhaps more accurately the one-stop household service. Many superstores offer pharmacies, dry cleaning, photograph processing, shoe repair and beauty saloons, alongside the extensive food and non-food household product range.

- The increasing number of retailers are offering a 'working wardrobe' in the clothing sector. Indian Men's clothing retailer Pantaloon has been particularly successful in this market, and the repositioning of women chic wear is a response to the opportunity to sell young women their work attire alongside more fashionable items.
- Child-orientated facilities to ease the burden of shopping with children, for example crèches, changing facilities, car parking places, trolleys with baby carriers.
- Retailers have expanded product offerings to include more services, such as health and beauty-related services and menu-planning services.

Other demographic trends that might affect retailers include geographical shifts, and ethnic diversity. For example, inner-city regeneration schemes are attracting childless single and partnered people into luxury city-centre residential developments, who might have previously migrated to suburban areas. Retailers like Reliance Retail use geo marketing techniques to ensure that their store formats and product ranges are tailored to local catchment areas. It may be important for retailers to provide customer information in alternative languages in order to reflect the ethnic character of the local market.



- **Income and expenditure**

Although the feeling of being better-off is influenced by our level of wealth relative to those we come into contact with, rather than our actual income level, the majority of consumers in developed societies such as Europe and the USA have enjoyed an increasing level of personal disposable income since the Second World War. We now spend a smaller proportion of our income on what might be termed 'the essentials' of life, such as housing and food, whereas the proportion of our income spent on discretionary purchases such as fashion goods, household appliances, eating out, holidays and entertainment has increased. This means that retailers and manufacturers are able to benefit by encouraging consumers to 'trade-up' in their essential purchases, and make discretionary purchases appear to be 'essential'.

Demographics are the measurable outcomes of societal change. For example, the UK has experienced a fall in the size of families and households over the last two decades as the result of a number of variables, many of which are interrelated: the increased availability and acceptability of contraception; an increased number of women having a 'career' and so starting a family later or deciding not to have a family; an increase in the divorce rate, resulting in more households and 'irregular' family groups (for example a couple may live on their own in the week, with an influx of children from two previous marriages at the weekends); and more elderly people living independently, often

single, for longer periods of time. Retailers need to be aware of these changes in terms of how they affect the number of consumers in different demographic categories, but equally important is to be able to have an understanding of how the changes influence the lifestyles of groups of people in the various demographic categories.

- **Lifestyle Changes**

A complete and thorough exploration of societal influences on consumption is beyond the scope of this text. However, some of the lifestyle changes that have occurred in the recent past and have had a significant effect on retailers are the following:

- Time poverty and therefore a resulting convenience orientation, particularly for working women.
- Car dependency, resulting in a growth of edge-of-town and out-of-town shopping centres.
- Nuclear families, resulting in a growth of spending on personal appliances; households with teenage children are likely to have multiple television sets, telephones, music players and personal computers.
- Informality, as a possible result of the weakening influence of traditional bodies of authority such as the church, the police, the state and the family. In particular, clothing retailers have been challenged by this trend, but it has also had its effect on home furnishings. Home Store, for example, has used informality and fun as a theme in its

customer communications, with traditional and formal styles being portrayed old-fashioned.

- Home style changes resulting in the growth of spending on the home and garden. The media have fuelled this interest with programmes like do it yourself and retailers like Home Store have been the beneficiaries.
- Increased focus on leisure time. Shorter working hours put a brighter spotlight on the quality of leisure time and consumers are prepared
- Purchase items and services that will enhance their precious free time.

Labour-saving appliances like dishwashers and microwaves have a high penetration but retailers in general have to respond to the fact that shopping is increasingly regarded as a leisure pursuit which should be enjoyable, entertaining, interesting and hassle-free, with service offerings such as restaurants, bars and coffee shops, sporting facilities and entertainment venues in close proximity.

There have also been changes in attitudes within the general body of consumers, which again has influenced the way they shop and the products they choose. These would include the weakening influence of traditional authority indicated above, environmental awareness and consciousness, health consciousness and value orientation.

Within this general appreciation of the nature of consumers as a living changing adapting, and thriving body of potential



- **The Consumer Buying Process**

As well as understanding the retail consumer from the point of view of the masses, or total potential market viewpoint, the study of consumer behaviour is also very much concerned with how we consume as individuals. Established theory suggests that each time we purchase something we go through a process composed of a number of key stages. A retailer needs to be aware of the extent to which they can contribute to the purchase decision-making process.

- **Needs recognition**

To begin with, the retail environment itself can be used to draw attention to products and stimulate impulse purchases. In this case the need is generated during the shopping process rather than prior to it. In other instances, the recognition of need may be closely associated with the retail outlet that has become strongly connected to particular items. For example, an empty refrigerator is more likely to prompt the thought 'I must visit the supermarket', than the specific product-related thought 'I must buy a box of eggs'.

- **Information search**

In the second stage, consumers use retail outlets extensively for information about goods and services. Retailers provide information in many forms, including point-of-sale information, leaflets and catalogues, websites, interactive product trials such as food tasting, trying on garments or listening to music, and in

the one-to-one advice given to customers about their intended purchase by sales personnel. In particular, a sales person can help to move a customer from the stage where they are searching for information about products, to the point at which they start to evaluate the alternatives on offer and make a choice.

- **Evaluation**

During the search and evaluation stage the retailer itself rather than the product may become the focus of a consumer's evaluation. Customer loyalty and the value of the retailer's corporate brand may encourage a consumer to restrict their search and evaluation activity. It is in the retailer's interest to progress a consumer to the purchasing stage efficiently in order to prevent them taking their custom to a competitor's outlet. In a saturated retail market, ensuring that customers keep returning to your store or website is a vital ingredient of a retailer's strategy, and as European markets have matured, increasing focus has been placed on customer loyalty. Defining loyalty in retailing is not straightforward because it can be measured in more than one way; frequency of visit, extent of switching and expenditure levels all contribute to the extent to which a customer can be considered to be loyal. Irrespective of the way loyalty is measured, loyal customers are more profitable to retailers than other types of customers, and therefore every effort should be made to maximize their satisfaction. This is a growing challenge; as consumers face increasing choice through their own mobility and gain experience as shoppers, their loyalty levels are likely to fall.

- **Select and purchase**

The extent to which a retailer can influence this stage of the process is closely linked to the type of product being purchased. In low-involvement products, the consumer may be influenced by some in-store promotional activity, whereas in medium involvement products, such as beauty products, the matching of product benefits to customer needs by sales associates will play an important role. In high involvement purchase decisions, such as a carpet, the shopper may revisit alternative retailers a number of times to gather information on product attributes such as price, quality, colour, payment methods and delivery before making a final decision.

**Activity 16.6**

*List at least three high involvement purchase decisions. What kind of behavior a customer depicts for such purchases?*

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- **Post-purchase evaluation**

Again, the extent to which the product or the retailer is judged after the sale will depend on the type of purchase. For high involvement purchases, high levels of post-purchase customer service can help to alleviate any worries about installation and use, whilst clear and generous return and exchange policies can help to reassure the customer in the purchase of all types of product.

- **Shopping Behaviour**

The model of the consumer purchase decision-making process assumes that the consumer is a rational and economic person, whose evaluation is strictly geared to physical benefits of the product bought. In fact the activity of shopping is tied up with a whole host of human emotion and behaviour, involving benefits sought to satisfy myriad psychological needs. Product needs vary from the functional (for example a vacuum cleaner) to the psychological (for example a Levi's Jeans); however, most products offer both functional and psychological benefits. For example, the Eureka – Forbes vacuum cleaner is designed with a transparent dust-collection cylinder providing the user with the psychologically satisfying view of all the trapped dirt! Shopping also fulfils functional and psychological needs, and can vary from a chore to the most favoured leisure pursuit. A retail outlet can be designed to make the functional shop easier and less of a chore:

- By locating the outlet in the most convenient location, considering travel time, congestion, ease of parking and accessibility.
- By providing a logical layout (applies to both store and non-store outlets).
- Ensuring product information is clear and easily understood.
- Providing good customer service.
- Ensuring good stock availability.
- Providing fast and flexible payment facilities.

A retail outlet can also be designed to encourage customers to view shopping as a pleasurable leisure pursuit:

- Ensure customer service levels are high. Staff/customer interactions should be pleasant, cheerful and courteous. Staff should appear interested in and knowledgeable about the products(s) that they are selling.
- Provide eating-places. Customers should be comfortable and well-fed. The provision of restaurants, cafes and tasting bars all help to keep the customer relaxed, and encourage prolonged shopping activity.
- Entertain the customer. There are various ways in which customer can be entertained. For example some supermarkets have introduced 'live chef' sessions, and many clothing stores arrange fashion shows (on video if the store is too small). The

store environment itself can be designed to provide entertaining features, for example children's wear retailers like Kids Kamp have used talking trees, hissing snakes and push-button interactive information points to help keep their short attention span customers in a good frame of mind.

- Make the store environment enthralling. An inspiring store is likely to encourage customers to browse, whereas one that is dull and badly laid out will do the opposite! The store design and the displays, together with music, lighting and even aromas can create an atmosphere that makes shopping 'an experience'.
- Choose an outlet location that combines retail and leisure activities. Many modern shopping centres combine retail outlets with other leisure destinations, such as cinemas, sport facilities, cafes and bars, and tourist attractions. This encourages customers to view the shopping activity as part of a 'day out'. The proximity to other retailers in a centre can also be important in terms of generating high footfalls.

### **Activity 16.7**

*Take example of 'Life Style Stores' and see how they provide different customer enthralling services. List some of these observations.*

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**EXHIBIT 16-A: Experiencing the outdoor experience**

The 40-year-old retail company Tiso, which has been leader of the outdoor sports market in Scotland for many years, has rewritten the rules of adventure sports retail. The company chairman Chris Tiso recognized the need to service two different types of sporting goods customers. Some customers were more interested in sports clothing as a fashion statement, with sports brands becoming increasingly popular in mainstream shopping centres. Others were enthusiasts, whose concern for the performance of clothing and equipment was paramount. The opening of The Outdoor Experience store in Glasgow finds a way to offer sporting goods to all types of customers, in an entertaining and relaxing environment. The store has a straightforward philosophy: try before you buy and enjoy yourself while doing so. The store covers 7,500 square metres, and houses a cafe with internet access, a kids' discovery area, and a number of interactive features such as the 'Goretex Fabric Wet Zone' for trying out waterproof clothing and the stove-testing unit. Special sports features include a mountain bike track (including waterfall, pond and bridge), and an ice-climbing wall, encouraging customers to have fun and to try out alternatives in what can be a very high value purchase. The interactive areas also allow sales personnel to demonstrate the benefits of the product, and encourage customers to trade up in their equipment purchases, without having to resort to the 'hard sell'. This unique retail outlet encourages anyone with an

interest in sporting gear to browse, have fun, learn, try and then, when they are ready, buy.

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## **16.4 SHOPPING MISSIONS**

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Another limitation of the consumer purchase decision-making model is that the way we shop can be influenced by the shopping mission. The following accounts of shopping for essentially what could be described as square sheets of absorbent paper, illustrate how different missions have implications for the way a consumer shops, and for the retailer concerned with the purchase:

### **Emergency situation**

Suffering from high fever, Ms X is in need of a packet of tissues fast, she will buy them from the nearest outlet that has product availability, and product attributes such as price, brand, quality and design are not relevant in this situation. Convenience stores are therefore able to apply high profit margins to this type of product.

### **Routine buying**

On a visit to a supermarket to do the weekly household shop, Ms X purchases a family pack of tissues. She assumes the current pack at home will not last much longer. She may be influenced by promotional offers (such as 2 for 1) and may use other product criteria such as colour and use of recycled materials in her purchase decision. However, her overall involvement in the purchase is low.

**Destination shopping**

Ms X is organizing a dinner party. She needs to buy some table napkins and she is concerned that the quality of the napkins reflects her excellent cookery skills, and that the design complements the decor in her dining room. She heads for a department store located within a nearby regional shopping centre where she knows she will find a wide selection of designs to choose from. She is not price sensitive in her purchase, although she believes this reputable retailer provides good value for money.

**Browsing**

Later in the year Ms X is doing her Christmas shopping. Whilst browsing through a variety store she notices some novelty tissues with cartoon characters printed on them. She decides that these would make a good stocking-filler present for her young daughter. She then moves on to the male toiletries section to find an equivalent gift for her teenage son.



factors, some of which are less related to the buying of products, and more related to personal and social motivations of individuals. Research suggests that retailers need to consider the satisfaction that a consumer gets from the shopping activity itself, as well as the utility obtained from product bought if they are to fully understand consumers' motivations for shopping.

Further consumer research has uncovered other psychological motivations for shopping, and Table 16.1 provides a summary of reasons why people go shopping other than to purchase a product to satisfy a physical need, such as running out of an item or something wearing out.

*Table 16.1 Shopping motivations*

<i>Personal stimulation</i>	The need for 'an experience'; the enjoyment of being in an interesting or different environment
<i>Social experiences</i>	The need to be with people; to go shopping with friends, to talk to people with similar interests, to have contact with a peer group
<i>Learning</i>	The need to acquire new knowledge in order to become an 'educated shopper'; finding out about new products, following fashion trends, talking to experts' in stores
<i>Status and</i>	The need to exert authority, to gain attention from retail personnel, to have somebody serve

<i>power</i>	and show respect
Self-reward	The need to treat oneself, or to put oneself in a positive frame of mind
Diversion	The need to alleviate boredom, to provide a break in the daily routine, to get out and about
Exercise	The need to move about and get some fresh air
Role-play	The need to reinforce a role or to play a role to which one aspires; for example the role of the provider (in the gathering of the weekly family needs)
Bargain hunting	The need to show expertise in finding value in purchasing; the need to have 'beaten' the retailer by buying at discounted prices

As a generalization, the shopping process can be broken down into two separate categories. The first is sometimes referred to as 'chore shopping', and is a reflection of how many people feel about, for example, grocery shopping. It is the kind of shopping that has to be performed in order to replenish food and household goods, or to replace worn-out items. Although many

people love shopping for clothes, there is a significant section of the population (many of whom are male) who would consider clothes shopping to be a chore. However, a key feature of chore shopping is the low-involvement, routine nature of the task and therefore it can be separated from clothes shopping. The main objective with chore shopping, for most people, is to perform the task as efficiently as possible.

The second general category of shopping activity is the one that usually involves high-involvement or 'one-off' purchases, and for these the consumer will go through all of the stages in the consumer purchasing process, and may spend a long period of time in the early stages gathering together information and trying out alternatives. The key difference in the two types of shopping from the retailer's point of view is that for low involvement (chore) shopping it is in the consumer's interest to establish a routine in order to maximize efficiency, and one of the ways of doing this is to choose one store and buy as many things from that store as possible. When a consumer buys a high involvement product they will like to consider many alternatives, whereas in the routine process, a customer will generally be happy with a smaller number of alternatives, and in many instances will have already decided amongst alternatives based on previous experience. How consumers choose between alternative stores is therefore, as important to retailers as how consumers make decisions about what product to buy. As a consumer gains experience within a product classification, such as clothing or household appliances, decisions regarding store choice hold more weight than those regarding the products

themselves. Although in the early stages of adoption as a form of shopping, the choice of website from which to order is likely to be subject to a similar process of decision-making.

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## **16.5 RETAIL OUTLET CHOICE**

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There are many factors that influence how we as consumers feel about a retail outlet. Clearly in the light of the previous discussion, the product range offered is one of those factors. However, in a saturated retail market there may be a number of outlets offering very similar product ranges, and so other means of differentiation become important in the retail offer. The following factors were considered important by more than one-quarter of respondents in a study in Europe and North America conducted by DataMonitor in 2008 of why customers chose one grocery store over another:

- Location
- Attractive prices
- Quality of products.
- Wide range of products.
- Measures to reduce queues at checkout.
- Fresh food service.
- Longer opening hours.
- Good own-label range.
- Cashpoint facilities.



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### **The multi-attribute store-choice model**

The first stage of using the model is to identify stores that are in a customer's set of alternatives. The set may include outlets that compete on an intertype or an intratype basis, and in this example, we will use intratype competition and consider the process of choosing between three different grocery superstores located within a five-mile radius. Table 16.2 lists a number of store attributes (characteristics) and makes a qualitative assessment of each store according to their performance in relation to these attributes.

*Table 16.2 Store attributes and individual store performances*

Superstore	X	Y	Z
Price level	Average	Above average	Average
Price offers	Few	Few	Many
Car parking	Unrestricted	Unrestricted	Sometimes difficult
Speed through checkout	Slow	Fast	Fast
General product assortment	Average	Vast	Below average
Organic produce	No	Yes	Very limited
Store environment	Average	Excellent	Average
Pharmacy	Yes	No	No

Customers can then be asked to score the three stores according to these characteristics, and these scores can be summarized under general attribute groupings.

Even though different customers may rate these three stores similarly in terms of their general attributes, there may be particular characteristics that have a greater importance to different individuals, and therefore have a bearing on the store choice that they personally make. So, by asking individual customers to attach an importance weighting to the general

attributes, we will gain a better insight into how different groups of customers choose stores.

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## 16.6 RETAIL SEGMENTATION

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The result of the type of research outlined above could indicate to retailers where loyalty might be generated within a specific customer group and many retailers gear their offerings to particular groups of individuals who they have identified as being accessible enough and viable enough to support a business. For example, their level of need and willingness to be loyal provides a flow of income that maintains the operation. This process is known as segmentation and targeting: the retailer splits up the total population of the consumer market into a number of segments, into which individuals are placed according to their own physical or psychographic characteristics, and then the retail offer is aimed at a the 'target' segment. A number of retailers have gained success by targeting a narrow segment, but for general retailers, the customer group served might be quite broad.

A deep understanding of the consumer is a prerequisite to successful segmentation. Some of the more common methods used by retailers to segment their markets are:

- ***Demographic***

age, gender, family size, family life-cycle, income, occupation

- ***Psychographic***

social class, lifestyle, personality, attitudes

- ***Behavioural***

benefits sought, loyalty status, usage rate

- **Geographical**

It is useful to separate the last variable out because it can be used either from the point of view of where the customer lives, or from the point of view of where the buying activity actually takes place. For example, some consumers can be geographically grouped according to their travel routes, or where they carry out their work. China Town, for example, target 'lunchtime' shoppers with their takeaway food range and lunchtime deals. Yet, two of those lunchtime shoppers may live in very different suburbs of the town in which China Town is located, and therefore be considered in a very different customer segment by a different retail company; indeed, to a convenience store one of the customers may be a viable target, but the other who lives on the opposite side of town is completely irrelevant.

### **16.6.1 Segmentation based on shopping behaviour**

Some attempts have been made to group consumers on the basis of their shopping behaviour, which can generally be viewed as a combination of psychographic and behavioural segmentation. Categories have been developed such as: the convenience shopper; the bargain hunting or economic shopper; the environmental/socially concerned shopper; the personalizing or innovative opinion-leading shopper; the fashion follower; the traditional shopper; the creative shopper; the recreational shopper; and even the apathetic or uninvolved shopper.

In an era of multi-channel strategies, retailers may increasingly use the customer's preferred method of shopping as a basis for segmenting customer markets. For example, internet shopping might appeal to customers that are time-poor, lack mobility, or dislike the social aspects of shopping, whilst store shopping is more likely to appeal to those with more time who enjoy browsing and impulse purchasing.

Segmentation has traditionally been very important to retail businesses. The viability of the segmentation process depends on the identification and separability of accessible, measurable and viable groups of potential customers. If a target customer segment is no longer viable, or another segment looks more attractive, a retailer may need to use new criteria for segmentation and 'reposition' the business. For example, in the late 1990s Iceland, who had previously focused on low "price frozen food products, attempted to reposition their business to attract a more upmarket, environmentally concerned customer by banning genetically modified food products and introducing organic products. Some larger retailers, however, will segment their customers within the outlet; for example AllenSolly's 9-15 range for teenagers, or Life Style's designer-created Premium range for customers with higher disposable incomes and fashion orientation.



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## **16.7 SUMMARY**

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In this unit, we have outlined the importance to retailers of getting to know their customers, both as a group of people within a population, and as individuals. Having an in-depth knowledge about customers' product and store preferences allows retailers to gear their businesses towards the customer and make their product and service offerings more attractive than those of competitors. Customers exist within a society, and are subject to a whole host of influencing factors that shape the way they shop. Customers are complex human beings, they may act differently according to the type of shopping trip they are on, seeking value during one shopping mission, and then indulging themselves on another. This gives rise to the notion of a hybrid customer, within a market of customers who seem to be increasingly less predictable as groups. At the same time, international retailing activity reflects an acceptance of global brands in a worldwide market which needs and tastes converge.

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## **16.8 REVIEW QUESTIONS**

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1. For a retailer of your choice, discuss how elements in the product/service offer reflect the lifestyle of their customers.
2. Discuss the demographic changes that are taking place within your country. Identify retailers who stand to gain and those who may lose out because of these changes.
3. Review the buying process that you went through when you last purchased a high involvement product. To what extent did the retail outlet (rather than the product itself) influence your choice of product and store? Can you think of anything further retailers could have done to get you to purchase within their outlet? What would definitely put you off buying this product in a particular retail outlet?
4. Review the different motivations for shopping. Give an example of a shopping incident that would illustrate each one.
5. Compare and contrast the concept of a shopping mission and a shopping motivation.

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## **16.9 FURTHER READINGS**

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- Higham, William, (2009), *The Next Big Thing: Spotting and Forecasting Consumer Trends for Profit*, US; Kogan Page
- Baker, Robert G.V (2006), *Dynamic Trip Modelling: From Shopping Centres to the Internet*, US; Springer
- Danziger, Pamela N. (2006), *Shopping: Why We Love It and How Retailers Can Create the Ultimate Customer Experience*, US; Kalpan Publishing
- Ryski, Mark (2005), *When Retail Customer Count*, US; Author House.

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## **UNIT 17 FUTURE DIMENSIONS OF RETAILING**

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### **Objectives**

After reading this unit, learners would be able to:

- Understand how cyberspace retailing is going to be a future determinant.
- Appreciate the impact of technology in shaping the future of retailing.
- Know how technology can resolve the retail issue through each of alternatives and their evaluation.
- Understand the concept of access to customer

### **Structure**

- 17.1 The Consumer Experience in Cyberspace
- 17.2 Retailing Visualized as Problem Solving
- 17.3 Technology and Retailing
- 17.4 Automatic Replenishment of Needs and Wants
- 17.5 Electronic Search Options for Customers
- 17.6 Electronic Evaluation of Alternatives
- 17.7 Purchase through E-tailing
- 17.8 Summary
- 17.9 Review Questions
- 17.10 Further Readings

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## 17.1 THE CONSUMER EXPERIENCE IN CYBERSPACE

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From an operational perspective, retailing is about transactions. 'Checking out', 'closing the deal,' and other colloquial expressions for the exchange of goods and services for money or the promise of money has historically defined retailing. However, if one considers retailing from a broader perspective, the transactional element of retailing is simply the culmination of a much larger process of searching, retrieving, and eventually exchanging *value for value*.

For the consumer, the process of 'buying' a product or service involves seeking and selecting the right solution to a problem or need and, in exchange, providing something of value to the retailer. Money is certainly of value to the retailer, but so is customer loyalty, good will, and the relationship that forms between retailers and their customers. For the retailer, this relationship allows them to know their customers and cater to their needs. To the consumer, forming a relationship means consistency of service, and at some level, a feeling of being treated like an individual.

The emergence of interactive technologies (e.g., Internet, Kiosks, Interactive TV) is changing *where* retailing is taking place, and *how* the exchange of value occurs (i.e., the promise of goods for the promise of money). But, is interactive technology really changing the essence of retailing? This section looks at the effect that technology is having on retailing from the consumer's perspective and the emergence of new electronic forms of exchanging value for value. A user interface



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## **17.2 RETAILING VISUALISED AS PROBLEM SOLVING**

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To the consumer, shopping is primarily a problem solving activity. Whether buying a new car or a carton of orange juice, the actions consumers take and the decisions they make are in response to some fundamental problem that they are trying to solve. This fundamental process is repeated billions of times a day by people all over the world in marketplaces ranging from street markets to mega-malls, and, more recently, in the non-physical world of cyberspace. This model drives both the mundane and the critically important decisions consumers confront in their lives.

When consumers take on a new problem solving activity, they do so in the context of a lifetime's worth of experience. The decisions that a consumer makes between competing products and competing vendors are heavily influenced by past experience — experience both with the tangible goods and services being offered and with the organization offering them. A consumer's decision to shop at a particular grocery store may be influenced as much by the experiences they have had at the checkout line as it is by the price and quality of the store's products. The challenge facing the retailer is not only to help customers solve a problem, but to do so in a way that is pleasant, efficient and in some way memorable enough for them so that they will return the next time they have a similar problem or need. Through these repeated and familiar patterns of behavior, consumers establish trusted relationships with retailers.



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## **17.3 TECHNOLOGY AND RETAILING**

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In initial days, the pervasiveness of information technology was much more in the manufacturing and transportation sectors. The retail process was considered to be more intimate generally taking place between the customer and the store owners. One major inflexion point in the development of retailing technology came with the introduction of electronic cash register. This has over the years evolved into much more sophistication. Today's electronic cash register integrates all aspects of retailing embedded in Point of Sales Terminals (POST).

Recently, information technology has become a great facilitator for both retailers and customers. The advancement in cellular telephony, wireless communications and pervasiveness of internet has made this a part of retail folklore. Technology interventions are not just behind the sales counters but are now empowered in the hands of customers through handheld devices, mobile payment gateways and electronic wallets. In fact, technologies in some ways have made physical aspects of a store redundant. Today's generation is more amenable to online retailing and virtual stores.

### **17.3.1 Electronic Retailing and the Exchange of Value for Value**

As was mentioned, these technological developments have given raise to the over arching concept of electronic retailing. This term implies the form retailing that happens through consumer held devices and applications outside of the physical formats of stores and enables the consumers to obtain

information about products they intend to buy and if so desired, buy it online. This new paradigm is becoming more and more popular because of the emerging global information and technology infrastructure like 'cloud computing'. The interesting part is that though it is virtual mode, one-on-one interaction does happen in this form of retailing. However, for electronic retailing to succeed, both consumers and retailers must perceive some tangible value additions. Some of these value additions aspects are briefly described under Table 17.1 below.

*Table 17.1*

<b><i>Information availability</i></b>	Relevant information delivered to customer through electronic database and digital display
<b><i>Time savings</i></b>	There is no waiting periods in e-tailing
<b><i>Autonomy</i></b>	The virtual store design permits users to proceed on their own pace and multiple linguistic interfaces are available
<b><i>Convenience</i></b>	Great convenience is achieved as prospective buyers can use their laptop, mobile phone, tablets for utilizing e-tailing features.
<b><i>Personalized service</i></b>	Through creation of shopping agents, each customer can get a personalized set of information and services from an online portal.

Beyond a very pragmatic value addition to a customer, there are certain intangible benefits as well. These include just browsing with no pressure to actual shopping, or sense of looking at all features of a particular product and ability to compare with other similar products. Therefore, these set of benefits can be enumerated as under.

- i) Improved efficiency for customers and elimination of redundant sales associates for an e-tailer.
- ii) Higher degree of customer service through better access to relevant information.
- iii) Wider knowledge about prospective customers

This can be achieved by maintaining extensive customer information database.

To sum up, it can be said that in electronic retailing the retailer can offer possibly lower price points to customers due to more efficient operations and less dependence on physical infrastructure. Therefore, e-tailing offers much greater economies of scope and scale, as well as have stronger bonding with their customers.

### **17.3.2 Electronic Retailing and Consumer Shopping Behavior**

Through the rapid development of newer technology known as web 2.0 [and now emerging web 3.0], such technologies support networking communication and visualization experience. This helps in much improved virtual store fronts and gives



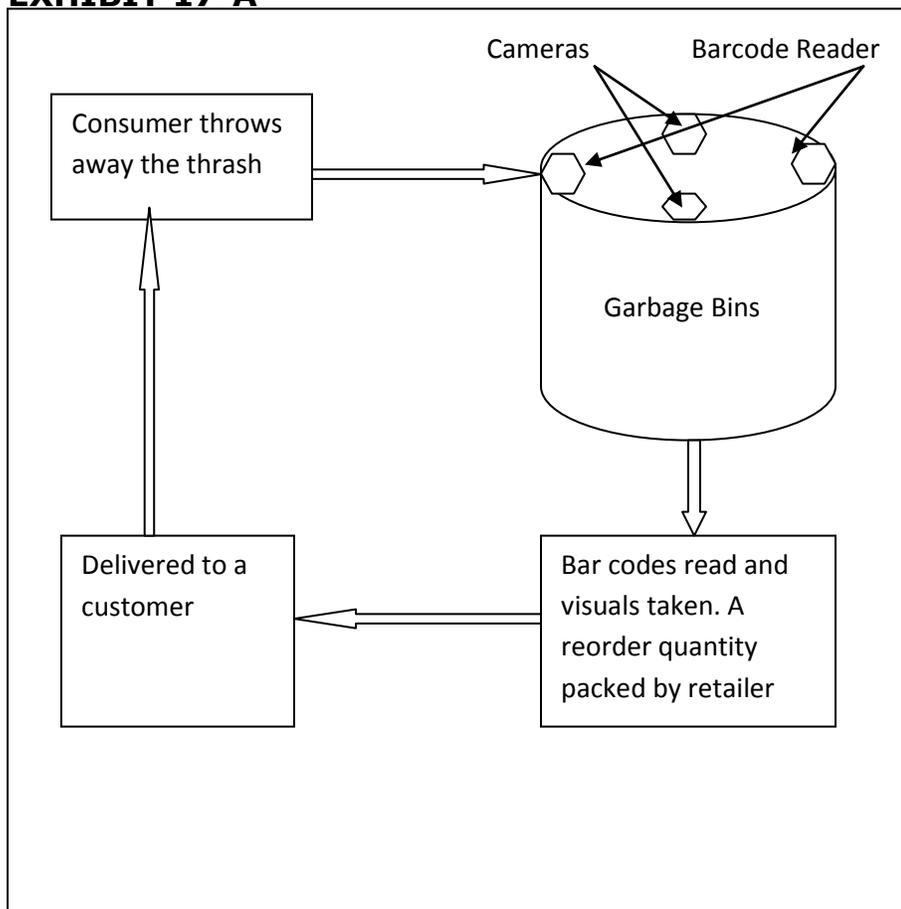
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## 17.4 ELECTRONIC REPLENISHMENT OF NEEDS AND WANTS

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Needs and wants are part and parcel of human beings life. These needs lead to a person's buying or acquisition behaviour. Today the technology that is available can lead to electronic fulfillment of these needs and wants. In the Exhibit 17-A, one such scenario is visualized. It is now technologically possible by taking visual snap shots of a customer's kitchen trash for a merchandiser to electronically send a reorder of kitchen items.

**EXHIBIT 17-A**



As shown in the exhibit above, the act of disposal helps in replenishment of items automatically. The customer does not have to run to a retail store to refill the daily need items. If we look this example closely, we find an upgraded technological version of traditional 'milk delivery' at home. This, in fact, has huge implication for developing electronic replenishment process.

In the example discussed in Exhibit 17-A, the relationship between the retailer and customer are highly interconnected. The consumer gets the benefit of time-saving and convenience without any added botheration. The retailer becomes the preferred supplier to such an interconnected customer, thereby a win-win situation for both.

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### **17.5 ELECTRONIC SEARCH OPTIONS FOR CUSTOMERS**

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Like a form of electronic Yellow Pages where you "Let your fingers do the walking," hundreds of search engines on the World Wide Web allow consumers to scour the world for alternative solutions to their needs and problems. Although these search engines today do little more than to locate items of possible interest, shopping "agents" etc (i.e., autonomous programs that seek specific information), they are quickly evolving into sophisticated consumer advocates that can seek many alternatives to a specified need independent of physical location.



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## **17.6 ELECTRONIC EVALUATION OF ALTERNATIVES**

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It is a great feature that is offered by electronic retailers. In the past to do so, one had to identify suitable products within closer physical proximity and compare them on value for money parameter. The technological advancements have changed this comparison and evolution process before one actually buys a product. Technology now exists which provide ability to 'virtually try on' clothes digitally by electronic super-imposition of image of clothes on the digital image of a customer. In a house buying process 'virtual walkthrough' to appreciate architectural plans or 'virtual driving' to test the mechanisms of a car can be experienced prior to buying it. Banking and financial services organizations provide to their customers a set of 'what if' scenario with regard to their investments decisions. So, these powerful tools help in evaluation of many alternatives before one exercise the actual option of buying.

### **Activity 17.6**

*Visit [www.automartindia.com](http://www.automartindia.com) and see how interactively you can research and compare models of cars that you seek to procure.*

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accordingly by offering products of interest, or by targeting the customer with promotions. As long as the consumer believes that the information they provide will be protected and not abused, the value received may easily exceed the perceived value of the few minutes spent answering questions.

### **17.7.1 Critical Success Factors in Electronic Retailing**

The emergence of electronic retailing presents both challenges and opportunities for retailers. It provides efficiency and convenience to both the consumer and retailer, yet, if not properly implemented, can interfere with the relationship between them. Our experience in electronic retailing has identified several fundamental issues that are critical to its success.

### **17.7.2 Navigation**

The problems of navigation, presentation, and interaction with information in large on-line systems are crucial to the usability and acceptance of electronic retail applications. The sheer volume of information that is currently available on-line, combined with the predicted growth in access channels and services, clearly points out the need for effective and scalable navigation schemes. In most electronic retail systems today, users navigate via hierarchical menu screens. Experience is showing that this approach does not scale up beyond a few thousand items — several orders of magnitude short of what will be required in the very near future by interactive electronic shopping.

For example, today's typical kiosk application employs two dimensional text-with-image navigation schemes where the user is presented with some number of textual items that they must read and choose between. Once they make a selection, a new screen appears with another set of choices and the process is repeated. The practical limits of this navigational approach is only a few thousand items. Beyond this, either the number of choices on the screen become excessive or the search depth becomes so deep that customers become frustrated and lost. A few thousand items may represent only a small percentage of the items offered by a large retail store.

### **17.7.3 Building and Maintaining Personal Relationships with Consumers**

Manufacturers and retailers alike recognize that the relationship with their customers is fundamental to success. Nearly all retailers are concerned with "customer service", which is usually measured as some function of speed of service, reliability, trust, and personal interaction. Having a retailer that "knows" your problems and has a stake in solving them, is extremely valuable to consumers.

In electronic retailing, opportunity exists to create a different shopping experience for each consumer. Unlike traditional forms of retailing, it is possible in electronic retailing to identify each customer as they enter the environment based on a stored profile or other forms of self identification. This creates an opportunity to create the ultimate in personalized shopping, an experience based upon specific needs and upon the knowledge

and history each retailer has with their consumers. This personalization of experience must be weighed against issues of privacy and security that concern many users. Always linking the collection and use of personal information with immediate utility or reward for the user can alleviate some of these concerns. As security is largely a matter of perception, every effort must be made to create user experiences that convey trust, safety, and privacy.

#### **17.7.4 Content**

Large retail chains are increasingly looking to electronic shopping as a means of providing better selection and greater convenience to their customers, while reducing the costs associated with building and maintaining a physical store presence. One underestimated cost is the creation and management of content. The creation of quality product information for use electronically can be extremely resource-intensive, especially for a retailer that is selling the goods or services of others. Although it is possible to leverage from the existing broadcast world of print and video, this "re-purposing" of content has only limited application in a world where information is now expected to respond when touched, clicked, or downloaded. Electronic media is a new channel of communication and is subject to its own set of rules. Organizations that realize this will create content that behaves appropriately.

Another, often overlooked relationship involving content is the one between a retailer's physical and virtual store presence.

Since consumers will continue to shop both in physical and virtual markets, it is critical that both "worlds" are kept synchronized with each other. Several lawsuits against retailers have appeared in recent years that were based on an apparent lack of consistency between information available in different types of media. These lawsuits involved a price listed on a website that was not the same as a price in a printed advertisement. This type of problem is indicative of the complexity that occurs when creating and managing huge amounts of information in multiple formats.

#### **17.7.5 Identity**

The issue of identity is critical when users access an organization through electronic media. In the physical world, seeing the same physical store fronts day after day as part of the routine of living, builds a certain amount of brand equity. In the electronic world, this model breaks down since what is seen is almost exclusively a function of what is sought out.

The experience of the retail banking industry's incorporation of technology provides an example. As a way to decrease costs, banks have aggressively promoted self-service and home banking as preferred methods of interaction. Some banks now charge for interaction with a teller, but provide electronic access at no charge. With consumers physically less dependent on a particular bank brand to service their needs, banks are vulnerable to losing valuable brand equity and identity to non-banks such as software companies and financial service companies. These companies have the same (if not superior)

technology, but lack the long-term brand recognition and trust earned by banks over decades or more of interaction with consumers. Realizing this, some banks are making large investments in electronic branding strategies that look to maintain and enhance their brand equity. Branding an identity in the electronic landscape offers new opportunities to communicate. In addition to branded screen designs, branding is being applied to such things as interaction styles for user dialogue, prompts for voice response systems and the use of sound.

#### **17.7.6 Infrastructure**

Providing consumers with efficient and engaging experiences in electronic media requires investment in and knowledge of computing infrastructure. Retailers can control the quality of the user experience if they own the platform and network supporting it. For in-store devices such as kiosks, this is no problem. The level of interactivity and use of multimedia such as audio and video are under the total control of the retailer and their level of investment in the technology platforms. On the Internet, however, the retailer gives up control over the consistency and, ultimately, the quality of the user experience. The Internet is not a corporate asset and the computers accessing it vary widely in their capabilities. As the user experience is dependent on the level of technology creating it, the Internet is a difficult venue to control quality and consistency. In exchange, it does offer quantity (e.g. number of visitors), which can be of great advantage to certain retailers. Recognizing the tradeoffs in both the quality and quantity of

user experience and then working within them, is critical to the success of any foray into electronic retailing.

### **17.7.7 Social Space**

A final challenge to the success and acceptance of electronic retailing is that, unlike physical retail environments, in electronic space, individual users are often unaware of the presence of others. With the exception of "chat" rooms, the model for on-line services is one in which each user is made to think that they are the only person using the service. The resulting sense of isolation is in contrast to people's everyday experience of shopping as a public, social experience.

It is this sense of isolation that must be addressed within the basic fabric of the on-line/ electronic experience. The challenge is to create an experience where the user is moving through an open public space and where social interactions with friends or other participants is possible at any time and any place in the virtual world.

Historically, the marketplace has been an arena for both commercial and social interactions. A virtual retail marketplace should allow people to move through large offerings of products and services, examining items and making selections for purchase. It should also allow interpersonal interaction in a virtual world where people are able to shop with friends remotely, with visible representations of the other shoppers using the service, and where customers are able to interact with store staff and other shoppers over the network via the shared environment.

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## **17.8 SUMMARY**

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While the market place is undergoing dramatic changes as a result of new technology, the process of shopping remains unchanged. The basis for retail, whether physical or virtual, remains a problem solving process with a value-for-value exchange at its heart. The value that is being exchanged is not limited to money for product. The customer's time and attention are also valuable. Also important is the impression that is left on the visitor's mind and its long term effect on loyalty and brand. We have presented a prototype virtual retail environment that addresses these underlying issues through the use of a three-dimensional virtual world metaphor. As a framework that supports the integrated presentation of information using audio, video and still images within a 3D graphical framework, the intention of the effort is not to recreate or replace the physical shopping experience, but to open new channels of dialogue and interaction between people that facilitates and enhances the exchange of value for value.

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## **16.8 REVIEW QUESTIONS**

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1. Comment on “how the future of retailing is evolving?”
2. Discuss and briefly describe the emerging concept of exchange of value for value in context of electronic retailing.
3. How evaluating of options among competing products has become carry through electronic medium?
4. What are current challenges in electronic payments?

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## **16.9 FURTHER READINGS**

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- Krafft M and Mantrala, Murali K (eds), (2010), Retailing in the 21<sup>st</sup> Century: Current and Future Trends, US; Springer
- Funk, Tom (2008), Web 2.0 and Beyond: Understanding the new Online Business Models, Trends and Technologies, US; Praeger
- Lincoln, S.R, (2009), Mastering Web 2.0: Transform your Business Using Key Website and Social Media Tools, US; Kogan Page