PREFACE

In the curricular structure introduced by this University for students of Post-Graduate Diploma programme, the opportunity to pursue Post-Graduate course in any subject is equally available to all learners. Instead of being guided by any presumption about ability level, it would perhaps stand to reason if receptivity of a learner is judged in the course of the learning process. That would be entirely in keeping with the objectives of open education which does not believe in artificial differentiation.

Keeping this in view, study materials of the Post-Graduate Diploma in different subjects are being prepared on the basis of a well laid-out syllabus. The course structure combines the best elements in the approved syllabi of Central and State Universities in respective subjects. It has been so designed as to be upgradable with the addition of new information as well as results of fresh thinking and analyses.

The accepted methodology of distance education has been followed in the preparation of these study materials. Co-operation in every form of experienced scholars is indispensable for a work of this kind. We, therefore, owe an enormous debt of gratitude to everyone whose tireless efforts went into the writing, editing and devising of a proper lay-out of the materials. Practically speaking, their role amounts to an involvement in invisible teaching. For, whoever makes use of these study materials would virtually derive the benefit of learning under their collective care without each being seen by the other.

The more a learner would seriously pursue these study materials the easier it will be for him or her to reach out to larger horizons of a subject. Care has also been taken to make the language lucid and presentation attractive so that they may be rated as quality self-learning materials. If anything remains still obscure or difficult to follow, arrangements are there to come to terms with them through the counselling sessions regularly available at the network of study centres set up by the University.

Needless to add, a great part of these efforts is still experimental—in fact, pioneering in certain areas. Naturally, there is every possibility of some lapse or deficiency here and there. However, these do admit of rectification and further improvement in due course. On the whole, therefore, these study materials are expected to evoke wider appreciation the more they receive serious attention of all concerned.

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Post-Graduate Diploma in Retail Management

Paper - 4B

Retail Strategy

Netaji Subhas Open University

PG Diploma in Retail Management
Paper - 4B
(Retail Strategy)

Unit 1 Basic Concepts : Marketing Mix & Product Mix

Structure

1.1 Company Orientations toward the Marketplace

What philosophy should guide a company's marketing efforts? What relative weights should be given to the interests of the organization, the customers, and society? Very often these interests conflict. The competing concepts under which organizations have conducted marketing activities include: the production concept, product concept, selling concept, marketing concept, and holistic marketing concept.

1.2 The Production Concept

The production concept is one of the oldest concepts in business. It holds that consumers will prefer products that are widely available and inexpensive. Managers of production-oriented businesses concentrate on achieving high production efficiency, low costs, and mass distribution. This orientation makes sense in developing countries such as China where the largest PC manufacturer, Legend, and domestic appliances giant Haier take advantage of the country's huge inexpensive labour pool to dominate the market. It is also used when a company wants to expand the market.

1.3 The Product Concept

The product concept holds that consumers will favour those products that offer the most quality, performance, or innovative features. Managers in these organizations focus on making superior products and improving them over time. However, these managers are sometimes caught up in a love affair with their products. They might commit the "better-mousetrap" fallacy, believing that a better mousetrap will lead people to beat a path to their door. A new or improved product will not necessarily be successful unless the product is priced, distributed, advertised, and sold properly.

1.4 The Selling Concept

The selling concept holds that consumers and businesses, if left alone, will ordinarily not buy enough of the organization's products. The organization must, therefore, undertake an aggressive selling and promotion effort. The selling concept is epitomized in the thinking of Sergio Zyman, Coca-Cola's former vice president of marketing: The purpose of marketing is to sell more stuff to more people more often for more money in order to make more profit.

The selling concept is practiced most aggressively with unsought goods, goods that buyers normally do not think of buying, such as insurance, encyclopedias, and funeral plots. Most firms practice the selling concepts when they have overcapacity. Their aim is to sell what they make rather than make what the market wants. However, marketing based on hard selling carries high risks. It assumnes that customers who are coaxed into buying a product will like it; and that if they do not, they will not return it or bad-mouth it or complain to consumer organizations, or might even buy it again.

1.5 The Marketing Concept

The marketing concept emerged in the mid-1950s. Instead of a product-centered, "make-and-sell" philosophy, business shifted to a customer-centered, "sense-and-respond" philosophy. Instead of "hunting," marketing is "gardening." The job is not to find the right customers for your products, but the right products for your customers. The marketing concept holds that the key to achieving organizational goals consists of the company being more effective than competitors in creating, delivering, and communicating superior customer value to its chosen target markets.

Theodore Levitt of Harvard drew a perceptive contrast between the selling and marketing concepts : *Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it.*

1.6 The Holistic Marketing Concept

A whole set of forces that appeared in the last decade call for new marketing and business practices. Companies have new capabilities that can transform the way they have been doing marketing (see "Marketing Insight: The Internet Advantage"). Companies need fresh thinking about how to operate and compete in a new marketing environment. Marketers in the twenty-first century are increasingly recognizing the need to have a more complete, cohesive approach that goes beyond traditional applications of the marketing concept. Look at Puma.

1.7 Case Study : PUMA

German athletic footwear company Puma has used holistic marketing to bring its product back from being a sentimental mainstay of the 1970s to one of the trendiest athletic shoes around. Puma uses multiple marketing approaches that work synergistically to set Puma apart as an edgy, trend-setting brand. Puma designs products with distinct customer groups in mind—such as snowboarders, car racing fans, and yoga enthusiasts—using market research generated by its retailer partners. Puma also targets the armchair athlete—its two most popular models are the Mostro, a walking shoe with a nubbed wraparound sole, and the Speed Cat, a flat $65 sneaker modeled on shoes worn by Formula One race car drivers. It generates word of mouth or "viral marketing" by clever promotions—from partnering with BMW/ Mini, Terence Conran Design Shop, and the Jamaican Olympic team—or holding promotional events at sushi restaurants during the 2002 World Cup to outfitting Serena Williams and showcasing products in well-chosen TV shows and movies. The approach is working: Puma's sales have increased for 10 straight years from 1994 to 2004, tripling in total.

The **holistic marketing** concept is based on the development, design, and implementation of marketing programs, processes, and activities that recognizes their breadth and inter-dependencies. Holistic marketing recognizes that "everything matters" with marketing— and that a broad, integrated perspective is often necessary. Four components of holistic marketing are relationship marketing, integrated marketing, internal marketing, and social responsibility marketing.

Holistic marketing is thus an approach to marketing that attempts to recognize and reconcile the scope and complexities of marketing activities. Figure 1.3 provides a schematic overview of four broad themes characterizing holistic marketing.

1.8 Relationship Marketing

Increasingly, a key goal of marketing is to develop deep, enduring relationships with all people or organizations that could directly or indirectly affect the success of the firm's marketing activities. **Relationship marketing** has the aim of building mutually satisfying long-term relationships with key parties—customers, suppliers, distributors, and other marketing partners—

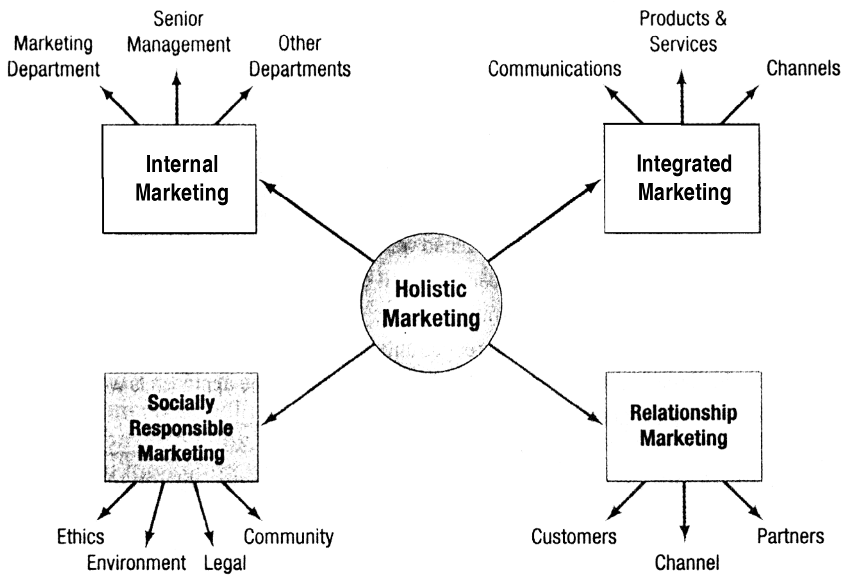


Fig. 1.3 : Holistic Marketing Dimentsions

in order to earn and retain their business. Relationship marketing builds strong economic, technical, and social ties among the parties.
Relationship marketing involves cultivating the right kind of relationships with the right constituent groups. Marketing must not only do customer relationship management (CRM), but also partner relationship management (PRM) as well. Four key constituents for marketing are customers, employees, marketing partners (channels, suppliers, distributors, dealers, agencies), and members of the financial community (shareholders, investors, analysts).

The ultimate outcome of relationship marketing is the building of a unique company asset called a marketing network. A marketing network consists of the company and its supporting stakeholders (customers, employees, suppliers, distributors, retailers, ad agencies, university scientists, and others) with whom it has built mutually profitable business relationships. Increasingly, competition is not between companies but between marketing networks, with the prize going to the company that has built the better network. The operating principle is simple: Build an effective network of relationships with key stakeholders, and profits will follow.

The development of strong relationships requires an understanding of the capabilities and resources of different groups, as well as their needs, goals, and desires. A growing number of today's companies are now shaping separate offers, services, and messages to individual customers. These companies collect information on each customer's past transactions, demographics, psychographics, and media and distribution preferences. They hope to achieve profitable growth through capturing a larger share of each customer's expenditures by building high customer loyalty and focusing on customer lifetime value.

The ability of a company to deal with customers one at a time has become practical as a result of advances in factory customization, computers, the Internet, and database marketing software. BMW's technology now allows buyers to design their own models from 350 variations, 500 options, 90 exterior colors, and 170 trims. The company claims that 80 percent of the cars bought by individuals in Europe and up to 30 percent of those in the United States are built to order. British supermarket giant Tesco is outpacing its rival store, Sainsbury, by using its Clubcard data to personalize offers according to individual customer attributes.

Yet the practice of one-to-one marketing is not for every company: The required investment in information collection, hardware, and software may exceed the payout. It works best for companies that normally collect a great deal of individual customer information, carry a lot of products that can be cross-sold, carry products that need periodic replacement or upgrading, and sell products of high value.

Rich, multifaceted relationships with key constituents create the foundation for a mutually beneficial arrangement for both parties. For example, tired of having its big rigs return empty after making a delivery as often as 15 percent of the time, General Mills entered a program with Fort James and a dozen other companies to combine one-way shipping routes into a cross-country loop via a tag-team of contracted trucks. As a result, General Mills reduced its empty truck time to 6 percent, saving 7 percent on shipping costs in the process.

Fig. 1.4
The Four P Components of the Marketing Mix

INTEGRATED MARKETING : The marketer's task is to devise marketing activities and assemble fully integrated marketing programs to .create, communicate, and deliver value for consumers. The marketing program consists of numerous decisions on value-enhancing marketing activities to use. Marketing activities come in all forms. One traditional depletion of marketing activities is in terms of the marketing mix, which has been defined as the set of marketing tools the firm uses to pursuits marketing objectives. McCarthy classified these tools into four broad groups, which he called *the four Ps* of marketing: product, price, place, and promotion.

The particular marketing variables under each P are shown in Figure 1.4. Marketing-mix. Decisions must be made for influencing the trade channels as well as the final consumers. Figure 1.5 shows the company preparing an offering mix of products, services, and prices, and utilizing a communications mix of advertising, sales promotion, events and experiences, public relations, direct marketing, and personal selling to reach the trade channels and the target customers.

The firm can change its price, sales force size, and advertising expenditures in the short run. It can develop new products and modify its distribution channels only in the long run. Thus the firm typically makes fewer period-to-period marketing-mix in the short run than the number of marketing-mix decision variables might suggest.

The four Ps represent the sellers' view of the marketing tools available for influencing buyers. From a buyer's point of view, each marketing tool is

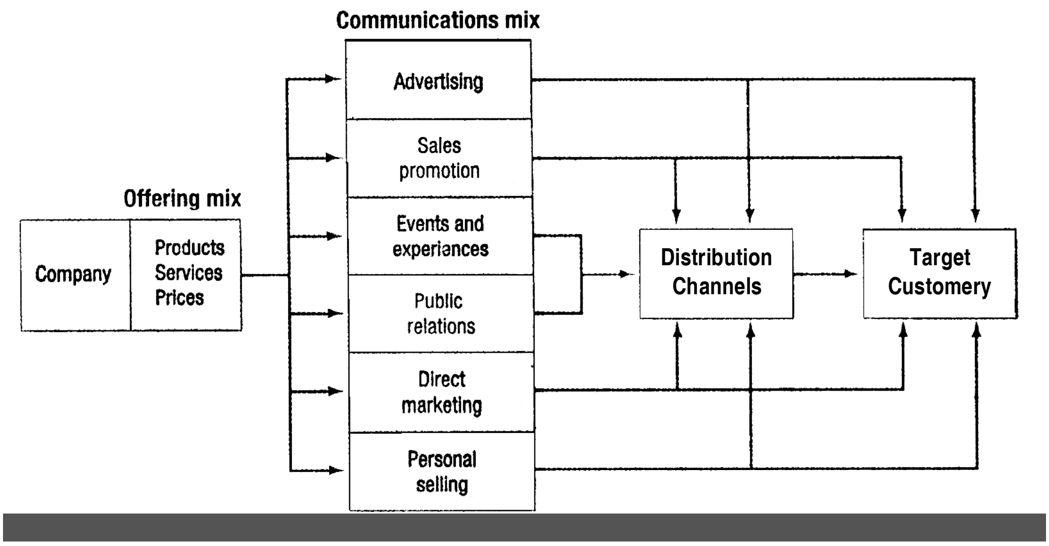


Fig. 1.5 : Marketing-Mix Strategy

designed to deliver a customer benefit. Robert Lauterborn suggested that the sellers' four Ps correspond to the customers' four Cs.

Four Ps	Four Cs
Product	Customer solution
Price	Customer cost
Place	Convenience
Promotion	Communication

Winning companies will be those that can meet customer needs economically and conveniently and with effective communication.

Two key themes of integrated marketing are that (1) many different marketing activities are employed to communicate and deliver value and (2) all marketing activities are coordinated to maximize their joint effects. In other words, the design and implementation of any one marketing activity is done with all other activities in mind. Businesses must integrate their systems for demand management, resource management, and network management.

Product Concepts

Each product can be related to other products.

The Product Hierarchy

The product hierarchy stretches from basic needs to particular items that satisfy those needs. We can identify six levels of the product hierarchy (using life insurance as an example):

1. **Need family** -The core need that underlies the existence of a product family. Example: security.
2. **Product family** - All the product classes that can satisfy a core need with reasonable effectiveness. Example: savings and income.
3. **Product class** - A group of products within the product family recognized as having a certain functional coherence. It is also known as product category. Example: financial instruments.
4. **Product line** - A group of products within a product class that are closely related because they perform a similar function, are sold to the same customer groups, are marketed through the same outlets or channels, or fall within given price ranges. A product line may be composed of different brands or a single family brand or individual brand that has been extended. Example: life insurance.
5. **Product type** - A group of items within a product line that share one of several possible forms of the product. Example: term life insurance.
6. **Item (also called stockkeeping unit or product variant)** - A distinct

unit within a brand or product line distinguishable by size, price, appearance, or some other attribute. Example: Prudential renewable term life insurance.

Product Systems and Mixes

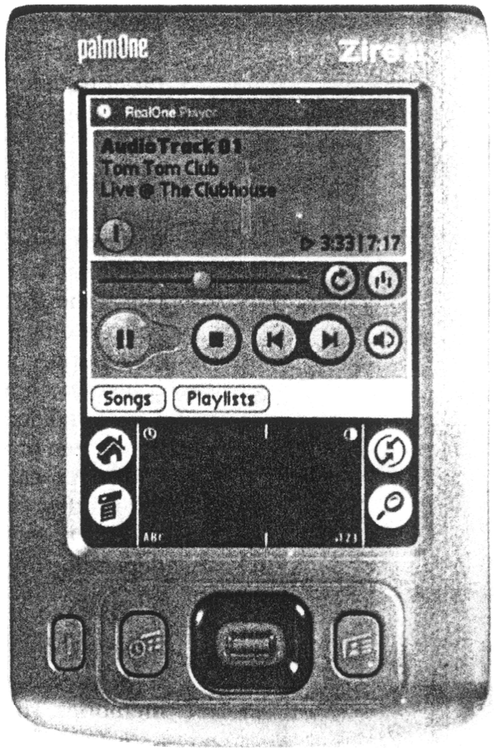
A **product system** is a group of diverse but related items that functions in a compatible manner. For example, PalmOne handheld and smartphone product lines come with attachable products including headsets, cameras, keyboards, presentation projectors, e-books, MP3 players, and voice recorders. A **product mix** (also called a product assortment) is the set of all products and items a particular seller offers for sale. A product mix consists of various product lines. In General Electric's Consumer Appliance Division, there are product-line managers for refrigerators, stoves, and washing machines. NEC's ("Japan) product mix consists of communication products and computer products. Michelin has three product lines: tires, maps, and restaurant-rating services. At Northwestern University, there are separate academic deans for the medical school, law school, business school, engineering school, music school, speech school, journalism school, and liberal arts school.

A company's product mix has a certain width, length, depth, and consistency. These concepts are illustrated in Table 1 for selected Procter & Gamble consumer products.

- The *width* of a product mix refers to how many different product lines the company carries. Table 1 shows a product-mix width of five lines. (In fact, P&G produces many additional lines.)
- The depth of a product mix refers to the total number of items in the mix in Table 1, it is 20. We can also talk about the average length of a line. This is obtained by dividing the total length (here 20) by the number of lines (here 5), or an average product length of 4.
- The *width* of a product mix refers to how many *variants* are offered of each product in the line. If Tide comes in two scents (Mountain Spring and Regular), two formulations (liquid and powder), and two additives (with or without bleach), Tide has a depth of eight as there are eight distinct variants. The average depth of P&G's product mix can be calculated by averaging the number of variants within the brand groups.
- The *consistency* of the product mix refers to how closely related the various product lines are in end use, production requirements,

distribution channels, or some other way, P&G's product lines are consistent insofar as they perform different functions for the buyers.

These four product-mix dimensions permit the company to expand its business in four ways. It can add new product lines, thus widening its product mix. It can lengthen each product line. It can add more product variants to each product and deepen its product mix. Finally, a company can pursue more product-line consistency. To make these product and brand decisions, it is useful to conduct product-line analysis.



The PalmOne Zire 31 handheld. Owners can select from more than 20,000 available applications and use the expansion slot to add more memory, applicaitons, or MP3 tunes.

Table 1 : Product Mix Width and Product-Line Length for Procter & Gamble Products (including Year of Introduction)

Product-Mix Width

	Detergents	Toothpaste	Bar Soap	Disposable Diapers	Paper Products
PRODUCT LINE LENGTH	Ivory Snow (1930)	Gleem (1952)	Ivory (1879)	Pampers (1961)	Charmin(1928)
	Dreft (1933)	Crest (1955)	Camay (1926)	Luvs(1976)	Puffs (1960)
	Tide (1946)		Zest (1952;		Bounty (1965)
	Cheer (1950)		Safeguard (1963)		
	Dash (1954)		Oil of Olay (1993)		
	Bold (1965)				
	Gain (1966)				
	Era (1972)				

1.9 Product-Line Analysis

In offering a product line, companies normally develop a basic platform and modules that can be added to meet different customer requirements. Car manufacturers build their cars around a basic platform. Homebuilders show a model home to which additional features can be added. This modular approach enables the company to offer variety while lowering production costs.

Product-line managers need to know the sales and profits of each item in their line in order to determine which items to build, maintain, harvest, or divest. They also need to understand each product line's market profile.

1.10 Exercises

1. What are the marketing activies of an organisation ?
2. Briefly describe the holistic marketing concept.
3. What do you mean by marketing mix? How does a company determine marketing mix?
4. What is the significance of product hierarchy?
5. What does it mean by product mix?

Unit 2 Product & Merchandise Management

Structure

2.1 Introduction

Products are critical to a retail firm's existence and profitability. They constitute the basis of exchange transactions between retailers and customers. Product and merchandise management is a key activity in the management of retail business. The product and merchandise plan is drawn keeping in mind various factors that influence shopping behaviour and the strategic and cost concerns of the retailer. It drives the business strategy of the retailer and has immense cost and profit implications. A related issue is also the management of retail brands and the decision to offer retailer's private labels along with, or instead of national and local brands. While product management deals with issues related to the kind of products sold by the retailer, merchandise management concerns itself with the selection of the right quantity of the product and ensuring its availability at the right place and time. This involves a careful planning of merchandise mix and its financial implications are reflected in the merchandise budget.

2.2 Product Management

Products, in a retailing context, are defined as anything sold and purchased in a retail transaction. Hence, it could constitute goods, services, places, events, ideas, etc. A product could be tangible or intangible. Examples of intangible products are service-focused stores like beauty parlours, massage parlours, gymnasiums, banks, and other advisory consultaney services. Some of them may sell goods as well—beauty parlours and gymnasiums may also sell some personal care products and health formulations. Some of them could be their private labels while some could be outsourced from other manufacturers. It is also possible that in due course the goods component of the retail business may become more profitable than the service component. The opposite may hold true for goods-based retail outlets that offer some services as well. For typical retail outlets, services may take the form of home-delivery service, entertainment and child-care facilities, information and advisory services like interior designing services provided by home-solution product retailers, etc. Lakme Lever has started relying on beauty advisors at sales counters to push the sales of its products.

Product management in the context of retailing, may be defined as a set of decisions related to the selection and removal of products from the retailers' portfolio, along with the related product and market analysis.

2.3 Role of Product Management in Retail Business

Product management is critical to the success of retail business. Identification of the products to be retailed forms the core component of the retailer's business plan. Hence, it determines business profitability to a large extent. There are different cost implications in sourcing various kinds of products. Besides, there are varied demand patterns and competitive factors for different product categories.

Product management by the retail firm is critical to the satisfaction of consumer needs. Satisfaction of consumer needs is important to the success of retail operations. Selection of the product is designed to meet some unmet needs of the customer. For example, every shopping centre, whether planned or unplanned, has at least one eating outlet, a grocery shop, and a chemist shop. This is primarily because they are largely retail convenience products where accessibility is a prime concern. Besides, the retailer must update himself with the changes in product categories and product innovations and should also be flexible enough to alter product profiles accordingly. For example, most fast food centres offering Indian cuisine have also started incorporating Chinese menu as well. The PVR Cinemas in Delhi have begun offering *Nachoes,* a popular Mexican snack, from their outlets. It felt this to be important since many of its patrons were globe-trotters or at least people who had an exposure to various cuisines. Besides, *Nachoes* had already started appearing on the shelves of many department stores and supermarkets in India.

Product management is also an implementation of the segmentation strategy of the retailer who attempts to attract the target segment through the product profile and the specific pricing strategies. For example, if a retailer seeks to exploit the potential in the kid's segment, the product profile would consist of categories like toys, kids' garments, car seats, baby cots, etc. Besides, changes in the product profile is an effective strategy followed by many retailers to innovate on their existing offers and in many cases to *re-position* their store.

2.4 The Product Selection Process

The product selection process involves a review of the performance of the existing product range. This exercise aids in deleting some products or assists in revising various aspects of product portfolio. A retailer is required to consider various issues related to the selection of products to be retailed. These relate to the type of products to be retailed, life cycle of the products, trends in the product category, and its strategic fit with the retailer's business. Broadly, it helps to identify the opportunities to bring in new products or product-related attributes to meet the changing preferences of the target customers.

Product performance review *utilises* information collected from secondary and primary sources such as sales report, product profitability reports, quality reports, return figures, promotional campaign results and plans, product-market trend information, and consumer research. These tools are used regularly by the retailers in the organized sectors, as they possess most of such information about each product. However, retailers in the unorganised sector take such decisions on the basis of experience and through observation of movement of a particular product from the specified shelf.

Product range review assists retailers to go in for possible decisions such as:

(i) Deletion of a product

(ii) Increase in variety and range

(iii) Identification of new suppliers
(iv) Additions to product features
(v) Review and revision of promotional campaign

A corollary of effective product management is brand management. The nature of product assortment is an active ingredient in building a strong retail brand.

2.5 Brand Management and Retailing

Of the top ten strongest brands in the world, five are retail brands. Brand management poses several challenges to the retailer. The key issues in retail branding are:

(a) brand management of the retail outlet; and
(b) deciding whether or not to opt for the strategy of self own branding. Retailers may also choose to adopt a multi-pronged strategy.

A strong retail brand and a strong private label strategy can be an effective tool to differentiate the stores and the shopping experience. The ten strongest brands in the world are given below:

The ten strongest brands in the world

(i)	Coca Cola	(vi)	Wal-Mart
(ii)	McDonald's	(vii)	Ford
(iii)	Sony	(viii)	Levi's
(iv)	Nike	(ix)	Gap
(v)	Microsoft	(x)	Amazon

Strong retail brands have a sharper definition of their brand identity in terms of the following criteria:

(i) Who am I?
(ii) What do I do?
(iii) How am I different from others?
(iv) Why buy me?

The sharper this focus, the stronger is the retail brand.

A retailer's brand is valuable since it enhances reach and endurance with the consumer, and ensures a more focused strategic plan. In many cases 'store' as a brand is stronger than the 'brands' stored within. In the retail boom that India is going through, many manufacturing brands are losing their identity to retail brands. For example, a customer, when coming out of a Pantaloon showroom after buying a Peter England shirt, is heard saying, 'I bought this shirt from Pantaloons,' instead of saying, 'I have, bought a Peter England shirt.' So here Pantaloon may have become a stronger brand than Peter England. Hindustan Lever had also observed a similar phenomenon when their products were being sold through Hallmark outlets.

A store brand evolves from the following seven components: product assortment, location, visual merchandising, experience, price, format, and service. In this context, the strongest retail brand in India is considered the neighbourhood kirana store. It draws its brand strength from location, deemed in terms of accessibility, experience, price, and service. Due to their location they are in a better position to provide home delivery services. Besides, due to constant interaction with their customers they are in a better position to maintain close relationship with them. This enables them to offer better services to the customer, often at negotiated lower prices. The department stores and supermarkets, which are entering the Indian market recently, draw their brand strength largely from visual merchandising, format product assortment, and location. Location contributes to brand perception in terms of the brand image of the shopping centre itself.

Own Branding

Own branding occurs when a retailer sells products under the retail organisation's house brand name. Own branding can be of two types, integrated own branding and independent contracting. Integrated own branding occurs when the retailer also manufactures the branded retail products. This ensures greater control over quality and delivery. Some examples are the Raymonds, Bose, and Sony retail outlets in India. Independent contracting occurs when the retailer procures the products from other suppliers though, they are sold under the label of the retail house. This strategy is quite popular in product categories like grocery, garments, shoes, and even some electronic goods.

Significance of Own Branding

Private label sales have showed an increase in terms of both value and volume across countries. A study by A.G. Nielsen reveals that of the 28 countries surveyed, private label share of product categories such as food, drink, personal care, and household ranged between 5% and 20% in value terms in most countries. In most countries reviewed, both household and food categories showed the highest private label penetration levels, as is expected from products whose brand loyalty is lowest. Private labels were found to be less developed in drinks and personal care products, reflecting the strength of branding in these two categories.

A well-run private label brand enhances store profitability by increasing pressure on branded manufacturer. Lower marketing cost also reduces profitability of the private label brand. Purchase prices can be significantly lower and can be used to increase margins or offer products at lower prices. It ensures better control over price, delivery, and quality, and also ensures a strong brand identity for a retailer. In fact, national brands are increasingly feeling a threat from private labels. However, retailers need to exercise caution in cases where the national brands are too powerful and the product category is considered a high-risk purchase by the consumer. Besides, private labels may not always be considered feasible where the minimum order sizes are too small. An effective private label programme should include all elements of the value proposition-price, quality, and product differentiation. The strategic intent of retail product and brand management is executed through effective merchandise management.

2.6 Branding Strategies

Buyers have lots of branding choices. They can buy manufacturer brands like Levi's, Kellogg's, or Black & Decker. Or they can develop their own private labels like Gap jeans, America's Choice cookies from A&P, or Craftsman tools from Sears. Some use a mix of the two.

Manufacturer Brands

Manufacturer brands, also known as *national brands*, are products designed, produced, and marketed by a vendor. The manufacturer is responsible for developing the merchandise and establishing an image for the brand. In some cases, the manufacturer will use an umbrella or family-branding strategy in which its name appears as part of the brand name for a specific product, such as Kellogg's Corn Flakes. However, some manufacturers, such as Philip Morris-owner of Kraft Foods, Miller Brewing Company, as well as Philip Morris (tobacco products) — don't associate their name with the brand.

Some retailers organise some of their categories around their most important national brands. For instance, buyers in department stores are responsible for brands, such as Clinique or Estee Lauder, rather than for products, such as lipstick and fragrances. Clothing is also often organised by manufacturer brand (e.g., Polo/Ralph Lauren, Levi's, Liz Claiborne, or DKNY). These brands often have their own boutique within stores. Managing a category by national brand, rather than a more traditional classification scheme, is useful so that merchandise can be purchased in a coordinated manner around a central theme.

Buying from vendors of manufacturer brands can help store image, traffic flow, and selling/promotional expenses. Retailers buy from vendors of manufacturer brands because they have a customer following—people go into the store and ask for them by name. Loyal customers of manufacturer brands generally know what to expect from the products and feel comfortable with them.

Manufacturers devote considerable resources to creating demand for their products. As a result, relatively less money is required by the retailer for selling and promotional expenses for manufacturer brands. For instance, Guess? Inc., manufacturer of jeans and other casual clothing, attempts to communicate a constant and focused message to the consumer by coordinating advertising with in-store promotions and displays.

Manufacturer brands typically have lower realised gross margins than private-label brands. These lower gross margins are due to the manufacturer assuming the cost of promoting the brand and increased competition among retailers selling these brands. Typically, many retailers offer the same manufacturer brands in a market, so customers compare prices for these brands across stores. Retailers often offer significant discounts on some manufacturer brands to attract customers to their stores.

Stocking national brands may increase or decrease store loyalty. If the manufacturer brand is available through a limited number of retail outlets *(e.g.,* Lancome cosmetics or Diesel jeans), customers loyal to the manufacturer brand will also become loyal to the limited number of stores selling the brand. If, on the other hand, manufacturer brands are readily available from many retailers in a market, customer loyalty may decrease because the retailer can't differentiate itself from competition.

Another problem with manufacturer brands is that they can limit a retailer's flexibility. Vendors of strong brands can dictate how their products are displayed, advertised, and priced; jockey underwear, for instance, tells retailers exactly when and how its products should be advertised.

Licensed Brands

A special type of manufacturer brand is a *licensed brand,* in which the owner of a well-known brand name (licensor) enters a contract with a licensee to develop, produce, and sell the branded merchandise. The licensee may be either (1) the retailer that contracts with a manufacturer to produce the licensed product or (2) a third party that contracts to have the merchandise produced and then sells it to the retailer.

Licensed brands' market share has grown increasingly large in recent years. Owners of trade names not typically associated with manufacturing have also entered into the licensing business. For instance, the manufacturer of the sweatshirt or baseball cap emblazoned with your university's logo pays your University a licensing fee. If it didn't, it would be infringing on the university's logo (a trademark) and therefore be involved in counterfeiting.

Private-Label Brands

Private-label brands, also called *store brands,* are products developed by a retailer and available for sale only from that retailer. Only Victoria's Secret and The Gap are in the top 20 private-label brands. Typically, retail buyers or category managers develop specifications for the merchandise and then contract with a vendor to manufacture it. But the retailer, not the manufacturer, is responsible for promoting the brand.

Retailers' use of private labels was relatively small in the past for several reasons. First, national brands had been heavily advertised on TV and other media for decades, creating a strong consumer franchise. Second, it had been hard for retailers to gain the economies of scale in design and production necessary to compete against manufacturer brands. Third, many retailers weren't sophisticated enough to aggressively compete against manufacturer brands. Finally, private labels had a reputation of being inferior to manufacturer brands.

In recent years, as the size of retail firms has increased through consolidation, private labels have assumed a new level of significance by establishing distinctive identities among retailers. Some retailers, such as The Gap and The Limited, sell their own labels exclusively as an integral element of their distinctiveness. Other retailers, such as J.C. Penney and Sears, successfully mix manufacturer brands with their own retailer brands to project their unique image statement.

Private-branded products now account for an average of 25 percent of the purchases in the United States and roughly 45 percent in Europe. Private-label dollar volume in supermarkets, drug chains, and mass merchandisers is increasing twice as fast as national brands.

The exclusivity of strong private labels boosts store loyalty. For instance, fashion designer Todd Oldham's line of home furnishings in Target stores, won't be found at J.C. Penney stores. A second advantage of buying from private-label vendors is that they can enhance store image if the brands are of high quality and fashionable. Third, like manufacturer brands, successful private-label brands can draw customers to the store. They can be a good deal—10 to 18 percent less expensive than national brands in the United States and as much as 25 percent cheaper in Europe. Fourth, retailers that purchase private-label brands don't have the same restrictions on display, promotion, or price that often encumber their strategy with manufacturer brands. Retailers purchasing private brands also have more control over manufacturing, quality control, and distribution of the merchandise. Talbot's, for instance, can contract with any vendor to manufacture its private-label sweaters. Finally, gross margin opportunities may be greater.

But there are drawbacks to using private-label brands. Although gross margins may be higher for private-label brands than for manufacturer brands, there are other expenses that aren't readily apparent. Retailers must make significant investments to design merchandise, create customer awareness, and develop a favourable, image for their private-label brands. When private-label vendors are located outside the United States, the complications become even more significant. Sales associates may need additional training to help them sell private-label brands against better known brands. If the private-label merchandise doesn't sell, the retailer can't return the merchandise to the vendor. These problems are most severe for high-fashion merchandise.

Private-Label Options

Retail branding strategies have run the gamut from closely imitating manufacturer-brand packaging and products to distinct brand images, from low product quality and prices to premium positioning, and from nonexistent promotion and merchandising to intense activity. The group private brands into four broad categories: copycat, bargain, premium, and parallel.

Bargain Branding

Bargain branding targets a price-sensitive segment by offering a no-frills product at a discount price. Known as *generic* or *house brands,* such unbranded, unadvertised merchandise is found mainly in drug, grocery, and discount stores. The bargain brand, frequently referred to as the house brand, generally is perceived by the consumer to be of lower quality, and its packaging identifies it as a brand of the retailer.

In the context of differentiating the retailer, bargain branding is primarily defensive. Its value comes from neutralising competitors who may gain an advantage from discount pricing and by serving a secondary market segment whose patronage potentially leads to collateral sales.

Premium Branding

Premium branding offers the consumer a private label at a comparable manufacturer-brand quality, usually with modest price savings. Safeway's Select brand in grocery products and J.C. Penney's Worthington brand in women's clothing are two examples. The premium brand attempts to match or exceed the product quality standard of the prototypical manufacturer brand in its category. There is no intention to duplicate the packaging or to trade off the brand equity of a particular manufacturer brand. However, consumers frequently perceive the retailer premium labels as competing manufacturer brands.

Retailer premium brands, with the appearance of comparability, compete directly with manufacturer national brands. To succeed, the retailer must commit the resources in market research, product development, quality control, and promotion in its market area commensurate with its manufacturer-brand competitors. Consequently, development of a premium branding program precludes many retailers that have few resources from diverting to this strategy.

Copycat Branding

Copycat branding imitates the manufacturer brand in appearance and packaging, generally *is* perceived to be of lower quality, and is offered at a lower price. For example, copycat brands abound in the fragrance market. By not drawing attention to the brand's origin, the copycat can confuse the consumer about the source of the product. Copycat branding is a risky private-branding alternative because close copies can violate packaging and patent laws. Poor copies are ineffective.

Parallel Branding

Parallel branding represents private labels that closely imitate the packaging and product attributes of leading manufacturer brands but with a clearly articulated "invitation to compare" in its merchandising approach and on its product label. This invitation to compare on the product label was the basis for a recent legal action. Like copycat branding, parallel branding seeks to benefit from the brand equity of the manufacturer brand by closely imitating the national brand's packaging and product qualities. However, the invitation to compare leaves little doubt that different manufacturers produce the two products. Consequently, the imitative packaging does not constitute a trademark infringement. Nevertheless, patent considerations can be an issue if appropriate discretion is not used.

Parallel branding is a leveraging strategy used to bolster a retailer's private-brand sales. The closer two products are in form, logo, labelling, and packaging, the more they are perceived as substitutes. Parallel brands attempt to produce a product and packaging so similar to the manufacturer brand that the only noticeable difference between the two is price. This promotes the view that the parallel brand provides better value for the consumer. Manufacturer brands produce store traffic, and the parallel brand beverages this traffic into parallel brand sales through similar packaging and aggressive store signage, displays, and shelf location.

2.7 Distinction between Brand and a Store

The distinction between a store and a brand has become blurred in recent years. Some large retailers have developed strong private-label merchandise-Other retailers, such as The Gap and its sister store Banana Republic, have such a strong brand name that the average consumer cannot make a distinction between store and brand. The Gap has capitalised on its strong name recognition by widening the variety of merchandise offered at its stores. It now sells personal care products like perfume, lotion, and lip gloss. Brooks Brothers (the traditional clothing retailer) and Crate & Barrel (the upscale soft home store chain) carry only merchandise with their names on it.

A natural extension of the retailer's brand strategy is to exploit a strong retail name recognition by selling its products through channels other than its own stores. For instance, Tiffany's, the upscale jewellery store with its flagship store in Manhattan and other outlets around the country, now sells its products to other jewellery stores. Starbucks staged one of the most aggressive moves by a retailer to broaden its customer base. The coffee shop retailer that brought middle America the "short, skinny, decaf latte" has teamed up with PepsiCo to market Frappuccino, a coffee-and-milk blend sold through traditional grocery channels. Starbucks also is engaged in a joint venture with Dreyer's Grand Ice Cream to distribute Starbucks coffee — flavoured ice cream. Starbucks has entered into a iong-term licensing agreement with Kraft Foods, Inc., to accelerate the growth of the Starbucks brand into the grocery channel in the United States. Kraft handles all distribution, marketing, advertising, and promotions for Starbucks whole-bean and ground coffee in grocery, warehouse club, and mass-merchandise stores.

On the other side of the distribution spectrum, several firms that have traditionally been exclusively manufacturers have become retailers. Examples are Guess?, Calvin Klein, Ralph Lauren, Georgio Arinani, Levi's, Harley-Davidson, Sony, and Nike. Why have these manufacturers chosen to become retailers? First, by becoming retailers they have total control over the way their merchandise is presented to the public. They can price, promote, and merchandise their line with a unified strate They don't have to worry about retailers cherry-picking certain items or discounting the price, for instance. Second, they can use these stores to test new merchandise and merchandising concepts. Based on those tests' results, they can better advise other retailers what to buy and how to merchandise their stores. Third, these manufacturers/ retailers use their stores to showcase their merchandise to the public as well. The Sony and Nike stores, Ralph Lauren's flagship store in Manhattan, and Levi's flagship store in San Francisco have atmospheres that enhance the manufacturer's image as welt as help to sell merchandise. Finally, although these stores often compete with stores that carry the same merchandise, some would argue that having a stronger retail presence creates a name recognition and synergy between the manufacturer and retailer that benefit both parties.

2.8 Merchandise Planning and Forecasting

A *buyer* is an employee whose basic responsibility within the retail organisation is to make purchases. When buying, the retailer's (or retail buyer's) goal is to make the best possible purchases for the store. In years past the buying function was less complicated; but advances in technology, rapid changes in consumers' wants, needs, and desires, and new venues in retailing such as e-tailing have made the buying process far more sophisticated than it was even ten years ago. It is important that the retail buyer have access to vendors for both physical — and non-physical-site retail stores.

Integration and consistency of merchandise across locations are also paramount. In addition to buyers, many large firms have merchandise planners who work in cooperation with the buyers. Merchandise planning and forecasting merges quantitative analysis with qualitative assessment, making the process a science as well as an art. The marriage of quantitative assessment and intuition has been coined "rocket science retailing."

The merchandise planner's job is to provide an analysis of potential merchandise for the store. The merchandise planner is responsible for decisions concerning the merchandise assortment. Assortment decisions may include styles, price points, quantity, quality, variety, and sizes. The buyer's job is to purchase the products according to the budget. In addition, the planner devotes time to planning for the merchandise and the handling and control of the merchandise. Buyers are expected to know the number of units and the types of products to order, and at what prices they should be ordered. They are also expected to know when to order and how much stock is necessary to avoid a premature stockout situation.

Developing a winning merchandise mix is exciting. It's very satisfying to guess the next fad — and be right. Unfortunately, retail buyers sometimes make wrong guesses, resulting in excess, slow-moving stock. To ensure greater accuracy in retail merchandise planning, the astute retail buyer develops a good understanding of the concepts and methods necessary to create 'great buys,' as well as knowledge of customers' current and future wants and needs.

It is essential that the buyer understand the type of retailer for which he or she is buying. For example, buying for a consumer electronics chain such as Circuit City involves different buying decision criteria from those for an independent, one-store retailer. In addition, the buyer needs to understand the industry in which the retailer competes. For example, a department store and a food retailer require different merchandise mixes. Similarly, buying for a physical-site retailer differs considerably from buying for a non-site retailer such as an e-tailer, a catalogue retailer, or a home shopping network. Finally, the buyer must be familiar with the dollar volumes for a particular market. Most buyers have at least some duties and responsibilities in common, but the type of merchandise being purchased will influence the buying methods used.

A retailer that demonstrates differences in merchandise buying decisions is Chico's FAS, Inc., headquartered in Fort Myers, Florida. The company has two chains of stores, Chico's and Pazo. Chico's stores offer exclusively designed classic fashions targeted to women aged 35 to 55. In contrast, Pazo carries trendier fashions aimed at women aged 25 to 35. Both chains train sales associates to put together entire assemblies for their customers, including clothing, shoes, and accessories. But Chico's products are more expensive than Pazo's, averaging $50 to Pazo's $40. In an effort to keep the chains distinct, they have different staff and product sources and are run out of different buildings. Pazo also uses a different set of factories for its clothing as well as different sizing.

The next section focuses on the information that goes into the merchandise plan.

2.9 Gross Return on Inventory Investments and Stock Turnover

Inventory represents a large investment for retailers. Therefore, retailers want to know what kind of return they are getting from their merchandise. To do this, retailing professionals have developed a method to assess the return on investment (ROI) from inventory investment. This method is called the *gross margin return on inventory* ***(GMROI).*** The GMROI is particularly helpful to retailers because it brings together the concepts of other performance measures such as return on assets, asset turnover, profits, and sales.

The gross margin percentage provides an idea of how much investment is being returned for each type of merchandise purchased. The retailer can compare and contrast the figures with those of competitors, the retailer's historic margins, and the industry averages. Calculating the GMROI helps retailers generate more profitable inventory decisions and gain a clearer picture of how their inventory is performing. To see how effectively their investments in inventory are performing, retailers utilise inventory turnover formulas.

2.10 Inventory Turnover

Inventory is typically a retailer's largest asset. To measure the productivity of the merchandise being purchased, retailers use a concept known as *inventory turnover,* a measure of how many times a store sells its average investment in inventory during a year. The faster the merchandise turns over—that is, bought, marked, stocked, and sold —the more money is generated for the retail outlet. It is important to know how to measure inventory turnover, because this shows how quickly each product is moving. For example, an inventory turnover ratio of 15.15 means that, on average, every Rs.100 invested in inventory generates Rs.15.15 in sales. There are two basic ways to calculate inventory turnover.

Calculating GMROI

GMROI = Gross margin percentage x Stock to sales ratio

Gross margin percentage = Gross margin (in Rs.)/ Net Sales

Stock to sales ratio = Net sales/ Average inventory (at cost)

Thus,

$$\text{GMROI} = \frac{\text{Gross Margin}}{\text{Average Inventory (at cost)}}$$

$$\text{Inventory Turnover} = \frac{\text{Net Sales (at retail)}}{\text{Average Inventory (at retail)}}$$

and

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold(at cost)}}{\text{Average Inventory (at cost)}}$$

These computations allow the retailer to measure stock productivity.

In addition to amounts, the retailer may want to know the inventory turnover in units. This calculation is as follows:

$$\text{Inventory Turnover (in Units)} = \frac{\text{Number of units sold for the year}}{\text{Average inventory (In units)}}$$

Using these formulas the retailer can track, analyse, and compare the turnover rates for its store to competitors' rates.

It is also important to know the average amount of inventory being carried. The average inventory is used in numerous formulas to determine merchandise.

2.11 Exercise

1. Discuss the product selection process.
2. Critically discuss the importance of brarding in Indian Retailing.
3. For a new brand of retail apparel outlet, discuss critically the diffemt branding strategies that you may follow.

Unit 3 Retail Market Strategy

Structure

3.1 What is Retail Strategy?

The term *strategy* is frequently used in retailing. For example retailers talk about their merchandise strategy, promotion strategy, location strategy, and private-brand strategy. In fact, the term is used so commonly it appears that all retailing decisions are now strategic decisions. But retail strategy isn't just another expression for retail management.

3.2 Definition of Retail Market Strategy

A retail strategy is a statement identifying (1) the retailers target market, (2) the format the retailer plans to use to satisfy the target market's needs, and (3) the bases upon which the retailer plans to build a sustainable competitive advantage. The target market is the marker segment(s) toward which the retailer plans to focus its resources and retail mix. A retail format is the retailer's mix (nature of merchandise and service offered, marketing policy, advertising and promotion program, approach to store design and visual merchandising, and typical location). A sustainable connective advantage is an advantage over competition that can be maintained over a long time. relationship with each of the.................. more than 5,000 stores .... asks, selling gourmet coffee in Asia, ... Europe, and North America. Starbacks ganrates annual sales of over 52.5 million (200l). The cafes provide an opportunity for people to take a break from their busy lives to specialty coffee drinks in a relaxing atmosphere. Friendly, knowledgeable counter servers, called *baristas* (Italian for bartenders), educate customers about Starbucks' products. The company has entered into some creative partnerships to put its cafes in Barnes & Noble stores, airports, and other nontraditional locations. It serves its coffee on United Airlines and on many college campuses. Licensing the brand name for other food products such as ice cream and soft drinks has increased its brand awareness.

Each of these retail strategies involves (1) selecting a target market segment and retail format and (2) developing sustainable competitive advantage that enables the retailer to reduce the level of competition it faces. Now let's examine these central concepts in a retail strategy.

3.3 Target Market and Retail Format

The concept is a management orientation that focuses a retailer on determing the needs of its target market and satisfying those needs more effectively and efficiently than its competitors. Successful retailers satisfy the needs of summers in their target segment better than the competition does. The selection of a target market focuses the retailer on a group of consumers whose needs it will attempt to satisfy. The selection of a retail format outlines the retail mix to be used to satisfy need of those customers. The retail strategy determines the markets in which a retailar will compete, Traditional markets like a farmers' market are places where buyers and sellers meet and make transactions—say, a consumer buys six ears of corn from a farmer. But in modern markets potential buyers and sellers are necessarily located in one place. Transactions can occur without face-to-face interactions. For example, many customers contact retailers and place orders over the Internet using computer.

We define a retail market not as a specific place where buyers and sellers meet but as a group of consumers with similar needs (a market segment) and a group of retailers using a similar retail format to saitsfy those connsumer needs.

3.4 Building a sustainable competitive advantage

The final element in a retail strategy is the retailer's approach to building a sustainable competitive advantage. Any business activity that a retailer engages can be a basis for a competitive advantage; but some advantages are sustainable over a long period of time, while others can be duplicated by competitors almost immediately. For example, it would be hard for Starbucks to get a long-term advantage over Seattle's Best Coffee by simply offering the same coffee specialties at lower prices. If Starbucks' lower prices were successful in attracting customers, Seattle's Best would know what Starbucks had done and would match the price reduction. Similarly, it's hard for retailers to develop a long-term advantage by offering broader or deeper merchandise assortments. If broader and deeper assortments attract a lot of customers, competitors will simply go out and buy the same merchandise for their stores.

Establishing a competitive advantage means that a retailer builds a wall around its position in a retail market. This makes it hard for competitors outside the wall to contact customers in the retailer's target market. If the retailer has built a wall around an attractive market, competitors will attempt to break down the wall. Over time, all advantages will be eroded due to these competitive forces; but by building high, thick walls, retailers can sustain their advantage, competitive pressure, and boost profits for a longer time. Thus, establishing sustainable competitive advantage is the key to long-term financial performance.

Seven important opportunities for retailers to develop sustainable competitive advantages are (1) customer loyalty (2) location, (3) human resource management, (4) distributor, and inforrnation systems *(5)* unique merchandise. (6) vendor relations, and (7) customer service. Exhibit 3-1 shows the aspects of these sources for competitive advantage that are more and less sustainable. Let's look at each of these approaches.

Customer Loyalty

Customer loyalty means that customers are committed to shopping at the retailer's locations. Many of the bases for maintaining a sustainable competitive advantage discussed in this section also help attract and maintain loyal customers. For instance, having dedicated employees, unique merchandise, and superior customer service all help solidify a loyal customer base. But having loyal customers is, in and of itself, an important method of sustaining an advantage over competitors.

EXHIBITS 3-1

Methods for Developing Competitive Advantage

SUSTAINABILITY OF ADVANTAGE		
Sources of Advantage	**Less Sustainable**	**More Sustainable**
Customer loyalty	Habitual repent purchasing: repeat purchases because of limited competition in the local area	Bullding a brand image with an emotional connection with customers; using databases to develop and utilize a deeper understanding of customers
Location		Convenient locations
Human resource management	More employees	Committed, knowledgeable employees
Distribution and Information systems	Biggest warehouses; automatad warehouses	Shared systems with vendors
Unique merchandise	More marchandise; greater assortment; lower price; higher advertising budgest, more sales promotions	Exclusive merchandise
Vendor relations	Repeat purchases from vendor due to limited alternatives	Coordination of procurement efforts; ability to get scarce merchandise
Customer service	Hours of operation	Knowledgeable and helpful sales people

Loyalty is more than simply liking one retailer over another. Loyalty means that customers will be reluctant to patronise competitive retailers. For example, loyal customers *will* continue to shop at Restoration Hardware even if Pottery Barn opens a store nearby and provides a slightly superior assortment or slightly lower prices. Some ways that retailers build loyalty are by (1) developing clear and precise positioning strategies and (2) creating an emotional attachment with customers through loyalty programs.

Positioning : A retailer builds customer loyalty by developing a clear, distinctive image of its retail offering and consistently reinforcing that image through its merchandise and service. **Positioning** is the design and implementation of a retail mix to create an image of the retailer in the customer's mind relative to its competitors.

Positioning emphasizes that the image in the customer's mind (not the retail manager's mind) is critical. Thus, the retailer needs to research what its image is and make sure that its image is consistent with what customers in its target market want. A perceptual map is frequently used to represent the customer's image and preference for retailers.

Loyalty Programs : Loyalty Programs are part of an overall customer relationship program. These programs are prevalant in retailing from airlines and department stores to the corner pizza shop.

Customer loyalty programs work hand-in-hand with CRM. Members of loyalty programs are identified when they buy because they use some type of loyalty rotation is stored in a huge database known as a data warehouse. From this data warehouse, analysts determine what types of merchandise and sevices certain groups of customers are buying. Using this information, retailers meet the needs of their loyal customers in better way. For instance by analyzing its database, Safeway may identify customers who buy expensive wine and gourmet food. Having identified these customers, safeway could develop a special promotion focusing on preparing a gourmet meal with recipes, a list of ingredients, and coupons offering a discount for some of the products.

Location

The classic response to the question—What are the three most important things in retailing? is "location, location, and location." Location is the critical factor in consumer selection of a store. It is also a competitive advantage that is not easily duplicated. For instance, once Walgreens has put a store at the best location of an intersection, CVS is relegated to the second best-location. Finding great locations is particularly challenging in older urban locations, where space is finite and tenant turnover is relatively slow.

Starbucks has developed a national presence and a strong competitive advantage with its location strategy. It conquers one area of the city at a time and then expands in the region, saturating a major market before entering a new market. For example, there were over 100 Starbucks outlets in the Seattle area before the Company expanded to a new region. Starbucks will frequently open several stores close to one another. It has two stores on two corners of the intersection of Robson and Thurlow in Vancouver. Starbucks has such a high density of stores that it lets the store front promote the company and does very little media advertising. In heavily trafficked downtown districts, Starbucks often operates kiosks in commercial buildings. Neighborhood locations that attract customers in the evenings and on weekends are important because they become part of the path of people's weekly shopping experience or their route to work.

By concentrating its locations, Starbucks creates a market presence that is difficult for competition to match. In addition, multiple locations facilitate scale economies that enable frequent deliveries, thereby ensuring fresh merchandise.

Harry Rosen knows a lot about its customers

Harry Rosen operates : 18 stores in Canada, where it sells high-end clothing from Ermenegildo Zegna, Samuelsohn, Hugo Boss, and others, as well as nine Hugo Boss boutiques across the Unied States. This retailer with annual sale of $ 150 million, uses information to improve customer servies and build long-term relationships. Each Harry Rosen salesperson can access the firm's data warehouse with customer information frorn any POS terminal in any store. The database tells what the customer has bought in the past and also provides personal information. All sales associates are urged to contribute to the database. If a wife buys a birthday gift for her husband, salespeople are encouraged to find out his birthday and how old he is and include this information in the system rather than in their personal notebook.

The Information system improves customer service and targeting of retail promotions. For example, when garments are left in the store for alterations, the system tracks their progress and electronically notifies the salesperson of any delay so the salesperson can relay this information to the customer. Heavy spenders are easily identified and invited to special promotional events. The system is also used to sell slow-moving merchandise. For example, a store may have too many size-44-short suits. A sales-person can go to a terminal, generate a list of all customers who have bought 44-short suits in the past few months, and contact them. When new merchandise arrives, the salesperson can identify customers who have bought that type of merchandise in the past and inform them of the new merchandise.

Sources : Harry Rosen: The Company" Hatch 25, 2002, www.harryrosen.com/ company/e_index.html; Andree Conrad, Harry Rosen Unveils IT Refit. "DNR 31, no. 5 (January 2001). p. 10 : and "State of the industry : Customer Management, 11 *Chain August 1998*, pp. 20-24.

3.5 Human Resource Management

Retailing is a labour-intensive business. Employees play a major role in providing services for customers and building customer loyalty. Knowledgeable and skilled employees committed to the retailer's objectives are critical assets that support the success of companies such as Southwest Airlines, Whole Foods, Home Depot, and Men's Wearhouse.

Recruiting and retaining great employees does not come easy. How retailers gain, a sustainable competitive advantage by developing programs to motivate and coordinate employee efforts, by providing appropriate incentives, by fostering a strong and positive organizational culture and environment, and by managing diversity.

Distribution and Information Systems

All retailers strive for efficient operations. They want to get their customers the merchandise they want, when they want it, in the quantities that are required, at a lower delivered cost than their competitors. By doing so, they will satisfy their customers' needs and, at the same time either provide them with lower-priced merchandise than their competition or decide to use the additional margin to attract customers from competitors by offering even better service, merchandise assortments, and visual presentations.

Retailers can achieve these efficiencies by developing sophisticated distribution and information systems. For instance, merchandise sales information flows seamlessly from Wal-Mart to its vendors like Procter & Gamble to facilitate quick and efficient merchandise replenishment. Wal-Mart has the largest data warehouse in the world, enabling the company to fine-tune merchandise assortment on a store-by-store, category-by-category basis. Wal-Mart's distribution and information systems have enabled the retailer to be the lowest-cost provider of merchandise in every market in which it competes.

Unique Merchandise

It is difficult for retailers to develop a competitive advantage through merchandise because competitors can purchase and sell the same popular national brands. But many retailers realize a sustainable competitive advantage by developing private-label brands (also called *store brands),* which are products development and marketed by a retailer and available only from that retailer. For example, if you want to buy a Kenmore washer and dryer, you have to buy it from Sears. As discussed earlier, the low search associated with electronic shopping increases the importance of unique merchandise as a source of competitive advantage.

Vendor Relations

By developing strong relations with vendors, retailers may gain exclusive rights (1) to self merchandise in a region, (2) to obtain special terms of purchase that are not available to competitors who lack such relations, or (3) to receive popular merchandise in short supply. Relationships with vendors, like relationships with customers, are developed over a long time and may not be easily offset by a competitor. For example, Ahold, the Holland-based food retailer, works very closely with Swiss food giant Nestle to bring its customers products tailored to meet the tastes of customers in local markets.

Customer Service

Retailers also build a sustainable competitive advantage by offering excellent customer service. But offering good service consistently is difficult. Customer service is provided by retail employees—and human beings are less consistent than machines. Retailers that offer good customer service instill its importance in their employees over a long period of rime, it becomes part of the retailer's organizational culture.

Some retailers offer services to customers who don't necessarily want, such as banking or dry cleaning, yet make customers jump through hoops to return merchandise. Most customers simply want retailers to trust them and tend to basic requests. In the past, for example, Home Depot focused primarily on offering a broad assortment and, secondarily, on offering superior service. Now the retailer dominates in industry with world-class service.

It takes considerable time and effort to build a tradition and reputation for customer service, but good service is a valuable strategic asset. Once a retailer has earned a service reputation, it can sustain his advantage for a long time because it's hard for a competitor to develop a comparable reputation.

Multiple Sources of Advantage

To build a sustainable advantage, retailers typically don't rely on a single approach such as low cost or excellent service. They need multiple approaches to build as high a wall around their position as possible. For example, McDonald's success is based on providing customers with a good value that meets their expectations, having good customer service, maintaining good vendor relations, and having great locations. By doing all of these things right, McDonald's has developed a huge cadre of loyal customers.

McDonald's has always positioned itself as providing fast food at a good value—customers get a lot for not much money. Its customers don't have extraordinary expectations. They don't expect a meal prepared to their specific tastes. But customers do expect and get hot, fresh food that is reasonably priced.

McDonald's customers also don't expect friendly table service with linen tableclothes and sterling silverware. Their service expectations, which are typically met, are simple. By developing a system for producing its food and using extensive training for store managers, McDonald's reduces customers' waiting time. This training also means that customers will be handled quickly and courteously.

McDonald's vendor relationships ensure that it will always have quality ingredients. Its distribution and inventory control systems enable it to make sure that the ingredients are available at each location.

Finally, McDonald's has a large number of great locations. It is important for convenient products, such as fast food, to have lots of locations. Given its market power, it has been successful in finding and opening stores in prime retail locations. In every great city in which it operates around the world, McDonald's has outstanding locations.

By developing unique capabilities in a number of areas, McDonald's has built a high wall around its position as a service retailer, using a fast-food format directed toward families with young children.

Each of the retail strategies outlined at the beginning of the unit involves multiple sources of advantage. For example, Starbucks has developed a strong competitive position through its excellent product line with a strong brand name, high-quality service provided by committed employees and excellent and plentiful locations. Retailing View 3.1 describes the Container Store, a retail chain that built a sustainable competitive advantage through unique merchandise, excellent customer service, strong customer relations, and easily accessible locations.

3.6 Growth Strategies

Four types of growth opportunities that retailers may pursue (market penetration, market expansion, retail format development, and diversification) are shown in Exhibit 3.2. The vertical axis indicates the synergies between the retailer's present markets and growth-opportunity markets—whether the opportunity invokes markets the retailer is presently pursuing or new markets. The horizontal axis indicates the synergies between the retailer's present retail mix and the growth-opportunity retail mix—whether the opportunity exploits the retailer's present format or requires a new format.

Market Penetration

A market opportunity involves directing efforts toward existing customers by using the present retailing format. The retailer can achieve this growth strategy either by attracting consumers in its current target market who don't shop at its outlets or by devising strategies that induce current customers to visit a store more often or to buy more merchandise on each visit.

Approaches for increasing market penetration include attracting new customers by opening more stores in the target market and keeping existing stores open for longer hours. Other approaches are displaying merchandise to increase impulse purchases and training salespeople to cross-sell. Cross-selling means that sales associates in one department attempt to sell complementary merchandise from other departments to their customers. For example, a sales associate who has just sold a dress to a female customer will take the customer to the accessories department to sell her a handbag or scarf that will go with the dress. More cross-selling increases sales from existing customers.

		TARGET MARKETS	
		Existing	New
DETAIL FORMAY	Existing	Market Penetration	Market Expansion
	New	Format Development	Diversification (unrelated/ related

Exhibit L 3.2 : Growth Opportunities

The Container Store—Building a Competitive Advantage in Selling Products to Make Life Simpler RETAILING VIEW

A customer enters a Container Store and is approached by a cheerful salesperson who asks if she can be of help. "My wife loves romance novels," says the customer. "She's got them scattered all over the house. I need something to keep them in.' Customers come into the Container Store with problems or challenges, as the company likes to call them. The salespeople work with them to find solutions.

The privately held, 22-unit company with annual sales of over $200 million boosts annual sales per square foot of $400 million more than three times the industry average. It also operates an innovative website (www. containerstore.com) that allows customers to plan a project, organise a space, and purchase merchandise. The Container Store sells product compromise peopel's lives. Multipurpose shalving and garment bags are available to organize closes. Forable and magazine holdars create order in hand. Backspace, modular shelving, and CD holders make derm rooms less Recipe holders, and recycling bring harmony to kitchens.

How has the container store developed a sustainable

Ths Container Store places a lot of emphasis on customer service. Considerable time is spent educating sales associates about the merchandise. Then sales associates are empowered to use their own and creativity to solve customer problems.

Over the years, the company has developed strong vendor relations. Most of its vendors' primary focus has been to manufacture products for industrial use. Yet, over the years, the company has worked closely with its vendors to develop products that are appropriate for the home.

Finally, with over 20 stores in the United States, its online store, and plans to grew at 20 percent per year, the Container Store is accessible to most Americans.

Sources Debby Garbato Stankevich, "Finding a Plece in Home Retalling," *Retail Merchandiser,* January 2002, pp. 18-21; and Keith L. Alexander, "Cultivating a Culture," *Washington Post*, April 21, 2002, p. 1-101.

Market Expansion

A market expansion opportunity employs the existing retail format in new market segments. For example, Abercrombie & Fitch (A & F) Co.'s primary target market is college kids, not high-schoolers. Since college-age people don't particularly like to hang out with teens, A & F is rolling out a new, lower-priced chain called Hollister Co. Although the merchandise and ambience are slightly different than A & F, the retail format is essentially the same. When the French hypermarket chain Carrefour expanded into other European and South American countries, it was also employing a market expansion growth strategy because it was entering a new geographic market segment with essentially the same retail format.

Retail Format Development

A **retail format development opportunity** involves offering a new retail format—a format with a different recall mix—to the same target market. For example, Barnes & Noble, a speciality book store-based retailer, exploited a format development opportunity when it began selling books to its present target market over the Internet (wwwv.barnesandnoble.com). Another example of a retail format development opportunity is when a retailer adds merchandise categories, such as when Amazon. Com began selling CDs, videos, and electronics in addition to books. Adjusting the type of merchandise or services offered typically involves a small investment; whereas providing an entirely different format, such as a store-based retailer going into electronic retailing, requires a much larger and riskier investment.

Diversification

A **diversification opportunity** is when a retailer introduces a new retail format directed toward a market segment that's not currently served. Diversification opportunities are either related or unrelated.

Related versus Unrelated Diversification.

In a **related diversification opportunity,** the present target market or retail format shares something in common with the new opportunity. This commonality might entail purchasing from the same vendors, using the same distribution or management information system, or advertising in the same newspapers to similar target markets. In contrast, an **unrelated diversification** lacks any commonality between the present business and the new business.

Foot Locker, the world's largest retailer of athletic footwear and apparel (formerly known as Venator), became involved in several unrelated diversification endeavors in the 1990s. For instance, it owned some Burger King franchises and Afterthoughts accessory stores. After realizing that athletic apparel and footwear was its core business, it dumped businesses that didn't fit the mold and streamlined and remodeled the remaining stores. Unrelated diversifications are considered to be very risky and often, don't work, as was the case with Foot Locker. As a result, most retailers apply the old adage "stick to your knitting" and seek growth opportunities that are closer in nature to their current operations.

Foot Locker now operates Foot Locker stores, Lady Foot Locker, Kids Foot Locker, Champs Sports, and Foot Locker stores in Europe. Foot Locker is currently involved in a related diversification by opening several Nike Jordan stores in the United States. As Nike's biggest account, Foot Locker, delivers 26 to 28 percent of Nike's total domestic revenue and benefits from the limited distribution of its premiere products.

Vertical integration : Vertical integration is diversification by retailers into wholeseling or manufacturing. Example of vertical integration are The Limited's acquisition of Mast Industries (a trading company that contracts for private-label manufacturing) and Zale Corporation's manufacturing of jewelry. When a retailer integrates by purchasing or otherwise partnering with distribution or manufacturing concerns, it is engaging in *backward integration* because the requisite skills are different from those usually associated with retailing. Additionally, retailers and manufacturers have different customers—the immediate customers for a manufacturer's merchandise are retailers, whereas a retailer's customers are consumers. Thus, a manufacturer's marketing activities are very different from those of a retailer. Note that some manufacturers and designers like Nike, Prada, and Ralph Lauren forward integrate into retailing".

Strategic Opportunities and Competitive Advantage

Typically, retailers have the greatest competitive advantage in opportunities that are similar to their present retail strategy. Thus, retailers would be most successful engaging in market penetration opportunities that don't involve entering new, unfamiliar markets or operating new, unfamiliar retail formats.

When retailers pursue market expansion opportunities, they build on their strengths in operating a retail format and apply this competitive advantage in a new market. Thus, those retailers that successfully expand globally are able to translate what they do best—their core competencies—to a new culture and market. We will discuss global growth opportunities in the next section.

A retail format development opportunity builds on the retailer's reputation and success with present customers. Even if a retailer doesn't have experience and skills in operating the new format, it hopes to attract its loyal customers to it. For example, retailers that have successfully developed multichannel strategies by seamlessly integrating stores, the Internet, and catalogs provide extra convenience and multiple opportunities for their current customers to shop.

Retailers have the least competitive advantage when they pursue diversification opportunities. Thus, these opportunities are generally risky and often don't work, as was the case with Venator/Foot Locker. Vertical integration, however, albeit risky, often has overwhelming benefits for those large and sophisticated retailers that can invest heavily for the long term. By making direct investments in distribution or manufacturing facilities, these retailers have total control over the entire marketing channel.

3.7 Global Growth Opportunities

International expansion is one form of a market expansion strategy. The most commonly targeted regions are Mexico, Latin America, Europe, China, and Japan. International expansion is risky because retailers using this growth strategy must deal with differences in government regulations, cultural traditions, different supply chain considerations, and language. The types of retailers that successfully compete globally are discussed first, followed by a look at some of the pitfalls of global expansion. Then the key success factors for global expansion are examined. Finally, the strategies for entering a nondomestic market are evaluated.

Who is Successful and Who isn't

Retailers—particularly speciality store retailers with strong brand names such as The Gap and Zara, and food and discount retailers such as Wal-Mart, Carrefour, Royal Ahold, and Metro AG—may have a strong competitive advantage when competing globally.

Some U.S. retailers have a competitive advantage in global market because the American culture is emulated in many countries, particularly among young people. Due to the rising prosperity and rapidly increasing access to cable TV with American programming, fashion trends in the United States are spreading to young people *in* emerging countries. The global MTV generation prefers Coke to tea, athletic shoes to sandals. Chicken McNuggets to rice, and credit cards to cash. In the last few years, China's major cities have sprouted American stores and restaurants, including KFC, Pizza Hut, and McDonald's. Shanghai and Beijing each have more than two dozen Starbucks. Coffee was not the drink of choice until Starbucks came to town. But these Chinese urban dwellers go there to impress a friend, because it's a symbol of a new kind of lifestyle. Although Western product and stores have gained a reputation for high quality and good service in China, in some ways it is the American culture that many Chinese want.

On the other hand, some large European and Japanese retailers have considerably more experience operating retail stores in nondomestic markets. For example, France's Carrefour has been operating stores in nondomestic markets for almost 30 years. It is very good at adapting its hypermarket format to local tastes. The company buys many products locally and hires and trains local managers, passing the power and authority to them quickly. Even though Wal-Mart has a more efficient distribution system, Carrefour has competed effectively against Wal-Mart in Brazil and Argentina.

Category killers'and hypermarket retailers may be particularly suited to succeed internationally because of the expertise they've already developed at home. First, these retailers are leaders in the use of technology to manage inventories, control global logistical systems, and tailor merchandise assortments to local needs. For instance, firms such as Home Depot provide consumers with an assortment of brand-name merchandise procured from sources around the world. This advantage is particularly valuable if brand-name merchandise is important to consumers. Second, retailers like Wal-Mart and Carrefour have become the low-price provider in every market they enter because of their buying economies of scale and efficient distribution systems. Third, despite idiosyncrasies in the international environment, category killers and hypermarket retailers have developed unique systems and standardized formats that facilitate control over multiple stores. These systems and procedures should work well regardless of the country of operation. Fourth, because of the category killer's narrow assortment and focused strategy, communications across national boundaries and cultures are specifically focused, which improves management coordination. Finally, at one time, people felt that consumers outside the United States were used to high levels of personalized service and would not accept the self-service concept employed by category killers and hypermarket retailers. However, consumers around the globe are willing to forgo the service for lower prices. Retailing View 3.3 examines Costco's strategy for success in Japan.

Global expansion is often difficult and full of pitfalls. For instance, The Gap is pulling back on some of its European store base. U.K. based Marks & Spencer (M&S) has sold off its U.S. operations, Brooks Brothers; as part of an overall withdrawal from markets outside Britain. It plans to close its 18 stores in France demonstrates the difficulty of operating in foreign markets, M&S found it was in violation of French labour laws when it announced the closures. The laws require prior consultation with the employees. U.K. based J. Sainsbury, on the other hand, got caught up in a geopolitical conflict. It has abandoned expansion plans into Egypt because of a consumer boycott and heavy losses. The Egyptians believe that the company is pro-Israel, despite Sainsbury's denials.

Keys to Success

Four characteristics of retaiiers that have successfully exploited international growth opportunities are (1) globally sustainable competitive advantage, (2) adaptability, (3) global culture, and (4) deep pockets.

Globally Sustainable Competitive Advantage : Entry into nondomestic markets is most successful when the expansion opportunity is consistent with the retailer's core bases of competitive advantage. Some core competitive advantages for global retailers are shown below:

Core Advantage	Global Retailer
Low cost; efficient operation	Wal-Mart, Caretour
Strong privatism brands	Royal Ahols, lkes, Starbucks
Fashion reputation.	The Gap, Zate, H&M (Hennes&Mauriz
Catagory dominence	Office Depot, Home Depot
Image	Disney, Earner Brothers

Retailing view Costco, japanese Style

Spiralling deflation, shrinking consumer spending, and white-hot competition—that's the state of play in the Japanese retail market. So why would any U.S. company Want in? For one thing, Japan's retail market is the second-largest in this world, after the United States. For another, deregulation has finaily leveled the playing field for foreign companies and domestic rivals. If a company can succeed in this market, it's virtually guaranteed success anywhere else. Following are some strategies Costco is using in Japan.

- *Open multiple stores.* Costco's current two-store operation in Japan is not profitable. But six or seven stores will generate the scale economies necessary to best profitable. Real estate prices have come down, so the chain can find sites that are relatively inexpensive.
- *Learn from past* experience. Costco learned a few lessons from its earlier ventures in Asia. First, it doesn't think of Asia as one big market, each market is quite distinct. But, second, it can learn from the similarities. For instance, a lot of its start-up experiences in Taiwan and South Korea were similar to Japan: things like real estate negotiations and supplier relations. Also, Japanese and Korean commercial and labour laws are very similar.
- *Recognize different operating cost structures.* Operating costs, such as utilities, service, and maintenance expenses sure high in Japan, compared to in the United States. Therefore, sales per store need to be higher to be profitable.
- *Adjust the* assortmen to meet *local* needs. Japanese people are very particular about food packaging. They will buy in bulk, but not in the large packages like those purchased in the United States. So Costco is experimenting with smaller multipacks.
- Buy *direct* Japan's distribution channels are fraught with multiple layers of wholesalers, which can be inefficient and keep prices unnecessarily high. To avoid this problem, Costco purchases 86 percent of its merchandise directly from manufacturers. If a manufacturer won't sell directly to the company because it wants to protect its long-standing relationships with other retailers, Costco goes elsewhere.
- *Sell "Made in the USA"* U.S. imports have done very well, and demand is growing. Costco's top-selling U.S. items are nonfood: clothing, sporting goods like basketball hoops, jewelry, and housewares.

Exhibit 3.3

Source: "Costco: Still Finding Its Way in Japan," *BusinessWeek On-line,* March 25, 2002. www.businessweek.com

Global Culture

To be global, one has to think globally. It is not sufficient to transplant a home-country culture and infrastructure into another country. In this regard, Carrefour is truly global. In the early years of its international expansion, it started in each country slowly, which reduced the company's ethnocentrism. Further enriching its global perspective, Carrefour has always encouraged rapid development of local management and retains few expatriates in its overseas operations. Carrefour's management ranks are truly international. One is just as likely to run across a Portuguese regional manager in Hong Kong as a French or Chinese one. Finally. Carrefour discourages the classic overseas "tour of duty" mentality often found in U.S. firms. International assignments are important in themselves, not just as stepping-stones to ultimate career advancement back in France The globalization of Carrefour's culture is perhaps most evident in the speed with which ideas flow throughout the organization. A global management structure of regional "committees," which meet regularly, advances the awareness and implementation of global best practices.

The proof of Carrefour's global commitment is in the numbers. It has had almost 30 years of international experience in 21 countries—both developed and developing.

Deep Pockets

Expansion into international markets requires a long-term commitment and considerable upfront planning. Retailers find it very difficult to generate short-term profit when they make the transition to global retailing. Wal-Mart's $8.2 billion cash flow and 48 percent share of the $225 billion discount store industry in the United States provides the ability to maintain this type of staying power.

Entry Strategies

Four approaches that retailers take when entering nondomestic markets are direct investment, *joint* venture, strategic alliance, and franchising.

Direct lnvestment

Direct investment involves a retail firm investing in and owing a division or subsidiary that builds and operates stores in a foreign country. This entry strategy requires the highest level of investment and exposes the retailer to significant risks, but it has the highest potential returns. One advantage of direct investment is that the retailer has complete control of the operations. For example, McDonald's chose this entry strategy for the U.K. market, building a plant to produce buns when local suppliers could not meet its specifications.

Joint Venture

A joint venture is formed when the entering retailer pools its resources with a local retailer to form a new company in which ownership, control, and profits are shared. Examples of successful joint ventures are Royal Ahold (the Netherlands) and Veiox Holdings (Argentina); Metro AG (Germany) and Koc Groups Migros (Turkey); Carrefour and Sabanci Holding (Turkey); Metro AG (Germany) and Marubeni (Japan); and Monsoon (United Kingdom) and Charming Shoppes (United Statss).

A joint venture reduces the entrant's risks. Besides sharing financial burden, the local partner understands the market and has access to resources— vendors and real estate. Many foreign countries, such, as China, require joint ownership, although these restrictions may loosen as a result of World Trade Organization (WTO) negotiations. Problems with this entry approach can arise if the partners disagree or the government places restrictions on the repatriation of profits.

Strategic Alliance

A strategic alliance is a collaborative relationship between independent firms. For example, a foreign retailer might enter an international market through direct investment but develop an alliance with a local firm to perform logistical and warehousing activities.

Franchising

Franchising offers the lowest risk and requires the least investment. However, the entrant has limited control over the retail operations in the foreign country, potential profit is reduced, and the risk of assisting in the creation of a local domestic competitor is increased. U.K. based Marks & Spencer, for example, has 136 franchised stores in 27 countries, including Cyprus (8), Greece (28), Indonesia (10), and Thailand (10).

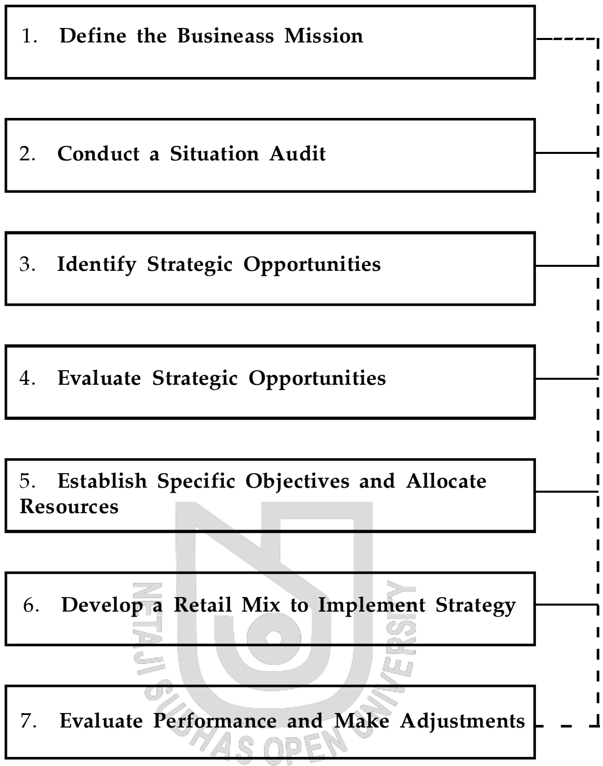
3.8 The Strategic Retail Planning Process

The strategic retail planning process is the set of steps a retailer goes through to develop a strategic retail plan (see Exhibit 3.4). It describes how retailers select target market segments, determine the appropriate retail format, and build sustainable competitive advantages. As indicated in Exhibit 3.4, it is not always necessary to go through the entire process each time an evaluation is performed (in step 7). For instance, a retailer could evaluate its performance and go directly to step 2., conduct a situation audit.

The planning process can be used to formalate strategic plans at different levels within a retail corporation. For example, the corporate strategic plan of American Express indicates how resources are to be allocated across the corporation's various businesses such as credit cards and travel services. Each business within American Express has its own strategic plan, and then strategies are developed for products within a business such as for the American Express Gold card.

As we discuss the steps in the retail planning process, we will apply each of them to the planning process of Kelly Bradford. Kelly owns Gifts To Go, *a* small, two-store chain in the Chicago area. One of her 1,000-square-foot stores is in the downtown area; the other is in an upscale suburban-mall. The target market for Gifts To Go is upper-income men and women looking for gifts in the \$50-to-\$500 price range. The stores have an eclectric selection of merchandise, including handmade jewelry and crafts,fine china and glassware, perfume, watches, writing instruments, and a variety of one-of-a-kind items. The stores have developed a number of loyal customers who are contacted by sales associates when family anniversaries and birthdays come-up. In many cases, customers have a close relationship with a sales associate and have enough confidence in the associate's judgment that they tell the associate to pick out the gift. The turnover of Gifts To Go sales associates is low for the industry, because Bradford treats associates as part of the family. The company pays for medical and dental insurance for all associates. Sales associates share in the profits of the firm.

Exhibit 3.4



Step I : Define the Business Mission

The first step in the strategic retail planning process is to define the business mission. The mission statement is a broad description of a retailer's objectives and the scope of activities it plans to undertake. The objective of a publicly held firm is to maximize its stockholders' wealth by increasing the value of its stock and paying dividends. Owners of small, privately held firms frequently have other objectives, such as achieving a specific level of income and avoiding risks rather than maximizing income.

The mission statement should define the general nature of the target segments and retail formats that the firm will consider. For example, the mission statement of an office supply category specialist, "Serve the customer, build value for shareholders, and create opportunities for associates," is too broad. It does not provide a sense of strategic direction.

In developing the mission statement, managers must answer five questions: (1) What business are we in ? (2) What should be our business in the future?

(3) Who are our customers ? (4) What are our capabilities ? (5) What do we want to accomplish ? Gifts To Go's mission statement is ''The mission of Gifts To Go is to be the leading retailer of higher-priced gifts in Chicago and provide a stable income of $100,000 per year for the owner''.

Since the mission statement defines the retailer's objectives and the scope of activities it plans to undertake, Gifts To Go's mission statement indicates its management won't consider retail opportunities outside the Chicago area, won't consider opportunities for selling low-priced gifts, and won't consider opportunities that would jeopardize its ability to generate $100,000 in annual income.

Money Factors size Growth Seasonality Business cycles	COMPETITIVE FACTORS Barriers to entry Bargaining power of Vendors Competitive rivalry	ENVIRONMENTAL FACTORS Technology Economics Regulatory Social	ANALYSIS OF STRENGTHS AND WEAKNESS Management capabilities Financial resources Locations Operations Merchandise Store management Customer loyalty

Exhibit 3.5

Step 2: Conduct a Situation Audit

After developing a mission statement and setting objectives, the next step in the strategic planning process is to do a situation audit. A situation audit is an analysis of the opportunities and threats in the retail environment and the strengths and weaknesses of the retail business relative to its competitors. The elements in the situation analysis are shown in Exhibit 3.5.

Market Factors : Some critical factors related to consumers and their buying patterns are market size and growth, sales cyclicality, and seasonality. Market size, typically measured in retail sales dollars, is important because it indicates a retailer's opportunity for generating revenues to cover its investment. Large markets are attractive to large retail firms. But they are also attractive to small enterpreneurs because they offer more opportinities to focus on a market segment. Some retailers, however, prefer to concentrate on smaller markets.

Growing markets are typically more attractive than mature or declining markets. For example, retail markets for specialty stores are growing faster than those for department stores. Typically, margins and prices are higher in growing markets because competition is less intense than in mature markets. Since new customers are just beginning to patronize stores in growing markets, they may not have developed strong store loyalties and thus might be easier to attract to a new store. Some retailers, however, prefer to locate in mature markets. These locations are attractive when the customer base is stable and competition is weak. Carrefour's success can, in part, be attributed to its astute global growth strategy in which new stores were located in markets where competition was relatively weak.

Firms are often interested in minimizing the business cycle's impact on their sales. Thus, retail markets for merchandise affected by economic conditions (such as cars and major appliances) are less attractive than retail markets unaffected by economic conditions (such as food). In general, markets with highly seasonal sales are unattractive because a lot of resources are needed to accommodate the peak season, but then resources are underutilized the rest of the year. For example, to minimize these problems due to seasonally, Ski resorts promote summer vacations to generate sales during all four seasons.

Competitive Factors : The nature of the competition in retail markets is affected by barriers to entry, bargaining power of vendors, and competitive rivalry. Retail markets are more attractive when competitive entry is costly. Barriers to entry are conditions in a retail market that make it difficult for firms to enter the market. These conditions include scale economies, customer loyalty, and availability of great locations.

Scale economies are cost advantages due to a retailer's size. Markets dominated by large competitors with scale economies are typically unattractive. For example, a small entrepreneur would avoid becoming an office supply category specialist because the market is dominated by three large firms: Staples, Office Depot, and OfficeMax. These firms have a considerable cost advantage over the entrepreneur because they can buy merchandise cheaper and operate more efficiently by investing in the latest technology and spreading their overhead across more stores.

Similarly, retail markets dominated by a well-established retailer that has developed a loyal group of customers offer limited profit potential. For example, Home Depot's high customer loyalty in Atlanta makes it hard for a competing home improvement center to enter the Atlanta market.

Finally, the availability of locations may impede competitive entry. Staples, for instance, attributes part of its success over its rivals in the northeastern United States to its first-mover advantage. Since the Northeast has a preponderance of mature but stable retail markets, finding new locations is more difficult there than it is in most of the rest of the United States. Staples started in the Northeast and was therefore able to open stores in the best available locations.

Entry barriers are a double-edged sword. A retail market with high entry barriers is very attractive for retailers presently competing in that market, because those barriers limit competition. However, markets with high entry barriers are unattractive for retailers not already in the market. For example, the lack of good retail locations in Hong Kong makes this market attractive for retailers already in the region, but less attractive for retailers desiring to enter the market.

Another competitive factor is the **bargaining power of vendors**. Markets are less attractive when a few vendors control the merchandise sold in it. In these situations, vendors havs an opportunity to dictate prices and other terms (like delivery dates), reducing the retailer's profits. For example, the market for retailing fashionable cosmetics is less attractive because two suppliers, Eslée Lauder (Estée Lauder, Clinique, Prescriptives, Aramis, Tommy Hilfiger, M.A.C., and Origins) and L'Oréal (Maybelline, Giorgio Armani, Helena Rubinstein, Lancôme, Lanyin, and Ralph Lauren brands). provide the most desired premium brands. Since department stores need these brands to support a fashionable image, these suppliers have the power to sell their products to retailers at high prices.

The final industry factor is the level of competitive rivalry in the retail market. **Competitive rivalry :** is the frequency and intensity of reactions to actions undertaken by competitors. When rivalry is high, price wars erupt, employee raids occur, advertising and promotion expenses increase, and profit potential fails. Conditions that may lead to intense rivalry include (1) a large number of competitois that are all about the same size, (2) slow growth, (3) high fixed costs, and (4) the lack of perceived differences between competing retailers.

Environmental Factors : Environmental factors that affect market attractiveness span technological, economic, regulatory, and social changes. When a retail market is going through significant changes in technology, present competitors are vulnerable to new entrants that are skilled at using the new technology. For example, in the late 1990s, many traditional retailers were nervously scrambling to define their space in e-tailing. Thousands of pure-play e-tailers with technological sophistication flooded the Internet. Many of the bricks-and-mortar retailers invested heavily in Internet technology and, were able to integrate the Internet with their other selling channels.

Some retailers may be more affected by economic conditions than others. Neiman Marcus and Nordstrom employ many well-paid salespeople to provide high-quality customer service. When unemployment is low, their costs may increase significantly, as salespeople's wages rise due to the difficulty in hiring qualified people. But retailers like Wal-Mart that provide little service and have much lower labour costs as percentage of sales may be less affected by low unemployment.

Government regulations can reduce the attractiveness of a retail market. For example, it is difficult for large retailers to open new stores in France due to size restrictions placed on new stores. Also, many local governments within the United States have tried to stop Wal-Mart from entering their market in an attempt to protect locally owned retailers.

Finally, trends in demographics, lifestyles, attitudes, and personal values affect retail markets attractiveness, Brooks Brothers, for example, has been struggling with several trends simultaneously. Known for traditional suits and button-down shirts, the company has not learned how to appeal to younger customers and businesspeople who prefer to dress casually without alienating its traditional customer base.

Retailers need to answer three questions about each environmental factor:

1. What new developments or changes might occur, such as new technologies and regulations or different social factors and economic conditions ?
2. What is the likelihood that these environmental changes will occur ? What key factors affect whether these changes will occur ?
3. How will these changes impact each retail market, the firm, and its competitors ?

Strength and Weaknesses Analysis : The most critical aspect of the situation audit is for a retailer to determine its unique capabilities in terms of its strengths and weaknesses relative to the competition. A **strengths and**

weakness analysis indicates how well the business can seize opportunties and avoid harm from threats in the environment.

Step 3: Identify Strategic Opportunities

After completing the situation audit, the next step is to identify opportunities for increasing retail sales.

Step 4: Evaluate Strategic Opportunities

The fourth step in the strategic planning progress is to evaluate opportunities that have been identified in the situation audit. The evaluation determines the retailer's potential to establish a sustainable competitive advantage and reap long-term profits from the opportunities under evaluation. Thus, a retailer must focus on opportunities that utilize its strengths and its area of competitive advantage. For example, expertise in developing private-label apparel is one of The Gap's sources of competitive advantage. Thus, The Gap would positively evaluate opportunies that involve development of private-label merchandise.

Both the market attractiveness and the strength and weaknesses of the retailer need to be considered in evaluating strategic opportunities. The greatest investments should be made in market opportunities where the retailer has a strong competetive position.

Step 5 : Establish Specific Objectives and Allocate Resources

After evaluating the strategic investment opportunities, the next step in the strategic planning process is to establish a specific objective for each opportunity. The retailer's overall objective is included in the mission statement. The specific objectives are goals against which progress toward the overall objective can be measured. Thus, these specific objectives have three components: (i) the performance sought, including a numerical index against which progress may be measureed, (2) a time frame within which the goal is to be achieved, and (3) the level of investment needed to achieve the objective. Typically, the performance levels are financial criteria such as return on investment, sales, or profits.

Step 6: Develop a Retail Mix to Implement Strategy

The sixth step in the planning process is to develop a retail mix for each opportunity in which investment will be made and to control and evaluate performance.

Step 7 : Evaluate Performance and Make Adjustments
The final step in the planning process is evaluating the results of the strategy and implementation program. If the retailer is meeting *or* exceeding its objectives, changes aren't needed. But if the retailer fails to meet its objectives, reanalysis is needed. Typically, this reanalysis starts with reviewing the implementation programs; but it may indicate that the strategy (or even the mission statement) needs to be reconsidered. This conclusion would result in starting a new planning process, including a new situation audit.

3.9 Retail Marketing Strategies in Indian Context

In Indian retailing the current marketing challenges are in two major areas:

- Creating footfalls in the store.
- Converting browsers into buyers.

Creating footfalls in the store starts with building the store brand, positioning the store, profiling target customers and understanding their buying behaviour, defining the retail marketing mix, creating customer relationship and loyalty, and direct marketing, effectively planning and implementing store events and promotions.

Micromarketing is a significant marketing strategy as it totally focuses on the target consumer.

Building the Store Brand : The store brand is built on such parameters as merchandise category, price/quality, specific attributes of benefits, lifestyle activity, etc. It is essential to select and define the target market to comprehensively define the brand proposition to the consumer.

The brand conveys the value proposition to the customer. For instance the brand Shoppers' Stop signifies a one-stop shop for lifestyle, garments and, its 'Feel the Experience While You Shop' theme conveys that it stands for free access and experiential shopping. The name Big Bazaar itself tells the consumer what the brand is about; very large, with diverse and genuinely 'value for money' merchandise. The store brand is thus a great differentiator, occupying a distinct position in the mind of the consumer — in short, "store positioning". A strong store brand guides the overall business strategy of the organization and acts as an ambassador for entering new-markets, which some Indian retail organizations are currently doing.

3.10 Store Positioning

As an expert aptly puts it: "Store positioning is not what you do to the store: it's what you do to the mind of the customer !"

So what does it take for a retail store to create an identity for itself in customers' minds and differentiate itself from the clutter? Here are some ways in which they can stand out :

- A store can be exciting to its customers with its merchandise, its range of services, service delivery standards, ambience and convenience. An expensive, unfriendly and even repulsive store creates a negitive positioning that is hard to shake off.
- Retail stores could position themselves in the minds of their customers on various platforms derived from the retail mix. The most common ones are merchandise and related attributes such as category and range distinction, price, store design and ambience, customer service and related processes.
- Factors like convenience of location or fashion trends are also used to position a retail store.

Such attributes are chosen according to their importance to the customer. The more the relevance of such attributes to the consumer, the better they are imprinted in their minds.

Toys 'R' Us, the multinational toy store has a *'single line* (largest and the best) and *price off'* positioning. This has worked successfully since 1948 when it was started by Charles Lazarus at the age of 25. The organization's positioning has consistently met customer expectations. A few instances in the Indian context are presented below.

Health&Glow, RPG Guardian's store in the south, is positioned as the *'Look good. Feel good'* store. The brand signifies health and beauty and the logo — a guardian angel flying into a 'G' — conveys the impression of health and vitality. Health&Glow offers its customers a unique experience by offering a select range of quality health and beauty merchandise and complementing its proposition with trained consulting staff.

Barista is positioned for a new experience in the store environment. It is creating a unique positioning whereby *the consumer owns* the store. That is, it wants to create a place where a consumer is recognized by name, where his tastes and preferences are known enough to make him feel at home, where he can freely interact and have meetings and where he can savour the aroma of coffees from across the globe and at a reasonable price. Barista boasts that it isn't just in the business of coffee; it is also selling an experience. Its slogan; "It is not in the coffee business, serving people, but it is in the people business, serving coffee!"

Planet M is positioned as *the music store of the universe.* It strongly believes in propagating and selling both popular and niche genres of music — an unmatched width of offerings *in* the right depth. Whether it is through frequent performances by artistes in the store, or its associations with concerts. Planet M tries to bring music-loving customers as close as possible to the music they love. Planet M has been associated with Classical Nites (Pandit Hariprasad Chaurasia, Ustad Amjad Ali Khan, Pandit Jasraj, Pankaj Udhas etc.), power-packed international performances (Right Said Fred, Stereo Nation, Karnatic Lab, Maroon Town, Revolution etc.) and of course popular rock bands like Parikrama.

Wills Sport, the trendy retail store selling an exciting range of leisure wear, is positioned as the store where the customer would *enjoy the change!* Customers can pick a complete wardrobe with the assistance of fashion-literate staff, who are trained to be unobtrusive yet helpful. A Wills Sport customer can exchange a garment bought at any Wills Lifestyle store at an outlet anywhere in India, without a cash memo or even a price tag.

Does the Store's Positioning stand the Test of Time ?

Shoppers' Stop has the *'Feel the experience while you shop'* positioning, which has now been challenged by Lifestyle's promise to differentiate the shopping experience with the *'Stay True. Don't Blend In'* positioning. It almost has the same sprawling space, ambience, brands and similar categories of merchandise. Shopper's Stop's positioning was freedom for the customer to move around and freely access merchandise, a liberal returns and exchange policy and the choice for the customer whether to buy or not to buy. But these are no longer considered special and a "given' in any department store. The country's first large format retailer may have to enhance deliveries to suit such higher consumer expectations.

Does the Store communicate what it actually delivers ?

Wal-Mart's positioning is *Always Low Prices. Always Wal-Mart.* Tom Coughlin, president and chief executive officer of the Wal-Mart stores division says: "We want our customers to trust in our pricing philosophy and to always be able to find the lowest prices with the best possible service. We're nothing without our customers." And that's what they continue to do in Wal-Mart: work diligently to find good deals to pass on to their customers, always being true to their claim of delivering exceptional value. It is not a sale but the 'great price' that the customer can count on. The company has stuck whole-heartedly to its positioning of bargain prices.

Customers look for benefits and not the features of the Store

Nordstrom has positioned itself as the *customer service company,* offering the best possible service, selection, quality and value. Its culture always encourages its employees to make extra efforts to give unequalled customer service — "Not service that used to be, but service that never was."

Nordstrom sales associates are empowered to do virtually everything they can to make sure a shopper leaves the store satisfied, carrying home the right item in the right size in the right colour at the right price. Follow-through after the sale is a way of life at Nordstrom. When a customer receives a call over the phone after a few days of purchasing shoes from the store to find out how they are working out, you can only imagine the quality of service it provides.

So, positioning is how the consumer perceives the brand in the market. Strong brands have a clear, often unique position in the target consumers' minds. Positioning can be achieved through several means, including brand name, image, service standards, product guarantees, packaging and the way in which they are delivered. In fact, successful positioning usually requires a combination of these.

Business strategists talk about the first-mover advantage in positioning. In terms of brand development, by being a first mover, it is possible for the first successful brand in a market to create a clear positioning in the minds of target customers before the competition arrives on the scene. This is true in the case of Shoppers' Stop, which pioneered organized garment and related accessories (department store) retailing in India through a large format.

From Mind Space to Heart Space : All the above instances drive home the message that the positioning of the retail store has to be consistent, without any aberrations. Positioning deliverables have to be integrated with the culture and philosophy of the organization. That's the key to creating an image for the store, helping customers to identify with it and say with pride: 'That's My Store !"

Target Customers and Buyer Behaviour : Retailers who seek to understand their customers better always study buyer behaviour in detail and attempt to find out what customers do while in the store or at home.

A food retailer for instance needs to know how his customer lives, how he uses the products he buys and what his consumption patterns are.'If an apparel retailer wants to find out what type of clothes its typical customers really want to buy, it might want to get into consumers' closets, literally. Retailers can ask customers to show them how they put together their wardrobes, how they use the clothes that are in fashion and for how long, and on what occasions they buy clothes. Such an exercise helps retailers to find out how consumers mix and match items, which items they choose in keep in their closets during which season or year and why.

3.11 Store Positioning

The retail marketing mix consists of the following elements:

(1) ***Product Offerings*** *:* This refers to the product mix that the store **retails** for customers after a careful study of what their needs and wants are. By matching customer preferences with an assortment of merchandise offered within the store's categories, the retailer gets an ideal basket size per customer. The basket size contains the mix of items a customer buys during a visit.

(2) ***Place*** : This is the location of the store and its catchment boundaries. The key to optimizing the element of 'place' in the marketing mix is to undertake local marketing efforts besides the national marketing plan. Determining the market share of the store in the catchment area gives an indication of its performance and efficiency.

(3) ***Price*** **:** Price is an important element in the marketing mix as customers are very price-sensitive. Pricing is of different kinds :
Maximum retail price (MRP) on items generally means full pricing.

Promotional pricing involves a temporary reduction in the price to the customer during a particular season, while closing a particular line, or to clear saleable defectives and shop-soiled merchandise.

Loss leader pricing is a tactic used to sell at cost or a little above cost a few critical items to get more footfalls into the store.

Odd pricing is the way footwear organizations like Bata. Their products in India — at levels like Rs. 129.95, 149.95 etc.

Price bundling is the reduced price offered for a bundle or a predefined group of merchandise when bought together by the customer.

Everyday low pricing (EDLP), which is not a familiar concept in India, is pricing different kinds of merchandise on a lower scale everyday. If pricing is innovative and exclusive to the identity of the store, offering the right value to the buyer, it will bring in more and more customers and help the retailer to retain them as well.

(4) ***Promotions and Events*** : These help the store to achieve its short-term goals. Promotions may be price-led or occasion-led, in which case special merchandise is offered by the store only for the occasion (example: *Dandiya).* Most retail organizations run promotions during festival seasons like Diwali, Christmas, New Year, Valentine's Day, Id, and so on.

Sometimes promotions are driven by brands in cooperation with the retailer. Retail events are gaining significance in India with retailers preferring them to direct price-offs. However, if run very frequently, promotions may prove detrimental to the image and positioning of the store.

(5) ***People*** : There are two kinds of people as far as the retail marketing mix is concerned: *People to Serve* (customers) and *People that Serve* (employees). It is customers who determine whether the retail store is selling the right products and services. People that serve the organization are the ambassadors or the face of the retail store. Excellent delivery standards — which go hand-in-hand with the image and positioning of the store — can be achieved only if the staff are trained well.

(6) ***Presentation*** : Presentation is the way that products and services are grouped and presented in a retail store. Such presentation should conform to the store's positioning and customer profile. For instance, a boutique selling designer garments needs to present its merchandise

in exclusive splendour — it cannot use ordinary furniture and fixtures. Attending on customers in the boutique ought to be done on a very personal basis, as a mass approach will turn them away.

3.11 Retail Marketing Mix

1. For a new brand of food and growcery retail company entering the Indian market, discuss as a manager how you shall plan your retail strategies.
2. Discuss critically the retail stratigies followed by the following companies in India :
   (a) Pantaloon Retail (India) Ltd.
   (b) Shopper stop
   (c) West side

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Unit 4 Financial Strategy

Structure

4.1 Strategic Profit Model—An Overview
4.2 Elements of Income Statement
4.3 Balance Sheet
4.4 Strategic Profit Model
4.5 Setting Performance Objectives
4.6 Performance Measures
4.6 Exercise

4.1 Strategic Profit Model—An Overview

Generally, most businesses operate on the premise that they need to get a good return on investment. The retailing business is no exception. Though retailers adopt different strategies, they pursue same financial goal, i.e., earning a good return on investment. The strategic profit model (SPM) is a tool for planning and evaluating the financial performance of retailers. It combines information from the income statement and balance sheet into a single, comprehensive framework. The strategic profit model establishes a mathematical relationship among net profit margin, asset turnover, and financial leverage. By doing so, it arrives at two important performance measures for return on investment—return on assets and return on net worth. This model regards return on net worth as an important indicator of the performance of a firm. Return on net worth measures how much income was generated on the investment made by the owners of a firm. It thus shows how much value a company has created for its shareholders.

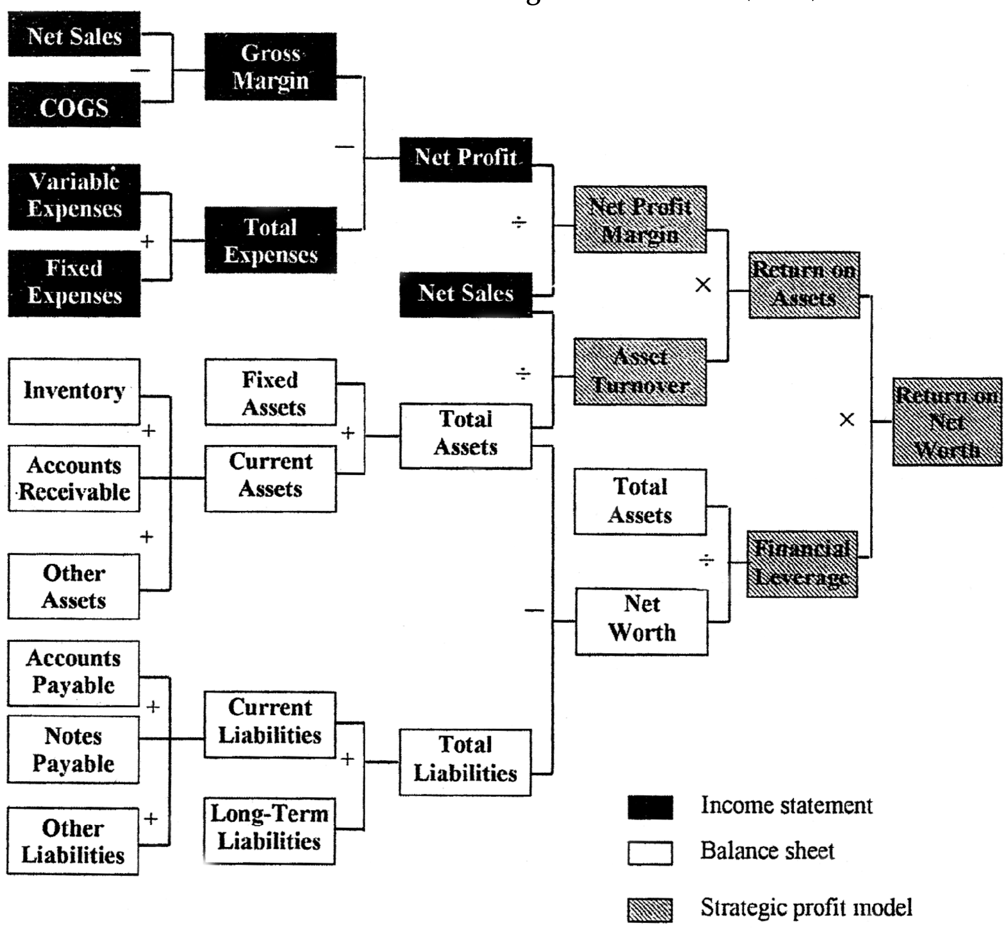
The performance ratios required to calculate the return on net worth are net profit margin, asset turnover, return on assets, and financial leverage. Exhibit 4.1 shows different components of the model.

Return on Net Worth **(RONW)** can be calculated as follows :

RONW = Net Profit Margin x Asset Turnover x Financial Leverage
Return on assets x Financial Leverage
(Return on Assets = Net Profit Margin x Asset Turnover)

Exhibit 4.1 gives a graphic representation of SPM. The various performance ratios shown in the strategic profit model can be calculated from the financial documents (income statement and balance sheet) prepared by retailers. While the profit margin can be derived from data provided by the income statement, asset turnover and financial leverage can be derived from data provided by the balance sheet.

Exhibit : 4.1 : The Strategic Profit Model (SPM)



4.2 Elements of Income Statement

The income statement is one of the important financial statements prepared by retailers to keep track of the performance of their retail stores. It summarizes the financial performance of a company for a given accounting period (usually One year). The statement shows how much revenue the company earned through its operations, and the expenses associated with bringing in that revenue. The difference between the revenue and the expenses gives the profit earned by the company. Thus, the statement shows how profitable the organization is. The income statements can also be broken down by division, by department, by branch, and by geographic segment thus giving the retailer detailed information on the performance of each micro unit of the firm. The data can be compared with industry benchmarks to give the retailer an idea of the firm's position with reference to its competitors. Table 4.2 shows income statement of a hypothetical store XYZ Ltd.

Sales

The total revenue received from the sales of merchandise is known as gross sales. Net sales are arrived at by subtracting the returns and allowances from the total revenue received. The term returns refers to the value of the merchandise that has been returned by customers (Goods are returned either because they are defective or because they did not satisfy the customer). The Term allowance refers to the additional discounts and price reductions that are given to customers by the retailer.

Thus,

Net sales = Revenue received–Returns—Allowances.

Cost of Goods Sold (COGS)

The cost of goods sold includes the direct cost associated with manufacturing/ procuring the merchandise for the store. These costs include transportation costs and costs which are directly related to producing or purchasing the goods. Simply put, it is the price paid by the retailer to produce or acquire goods for sale.

Gross Margins

The gross margin refers to the difference between net sales and the cost of goods sold. It is also expressed as a percentage of net sales.

Gross Margin = Net sales—cost of Goods sold

Gross Margin (%) = Gross Margin/Net Sales X100

Table 4.2

Net Sales		578,269
Less: Cost of Goods Sold		350,421
Gross Margin		227,848
Less: Operating Expenses	141,544	
Less: Interest Expenses	6423	
Total Expenses		147,967
Net Profit Before Taxes		79,881
Less: Taxes		31,438
Net Profit After Taxes		48,443

Thus Gross margin =227,848 / 578,269=39.4 %

The gross margin indicates the profitability of a company. It shows how much money is available for providing a profit and covering the retailer's expenses. Thus, a high gross margin indicates the financial ability to improve the business operations (like marketing, new product development). Retailers can use gross margins to compare the performance of two product lines or stores. A higher gross margin also implies that the store is efficient in procuring and selling merchandise.

Expenses

There are two major type of expenses, interest and operating expenses. Interest expenses refer to interest payments that have to be paid periodically for financing provided by lenders like banks. Operating expenses refer to expenses incurred by stores for their day-to-day operations.

There are three main categories of operating expenses: selling expenses, general expenses, and administrative expenses.

Selling Expenses include salaries of sales staff, commissions etc. General Expenses include rent, utilities, and other miscellaneous expenses. Administrative expenses include salaries of staff other than salespeople and expenses like office supplies, postage etc.

Usually expenses of Department stores are higher as they are mostly located in areas where rent and other expenses are high. In addition, to provide a high level of customer service, department stores incur expenses for retaining experienced sales persons and maintaining a good store ambiance. The expenses of discount stores are lower because they are located in less expensive areas, and they offer minimal customer service.

Net Profit

The term net profit is more popularly known as "bottomline" in business circles. It is derived by subtracting the cost of goods sold and expenses from net sales. Net profit can be either expressed as before taxes.

Some analysts are of the opinion that profit before taxes should be considered for decision making as taxes are not in the control of the retailer. But generally, profit after taxes is considered for decision making as that is the amount which a retailer is left with for distribution to shareholders, for reinvestment in the company or to repay the debt.

Net profit = net sales—cost of goods sold—expenses

The net profit margin is expressed as a percentage of net sales:

Net profit margin (%) = Net profit/Net sales

Net profit margin (%) of XYZ Ltd. Is=48443/578,269 =8.38 %—eqation 1

A company must make a profit to survive and compete in the marketplace. The net profit is one of the key indicators of a company's financial performance. If a company shows low profits or losses, either the company's costs are exceeding its revenues or it is not achieving an adequate volume of sales. Thus net profit acts as a yard stick for gauging the performance of the company. The net profit margin is one of the components of SPM.

4.3 Balance Sheet

While the income statement provides the results (revenue and expenditure) of a store's business operations for a particular period of time, the balance sheet indicates the financial status of the store at a particular point of time (usually at the end of the year). The balance sheet consists of three components: assets, liabilities and owner's equity (net worth). The balance sheet is based on a simple concept, i.e., in order to acquire assets, a firm (retailer) must pay for them with either debt (liabilities) or with the owners' capital (shareholders' equity). Thus, in a balance sheet, assets should balance with the liabilities and owner's equity: Assets include land and buildings, equipment, inventory, cash, patents, and accounts receivables. Liabilities are the obligations that the firm owes to outside parties. Liabilities include bank loans, debts to suppliers, and debts to employees. Owner's equity is the difference between the assets and liabilities. It generally includes the amount of capital the owners invested plus the profits that have been reinvested in the firm.

Let's examine the elements that constitute the assets, liabilities, and owner's equity. Table 4.3 provides the balance sheet of XYZ Ltd.

Assets

Assets represent the resources available to the firm that can be used for generating revenue and also everything owned by the firm that has value. Assets can be divided into two types on the basis of their level of liquidity. Current assets refer to those assets, which can be converted into cash within a short period of time; fixed assets are those assets, which cannot be converted into cash within a short period of time. For retailers, current assets determine the survival of the firm. In retail business current assets form a major portion of the total assets, while fixed assets like buildings and fixtures constitute a minor portion of the total assets.

Current assets

In retailing, current assets are calculated as follows:

Current assets = account receivables + Merchandise inventory + cash + other current assets

Table 4.3 Balance Sheet of XYZ Ltd.

ASSETS	(Rs in '000')
Current Asset	
Cash	232
Marketable securities	147,566
Account receivable	3,523
Inventories	66,528
Others	5,270
Total Current Assets	223,119
Total fixed assets less depreciation	129,039
Total Assets	352,158

LIABILITIES		
Current liabilities		
Accounts Payable		15,244
Accrued expenses:		
Payroll related		2,771
Worker's compensation		5,534
Due to shareholders		1,655
Others		3,613
Total Current Liabilities		28,817
Long term liabilities		3,698
Total Liabilities		32,515
Owner's Equity		
Common Stock	156,154	
Retained earnings	163,489	
Total Owner's Equity		319,643
Total Liabilities and Owner's Equity		352,158

Accounts receivables

Accounts receivables refer to the amount that is due from customers. Receivables arise because the company sells goods to customers on credit (apart from cash sales). If a company insists on cash sales only, it may lose customers to competitors who offer credit sales. Thus, from the marketing and customers to competitors who offer credit sales. Thus, from the marketing and customer service point of view, it is important to provide credit sales. But having a large amount of accounts receivables is also not advisable since the proceeds of the sales are blocked in these receivables and this effects the retailers ability in other productive activities.

Some retailers, offer credit to their customers through their own credit card system. These stores charge the customer lower interest rates for providing credit. Such a credit system has its advantages. It ensures the loyalty of the customers towards the stores and earns interest income for the retailer (the retailer charges interest for giving credit).

If not managed properly the receivables can strain the financial position of the retailer. Cash, which is a scare resource, is being locked up in the receivables, thus decreasing investment opportunities. Moreover there is a high risk of receivables becoming bad or unrecoverable. Stores should take preventive measures to reduce the financial burden arising due to receivables. One such measuring is Factoring.

Factoring also known as "Cash for receivables", is the conversion of accounts receivables into immediate cash by the outside purchase of its receivables at a discount by financial services companies called factors. Factoring enables retailers to receive cash for the value of accounts receivables within a short period of time. The factor will assume the responsibility of recovery of the receivables. Thus not only will retailers be relieved of the collection of the receivables, they will also not have to deal with the risk of the receivables becoming bad. Another option for dealing with the receivables is to accept third party credit cards like Visa card and Master card. By accepting such cards, retailers are completely relieved of the process of offering credit from their own resources. In India, the system of third party credit cards is more prevalent than "own card system". Retailer should also encourage cash sales through discounts on cash purchases.

Merchandise inventory

This is the most important asset from a retailer's point of view. It constitutes the major part of the total assets of any retailer. For XYZ Ltd., it constitutes nearly 20% of its total assets.

Inventory to Assets ratio = Inventory / Total Assets

For XYZ Ltd., Inventory to Assets ratio = 66,528 / 352,158 =18.8%

Inventory turnover

Inventory turnover refers to average inventory.

Inventory Turnover = Net sales / Average Inventory

(Where Average Inventory = Inventory / (1-Gross Margin)

For XYZ Ltd., Average Inventory = 66,528 / 0.61 = 109,062)

For XYZ Ltd., Inventory Turnover $= \frac{578,269}{109,062} = 5.3$ — equation 2

The inventory turnover indicates the speed at which the inventory is moving out of the stores. It is used to evaluate the efficiency of an organization in managing its investment in inventory. The inventory cycle usually consist of ordering of inventory, taking in the store, and selling to customers. The inventory turnover refers to the number of times (on an average) inventory sold in a year. If the inventory turnover is 6, it indicates that, on an average, the retailer turns over or sells his inventory every two months. For XYZ Ltd., the inventory turnover is 5.3implying that inventory is sold every two and half months (approx). Discount stores and wholesale clubs have a higher inventory turnover than department stores. This is because wholesale clubs stock the most common commodities (like groceries) at competitive prices. Such commodities sell quickly and lead to high inventory turnover. In addition the product mix is limited in wholesale clubs, thus leading to lower inventory. Department stores carry all types of goods, including specialty goods, which slow down inventory turnover. To cater to a wide range of customers, department stores have a wide product mix which makes it difficult for the retailer to have proper inventory control.

Cash and other current assets

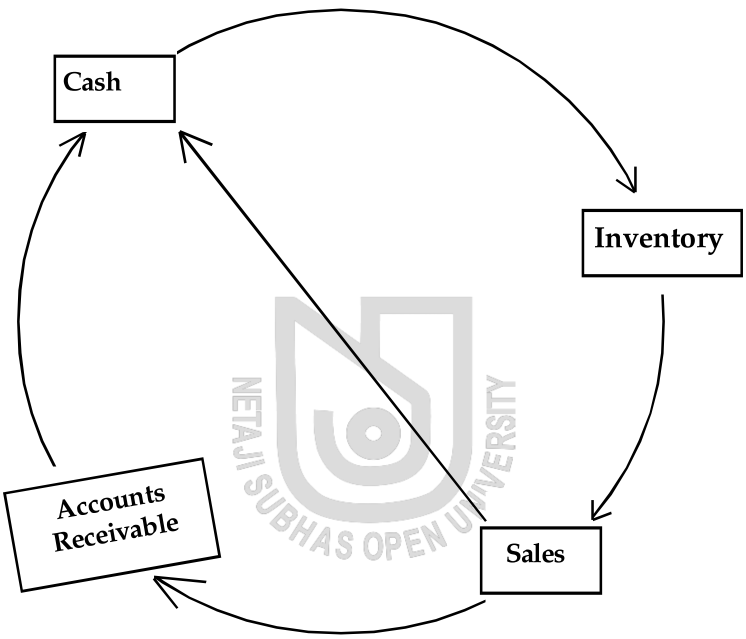
Cash includes money in hand, marketable like treasury bills, and money in bank accounts to which the retailer has ready access.

Other Current Assets consist of prepaid expenses and other miscellaneous assets. Prepaid expenses refer to expenses paid in cash and recorded as assets before they are used or consumed, e.g., insurance. The insurance premium is paid prior to the receipt of the benefit. Prepaid rent also an example of a prepaid expense.

Operating cycle

Cash invested in retail business takes various current asset forms (inventory, accounts receivables) before it is converted into liquid cash (which includes profits). This cycle of cash-inventory-sales-accounts receivables-cash is known as the operating cycle. Fig 4.4 depicts the relationship between various current assets in an operating cycle. Retailing businesses aim at making profits by selling goods and services. In this process, retailers cash for procuring various goods, which would be later sold to customers for cash or on credit. Cash received from the sales along with the cash that was collected from accounts receivables will be used to purchase the inventory. The profitability of the retailer depends on the productivity of various current assets (i.e. inventory, accounts receivables, and level to minimize the possibility of excess inventory or no stock. While accounts receivables are necessary for retailers from the marketing and customer service point of view, steps should be taken to minimize the risk of receivables becoming bad through factoring, use of third party credit cards, etc.

Fig. 4.4 : Relationship between Current Assets in an operating cycle.



Source : (ICFAICMR)

Fixed Assets

Fixed assets represent those assets, which require more than one year to be converted into cash. They include buildings, furniture and fixtures, equipment, land etc. Fixed assets will have a limited useful life. Over the years the value of these assets depreciate or reduce. This reduction is factored as depreciation while assessing the value of fixed assets.

When assessing the value of a fixed asset, its cost is spread over the useful life of the asset. The value of the fixed asset is arrived at by subtracting the depreciation from the cost of the asset. (Buildings will have useful life of 25 years whereas and equipment will have a useful life between 2-5 years.)

Asset Turnover

Asset turnover refers to the ratio of net sales to total assets.

Asset Turnover = Net sales / Total assets

For XYZ Ltd. Asset turnover 578,269 / 352,158 = 1.64—equation 3

This ratio measures how effectively managers use their assets. If the asset turnover is high, the retailer is using assets efficiently. Though retailers attach more importance to current assets than fixed assets, they should not overlook the role of investment in fixed assets. When deciding to invest in any fixed assets, they should evaluate how much sales can be generated from the proposed investment. For example, if a retailer wants to set up new fixtures in a store, he must examine how much increase in sales can be achieved through the proposed investment.

Liabilities and Owner's Equity

Liabilities refer to items that a company owes to creditors and suppliers. On the balance sheet, liabilities are generally broken down into current liabilities and long-term liabilities. Owners equity, however, includes the amount of capital the owners invested plus any profits that the retail reinvested in the firm. Let us now examine each component of liabilities and owner's equity.

Payment of these liabilities may lead to insolvency of the retailer. Some of the common current liabilities of a retailer are accounts payables, notes payable and accrued expenses.

Accounts payables

The amount owed to vendors or suppliers of merchandise is referred to as accounts payables. Vendors offer goods to retailers on a credit basis. Retailers take advantage of such offers so as to control costs. Vendors give credit for a period of time, depending on their relationship with the retailer, the financial status of the firm, the value of the consignment, and the credit history of the retailer. By using bargaining skills and developing an understanding of the market, a retailer can get goods at best terms. Since credit is generally interest free for the period the credit is given, it is cheaper than the short term loans that are provided by financial institutions. If utilized properly, the retailer can save a substantial amount in the form of interest savings. Thus accounts payable is one of the important forms of short-financing.

Notes payable

The current liabilities which a company owes to financial institutions are referred to as notes payable. It includes the principal and interest payable to lenders like banks within one year.

Accrued expenses

Accrued expenses occur when expenses are recognized before cash is paid. Accrual accounting requires expenses incurred during a period to be recorded in that period even if the cash is paid later. Assume that a company advertised during December 2003 but has not received a bill or paid for the advertisement, which cost Rs. 60, 000. The advertising costs incurred during the year 2003 must be recorded as an expense for that year, even if the payment is made in a later period. Hence, an advertising expense of Rs 60,000 is accrued on December 31, 2003. Since a payment of Rs. 60,000 must be made in the future, a liability is recognized for this amount.

Long term Liabilities

Long term Liabilities refer to obligations that will be paid after one year. They include bonds, mortgages on real estates, and long term loans.

Owner's Equity

Owner's equity represents the share of the owner's investment in the business. In accounting framework it is given by

Owner's equity = Total Assets - Total Liabilities.

Two common elements of owner's equity are

- Common Stock
- Retained Earning

Have certain benefits and rights. They have the right to vote to elect the members of the board of directors and they are entitled to a share in the profits of the company in the form of dividends.

Retained earnings

Retained earnings are a part of profits that are not paid as dividends to shareholders but are retained to reinvest in the business. The percentage of earnings that should be retained and the percentage that should be distributed to shareholders depends on the growth potential of the company. If the firm has opportunities for growth, a major portion of the earnings should be reinvested to earn high returns for the share holders. If opportunities are few or nil, it would be prudent to distribute the earnings as dividends among the shareholders.

Financial leverage

One of the important ratios which determines the extent of share of owner's investment in assets is financial leverage.

Financial Leverage = Total Assets/Owners Equity

For XYZ Ltd.Financial Leverage = 352,158 / 319,643 =1.10--equation 5

This ratio measures the extent to which a retailer is using outside finances (debt) in its capital. It indicates the total asset value in relation to the value of owner's equity. The leverage ratio of XYZ Ltd. is 1.10. This indicates that for every Rs.1.10 in total assets, the owners put up Rs. 1.00 and the remaining Rs.0.10 is put up by outsiders. The greater the ratio, the higher the level of outside financing.

Too much debt may result in the insolvency of a firm as liabilities may exceed the paying ability of the firm. A low financial leverage ratio indicates the inefficient use of alternative sources of financing by the firm.

Asset turnover and financial leverage are two performance ratios that are derived form the balance sheet of a firm. These ratios form a part of the SPM framework.

4.4 The Strategic Profit Model (SPM)

In the previous sections we examined the income statement and the balance sheet. We also studied the important performance ratios derived from these statements. As some of these ratios are interrelated, examining them in isolation can be confusing. Moreover, it is difficult to compare the performance of a retailer with that of other retailers using individual ratios because different firms employ different strategies and consequently have different operating charactersistics. The SPM combines the different performance ratios—net profit margin, asset turnover, and financial leverage to give a single comprehensive framework for easy and accurate comparison. The strategic profit model gives two important returns on investment measures, return on assets and return on net worth.

Return on assets = Profit margin x Asset Turnover

Return on Net Worth = Return on Assets x Financial Leverage

Return on Assets

Return on assets is the combination of profit management and asset management. It is given by

Return on Assets (ROA) = Net Profit Margin x Asset Turnover

$$= \frac{\text{Net Profit}}{\text{Net Sales}} \times \frac{\text{Net Sales}}{\text{Total Assets}} = \frac{\text{Net Profit}}{\text{Total Assets}}$$ using the results of eqn 1 and 3 in the above equation we get

ROA=8.38x 1.64 = 13.7% —eqn 4

The ROA is 13.7 % for XYZ Ltd. In other words, for every rupee invested in assets Rs. 0.13 returns are generated. This ratio is important for measuring the economic viability of a firm. It determines how much profit can be generated from the retailer's investment in assets. When investing in assets, a retail firm should evaluate whether the returns exceed the investment and give far greater returns to satisfy the firm's objectives.

Return on Net Worth

This is the ratio the owners of a business are more concerned about.

Return on Net Worth = Return on Assets x Financial Leverage

Or

Return on Net Worth = Profit Margin x Asset Turnover x Financial Leverage

$$=\frac{\text{Net Profit}}{\text{Net Sales}}\times\frac{\text{Net Sales}}{\text{Total Assets}}=\frac{\text{Total Assets}}{\text{Net Worth}} = \text{Net Profit/Net Worth}$$

RONW is a combination of three ratios, profit margin, asset turnover and financial leverage

From eqns 4 and 5 for XYZ Ltd. RONW = 13.7 x **1.10** = 15.07%

By measuring the return on net worth, a retailer can decide whether a strategy is worth pursuing. XYZ Ltd.'s RONW is 15.07. If XYZ Ltd. plans to

Table 4.5 : Strategic Profit Model for select Retailers in India (1999-2001)

Company	Profit Margin (Net profit/Net sales)%	Profit Turnover(Net Sales / Total Assets)	Return Assets(Net ProfitMargin x Asset Turnover)%	Financial Leverage(Total Assets / Net Worth)	Return on Net Worth (Return on Assets x Financial Leverage) %
Pantaloon Retail India Ltd	3.62	0.71	2.57	1.62	4.16
Bata India Ltd	-0.87	1.74	-1.51	2.05	-3.09
Archies Greetings & Gifts Ltd.	13.3	1.07	14.24	1.52	21.64
Titan Industries	2.19	0.87	1.92	3.51	6.9
Trent Ltd(Westside)	35.61	0.19	6.76	1.08	7.28
Raymond's	5.84	1.58	9.24	2.61	24.1

Compiled from CMIE PROWESS

open a New music store chain and the projected return on net worth is less than what the company currently earns (15.07%), the company should consider alternative investment options. Return on net worth is the combination of three ratios, profit margin, asset turnover, and financial leverage. Improving each of these ratios can have positive effect on the return on net worth. Table 4.3 shows the strategic profit model ratios of select retailers in India.

Improving Financial Performance

Now let us look at how the strategic profit model can be used as tool for assessing the performance of a retailer and how the model can be used to improve the financial performance. Generally there are three paths to improve financial performance

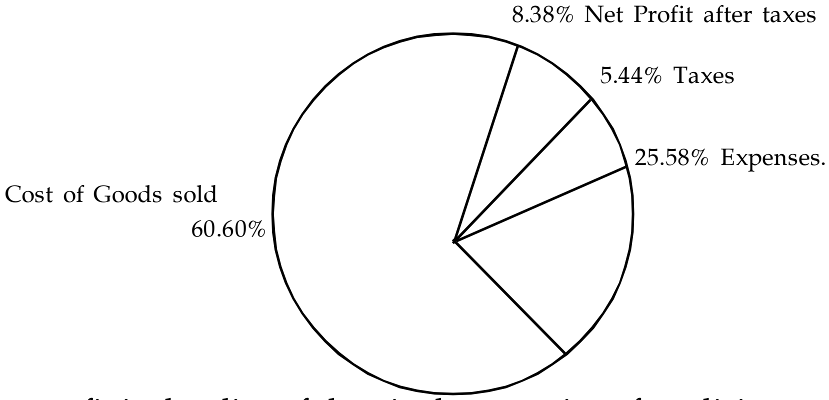
- Profit Management
- Asset Management
- Debt Management

Let us examine each of these methods in detail.

Profit management

Profit management is one of the most important components of the strategic profit model. The net profit margin is used to evaluate how well a company is controlling its costs in relation to its generation of revenues. Profit management is an essential task for all retailers. The main focus of profit management is sales productivity and expense control. Figure 4.6 provides an overview of the components that affect the profits of XYZ Ltd. The pie represents the total sales revenue of XYZ Ltd.

Fig. 4.6 : Profit Margin for XYZ Ltd.



The net profit is the slice of the pie that remains after slicing out parts of the pie for the cost of goods sold and the total expenses of XYZ Ltd. Hence, the net profit margin depends on the cost of goods and the operating expenses. In the figure, the net profit margin is 8.38%. This indicates that, on an average for every rupee of sales, Rs 0.083 net profit is earned.

The chart shows the components of profit management. Any change in the value of net sales, cost of goods sold, and expenses can bring about change in the net profit margin. The profit margin can be increased by increasing sales, and keeping expenses constant; or bringing down expenses, without changing the level of sales or by increasing sales as well as bringing down expenses.

In the Table 4.7 we see the impact of a change in sales on profits.

Table 4.7 : Impact of Sales on Profit Margin.

	Present Scenario	4% increase in sales without corresponding rise in expenses	4%increase in sales with corresponding 2%rise in expenses
Net sales	578,269	601,399	601,399
Less: Cost of Goods of Sold	350,421	350,421	350,421
Gross Margin	227,848	250,978	250,978
Less : Operating expenses	141,544	141,544	144,374
Less : Interest Expenses	6,423	6,423	6,423
Less: Total Expenses	147,967	147,967	150,797
Net Profit Before Taxes	79,881	103,011	100,180
Less : Taxes	31,438	40,586	39,471
Profit After Taxes	48,443	62,425	60,709
Net Profit Margin	8.38%	10.38%	10.09%

Table 4.8 shows the impact of a 2% reduction in costs on the profit margin, other factors remaining constant. Here, a 2% reduction in the cost of goods sold contributes to a 0.73% increase in the net profit margin. Thus, through tighter cost control, retailers can increase their profit margins.

An increase in profits can also be generated through a reduction in operating expenses. Such expenses should be brought down without tinkering with the image and overall profitability of the concerned firm. Under certain circumstances measures like lowering of wages and salaries, laying off employees, and eliminating free home delivery services may harm the image and hence the profitability of the firm. Lowering of wages and salaries, and laying-off quality employees may de-motivate employees. De-motivated and dissatisfied employees may have a negative impact on sales as well as customer relations. And if the company stops providing value added services like free home delivery, then it may not live up to customer expectations. Thus those services and expenses that have a direct impact on the customers need to be maintained, and in some areas retailers can decrease costs by exploring alternatives to improve efficiency. For example, lighting expenses can be reduced by installing the latest energy saving lighting systems without compromising on the ambiance of the stores.

Table 4.8 : Impact of Reduction of cost of goods on Profit Margin

	Present Scenario	Reduction of 2% in costs of goods sold
Net Sales	578,269	578,269
Less: cost of Goods of Sold	350,421	343,412
Gross Margin	227,848	234,856
Less: Operating Expenses	141,544	141,544
Less: Interest Expenses	6,423	6,423
Less: Total Expenses	147,967	147,967
Net Profit Before Taxes	79,881	86,889
Less: Taxes	31,438	34,234
Profit After Taxes	48,443	52,654
Net Profit Margin	8.38%	9.11%

The table 4.9 show the impact of a reduction in expenses on the profit margin. A 3% reduction in expenses results in a 0.44% increase in the profit margin. If there is an increase in sales as well as a decrease in expenses, a considerable increase in profits occurs. The fourth column in Table 4.9 shows this change. Profit management is thus an important tool for improving the profitability of a retailing firm.

Asset Management

A retailer can improve financial performance through effective utilization of assets. Asset management is a key component of the strategic profit model. A common measure for assessing the asset management is the asset turnover ratio. It indicates the sales generated in relation to the amount invested in assets.

Table 4.9 : Impact of Reduction in Expenses on the Profit Margins.

	Present Scenario	3% decreases in expenses	3% reduction in Expenses coupled with 4% increase in sales
Net Sales	578,269	578,269	601,399
Less: cost of Goods Sold	350,421	350,421	364,437
Gross Margin	227,848	227,848	236,961
Less: Operating Expenses	141,544	137,297	137,297
Less: Interest Expenses	6,423	6,423	6,423
Less: Total Expenses	147,967	143,720	143,720
Net Profit Before Taxes	79,881	84,127	93,241
Less: Taxes	31,438	33,146	36,737
Profit After Taxes	48,443	50,981	56,504
Net Profit Margin	8.38%	8.82%	9.4%

To achieve better inventory performance, retailer must

- Buy in proper quantities
- Tie up with fewer suppliers for easier management
- Invest in inventory control systems which can give accurate information, resulting in better monitoring of inventory
- remove slow moving items from the product mix to reduce inventory carrying costs.

Cash is an important component of current assets. Firm must have optimal cash in hand to meet emergency and short term needs. Too much cash in hand can make firms forego opportunities for investment in merchandise, thus hampering their growth prospects.

Accounts receivables must be regularly reviewed to ensure that they are not going bad. While providing credit is important from point of view of customer satisfaction, retailers must ensure that it does not have a negative effect on their asset position.

Debt Management

Return on assets is a good measure of how effectively retailer is using the firm's resources. A more effective measure of performance is return on net worth or owners equity. The leverage ratio is the link between return on assets and return on net worth. It explains the owner's contribution in the firm's investment. In other words financial leverage ratio reflects the extent to which a firm has financed its assets with debt. It is computed as follows: Leverage ratio = Total Assets / Net Worth

The leverage ratio for XYZ Ltd., is 1.10. Thus we can infer that for every Rs.1.10 worth investment in assets, owner's contribution is Rs.l and debt is Rs.0.10. Increase in debt increases the return on net worth of the retailer. The reason is owners need to invest less funds from their resources and can utilize more outside funds and thus owners can get more returns with less investment. Before deciding on financial leverage, the retailer should examine some aspects. He should evaluate the financial position of the firm and determine whether the debt option will increase the RONW. If yes, the retailer must determine the level of debt the firm can afford. High debt may burden the balance sheet and increase the risk of financial instability.

Another aspect is the interest rate scenario. If the interest rates charged by lenders are higher than the return to the owners, additional debt will reduce the return on net worth. Under such circumstances outside financing is not a viable option. There are three types of financing: short-term financing, intermediate, and long-term. Short term financing refers to funds that retailers can borrow for less than one year. The retailer uses short-term loans for purchasing merchandise for the next festival season or repaying dues to suppliers etc. Intermediate loans are usually offered for a period of more than one year but less than five years. These funds are used for refurbishing stores, buying new equipment and fixtures etc. Long term loans are generally secured by retailers for periods longer than five years. These loans are used by retailers to buy fixed assets like buildings and land. Changing market conditions forced Barista (India's largest coffee bar chain) to focus on financial numbers. It is now looking at improving financial performance. (See Exhibit 4.0)

Exhibit : 4.0

Changing Market Conditions Forces Barista to focus on Financial Numbers

Financial numbers are important for the survival of a firm. That's what India's largest coffee bar chain Barista has realized. Barista is India's largest food service retailer. It has 13 million customers and clocked Rs 65 crores of sales in 2002, but haven't delivered profits.

Now in the changing market scenario it is looking at improving financial performance. The reasons for this change are many. Till now it focused on penetrating into market and creating a brand and gave less importance to profits. It tried to provide customers with quality coffee, high customer sendee and good in-store ambiance. With 130 outlets all over the country Barista has achieved a critical mass. Now it can think of improving financial performance. Tata group company Tata Tea is the key stake holder in the venture (34%). Tatas are putting pressure on the Barista management to focus on better return on Investment. In addition Barista must become financially strong to fight the competition. Cafe Coffee Day is stepping its activities and it claims that it broke even in December 2002 StarBucks major global coffee bar chain is planning to enter the Indian market.

The Company las taken man}' steps to achieve higher return on investment: reducing capital expenditure when setting up new stores, controlling costs; and improving sales. First, it plans to reduce capital investment. Till now, the outlets have been fully funded and managed by Barista. As a result cash is blocked in fixed assets like real estate, furniture and fixtures. The company is planning to take the franchising route to reduce capital expenditure. The franchises will bear all the expenditure of setting and operating the stores, and in return they will get a share of the revenues earned. Since Barista will no longer need to invest in assets return on assets will improve. Another area Barista is focusing on is cost control. Barista has cut the vender base from 400 to 200. This has resulted in efficient inventory management. As a result, inventory come down from 20 days to 3.5 days. Barista is also focussing on reducing transportation costs. Freight costs have been bought down by 60%. These savings directly add to the company's bottomline.

The company is also focusing on improving sales. This was achieved by persuading customers to try expensive blends of coffee. As a result, the average bill size has increased by 30%. In addition sales per sqft hue improved from Rs 525 to Rs 650. Changing market conditions have forced Barista to reexamine its market strategy and align it with its financial strategy to make the company profitable.

Adapted from: M. Anand and Mitu Jayashankar, "Enter the Bean Counters," Business World, 20th January, 2003 page 20.

4.5 Setting Performance Objectives

Setting performance objectives is the first and most important part of any strategy planning process. A clear set objectives will help the organization focus on the changes that need to be made to achieve those objectives. Some guidelines for setting objectives are given below:

- Objectives should be clear and specific
- Objectives should be measurable
- Objectives should be time bound

For example, financial objectives can be:

- "to achieve sales growth of 35% for the year ending 2009"
- "To generate profit of 20% on the investment of Rs. 50 crores for the year 2008-2009"

Setting objectives for a retail firm requires a combination of top-down and bottom-up approaches to planning.

The top-down approach involves setting of overall goals by top management. These goals are then narrowed down to store levels.

In top-down planning, top managers set the overall strategy on the basis of their analysis of changes in external environmental factors like economy, competition and consumer trends. On the basis of the overall strategy the overall organizational objectives are broken down into specific objectives at various merchandise category levels and store levels.

The objectives set for the merchandise category level determine the width of category, depth of the assortment, the product availability, the level of customer service, the floor area, and the location within the store. Once the board objectives are set for a merchandise category, the merchandise manager makes decisions regarding each item of merchandise within a category. These objectives are further broken down to set goals for category managers and buyers down the hierarchy.

The store level objectives are used to set the performance objectives of the regional store managers. The regional store managers in consultation with the store managers set performance goals for each individual store.

Thus, in the top-down approach, organizational objectives are broken down until performance goals are set for the department level.

The bottom-up approach complements the top-down approach. In the bottom-up planning approach, lower level managers propose the objectives.

These estimates are passes onto higher level. They flow up to the top management. Based on these estimates the overall objectives are set by the top management.

However a good strategy may be, the organizational will not get the desired results if the employees who have to implement those strategies are not motivated and are not accountable for their actions.

Every Manager of each level of hierarchy should be made accountable for the objectives that are set for that level.

4.6 Performance Measures

Performance measures are used to measure the performance and evaluate the progress of strategic plans. Since numerous factors influence the performance of a firm, no single measure can give a complete picture of its performance. Multiple measures should therefore be used to assess the performance. The selection of measures depends on the level at which performance is being measured and the resources that are controlled on that level.

Table 4.11 : Examples of Performances Measures used by Retailers.

Out put	Input	Productivity
Net sales	Inventory level	Return on assets
Net profits	Cost of goods sold	Return on net worth
Gross margin	Expenses	Asset turnover
		Inventory turnover
		Gross margin return on investment
		Gross margin return on space
		Gross margin return on labour
		Average bill size
		Conversion ratio

Types of Performance Measures

Retailers use a host of performance indicators to measure growth, efficiency, etc. The most common measures are input, output, and productivity measures.

Input measures identify the amount of resources needed to provide a product or service. For retailers, inventory, and cost of goods sold are examples for input measures assets the output achieved in relation to the inputs used. Return on assets and return on net worth are the key productivity measures that are used by retail businesses. Table 4.11 shows the various input, output and productivity measures used by retailers. Some productivity measures, like the average bill size, and gross margin ratios are unique to the retail industry.

4.7 Exercise

1. Writs short notes on :
   (a) Debt Management
   (b) Profit Management
   (c) Asset Management
2. Discuss critically the utility of the Strategic Profit model.

Unit 5 Retail Commnication Strategy

Structure

5.0 Introduction

A very important step in the retail management decision-making process is developing and implementing a communication program to build appealing brand images, attract customers to stores and Internet sites, and encourage them to buy merchandise. The communication program informs customers about the retailer as well as the merchandise and services it offers and plays a role in developing repeat visits and customer loyalty.

Communication programs can have both long-term and short-term effects on a retailer's business. From a long-term perspective, communications-programs can be used to create and maintain a strong, differentiated image of the retailer and its store brands. This image develops customer loyalty and creates a strategic advantage.

On the other hand, retailers frequently use communication programs to realize the short-term objective of increasing sales during a specified time period. For example, retailers often have sales during which some or all merchandise is priced at a discount for a short time. Grocery stores usually place weekly advertisements with coupons that can be used to save money on purchases made during the week.

In the first part of this unit, we will discuss the role of communications programs in building brand images. The second part of the unit will focus on developing and implementing communication programs.

5.1 Using Communication Programs

A brand is a distinguishing name or symbol, such as a logo, that identifies the products or services offered by a seller and differentiates those products and services from the offerings of competitors. In a retailing context, the name of the retailer is a brand that indicates to consumers the type of merchandise and services offered by the retailer. Some retailers develop private-label or store brands that are exclusively sold through their channels, In some cases, this private-label merchandise bears the retailer's name, such as Walgreens aspirins and Victoria's Secret lingerie. In other cases, special brand names are used, such as Federated Department Stores' I.N.C apparel and JCPenney's Arizona jeans.

Value of Brand image

Brands provide value to both customers and retailers. Brands convey information to consumers about the nature of the shopping experience—the retailer's mix—they will encounter when patronizing a retailer. They also affect the customers' confidence in decisions made to buy merchandise from a retailer. Finally, brands can enhance the customers' satisfaction with the merchandise and services they buy. Consumers feel different when wearing jewelry bought from Tiffany than from Zales or lingerie from Victoria's Secret than from Kmart.

The value that brand image offers retailers is referred to as **brand equity.** Strong brand names can affect the customer's decision-making process, motivate repeat visits and purchases, and build loyalty. In addition, strong brand names enable retailers to charge higher prices and lower their marketing costs.

Customer loyalty to brands arises from heightened awareness of the brand and the emotional ties toward it. For example, Retailers need to be in a customer's consideration set. Some brands such as Wal-Mart and Sears are so well known by consumers that they are typically in a consumer's consideration set. In addition, customers identify and have strong emotional relationships with some brands. For example, Target has an image of offering fashionable merchandise at bargain prices. As one retail consultant says, "Going to Target is a cool experience, and everybody now considers it cool to save money. On the other hand, is it cool to save at Kmart, at Wal-Mart? I don't think so. You walk into Wal-Mart, and there are these big boxes of corn flakes. How ugly! How totally uncool!" Customers affectionately use the faux French pronunciation of "Tar-zhay'' when referring to Target. High brand awareness and strong emotional connnections reduce the incentive of customers to switch to competing retailers.

A strong brand image enables retailers to increase their margins. When retailers have high customer loyalty, they can engage in premium pricing and reduce their reliance on price promotions to attract customers. Brands with weaker images are forced to offer low prices and frequent sales to maintain their market share.

Finally, retailers with strong brand names can leverage their brand to successfully introduce new retail concepts with only a limited amount of marketing effort. For example, The Gap has efficiently extended its brand to GapKids and babyGap and The Limited extended its brand name to Limited Too.

A strong brand name creates a strategic advantage that is very difficult for competitors to duplicate. Just think how hard it would be for Kmart to change its image to that of Wal-Mart or Target, the more successful discount store chains.

Building Brand Equity : The activities that a retailer needs to undertake to build the brand equity for its firm or its private label merchandise are (1) create a high level of brand awareness, (2) develop favorable associations with the brand name, and (3) consistently reinforce the images of the brand.

Brand Awareness : Brand awareness is the ability of a potential customer to recognize or recall that the brand name is a type of retailer or product/ service. Thus, brand awareness is the strength of the link between the brand name and type of merchandise or service in the minds of customers. There is a range of awareness from aided recall to top-of-mind awareness. **Aided recall** is when consumers indicate they know the brand when the name is presented to them. **Top-of-mind awareness,** the highest level of awareness, arises when consumers mention a brand name first when they are asked about the type of retailer, a merchandise category, or a type of service. For example, Best Buy has top-of-mind awareness if a consumer responds “Best Buy” when asked about retailers that sell consumer electronics. High top-of-mind awareness means that a retailer typically will be in the consideration set when customers decide to shop for a type of product or service.

Retailers build top-of-mind awareness by having memorable names; repeatedly exposing their name to customers through advertising, locations, and sponsorships; and using memorable symbols. Some brand names are easy to remember. For example, the name Home Depot, because “Home” is in its brand name, probably is more memorable and closely associated with home improvements than the name Lowe’s.

Starbucks does very little advertising but has high awareness because of the large number of stores it has. Customers walk and drive by the stores to and from work. The sheer number of stores provides substantial exposure to its brand.

Symbols involve visual images that typically are more easily recalled than words or phrases and thus are useful for building brand awareness. For example, the image of Colonel Sanders and the Golden Arches enhances the ability of customers to recall the names KFC and McDonald’s.

Sponsorships of well-publicized events can provide considerable exposure to a retailer’s name and increase awareness. For example, watching the Macy’s Thanksgiving Parade in New York City has become a holiday tradition. The Macy’s brand name is now exposed to tens of millions of television viewers for several hours. In addition, newspaper articles are devoted to previewing the parade and describing it afterward.

Associations : Building awareness is the first step in developing brand equity, but the value of the brand is largely based on the associations that customers make with the brand name. **Brand associations** are anything linked to or connected with the brand name in a consumer’s memory. For example, some of the associations that consumers might have with McDonald’s are golden arches, fast food, clean stores, hamburgers, French fries, Big Mac, and Ronald McDonald. In the case of McDonald’s, these links are so strong that when a consumer thinks of fast food, hamburgers, or French fries, they also think of McDonald’s. These strong associations influence consumer buying behavior. For example, when consumers think about camping, REI might immediately come to mind, stimulating a visit to an REI store or the REI website.

Some common associations that retailers develop with their brand name are

1. *Merchandise category.* The most common association is to link the retailer to a category of merchandise. For example, Office Depot would like to have consumers associate its name with office supplies. Then when a need for office supplies arises, consumers immediately think of Office Depot.
2. *Price/quality.* Some retailers, such as Neiman Marcus, want to be associated with offering high prices and unique, high fashion merchandise. Other retailers, such as Wal-Mart, want associations with offering low prices and food value.
3. *Specific attribute or benefit.* A retailer can link its stores to attributes such as convenience (7-Eleven) or service (Nordstrom).
4. *Lifestyle or activity.* Some retailers associate their name with a specific lifestyle or activfty. For example, The Nature Company, a retailer offering books and equipment to study nature, is linked to a lifestyle of interacting with the environment. Electronic Boutique is associated with home use of computer game software.

The brand image is a set of associations that are usually organized around some meaningful themes. Thus, the associations that a consumer might have about Mc-Donald, might be organized into groups such as kids, service, and type of food.

Consistent Reinforcement : The retailer's brand image is developed and maintained through the retailer's communication program as well as other elements of the communication mix, such as merchandise assortment and pricing, the design of its stores and website, and the customer service it offers. To develop a strong set of associations and a clearly defined brand image, retailers need to be consistent in portraying the same message to customers over time and across all of the elements of its retail mix.

Rather than creating unique communication programs for sales associates, retailers need to develop an **integrated marketing communication program**—a program that integrates all of the communication elements to deliver a comprehensive, consistent message. Without this coordination, the communication methods might work at cross-purposes. For example, the retailer's TV advertising campaign might attempt to build an image of exceptional customer service, bit the firm's sales promotions might all emphasize low prices. If communication methods aren't used consistently, customers may become confused about the retailer's image and therefore may not patronize the store.

5.2 Methods of Communicating with Customers

Exhibit 5.1

	Impersonal	
Paid		Personal selling E-mail
Unpaid	Publicity	Word of Mouth

5.1 Exhibit classifies Communication methods used by retailers. The classification is based on whether the methods are impersonal or personal and paid or unpaid.

Paid Impersonal Communications

Advertising, sales promotions, store atmosphere, and websites are examples of paid impersonal communications.

Advertising : Advertising is a form of paid communication to customers using impersonal mass media such as newspapers, TV, radio, direct mail, and the Internet.

Sales Promotions : Sales promotions offer extra value and incentives to customers to visit a store or purchase merchandise during a specific period of time. For example, Winkler's Diamonds, Kansas City, Kansas, has a "repair promotion" twice a year. It sends out mailers to its customers offering free jewelry checkups and special discounts on repairs. "Once people are in the store, we show them things they haven't seen before or that complement something they have," says a spokesperson. "Many come in for a repair and walk out with a diamond bracelet." The most common sales promotion is a sale. Other sales promotions involve special events, in-store demonstrations, coupons, and contests.

Some retailers use in-store. demonstrations and offer free samples of merchandise to build excitement in the store and stimulate purchases. In department stores, fashion shows and cooking demonstrations draw customers to the store and encourage impulse purchases.

Contests are promotional games of chance. They differ from price-off sales in that (1) only a few customers receive rewards and (2) winners are determined by luck. For example, fast-food restaurants frequently have contests associated with major films (such as *Men in Black II)* or sports events (such as the Super Bowl).

Coupons offer a discount on the price of specific items when they're purchased at a store. Coupons are the most common promotional tool used by supermarkets. Retailers distribute them in their newspaper ads and in direct mail programs. For example, Publix, a Florida-based supermarket chain, targets promotions at affluent customers using a direct-mail piece that includes recipes for a gourmet meal with coupons to purchase the products needed to prepare it.

Manufacturers also distribute coupons for their products that can be used at retailer's that store the products. To attract customers, some supermarkets accept coupon distributed by competing retailors. Another technique is for a retailer to offer double or triple the value of coupons distributed by manufacturers.

Although sales promotion are effective at generating short-term interest among customers, they aren't very useful for building long-term loyalty. Customers who participace in the promotion might learn more about a store and return to it, but typically customers attracted by sales promotions are interested in the promoted merchancise, not the retailer. Unfortunately, when a specific promotion is effective for a retailer, competing retailers learn about it quickly and offer the same promotion, which prevents the innovating retailer from gaining any long term advantage.

Store Atmosphere : The retail store itself provides paid, impersonal communications to its customers. Store atmosphere is the combination of the store's physical characteristics, such as architecture, layout, signs and displays, colours, lighting, temperature, sounds, and smells, which together create an image in the customer's mind. The atmosphere communicates information about the store's service, its pricing, and the fashionability of its merchandise.

Website: Finally, retailers are increasing their emphasis on communicating with customers through their websites. Retailors use their website to build their brand image; inform customers of store locations, special events, and the availability of merchandise in local stores; and sell merchandise and servies. For example in addition to selling merchandise, Office Depot's website has a business center with forms and worksheets used by businesses to comply with the Ocupational Safety and Health Act (OSHA) requirements, check job applicant record, estimate cash flow, and develop a sexual harassment policy; "how-to" tutorials for runing a business; and local and national business news. By providing this information Website, Office Depot reinforces its image as the essential source of products, service, and information for small businesses.

Paid Personal Communications

Retail salespeople are the primary vehicle for provding paid person communications to customers. Personal selling is a communication process in which salespeople assist customers in satisfying their needs through face-to-face exchanges of information.

E-mail is another paid personal communication vehicle that involves sending messages over the Internet. Retailers use e-mail to inform customers of new merchandise, confirm the receipt of an order indicate when an order has been shipped. Some retailers send the same message to all of their customers; but retailers can also send a personalised message to each of their customers by using the targeting capabilities of the Internet.

Unpaid impersonal Communications

The primary method for generating unpaid impersonal communication is publicity. Publicity is communication through significant unpaid presentations about the retailer, usually a news story, in impersonal media. Examples of publicity are the newspaper and TV coverage of Home Depot's support of the Olympic Job Opportunities Program that provides part-time jobs for athletes while they train for the Olympics. Retailing View 5.2 describes how Neiman Mircus creates a newsworthy event-by offering unusual gifts in its annual Christmas catalog and builds its image of having unique merchandise.

5.2 Retailing View : The Ultimate Gifts

The Neiman Marcus Christmas catalog is perhaps the nation's best-known retail catalog, its reputation is largely due to its annual tradition of ultraextravagant his and hers gifts. The Christmas catalog was first distributed in 1915 as a Christmas card inviting Neiman Marcus customers to visit the store during the holiday season. In the late 50s, customers were asking Neiman Marcus about unique gifts merchandise not avilable in the store or from other catalogs. The first unique gift was a pair of vicuna. Coats offered in 1951. In 1959, the gift a black angus steer, delivered on the hoof or in steaks, generated a lot of publicity'and elevated the catalog to national, prominence. The most expensive gift was a set of his and hers diamonds priced at $2 million. Most of these gifts, are actually sold. A highly publicized chocolate Monopoly set was purchased by Christie Hefner, president of Playboy Enterprises, for her father, Hugh Hefner, founder of Playboy magazine.

The 2001 Christmas catalog featured the following gifts :

1. A replication of your home in gingerbread by Eleni's Cookies of New York City.
2. Women can be a Radio City Rockette for the day, taking part in dance class a costume and a walk-on role during the radio City Christmas.
3. Time-travel trips wher a couple "travel" back to romantic eras of 1775, 1815, or 1907, dressing the part, reenacting historic moments, and sampling the cuisine in their residence, an English castle. The male that stays in character best will officially and legally, earn the tide of "Lordship," which can later be passed on to an eldest male heir. Price $120,000.
4. A leather-dad luxury helicopter. Price, $ 6,700,000

Sources : Jennifer Barrs. "The Sky's The Limit," *Tampo Tribune*, December 3, 2001, p. 1 and Mark Albright, "Peddling Prestige," *St Petersburg limes*, August 27, 2001, p. 8E.

Most communications are directed toward potential customers. Publicity, however, is often used to communicate with employees and investors. Favorable news stories generated by publicity can build employee morale and help improve employee performance. Much of the communications to employees is done through internal newsletters, magazines, bulletin board notices, handbooks, and inserts into pay envelopes. However, news about the retailer published in newspapers, or broadcast over TV and radio can have a greater impact on employees than internally distributed information. Just like customers, employees place, more credibility on reformation provided by news-media than on information generated by the retailer. Similarly, stockholders, the financial community, vendors, and government agencies are influenced by publicity generated by retailers.

Unpaid Personal Communications

Finally, retailers communicate with their customers at no cost through word of mouth, communication between people about a retailer. For example retailers attempt to encourage favorable word-of-month communication by establishing teen boards composed of high school student leaders. Board members are encouraged to tell their friends about the retailer and its merchandise. On the other hand, unfavorable word-of-mouth commimication can seriously affect store performance.

Strengths and Weaknesses of Comnuimcation Methods

Exhibit 5.3 compares communication methods in terms of control, flexibility, credibiaty, and cost.

Control. Retailers have more control when using paid versus unpaid methods. When using advertising, sales promotions, website, e-mail, and store atmosphere, retailers determine the message's content, and for advertising, e-mail, and sales promotions, they control the time of its delivery. Since each salesperson can deliver different messages, retailers have less control over personal selling.

Exhibit 5.3: Comparison of Communication Methods

	Control	Flexibility	Credibility	Cost
Paid Impersonal				
Mass-media advertising	High	Lowest	Lowest	Modest
Direct Mail	Highest	High	Low	Modest
Sales promotion	High	Low	N/A	Modest
Store atmosphere	High	Low	N/A	Modest
Website	High	Modest	Low	Modest
Paid personal				
Sales people	Modest	Highest	Low	Highest
E-mail	Highest	High	Low	Low
Unpaid Impersonal				
Pubilicity	Low	Low	High	Low
Unpaid personal				
Word of month	Low	Low	High	Lowest

5.3 Advertising

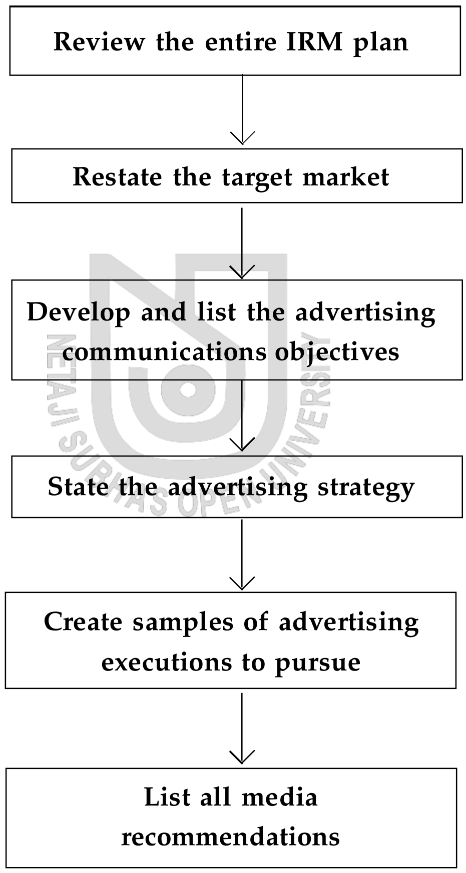
Advertising is "a form of either mass communication or direct-to-consumer communication that is nonpersonal and is paid for by various business firms, nonprofit organizations, and individuals who are in some way identified in the advertising message and who hope to inform or persuade members of a particular audience." The retailer generally uses advertising to remind, inform, or persuade the targeted market to act. A retailer also might use advertising to create an overall retail image (information and persuasion for the consumer).

Whatever the reason for using advertising, the key to effective advertising is ensuring that a lot of people are reached in a relatively short period of time. Per-product advertising is relatively inexpensive; in contrast, the cost for an overall advertising program can be quite high. Advertising allows a business to communicate with a large audience through various media such as television, radio, newspapers, billboards, magazines, the Internet, and so on.

Author Lisa Fortini-Campbell compares successful advertising to hitting the "sweet spot." In sports, the sweet spot is the special place on a baseball, tennis racket, or other piece of equipment that makes the ball travel faster with less effort. Advertising's sweet spot is the place in the consumer's mind where a connection is made between consumer insight and brand insight.

When assessing what type of advertising to undertake, the retailer creates an advertising plan. This plan should give direction to IMC employees and should be integrated into all other functions as well, so that everyone understands the purpose of the advertising.
Establishing an advertising plan includes six major steps.

Fig 5.4: Developing an advertising campaign



1. Review the IRM plan.
2. Restate the target market, taking care to include information that will help develop the best advertising plan. Data that are irrelevant should be ignored.
3. Develop and list the advertising communications objectives. Included within this step should be the key fact, the marketing problem, and the communications objectives. Like all objectives, the advertising objectives

must be realistic, measurable, specific, cost effective, and timely. Each objective should be worded to allow for a specific outcome (and only one outcome).

4. State the advertising strategy. The strategy should contain information about the target markets and audiences, the principal competition, the consumer promise, and the reason that the consumer should purchase from the retailer. In other words, the advertising presents the rationale for shopping at a particular retail outlet. Advertising agencies usually create *copy platforms,* or creative strategies, that speak to all of these issues.
5. Develop samples of creative executions that will be pursued. These examples may be in the form of sample print layouts, television storyboards, radio scripts, or other samples of the creative work.
6. List all media recommendations. In this step, all the available media should be assessed to choose the best methods for communicating to targeted audiences. The media recommendations should include the key media problem and the objectives to be achieved. Media objectives are usually expressed in terms of reach, frequency, continuity, geographic weighting, costs per thousand exposures (CPM), and **gross rating points** (GRPs).

Each time an advertising choice is recommended, management or the readers of the advertising plan should be given a rationale for that choice. This makes it easier for managers to see at a glance why various methods, objectives, platforms, and so on were developed.

All advertising should be dynamic, strategic, based on consumer needs and wants, creative, integrated, persuasive, and informative. There are short-term and long-term results from advertising. Short-term results include increased sales, brand awareness, and traffic. Long-term results include increases in market share, customer loyalty, and brand equity.

Each retailer has specific advertising needs. In addition, each retailer has certain times or periods that are more effective for its advertising programs.

TABLE 5.5

Those Strange Media Terms

- **Reach** refers to the percentage of a target audience that is exposed to an advertising message at least one time during 3rd advertising campaign. Generally, reach is calculated based on a four-week period. Various advertising research companies generate reach figures. For example, Nielsen Media Research Company researches how many people watch television shows during different times of the day. The rating is simply a statement of the reach of that program.
- **Frequency** refers to the number of times the target audience is exposed to an advertising message over a particular time period (usually a four-week period).
- **Gross rating points (GRPs)** are a measurement advertisers use to integrate the concepts of reach and frequency. GRPs are calculated by multiplying the advertisement's reach by the frequency of the ad:
  GRPs = Reach (r) x Frequency (f)

Example: If a retailer places three advertisements on a television show that has a Nielsen rating of 30, its GRPs are calculated as follows: 30 (reach) x 3 (frequency) = 90 GRPs

For example, Wednesdays and Thursdays are good times for supermarkets to advertise their products. Shoppers look at the ads on those days and begin writing shopping lists for the weekend trip to the supermarket. They also clip coupons and note any special sales occurring over the advertised period. Large department stores usually begin advertising back-to-school products during the end of July and early August rather than spending the bulk of advertising dollars on weekly ads. Because advertising budgets are fixed, retailers must make sure they get the most reach and frequency out of their budgets (for an explanation of *reach* and *frequency,* see Table 5.5). When using advertising, retailers have a choice of many media. The most popular medium used by retailers is newspapers, which provide geographic and demographic coverage of the retailer's marketplace. In the fall of 2003, Gap Inc. chose newspapers, magazines, and television to unveil its pop-star spokesperson, Madonna.

5.4 Sales Promotions

Tactical executions can also take the form of sales promotions. **Sales promotions** are used to complement the other IMC tactical areas. The overriding purpose of a sales promotion is to stimulate customer purchases with various nonrecurring sales efforts. In a study conducted by the department of integrated marketing communications at Northwestern University, it was found that promotion marketing results in significant contributions to the corporate bottom line.

Although initially used to stimulate short-term sales, sales promotions today play a much bigger role in the IMC process. They can be used to tie in a branding strategy with a product in the retail store. They can be used to generate customer databases for use with site location planning or with direct-marketing campaigns.

Consumers can benefit from sales promotions, as well. These benefits include contributing to shopping enjoyment, increased satisfaction with the retail experience, and monetary savings.

An example of a successful sales promotion is the Walt Disney Company-Hallmark partnership. The partnership was launched to the public in 2001 when the two companies shared title billing as hosts of a prime-time television show on skating. The promotion included **a** contest in which the winner and twenty-five friends got to go to Disney World. There was also a "watch-and-win" promotion on the Disney Channel.

When planned properly, sales promotions can stimulate both short-term sales and long-term demand. Table 5.6 lists the most common types of sales promotions.

The most popular form of sales promotion among retailers in general is **point-of-purchase (POP)** communications (also called *point-of purchase advertising*).

Table 5.6

The Most Common Types Of Sales Promotions

- Trade shows
- Business cards
- Contests and sweepstakes
- Trade allowances
- Vendor support programs (including displays and shippers)
- Training programs supplied to customers
- Specialty advertising (pens, pencils, caps, jackets, shirts, etc.)
- Cooperative advertising
- Sampling
- Point-of-purchase (POP) communications
- In-pack or on-pack coupons
- Premiums
- Direct-mail coupons (or other incentives)
- Price-off promotions
- BOGOs (buy one, get one free)
- Tie-in promotions, including licensing
- Warranties and guarantees

Point-Of-Purchase Advertising International (POPAI) is a trade association devoted to the execution of POP communications. POPAI created a trade publication called *Marketing's Powerful Weapon: Point-Of-Pitrchase Advertising* as a guide for the retailer in the development of effective POP communications.

5.5 Direct Marketing

Many types of retailers, including e-tailers, use direct marketing to reach customers. Through **direct marketing,** retailers use one or more advertising media to generate immediate action from consumers (*i.e.,* the purchase of products and services). The idea behind direct marketing is to solicit from customers an order or a request for additional information about the store or products being sold, or to increase traffic to the retailer's place of business (including online sites). Referred to as "customized persuasion," direct marketing attempts to create immediate sales. Frequently, direct marketing is integrated into the other IMC tactical executions, especially advertising.

Direct-response advertising, direct-mail advertising, membership programs, and telemarketing are examples of direct marketing. Direct marketing can be used to reward frequent customers through loyalty programs that provide incentives for shopping at a particular retailer. It is estimated that half of all Americans belong to at least one customer reward program.

The use of direct mail is growing due to recent limitations imposed on telemarketing. Tie-ins with sales promotion activities, such as coupons, have increased the effectiveness of direct mail. Consumers are often more willing to open direct-mail pieces that provide additional value, such as coupons, than those that don't. In addition, many brick-and-mortar retailers have nonstore divisions that specialize in direct mail, such as catalog retailers. These divisions focus on the use of mail to get their product offerings into consumers' hands.

Like the other tactical areas, direct marketing requires a plan. Because of the nature of direct marketing, the plan must show how it integrates with the other IMC variables. For the most part, the objectives behind direct marketing include customer retention, product trial, brand switching, increased sales, or sales through direct response (as in catalog sales). Database marketing is a form of direct marketing, although it is also used to create nondirect sales.

Blunders or Best Practices?

McDonald's IMC Blunders

In 1997, after six consecutive quarters of declining domestic same-store sales. McDonald's needed to jump-start the business. Thus, the Campaign 55 promotion was launched. Named for the year the company was founded, Campaign 55 featured 55-cent rotating sandwich offerings for breakfast, lunch, and dinner.

Several mistakes led McDonald's to cancel the campaign after six weeks. First, the campaign was . introduced by a full-page story in the *Wall Street Journal* before franchisees had voted on the plan. Second, some franchisees raised prices on fries and drinks to maintain margins lost by lowering sandwich prices. When consumers found out about this, many thought the company had misled them. Third, the corporation wanted franchisees to guarantee orders would be delivered within 55 seconds or the customer would get a coupon for a free sandwich.

Franchisees rejected this plan. In general, the promotion was confusing to consumers and was not supported by all franchisees.

Other IMC blunders have included failed product introductions such as the Arch Deluxe, pizza, and the first Beanie Baby promotion, in which the company greatly underestimated demand. McDonald's has learned a great deal from its blunders. In 2002, McDonald's introduced a.new discount campaign touting a Dollar Menu in which all items cost $1 or less. So far, this promotion has been well received by the public and by franchisees.

Sources: Richard Gibson, 'With Egg on **Its** Face, McDonald's Cuts the 55-Cent Specials to Breakfast Only," *Wall Street Journal,* June 4, 1997 p. B7; Louise Kramer, "More Nimble McDonald's Is Getting Back on Track," *Advertising Age,* January 18, 1999,p. 6; Jim , Kirk, "McDonald's Discount Menu Hits West Coast,' *Chicago Tribune,* North Sports Final Edition, January 4, 2002, p. 3.

5.6 Cybermarketing And E-tailing

Many people think all business conducted online is cybermarketing. However, cybermarketing also includes any form of communication that is undertaken in cyberspace. Such communications certainly include those transmitted via the Internet, but other sources are used as well, such as videos, DVDs, CDs, e-mail marketing, and electronic data interchange (EDI). The IMC plan should include a rationale for the method(s) chosen. For retailers, the most common tactics in this method of communication are the establishment of e-tail outlets and the dissemination of product/store/customer information via cyberspace.

There is some overlap between cybermarketing and the other areas of IMC. Certainly advertising and sales promotions can be executed within this venue. Many argue that the sales functions can also be accomplished using cybermarketing. Like the other areas of IMC, cybermarketing requires developing a comprehensive plan. The plan should integrate this format with the retailer's other methods of communication.

Keep in mind that cybermarketing and e-tailing are two different concepts. Although the e-tailing venue is cyberspace, it deals primarily with the sale of products. Cybermarketing is much broader in that it includes advertising, information/communication, logistics, inventory, and other activities as well as e-tailing. When developing the IMC mix, the question to answer is "Does this method communicate to our customers in an effective and integrated manner ?"

5.7 Issues in the use and explanation of technology

We have seen, electronic technology can be used for a number of retailing functions. Therefore, it is best to deal with the use of these technologies from a functional rather than a general perspective. Certainly the Internet can be used as a channel of distribution, but that function is entirely different from using the Internet as a marketing communications tool. Thus, if the Internet is used as both a channel of distribution and a means of communication, the purpose for each function should be made clear in planning documents. Uses of electronic technologies are expanding rapidly; new applications of these powerful tools are found every day. IMC specialists focus on technology's power to communicate.

5.8 Personal Selling

Personal selling is the oldest form of communicating with customers. It is the salesperson at the retail level who can most effectively close sales. The importance of this function is often underestimated. In IMC, it is one of the most effective tools for creating retail sales. **Personal selling** involves face-to-face, or person-to-person, communication. The seller attempts to persuade customers to buy the retailer's products. The primary advantage of personal selling is its one-on-one nature, which allows the salesperson to be flexible when finding products or services to satisfy or exceed the customer's needs and wants.

Often salespeople are the only contact a customer has with a retail store. The customer may then look upon the salesperson as the retailer. Customers come to retail salespeople with specific needs and wants, and a well-trained salesperson makes sure that those needs and wants are met or exceeded. The downside to personal selling as a communications vehicle is that it is very expensive when looked at on a per-customer-contact basis.

To increase the chances of success, a sales plan is needed for the sales function. Salespeople should receive ongoing training to ensure they have the answers to customers' questions, or at least know where to go to get those answers.

Personal selling entails a great deal of integration among the retailing functions. Human resource personnel train salespeople, customer service depends on personal customer contact, managers supervise salespeople, and all IMC functions rely on salespeople to close many sales. It can be argued that personal selling is the most important aspect of retailing.

Retailers often have different hiring criteria for the sales staff than for employees in many of the other areas. Demographic characteristics, prior work experience, and personality are important considerations when selecting sales personnel.

Examples of using demographics in the hiring of salespeople are found at Nordstrom department stores. If you have shopped at a Nordstrom store, you may have noticed that the salespeople in each department mirror the department in which they work. For example, the salesperson working in the women's petite clothing department is usually a petite person. This approach allows the salesperson to better understand customers' needs.

On a recent trip to Nordstrom, two retail consultants were looking around in each department. One thing that caught their attention was the age demographic of the salespeople. In the junior department, salespeople were younger. In the women's departments, salespeople were older than those of juniors, and all the sales clerks were women. Similarly, male sales personnel staffed the men's departments. This pattern held throughout the store. Consumers are likely to feel more confident about their purchases when they relate to salespeople who "look" like them. Other retailers can learn from the Nordstrom example by hiring and training salespeople who understand customers' concerns. The salesperson wearing a suit is probably more effective in his job—selling men's suits—than he would be if he worked in the athletic apparel section.

Training for sales personnel takes a slightly different approach than that for employees in other IMC areas. Selling techniques and product knowledge are the main issues in sales training. Many retailers rely heavily on role playing to enforce the processes being taught to sales staff.

Once again, it is the retail manager's job to ensure that personal selling is integrated with the other IMC variables. No customer likes to be confused by a retailer's communications process. If advertisers tell consumers that the retailer is "friendly," consumers expect to see friendly employees. To them, ‘friendly” may mean being greeted by smiling employees who thank them for their business. If shoppers do not experience friendliness, they may get confused and the IMC message will get lost in the execution. Sales employees should be trained to follow the “golden rule”: “Treat customers as you would want to be treated were you to shop at the store.”

5.9 Public relations & Publicity

Public relations (PR) is an organization’s efforts to win the cooperation of various publics. The basic task of the PR department is to generate goodwill toward the retail organization, creating long-term, profitable relationships with the retailer’s community. In particular, the PR department needs to create and maintain positive relationships with the various media, including newspapers, radio and television stations, and regional or local magazines. The task of internal employee communications also generally falls on the shoulders of the PR office.

Although the Internet has improved the speed of communication with various publics, there is also a risk in doing so, due to increasing expectations of accuracy. PR professionals must learn to balance the time pressure to get information out on the Internet with the need to check facts before posting content on the retailer’s website.

The area of public relations requires a plan, so that it will be integrated with the other IMC functions. It is very important that the PR department be connected to the RIS. The PR manager has the added responsibility of monitoring the publicity that the retailer seeks to generate.

Thomas L. Harris, management consultant and author of a book about public relations, calls PR the secret weapon of IMC because PR can make the other IMC components *(e.g.* advertising, cybermarketing, and sales promotion) more credible. For retailers, credibility in the eyes of the customer translates into increased sales and loyalty.

Publicity

Publicity is a subfunction of public relations in which the organization attempts to attract attention through various media without paying for the time or space to do so. The attention can be controlled or uncontrolled and can be positive or negative. Publicity might be about a retailer’s employees, its customers (a very good idea), or the retailer as a whole (perhaps, for instance, about the retailer being the largest contributor to a town beautification project).

In general, publicity is seen as more credible than advertising. The reason for this is that in many instances publicity comes from an objective source as opposed to an advertisement paid for by the retailer.

Publicity is referred to as being "free," because media time and space are not purchased. There are many costs associated with PR, however, such as those for hiring people to write press releases, purchasing supplies, and so on. One example of the costs associated with publicity involves the Harry Potter book craze. In the summer of 2003, due to the publicity surrounding the release of *Harry Potter and the Order of the Phoenix*, retailers had to adopt increased security measures to guard against theft of the book before its release.

Retailers must attempt to control and plan publicity, and it must be integrated with all the other areas of the IMC mix. Unplanned publicity must be limited or eliminated completely. All communications vehicles should provide customers with the same ongoing message, to achieve continuity and thereby more communications power for the retailer.

There are two types of publicity: good and bad. Obviously, no retailer wants to generate any bad publicity for its operations. Unfortunately, due to the number of media outlets, misinformation about a retailer can spread rapidly and have a radical effect on an organization.' For example, in June 1993, consumer electronics retailer Best Buy got some bad press when the retailer helped *The Eagles* release their new single. The band wanted to bypass major record labels in releasing the song. They needed a fast method to get the song into the retail venue and used Best Buy because of it distribution channels and ability to promote the release. In exchange, Best Buy got to sell the single exclusively for the first 30 days of its release. The exclusivity agreement infuriated other retailers. The Coalition of Independent Music Stores began a press war that called into question the integrity and fairness of the band and made Best Buy appear to be a corporate bully.

When planning for publicity, one or more of the following objectives is generally pursued :

- Reputation management *(e.g.,* consider Qwest, Arthur Andersen, or Martha Stewart)

- Puiblications (annual reports, brochures, manuals, other house organ-type publications)

- Speech writing (for the CEO or other members of the executive staff who do not have the time to write their own speeches)

- Special-events management (sports marketing, sponsorships, etc.)

- Lobbying (also known as *public affairs management)*

Some methods of generating publicity, in conjunction with the PR department, would be through news releases, photographs, event marketing, posters, exhibits, free sampling, and fact sheets or media kits.

5.10 Exercise

1. Discuss the different sales promotion techniques that may be used in a grocery retail outlet.
2. Prepare an integrated marketing communication plan for a new brand of jewellery retailer planing to enter the kolkata market.
3. Discuss critically the future of retailing through the internet in India. Use examples to support your answer.

Unit 6 Retail Pricing Strategy

6.1 Retail Pricing—Approaches and Strategies

6.2 Pricing Approaches and other elements of the Retail Marketing Mix

6.3 Exercises

Key Retail Price Objectives

- To maximize long-and short-term profit
- To increase sales volume (quantity)
- To increase sales value
- To increase market share
- To obtain a target rate of return on investment (RoI)
- To maintain a proper image
- To discourage customers from becoming overly price-conscious
- To be perceived as fair by all parties
- To be consistent with setting prices
- To increase customer traffic during dull periods
- To clear out seasonal merchandise
- To match competitors' prices without starting a price war
- To promote a 'we-will-not-be-undersold' philosophy
- To be regarded as the price leader in the market area by consumers
- To provide ample customer service
- To minimize the chance of government actions relating to price advertising and anti-trust matters
- To discourage potential competitors from entering the marketplace
- To create and maintain customer interest
- To encourage repeat business

Café Coffee Day: Drivers of Pricing Strategy

Café Coffee Day is part of India's largest coffee conglomerate, Amalgamated Bean Coffee Trading Company Ltd (ABCTCL), a Rs 250-crore ISO 9002 certified company and the first to roll out the 'coffee bar' concept in India with its first cafe in Bangalore. Café Coffee Day is India's only vertically integrated coffee company. Café Coffee Day's menu ranges from hot and cold coffees to several exotic international coffees, food items, desserts, and pastries. The coffee is attractively priced between Rs 16/- and Rs 65/- while food items and desserts are priced between Rs 15/- and Rs 60/-. This is attributed to two factors :

(a) to make in roads in this emerging market and
(b) to more effectively target their market segment of college students and young professionals who have limited spending capacity. This is distinct from Barista whose market segment is more mature with higher paying capacity. This explains the more : premium price of Barista products.

Source: www.retailyatra.com 2003, September 22

6.1 Retail Pricing—Approaches and Strategies

Pricing strategies affect both the margins and the positioning of a retailer. Various pricing strategies can be followed by the retailer depending on his business objectives, the influence of other external factors, and the impact of the pricing strategy on other aspects of the marketing mix.

Broadly, retailers adopt one of the three approaches in terms of pricing—discount orientation, at-the-market orientation, and upscale orientation. These approaches may be implemented using various pricing strategies. Discount orientation may take the form of every-day-low-pricing strategy or high-low strategy.

Upscale orientation is reflected in premium pricing strategies. At times it takes the form of skimming prices for certain product categories to be followed by penetration prices later on. At-the-market orientation is reflected in strategies that offer average prices for most products. While a store is likely to adopt a long-term approach in terms of pricing, most retailers also adopt short-term tactical pricing tools like coupons, rebates, etc.

Hence, while stores like *LifeStyle* and Arcus reflect an upscale pricing orientation they do offer rebates and discounts at various intervals. Similarly, many retailers tend to effect price reductions to pre-empt competition or achieve greater penetration. Some stores may adopt loss-leader pricing as a tactical move to stimulate additional store traffic while retaining their basic orientation towards at-the-market pricing.

Pricing Approaches

There are three retail pricing approaches based on the long-term objectives of the pricing decision. They are discount orientation, upscale orientation, and at-the-market orientation.

Discount Orientation

Here low prices are used as the major tool for competitive advantage. The store portrays a low status image and offers fewer shopping frills. Profit margins are kept low to target price-based customers. The model works on high inventory turnover and lower operating costs. This is arguably the most common model in India because of the low per capita income and price consciousness. It is not uncommon to see affluent people buying from these low-price shops as Indians largely look for value for money. Frills can be sacrificed for some satisfactory price cuts. Roadside discount shops thrive in India where everything from clothes to perfumes is sold and the clientele is not necessarily the lower middle class. One such market is the Janpath market in New Delhi. However, with the advent of globalization, Indians are opening up and this seems to be changing.

At-the-market Orientation

A store with at-the-market orientation normally sets average prices. It offers solid service and a nice atmosphere to middle-class shoppers. Margins are average to good and it stocks moderate to above quality products. Since this model caters to the middle class, it has a huge target market. Moreover, as income increases, the price-based customers shift to these stores. Therefore, some discount retailers also own such a store to capture customers who would shift to a higher priced store as their income rises.

An example of such a store is Westside in India, which focussed on providing value for money merchandise for the entire family along with an international shopping experience. To reinforce this strategy Westside follows a 'store brand only' policy. This stems from the fact that a private label gives the company the flexibility to develop a range of merchandise that suits its customers, and to price it as per their philosophy of affordable pricing. Besides, a store brand also has the advantage of generating better margins for the company.

Westside: Price An Invitation to Wear Designer Wear

Westside, a leading fashion department store, has built good brand equity among consumers because of two reasons: style and reasonable prices, supported, of course, by the quality of its offerings. The range of products is modern and stylish at an affordable price. The store made a special effort to understand its customers in terms of demographics, and preferences in size, design, and, last but not the least, price, which has been acknowleged as the key decision variable in consumer shopping behaviour.

In particular Westside attempted to popularize designer wear, a new segment in clothes—dressy wear for parties and events. It really is a very small segment. Because of the limited numbers that sell at that price level, Westside felt it would be better to have established designer rather than do it itself. Today women aspire to own designer wear, but it is usually very high priced. In keeping with their USP, Westside wanted to make that segment affordable. Given its large number of stores, it is able to offer exclusive designs at competitive prices. And it is exclusive because the designer outfits at Westside are not available at any other store, including the designers' own.

Upscale Orientation

In upscale orientation competitive advantage is derived from the prestigious image of the store. The profit margins per unit are high, coupled with higher operating costs and lower inventory turnover. These stores usually stock distincive product offerings and provide high quality service, building up customer loyalty. The products stored generally go with the image of the store. Such stores would stock Hugo Boss perfumes and Rado watches. It may be apropriate in situations of inelastic demand in which an organization decides to keep its prices high. The reasons for such a strategy might also include a growing super-premium segment of the market, overcrowding at the bottom-end of the market, or the desire to create a prestige image for the product.

Tanishq: From Premium to Popular Appeal

Tanishq has a successfully established retail chain in the very fragmented, very unorganized jewellery category. Tanishq is today rated as one of India's most aspirational brands of jewellery. Tanishq's marketing objectives were: first drawing new customers into its sixty stores *located* across the country; and, second, building long-term relationships with its existing and increasing customer base. In order to achieve its marketing objectives. Tanishq appeals to all consumers of jewellery in India, not merely to the elite. It believes that there are an increasing number of Indian women who seek the values and the benefits that a brand such as Tanishq offers—on account of trust and reliability, exquisite designs, and an Inter-national shopping experience.

All these are key differentiators in a jewellery market which is largely commodity-driven, which is led more by mass-market volumes than by differentiated design, which is hostage to a number of unethical practices ranging from underkaratage of gold to wrong certification of diamond quality. These differentiators provided by the Tanishq stores availed them to gain price premiums along with long-term relationship I with their customers.

To them, Tanishq is a reflection of their own emerging lifestyle, a judicious blend of traditional values and a modern out-look, for which they can pay premium prices. Tanishq has positioned itself as a premium brand, but certainly not as a narrowly focused elitist brand. It caters to a wide segment of discerning consumers, and we believe that Tanishq offers a range of jewellery, which caters to various consumer segments.

For example, the entry points for the collection was just Rs 595, with more than 90 unique designs, including earring-pendant sets, neckwear, bangles, bracelets, chains, and rings. This concept took the market by storm.

6.2 Pricing Approaches and other elements of the Retail Marketing Mix

The pricing approaches adopted by a retailer should be in accordance with the other elements of the retail marketing mix. Only then can the prices be sustained in terms of keeping costs under check. Besides, prices combine with all the other elements of the retail marketing mix to communicate the image of the retail outlet. Table 6.1 offers a representative list of the pricing approaches along with their complimentary retail mix strategies. This is only an indicative list and many retailers follow a different set of combinations to meet their specific requirements.

Table 6.1 Retail pricing approaches and other elements of the retail marketing

Retail marketing mix variable	Price below market price	Price at market price	Price above market price
Location	No parking, poor layout, inaccessible	Central business district, proximity to competition	Monopoly, compatible location to target segment
Service Attributes	Self-service, limited offerings, no sales	Support from sales people	Personalized attention to customers, home delivery, exchange facility, customized offerings
Assortment	Limited variety	Medium	Extensive assortment
Store Environment	Poor quality fixtures, imited space to move around, wall shelves, untidy	Compatible store environment	Inviting, impressive store decor, visual merchandise attractive
Nature of Brands	Unbranded, small manufacturers, loose quantities	Best-sellers	Exclusive name brands

Pricing Strategies

Following are the various pricing strategies followed by the retailer to meet his short- and long-term objectives. The adoption of these strategies is guided by the basic pricing approach of the retailer.

Every Day Low Pricing (EDLP)

EDLP has been popularized by large retailers like Wal-Mart, Home Depot, and Staples among others. This strategy entails continuity of retail prices below the MRP mentioned on the goods—in other words, at a level somewhere between the regular price at which the goods are sold and the deep discount price offered when a sale is held. So, low does not necessarily mean lowest.

The price at a comperting store where goods are on sale may be selling at lower prices.

However, in case of EDLP, these low prices are stable and not subject to a one-time sale. In India, many co-operative stores have adopted this strategy. One store that uses EDLP is Big Bazaar.

Here, goods are either sold below their normal prices, or some sales promotion scheme is available. For EDLP to work, volumes are necessary so that the store can negotiate with the manufacturers for bargain prices. The benefits of adopting an EDLP pricing strategy are given in Fig 6.3.

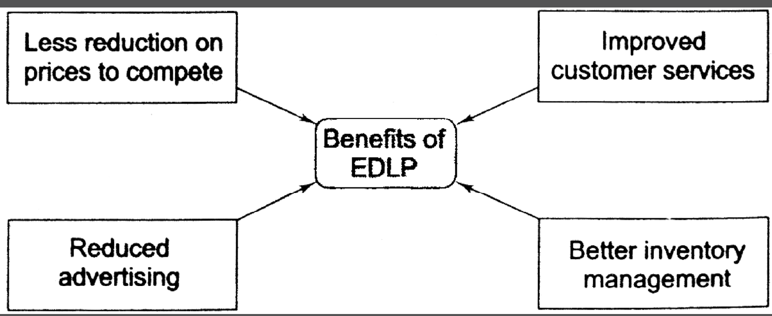


Fig. 6.3 Benefits of EDLP

Subhiksha : Essentials for a Discount Store

Subhiksha went for low real-estate costs, quick inventory turns, and informed customer buying, which have helped its meteoric growth. Subhiksha targets to become a Rs 1500-crore discount store chain by 2003.

Subhiksha has three separate godowns for stocking pharmacy products, unbranded groceries, and branded FMCGs. Subhiksha has a centralized purchasing system. This eliminates multiplicity of billings, which would occur if the stores were to make independent purchases. It buys directly from distributors who sell at only a small margin above the mill prices and from 150 odd manufacturing companies. It has a fleet of 10 tempos, which supplies its stores once a day. As the discount format requires holding costs to be at a minimum, all the stores are connected through an intranet to facilitate inventory planning.

Subhiksha makes spot payments against delivery, which enables it to get cash discounts. The supplier helps in inventory control and in return gets an improved cash flow.

Source: www.subhiksha.com

Some retailers have adopted a low-price guarantee policy where they guarantee that they will have the lowest possible price for a product. The guarantee usually promises to match or better any lower price found in the local market. If somebody is selling at a lower price, the retailer would refund the difference.

Benefits of EDLP : The following are the benefits of the EDLP strategy.

Less Reliance on Price Reduction to Compete : In high-low pricing, the goods that were selling for a particular retail price are sold at reduced prices during sale. This makes the customers conditioned to postpone their purchases and they buy only during sale. This is a vicious cycle as fewer items sold at normal prices means more piled up stock, which necessitates a sale to be organized. The sale keeps on getting bigger and better, reducing the average price at which goods are sold, thus hitting the bottom line.

Moreover, in high-low pricing the customers can have post-purchase dissonance once they come to know that the product they purchased at 20% discount a week back is being sold at 50% discount in the current week's sale. EDLP provides the customers with the satisfaction that they are paying a fair price for the product, and they tend to buy more frequently instead of waiting for the more beneficial sale to take place.

Reduced Advertising : Since prices are stable in EDLP, the retailer need not advertise frequendy. In case of sale, which held for a limited period, the retailer has to necessarily advertise so that more people visit the store to take advantage of the temporary low prices. Also, catalogues do not become obsolete since prices do not change so often.

Improved Customer Service : Stable prices also mean stable flow of customers in the store. In high-low pricing, the sales people generally fall short during sale time unless additional workforce is hired. In EDLP, the sales people are sufficient and, hence, are able to attend to customers properly.

Better Inventory Management : EDLP reduces the large fluctuations in demand that one experiences in high-low pricing. So, retailers can manage their inventory with more certainly.

It must be noted here that even though EDLP may provide stability in demand and easy forecasting of inventory, it does not make a large difference in many cases of stock-outs. Goods on sale are meant to be cleared as far as possible or reduced to zero. So, essentially, a storeowner, wants to achieve the situation of a stock-out. Moreover, as these goods are sold at low profit margins, stocks are not of much concern as not much profit is lost. Fluctuations are also experienced in EDLP due to other factors such as festivals. In fact demand for a majority of products is seasonal in India due to the festive season.

High-Low Pricing

In high-low pricing, retailers offer prices that are sometimes above their competitor's ELDP, but they use advertisements to promote frequent sales. In the past, retailers would mark down merchandise at the end of a season to clear the stock. Grocery stores would only have sales when they were overstocked. Sale B very common in garment retailing.

A sale is organized at the end of a season to serve basically two purposes. One, goods that have not managed to get sold are disposed off. Otherwise, extra handling and storage expenses have to be incurred in respect of these goods. Moreover, there is no surety that they will get sold in the next season. Second, the sale provides an opportunity for a different target segment to visit the store. This segment is not very product conscious and would compromise on design, colour, etc., to buy cheaper. They also look for bargains where they are able to get a good quality product at sale prices. Nowadays, retailers also use sales to respond to increased competition and a more value-conscious customer.

High-low pricing is used by stores like *Lifestyle.* Each of these strategies has its own benefits, as shown in Fig 6.4. The benefits of EDLP are:

Benefits of High—low Pricing The following are the benefits of high-low pricing.

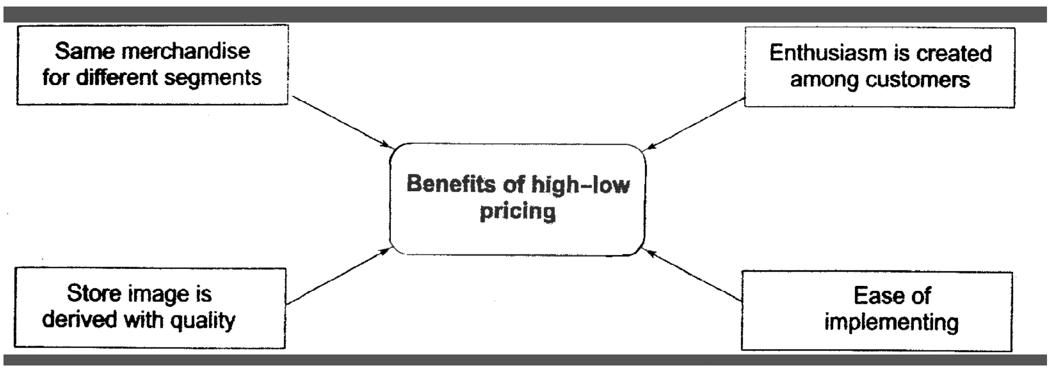


Fig. 6.4 Benefis of high-low pricing

Same Merchandise can be Used to Target Different Segments. The retailers use price skimming to target customers of various segments. When the merchandise is first put on display, it is sold at the maximum price. Fashion leaders and hard-to-fit customers buy at this price because they are less price-conscious or they fear that they would be unable to buy the same staff later on. Slowly, as sales in this segment are saturated, prices are lowered. More people enter the market, who are slightly more price conscious. Finally, at the end of the season, extremely price-conscious customers visit the store during deep discount sales. They are not much concerned about the design or sizes and look for value buys from whatever is left over. So, the store owner is able to use the same set of goods to target various segments of the market.

Enthusiasm is Created Among Customers : A sale draws people to the store. This crowd helps in creating an atmosphere of excitement. The environment is such that people tend to purchase impulsively. During a sale, many retailers also use other supporting activities to create excitement. For example product demonstrations or very short-term special prices. Many shoe retailers give free socks or shoe polish along with every pair of shoes purchased. This segment of customers also helps in improving the visibility of the store.

Image of Quality is Created : In an EDLP policy, the customer may assume that since price are low throughout the year, the store must be compromising on qulity or service somewhere. However, in high-low pricing, even during a sale, the customer uses the original highest price as the reference. So he or she tends to think that the merchandise stored is of high qality.

Dijficult to Implement EDLP : EDLP can be used primarily for known branded products so that the customer can compare the prices in the market, or, frequently purchased commodities whose prices the customers are aware at so, EDLP cannot be implemented in every store. Moreover, implementation of EDLP requires large volumes so that the store can bargain with the suppliers for prices.

The pricing strategy of a retailer would lie along a continuum from EDLP to high-low pricing. However, retailers use other pricing practices also along with their basic strategy. In fact, very few retailers have a clear cut, simple to understand pricing strategy. It differs from time to time, product to product, and location to location. Nothing wrong about it as there are some products that are suited to EDLP and some are not. Some of the pricing practices used by retailers are :

Pricing Issues and Store Policies

- Setting the price must be compatible with the retailers' established store policies and their desired image.
- Will a one-price system, under which the same price is charged to every purchaser of a particular item, be used on all items or is the price negotiable with the customer?
- Will odd-ending prices such as $ 197 and $44.95 be more appealing to customers than even-ending prices?
- Would price lining by means of zones be more appropriate than price points?
- Will prices include applicable taxes for customer convenience?
- Will cent-off coupons be used in newspaper ads or mailed to selected consumers on some occasion?
- Would periodic special sales, combining reduced prices and heavier advertising, be consistent with the store image the retailers are seeking?
- Will consumers buy more if multiple pricing, such as 2 for $8.50, be used?
- Should any loss leader product pricing be used?
- Will price lining—the practice of setting up distinct price points and then marking all related merchandise at these points—be used?
- Has the impact of various sale items on profit been considered?
- Will price lining—the practice of setting who come in for special sale merchandise that is temporarily out of stock?

Loss Leader Pricing

Retailers sometimes price in particular fast moving products at a lower price to attract customers to the store. Once the customers are in the store, they can be persuaded to buy more profitable products. For example, a retailer can sell eggs cheaper than other competing stores so that customers consider him while purchasing groceries.

Since the customer is also likely to buy milk, bread, flour, etc. along with eggs, these products are priced slightly higher. So, the profit foregone on eggs is less than that recovered on other items of groceries.

Sometimes, the fast moving products are sold at cost price or even at a loss. So, these are also called loss leaders. If the sales of other profitable products is insufficient to cover the losses incurred on sales of loss leaders, then this strategy can backfire.

Generally, those items are priced higher whose prices cannot be easily compared by the customers. Therefore, easily available branded products are not considered. The retailer, normally, chooses his own store brands for higher pricing. Items such as pulses, rice, flour, etc. are priced higher because it is also not easy to compare the price against the quality offered by other stores.

It is also important to understand that consumers respond differently to such promotions and price cuts. A study by Sanjay K. Dhar and Peter E. Rossi has investigated the role of retail competition, retail strategies, and demographics in determining consumer response to such promotions. The results revealed that consumers who shopped at stores with an EDLP pricing strategy were less sensitive to short-term price cuts than consumers at high-low pricing stores.

In markets with greater retail competition, there was greater price sensitivity, making consumers more responsive to price cuts. More competition made it easier to compare prices across national brands. Higher income consumers seemed less likely to respond to price cuts, but more likely to use feature ads and in-store displays to save time and effort in searching for better prices. The study shows that older consumers were more sensitive to displays and features than to price, and private label buyers were more price sensitive than other buyers.

Skimming Pricing

Price skimming is a pricing strategy in which a retailer sets a relatively high price for a product or service at first, then lowers the price over time. It allows the firm to recover its sunk costs quickly before competition steps in and lowers the market price. There are several potential problems with this strategy:

- First, it is effective only when the firm is facing an inelastic demand curve.
- Price changes by any one firm can be matched by other firms resulting in a rapid growth in industry volume. Dominant market share will typically be obtained by a low cost retailer that pursues a penetration strategy.

- The inventory turn rate can be very low for skimmed products.
- Skimming encourages the entry of competitors. When other retailers see the high margins available in the industry, they may decide to quickly enter.
- The retailer could gain negative publicity if he lowers the price too fast and without significant changes in product profile. Some early purchasers may feel cheated. They may feel it would have been better to wait and purchase the product at a much lower price. This negative sentiment may be transferred to the retailer as a whole.
- Besides, high margins may make the retail organization inefficient. There may be no incentive to keep costs under control. Inefficient practices will become established, making it difficult for the retailer to compete on value or price.

Penetration Pricing

Penetration pricing is the pricing technique of setting a relatively low initial entry price, a price that is often lower than the eventual market price. The expectation is that the initial low price will secure market acceptance by breaking down existing brand loyalties. Penetration pricing is most commonly associated with the marketing objective of increasing market share or sales volume, rather than short term profit maximization.

The advantages of penetration pricing to the retailer are:

- It can result in fast diffusion and adoption. This can achieve high market penetration rates quickly. This can take the competition by surprise, not giving them time to react.
- It can create goodwill among the all-important early adopter segment. This can create valuable word-of-mouth publicity.
- It creates cost control and cost reduction pressures from the start, leading to greater efficiency.
- It discourages the entry of competitors. Low prices act as a barrier to entry.
- It can create high stock turnover.

The main disadvantage with penetration pricing is that it establishes long-term price expectations for the product and image preconceptions about the retailer. This makes it difficult to eventually raise prices. It is also claimed that penetration pricing attracts only the switchers (bargain hunters) and that they will switch away from the retailer as soon as prices are increased.

There is much controversy over whether it is better to raise prices gradually over a period (so that consumers do not notice) or employ a single large price increase (which is more efficient). A common solution to this problem is to set the initial price at the long-term market price but include an initial discount coupon. In this way, the perceived price points remain high even though the actual selling price is low. Another potential disadvantage is that the low profit margins may not be sustainable long enough for the strategy to be effective.

Price penetration is most appropriate when :

- Product demand is highly price-elastic.
- Substantial economies of scale are available.
- The product is suitable for a mass market
- The product is likely to face stiff competition.
- There is inadequate demand in the low elasticity market segment for price skimming.

Price Lining

Price lining refers to the offering of merchandise at a number of specific but predetermined prices. Once set, the prices may be held constant over a period of time and changes in market conditions are adapted to by changing the quality of the merchandise. A limited number of predetermined price points are set at which merchandise may be offered for sale, e.g., Rs 79.50, Rs 109.50, Rs 149.50.

Psychological Pricing

Psychological pricing is a method of setting prices intended to have special appeal to consumers. Prestige pricing, reference pricing, odd-even pricing, and traditional pricing are all different types of psychological pricing.

Prestige Pricing

Prestige pricing uses high prices to convey a distinct and exclusive image for the product. It refers to charging a high price for a product or service where it is judged that this in itself will give it prestige and make it much sought after.

It refers to the practice of setting a high price for a product throughout its entire life cycle—as opposed to the short-term 'opportunistic' high price of price skimming. This is done in order to evoke perceptions of quality and prestige in the product or service.

For products for which prestige pricing may apply, the high price is itself an important motivation for consumers. As incomes rise and consumers become less price sensitive, the concepts of 'quality' and 'prestige' can often assume greater importance as purchasing motivators. Thus, advertisements and promotional strategies focus attention on these aspects of a product, and, not only is a 'prestige' price sustainable, it also becomes self-sustaining. Retailers of various services like beauty parlours and hair saloons at times price their offerings in this manner, an example being Habeebs in Delhi. Even various clubs like Gymkhana Clubs and DLF Golf Club price their products to indicate exclusivity.

Similar strategy is followed by five-star hotels like Taj and Radisson in terms of their menu offerings. For instance, a glass of coke at Radisson could cost close to Rs 75-100 and Kababs at its famous Kabab Factory at Rs 800-1000.

Reference Pricing

It uses consumers' frame-of-reference that is established through previous experience of purchasing the sports product or through high levels of information search.

Traditional Pricing

It uses historical or long-standing prices for a sports product to determine the pricing.

Odd-Even Pricing

It is setting prices at odd numbers (e.g., $9.95) to denote a lower price or a 'good deal' or setting prices at even numbers (e.g., $10.00) to imply higher quality. Because odd prices are associated with lower prices, they are typically used by retailers who either sell at below the market or at the market prices. Retailers selling above the market price usually end their prices in even numbers that have come to denote quality. Many discounters like Big Bazar in India and Wal-Mart in the USA use odd prices to denote lower prices. Many retailers in Japan use even pricing to denote quality—a critical issue with Japanese consumers.

Retailers believe that greater than expected demand occurs at such prices. Some theories about the cause of such an effect are as follows.

- For simplicity the consumer ignores one or more of the least significant digits; amounts like $ 6 and $ 7 are more easily handled than $ 6.95, and ignoring part of a number is easier than proper rounding; this effect is enhanced when the cents are printed smaller. Even though the cents are seen and not totally ignored, they may subconsciously be partially ignored. Odd pricing is also believed to suggest to consumers that goods are being sold at the lowest possible price (Harper 1966). Many retailers believe that the more specific a statement is, the more inclined people are to believe it (Schwartz 1973).

- By using odd prices, a retailer may thus convey an image of honesty which would not be achieved by charging a slightly higher round figure. Other explanations for the effect of odd pricing includes a belief that 'circles attract the eye', thereby drawing consumers to the digit 9, and that customers like to receive change. However, despite the apparent plausibility of some of these explanations, they are largely based on speculation rather than objective evidence (Kreul 1982; Dodds and Monroe 1985).
- Now that consumers are used to odd psychological prices, other prices look odd. Another advantage is that in most cases the consumer does not hand over the exact amount and therefore has to be given change. This reduces the risk of personnel stealing from the shop owner by not recording a sale on the cash register and pocketing the money, in the case that the customer does not require a receipt.

Multiple Unit Pricing

Retailers use multiple unit pricing to encourage additional sales and to increase profits. The gross margin that is sacrificed in a multiple unit sale is more that ofset by the savings that occur from reduced selling and handling expences.

Bundled Pricing

Bundled pricing occurs in the case of the retail sale of otherwise distinct and identifiable products for one non-itemized price that does not vary and is non-negotiable based on the selection of the products made by the purchase is the practice of offering two or more different products or services at one price. Price bundling is used to increase both unit and rupee sales by bringing traffic into the store. It can also be used to sell less desirable merchandise by including it in a package with a product of great demand. For example, a hotel can offer a two-days stay fo Rs. 5000 inclusive of lunch, (even though separately these two items stay and lunch) would cost more than Rs 5000. In many cases, a retailer may bundle a set of extra-large T-shirts with large size T-shirts to promote the sale of the slow moving item. A similar strategy is sometimes used for low selling shoe sizes.

Pre-emptive Pricing

Pre-emptive pricing is a srategy which involves setting low prices in order to discourage or deter potential new entrants to the retailer's market, and is especially suited to markets in which the retailer does not enjoy any market privilege and entry to the market is relatively straight-forward.

By deterring other entrants to the market, a retailer has time to:

- Refine/develop the merchandise
- Gain market share
- Reduce costs of operations (through sales/experience effects)
- Acquire name/brand-recognition, as the 'original' supplier/retailer

Extinction Pricing

Extinction pricing has the overall objective of eliminating competition, and involves setting very loss prices in the short term in order to 'undercut' competition, or alteranatively repel potential new entrants. The extinction price may, in the short term, be set at a level lower than even the suppliers own cost of production, but once competition has been extinguished, prices are raised to profitable levels. Only retailers dominant in the market are in a strong financial position are able to survive the shorth-tem .... associated with extinction pricing strategies, and benefit in longer term.

The strategy of extinction pricing can be used selectively by firms who can apply to certain product 'lines'. The low price of a product at one end of the product range might attract new purchasers to the product line, and sales of different, more profitable items might increase. When implemented for particular products it becomes quite similar to loss-leader pricing.

Perceived-value Pricing

It is a method of pricing in which the seller attempts to set the price at the level that the intended buyers value the product. It is also called value-in-use pricing or value-oriented pricing. If the perceived value is high, the retailer can charge a premium price for the product.

The example of well-established traditional independent retailers in small townships can be cited in this respect. They charge a premium price on their offerings because of the quality and variety offered to their customers. Kala Mandir, the ethnic women apparel store in Ludhiana, provides exclusive collection of sarees and ladies suits to their customers at prices above the market average. A small fashion retailer, Style Looks in Ludhiana deals in fashion garments inspired by movies or film personalities. Therefore, it charges a price premium from its customers who are willing to pay extra for the desired merchandise. The premium in the above cases is not perceived as such due to the perceived incremental value offered by the retailer.

Demand-oriented Pricing

A method of pricing in which the seller attempts to set price at a level that the intended buyers are willing to pay. It is also called value-in-use pricing or value-oriented pricing.

Fixed and Variable Pricing

Most firms use a fixed price policy, i.e., they examine the situation, determine an appropriate price, and leave the price fixed at that amount until the situation changes, at which point they go through the process again. The alternative has been variable pricing, a form of first degree price discrimination, characterized by individual bargaining and negotiation and typically used for highly differentiated items, such as real estate, unbranded garments, fresh vegetables, and fruits. In India, there are certain markets which are well known for bargaining, e.g.,

Gaffar market in Delhi, Fashion Street in Mumbai, Ranganathan Street in Chennai.

There are some shops in markets like Sarojini Nagar and Lajpat Nagar in Delhi which specifically advance that they do not bargain and have a 'Fixed Price'. In South Africa the flea markets' specifically advertise in big block letters 'We Bargain'.

Tactics for Fine-tuning the Base Price

Following are some of the tactics used by retailers to fine-tune the base price.

Coupons

These are documents diat provide a right to the holder to purchase at a reduced price or entitle him or her *as a* discount on the product. This is, therefore, a kind of selective discounting. The coupons are disbursed by retailers through various means. depending on the type of customers that they want to target. Scoanny of distribution, etc. Sometimes coupons are issued in newspaper and people can cut them out and show them at the retailer's outlet avail of a discount.

Coupons can also be given along with the purchase of a particular product or purchases above a certain amount. For example, anybody who buys a television would get a coupon entitling him to avail of a discount on microwave oven. Or anybody who buys goods worth Rs 5,000 would get a coupon to purchase 500 worth of goods free of cost.

Coupons are used to attract customers to buy for the first time, convert those first-time customer to regular ones, and induce large purchases and increase usage. However some believe that coupons make the customers purchase in advance at cheaper rates, thus, adversely affecting sales of future periods.

Rebates

Rebate is basically money returned to the buyer on the basis of some portion of the purchase price. The buyer would return the empty packaging or anything that would serve as a proof of purchase and the retailer/ manufacturer returns the mentioned amount to the buyer.

For example, one scheme could be that if the empty pack of a washing powder is returned, the buyer would get 10% discount on his future purchase. Or, if the pack is worth Rs. 50 on returning the pack, the buyer would be returned Rs 5. Rebates are used when the price is large, because for small amounts the handling costs do not justify rebates.

Rebates are preferred by retailers over coupons because for rebates they do not need to incur distribution and operational costs. Since it is up to the customer to bring the proof of purchase and redeem the discount, the retailer has to incur no effort. Moreover, some customers fail to redeem these proofs and it results in dummy discounts. That is, the customers are being given rebates and they can avail of these if they so wished, thus giving an impression that a discount was being given. However, when they fail to furnish the proof required for getting the discount, at the end of the day, no discount is given. So, effectively the retailer can generate the 'feel-good' factor related to a discount without giving anything away.

Whatever strategy the store follows, it is important to provide value to the customer for his money. A low-price shop would not work if the goods fail to satisfy the customer's expectations. Naturally, a customer would expect that a product purchased from a low-price shop would perform sub-optimally compared to the one purchased from an upscale shop. The customers would not expect a watch of Rs. 100 to last forever. But still they would not expect it to break down the very next day. So, it is extremely vital for a store to find out this price to value equation. This aspect would be understood in greater detail when we discuss the methods that stores use to fix prices.

Rain Check

These are given to customers in the event of a stock-out. They are written promises that the store will sell the merchandise that is out of stock at sale prices as and when the merchandise arrives. This practice is not common in India. So if a rain check is not given, the customer benefits from coming to the store early and purchasing. If the customer is unable to get merchandise of his choice, he has to settle with whatever is available.

Price Increase

If price is increased after the merchandise has been put on the shelf, it may lead to customer dissatisfaction. But when the purchase price of a particular product increases rapidly, the retailer has to consider an upward revision of prices. Since the cost of the inventory increases, the selling price also needs to be increased to maintain profitability. In order to minimize customer dissatisfaction, the original label should be removed completely.

Backup Stock

This is the inventory used to prevent a stock-out if demand exceeds forecast or if goods are delayed. The quantity to be kept as backup stock is decided by the store keeping in mind its own particular conditions. Other factors remaining the same a store whose supplies are reliable and timely would need less backup stock compared to the one whose supplies are erratic and undependable.

In order to minimize customer satisfaction, the original label should be removed completely.

Pricing Strategy and Private label Brands

Store brands offered by organized retailers are giving the big FMCG brands a run for their money in India, as elsewhere, private labels are driving growth and market penetration across various categories like grocery, packaged food and even homecare items. A study by Economic Times (2004) reports that these brands are cheaper by 20-25% than the organised these FMCG majors in the marketplace.

Attractive pricing had helped these brands catch the customer's eye. The margins on own-store brands are rearly two-and-half times higher than those on regular FMCG brands. Food, grocery, and tobacco account for 72.2% of the total Indian retail market. Store brands owned by Food Bazar, the food retail division of Pantaloon Retail (India), are steadily gaining market share. This is to a large extent driven by the performance of inhouse Food Bazar brands. Hence, they have started thinking of launching new products under different brand names. The company sells salt, tea, masala and pulses under the Food Bazar label and, dal and spices under the premium Harvest label.

The company's in-house brands have garnered a market share in the range of 25-40% at its existing stores. Food Bazar's in-house tea brand, which is 20-30% cheaper from major FMCG brands, has cornered a 40% share in the salt category, the Food Bazar brand has cornered a market share of 40-45%. The company has launched a premium health in the price range of ordinary iodised salt from Tata Chemkak and HLL.

It is believed that retail chains are offering products at cheaper prices through direct tie-ups with tea gardens and salt refineries.

Similar strategies are beeing foodworld, Shubhiksha and Nilgiri to offer customers better value for money is attributed to better management of supply chain and logistics. Wide options in everything including snacks, grocery items such as *atta*, salt and grains, and other household food products, coupled with attractive discounts and free gifts, seem to have appealed to the customer.

Setting Retail Prices

To set retail prices, it is important to understand some of the concepts and calculations related to it, basic methods employed for setting prices, and factors such as price elasticity and price sensitivity, which impact the effectiveness of the pricing strategy.

Concepts and Calculations for Setting Retail Prices

The price that a customer pays for an offering comprises two main components: the cost of the offering or the price that retailers pay to a supplier/manufacturer, and the gross profit margin, which is, the selling price minus the cost of the product. Fig. *6.5* gives an example of setting retail price for a product.

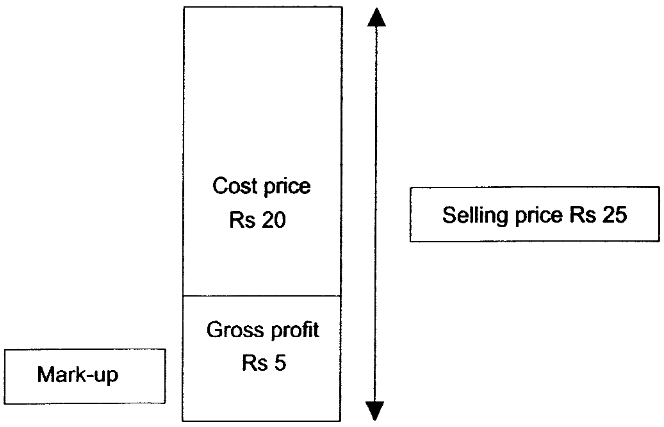


Fig. 6.5 The retail selling price

In the retail business, the cost of goods (costs of acquiring products) includes the price paid for the merchandise, handling, freight charges, and import duties. Operating expenses include rent, wages, advertising, utilities, and supplies.

Mark-up is the difference between the price you pay for the product and the selling price. The mark-up can be established as a percentage of the cost or as a percentage of the retail price. A price based on mark-up percentage on cost is determined by adding a percentage cost to the cost of goods as follows:

Cost of shirt Rs 20.00 × Mark-up 25%
= Mark-up amount Rs 05.00
Cost of shirt Rs 20.00 + Mark-up amount 5.00
= Selling price Rs 25.00
Mark-up percentage is expressed as a percentage of cost, that is
(Mark-up amount, Cost of goods) × 100

A more common mark-up strategy in retail is to base the mark-up on the retail price. Divide the cost of the product by the percentage as follows.

A retailer can decide to use a standard mark-up percentage for all the merchandise or have different mark-ups for different products. The key is to make sure the average mark-up or gross margin is enough to cover the operating expenses and meet its target profit margins When establishing the mark-up on a particular merchandise. Two points should be noted:

- The cost of the merchandise used in calculating markup consists of the base invoice price for the merchandise plus any transporation charges minus any quantity and cash discounts given by the seller.
- Retail price, rather than cost, is ordinarily used in calculating percentage mark-up. The reason for this is that when other operating figures such as wages, advertising, and profits are expressed as a percentage, all are based on retail price rather than on the cost of the merchandise being sold.

Traditionally, price has been determined by adding a bit of profit to the cost of goods. However, more often than not, pricing is not as simplistic as that.

Some common terms that are used when fixing price based on accounting figures, are disscussed below.

Cost of Goods Sold : Cost of goods sold (COGS) includes all costs incurred to bring the goods to a saleable condition. Only costs that relate to goods actually resold are considered. In other words COGS does not consider costs relating to goods remaining unsold. Since to bring the COGS takes into consideration every expense incurred goods to the point of sale, it includes other expenses besides ? cost of goods moved out of stock. COGS is the largest expanse by a retailer and the price is generally determined by adding a margin for other expenses plus profit to service and replace the capital. COGS would typically include:

(a) The purchase cost of all the goods that have moved out of stock (This movement may be the result of sales, or theft, breakage and other losses. This purchase cost is the price charged in the purchase invoice. Trade discounts given in the invoice are considered and therefore subtracted from the purchase price. However, cash discounts are not considered.)
(b) Taxes charged in the invoice.
(c) Expenses incurred to bring the goods to the point of sale such as carriage inwards (freight), travelling expenses incurred by the buyer to purchase the goods, etc.

(d) Depreciation on the remaining stock at the end of the period
(e) Transfers from other departments or branches. Therefore, (COGS) can be calculated by the formula :

Opening stock
+ Purchases and additions during the year (after including the costs as detailed above)
– Closing stock (at cost or market price, whichever is lower)

The stock is valued at cost or market price, whichever is lower, because prudence is observed in accounting for profits. Even if the market price is above the cost, the stock is valued at cost, the unearned profit to be realized on sales not being considered. If the market price of the stock has fallen below cost, it is assumed that the stock would have to be sold at the lower market price, and the potential loss is accounted for immediately.

The method of valuation for opening and closing stock has to be the same to ensure consistency.

Net Sales : This is the total sales figures adjusted for goods returned by customers and allowances. Net sales is, therefore, gross sales less returns and allowances.

Gross Margin (or Gross Profit): It is the difference between net sales and the cost of goods sold. Net sales means sales adjusted for any goods returned.

Percentage Gross Margin (or Gross Profit Percentage) This the gross margin expressed as a percentage of net sales:

(Gross margin/Net sales) × 100

Mark-up and Margin : *Mark-up* is a percentage cost. *Margin* is the same rupee amount as mark-up, but expressed as a percentage of the selling price.

Example:

Item costs Rs 20.00; it sells for Rs 25.00.
Mark-up is Rs 5.00 or 25% of the cost.
Margin is Rs 5.00 or 20% of the selling price

Another pricing practice among retailers is to price merchandise according to the suggested retail price recomended by the manufacturer. This is the easiest way to determine prices, but can get cause into trouble if the margin between the cost of goods and the suggested retail price is not enough to cover operating costs. The income of the retail business is determined on the basis of the gross profit margins and number of goods sold.

This provides resources to incur expenditure towards the stock purchases, meeting operating costs, and investing funds for expansion of business. In order to achieve desired success in retail business, setting of prices by retailers is important. Retailers are expeced to take into account these factors while setting prices of their offerings :

- Owner's returns
- The portion of rent going for storage space
- Maintenance and repairs
- The costs of business services (such as accouraine antiegal services)
- Advertising and promotion costs, insurance premums, interest payments, etc.

Points to consider calculating Planned Initial Mark-up

- Have you estimated sales, operating expenses, and reductions for the next selling season?
- Have you established a profit objective for the next selling season?
- Given your estimated sales, expenses, and reductions, have you planned initial mark-up? The initial mark-up percentage is calculated by adding the operating expenses, planned reductions (markdowns, stock shortages, and employee/customer-discounts), and profits together, are then dividing this total by -et sae? irrd planned reductions.
- Different initial mark-up figures may have to be used for varies lines of merchandise or servies particularly when different ines have different characteristics from others.

Characteristics of Merchandise to be considered while deciding on initial Mark-up.

- Did you get a 'good deal' on the wholesale price of the merchandise?
- Is this item at the peak of its popularity?
- Are handling and selling costs relatively great due to the product being bulky, having a low turnover rate, and requiring much personal selling, installation, or alterations?
- Are relatively large levels of reductions expected due to markdowns, spoilage, breakage, or theft?
- Will customer services such as delivery, alterations, gift wrapping, and installation be free of charge to customers?

Other Factors to be consideredwhile deciding on initial Mark-up

- Are additional mark-ups called for because wholesale prices have increased or because the item's low price causes consumers to question its quality?
- Should purchase discounts to special groups be given?
- When markdowns appear necessary, have other alternatives been considered first (i.e., merchandising out of the problem)?
- Has an attempt been made to identify the cause of markdowns?
- Has the relationship between timing and size of markdowns been taken into account?
- Would a schedule of automatic markdowns after merchandise has been in the stock for specified intervals be appropriate?
- Is the size of the markdown 'just enough' to stimulate purchases?
- How is the seasonality of products allowed for?

Mark-down: This is a reduction on the normal selling price. Sometimes, a particular line of goods is not moving; therefore, the retailer reduces the price on such goods to make them attractive to the customers.

Mark-down = Normal selling price - reduced selling price

Margins vary from product to product. On goods like furniture, margins tend to be high. These goods have low turnover and high margins are required to cover the stocking costs. On the other hand, lower margins are charged on high turnover products, such as convenience goods.

Mark-downs should be discussed in greater detail because of their importance to the retailer. There is a tendency to use mark-downs indiscriminately to clear non-moving stocks. One needs to understand the various uses of mark-downs and factors that ultimately result in a mark-down.

Use of Mark-downs

- Correctional mark-downs are used to encourage customers to respond more satisfactorily to a line. For example, if a new product has been launched, it may be sold at a reduced price to induce customers to purchase it.

- Operational mark-downs are used to sell off obsolete, end-of-season goods, or goods that are damaged, shopworn, and broken. For example, if a lot of crockery has been chipped, then it can be sold at a reduced price.

- Promotional mark-down is used to increase sales by offering the customers the incentive of lower prices.
- Correctional mark-down is used to correct errors resulting from wrong pricing, buying, or selling.

Causes of Mark-downs

Mark-downs resulting from buying errors:

- Overbuying caused due to incorrect demand forecasting, or buying more than the current stock requirement.
- Wrong buying. The colour, style, sizes, etc. of the goods purchased may not be suitable keeping in mind the preferences of the customers. Or the retailer might have bought novelty goods that failed to click.
- Buying at the wrong moment. Goods are bought too early or too late, or they are received too late for sale.
- Individualistic or 'pet buying'. A person in charge of purchases may buy some products just because he has a liking for them, even though such products are not popular.
- Failure to examine incoming stock for defects.

Mark-downs resulting from pricing errors:

- The initial price has been set too high.
- Competitors' prices have not been considered while setting the initial prices.
- The initial markdown has been too small.

Mark-downs resulting from selling errors:

- Failure to display merchandise properly, i.e., in the right location, with proper decoration
- Careless handling of the goods resulting in their deterioration. For example, a salesman has to show the displayed pair of shoes to each and every customer that walks in. If those are not handled properly, these may have to be sold as shop-worn stock.

Mark-downs are not only due to errors, but also because of uncontrollable causes such as:

- Weather conditions. A warm winter may drastically reduce the sales of sweaters resulting in a huge unsold stock.
- Economic conditions. Sales of expensive goods and consumer durables may decline during an economic recession.
- Display items that have been kept on display for a long time tend to become discoloured and unattractive.

Methods for Setting Retail Prices

Wal-Mart is also under constant pressure from political groups on account of its imports, which is, as per estimates, one tenth of direct US imports. Generally, one of the following three methods could be used for setting retail prices—cost-oriented, competition-oriented, and demand-oriented method.

Cost-based Method : This is the most fundamental method of setting prices. The retailer adds a standard markup to the cost of goods to arrive at the selling price. This is a fairly simple approach and easy to implement. However, it ignores the prices set by competitors and the demand for the product.

Competition-based Method : This method means closely matching the prices of competing retailers. This method is very easy to implement, as it does not need demand forecast as in the case of demand-oriented pricing. Also unlike cost-oriented pricing, it does not require cost figures or their analysis.

However, competition-oriented pricing is reactive rather than proactive. A retailer merely follows his competitors and cannot differentiate himself from his peers. So, the retailer depends on his competitors for his pricing decisions. It does not allow a retailer to maximize profits because demand and costs are not considered while pricing.

Retailers can price either above, below, or at parity with the competition. A low-cost provider would try to price below competition while a retailer with high quality image, unique merchandise, etc., would price above competition. Stores like Shoppers' Stop, which has a significant brand image, sell above the competitor's prices.

Competition-related issues to be resolved before setting Prices

- Should your overall strategy be to sell at the prevailing market prices or do you want to work at an above-the-market or below-the-market strategy?
- Should competitors' temporay price reductions ever be matched?
- Could private-brand merchandse be obtained in order to avoid free price competition?

Competitive Markup Method for Pricing—an Example

The competitive markup method is used to price the goods similar to those of the competitors. In effect, the markup is controlled by competitors and it fluctuates as a consequence of what the competitors are charging for their products and services. In this example let us use.

The same operating cost and net sales numbers that we used in the previous example.

If the retailer knows that his competitors are using a 50% average markup on everything they sell, the profit expectations from his store would be:

Profit =(Competitive markup x Net sales) - (Total operating cost

= (.50 × $250,000) – ($75,000)

= $50,000

Price rationalization to fight competition and increase Profits

Starting from Restaurant International's Pizza Hut, the Bhartiya group-promoted Domino's Pizza India Ltd, and Subway, to the home-grown Pizza Corner, Nirula's, and Saravana Bhavan are dropping prices and playing the value-for-money card. Almost all fast-food chains are adopting popular pricing strategies. McDonald's India recently dropped prices of several of its popular menu items by as much as 20-25%. A communication exercise initiated by the chain highlights 'price points of convenience' - Rs 10, Rs 15, and Rs 20. While the company is projecting it as a 'promotional exercise for a few products in some cities', most believe that it s a strategy that is here to stay.

The Bistro Hospitality-promoted Thank God It's Friday (TGIF) chain dropped prices by about 20% a couple of months ago. Interestingly, this is the first signifiant large-scale price reduction exercise undertaken by the chain since it began operations in India in 1996. They claim that it is the indigenisation of ingredients to a large extent, which has made this possible.

Similarly, Barista Coffee Company dropped its prices by about 25% in 2003. Its strategy was driven by the need to drive volumes and increase footfalls. The company claimed that after the price reduction exercise, visits had increased by over 40%. The company also indicates that there could be further price reduction in the future.

Domino's, too, is pegging high hopes on its thin crust pizza—currently being offered free with any large pizza, or for Rs 39 along with mid-sized pizzas. It expects double digit growth from the above strategy. The above strategies are essentially the result of branded food chains looking for incremental sales and higher footfalls in the backdrop of stiff competition and changing consumer tastes.

Source: R. Bhushan 2003, 'Popular Pricing Catches up with Food Chains Too', Business Line, www.thehindubusinessline.com, December 18.

Demand-oriented Pricing Method

Demand-oriented pricing should ideally be used along with cost-oriented pricing. When these two are used in conjunction, the retailers can not only consider their profit structure but also the impact of price changes on sales. For example, if the customers are insensitive to price (the demand is price inelastic), an increase in prices would result in higher profits, as sales would decrease insignificantly. Similarly, if customers are price sensitive, a decrease in prices would actually result in greater profits, as sales increase much more to offset the decrease in prices. Demand-oriented pricing, therefore, seeks to maximize profits.

Consumer Response to Prices

While setting retail prices, it is important to understand the impact of various price points on demand. In this context, the various price elasticities need to be factored in for the calculation of price. While price elasticity is a characteristic of the product price, sensitivity is a characteristic of the consumer. Price sensitivity in turn affects price elastisity.

Price Elasticity

Price elasticity of an offering plays a key role in price fixing. Price elasticity determines the extent to which the demand for an offering responds to a change in price. Retailers are required to find out whether customers would continue to buy their offerings even when the price is high, i.e., whether a significantly more numbers of customer will buy the product if the price is low.

If an offering is price elastic, a change in price will cause even larger change in the quantity demanded. This usually means that if a retailer lowers price of its merchandise, the quantity demands of a product or service will increase. However, some products may see an increase in demand as prices are raised due to a perception of higher quality and luxury.

The retailers should take due care in setting the price of price elastic products. If the item is more expensive than the competitors', be sure there are added features and benefits to make up for the different. If the retailer is selling a price-inelastic product or service, a change in price will cause less of a change in quantity demanded. So. whoever price you charge, your demand will be relatively stable. Items are price inelastic usually have no similar items available, and no substitutions for the products exist. Because of this, propneaxs with price inelastic products have the ability to charge a higher price.

Price Elasticity of Food offered by Indian Dhabas

Most of the *dhabas* set prices of their offerings at reasonable and attractive levels. They realise that their offerings are price elastic with the presence of the multiple outlets of same kind in the vicinity. In case customers intend to pay more, they prefer to visit upmarket restaurants, where they can enjoy the ambience along with the seemingly hygenic surroundings.

Price Sensitivity

To determine retail prices, the price sensitivity of the customers needs to be determined. Price sensitivity is influenced by a number of factors such as substitute awareness effect and income effect.

Substitute Awareness Effect

When there are a lot of substitutes available to the customers, comparing prices among them is easy, the price sensitivity is high customers can switch easily if they perceive that if the price they are paying is high.

Total Expenditure Effect

The customers are price sensitive when the expenditure incurred on a particular product is high. The expenditure is large both in terms of absolute rupees as well as a percentage of the customers' income.

Pricing is a critical decision for the retailer. Pricing strategy must be determined after considering the business objectives and the various external factors that impact the validity of the decision. The increasing role of technology (like point-of-sale and back-end automation) in retail business is also offering a set of varied alternatives to the retailer to fine-tune prices in accordance with market segment and merchandise features.

6.3 Exercise

1. Write short notes on
(i) Penetration pricing
(ii) Perceived value pricing
(iii) Bundled pricing
(iv) Loss leader pricing
2. As a manager of newly launched retail outlet for Consumer durables, prepare a pricing strategy. State and justify all your assumption.

Unit 7 Market Segmentation Strategy

Structure

7.1 Introduction

In retailing, the customer is the reason for existence. The people who enter a retailer's store (or visit its website) and make purchases are the ones who drive the business. In a service economy, the relationships the retailer builds with customers determine its success. Any successful retail establishment understands its customers, including how they think and behave, where they live, and their demographic characteristics. All retailing tactics should be directed toward those individuals who will inevitably purchase the products and services offered.

Customers have a wide choice of businesses to patronize. The retailer that understands its customers' needs and wants is able to provide the products and services that will best satisfy those customers. In addition, the retailer is able to price the product at an appropriate level and at the same time generate a profit. The retailer can have an effective product mix available to customers when and where they want it if, and only if, there is effective communication with those customers.

The retailer's target market should consist of consumers who have specific. needs for its services or products. Consumers may wish to purchase the products as gifts, for daily family use, or for personal consumption. To be able to ''talk" to these consumers using integrated marketing communications tactics, the retailer must know precisely who they are.

There is an old saying in advertising, "We have met the consumer and he ain't us." In other words, retailers need to research *who* their customers are and how their customers make decisions. Retailers cannot rely only on intuition; they must employ outside research methods to gain insights into how and why consumers shop.

Retailers can use a number of methods to obtain a good picture of their customer base. The behaviors consumers exhibit when shopping for goods and services, for instance, can teach the retailer a great deal. The information generated can be easily placed into the target marketing section of the integrated retail management plan, which deals with evaluating and understanding the customer. These data can then be used to help select the target market and are instrumental in the retailer's site selection activities. It is important to include all consumer data in the retail information system (RIS). This gives all retail decision makets access to the data at the push of a button and significantly reduces the work required to research these data manually.

Information about consumers usually falls into one of four categories (called the "four *ics")*: (1) geographics, (2) demographics, (3) psychographics and (4) behavioristics. Often a clearer picture of the customer base emerges when these areas are combined.

7.2 Criteria for Evaluating Market Segments

Customers are grouped into segments in many different ways. For example, customers can be grouped on the basis that they live in the same city, have similar and eduradon, or barbecue at their homes twice a week or more. different methods for segmenting recall markets. There's no which method is best. Four criteria for evaluating whether available target market are actionability, identifiability and size.

Actionability : The fundamental criteria for evaluating a retail market segment are (1) customers in the segment mast have similar needs, seek similar benefits, and be satisfied by a similar retail offering, and (2) those customers' needs must be different from the needs of customers in other segments. Actionability means that the definition of a segment must clearly indicate what the retailer should do to satisfy its needs. According to this criterion, it makes sense tor Lane Bryant (a division of Charming Shoppes catering to full-figure women) to segment the apparel market on the basis of the demographic characteristic physical size. Customer who wear large sizes have different needs than those who wear small sizes, so they are attracted to a store offering a unique merchandise mix. In the context of the multiattribute attitude model previously, women who wear large sizes place more importance on fit and fashion because it's relatively hard for them to satisfy these needs.

On the other hand, it wouldn't make sense for a supermarket to segment its market on the basis of customer size. Large and small men and women probably have the same needs, seek the same benefits, and go through the same buying process for groceries. This segmentation approach wouldn't be actionable for a supermarket retailer because the retailer couldn't develop unique mixes for large and small customers. Thus supemarkets usually segment markets using demographcs such as income or ethnic origin to develop their retail mix.

Identifiability : Retailers must be able to identify the customers in a target segment. Identifiability is important because it permits the retailer to determine (1) the segment's size and (2) with whom the retailer should communicate when promoting it's retail offering.

Accessibility : Accessibility is the ability of the retailer to deliver the appropriate retail mix to the customers in the segment. Customers for Marriott convention hotels and resort hotels are accessed in different ways because they use different sources to collect information about products and services. Convention hotel customer are best reached through newspapers such as *USA Today* and *The Wall Street journal*, where as resort hotel customers are best reached through ads on TV and in travel and leisure magazines.

Size A target segment must be large enough to support a unique retailing mix. in the past, health food and vitamins were found primarily in small, owner operated stores that catered to a relatively small market. In the wake of a higher conselousness about exercise and nutrition, health food stores like Gen Nutrition have flourished. Supermarkets have also expanded their offering of health foods and vitamins to meet this substantial market segment's needs.

On the other hand, the number of consumers in a target segment may not be a good indicator of potential sales. For example, international retailers are very interested in China because it has 1.2 billion consumers. Although many consumers in China's coastal cities have considerable disposable income. 70 percent of all Chinese live in rural areas with minimal incomes. Even in the areas, many Chinese consumers are in their twenties and live with their parents in an apartment.

Segmentation	**Targeting**	**Positioning**
1. Choose variable for segmenting market	1. Decide on targeting	1. Understanding the
2. State a profile of segment	2. Identify which segments will be tageted	2. Place offering in the mind of the target segemet
3. Verify prospective segment	3. How many segment should be targeted	3. Evolve marketing mix

Fig. 7.1 Stages in marketing segmentation

Criteria for Effective Market Segmentation

Effective market segmentation can provide a base for developing sound marketing strategy. But market segmentation is a challenging task. If a retailer identifies and segments its market on variables influence purchase decision for its products and services, segmentation can become a sound platform for

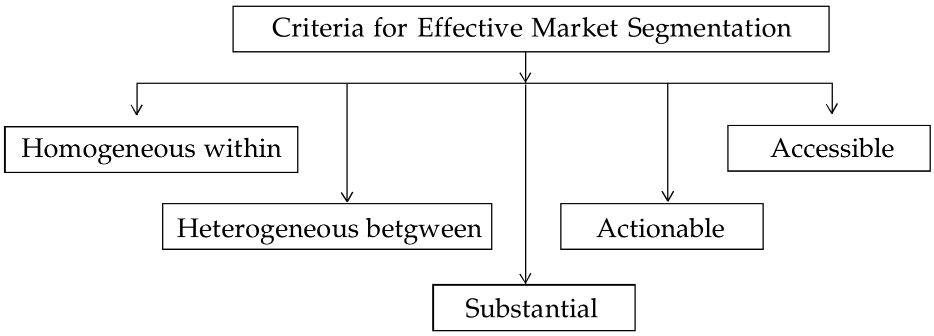


Fig. 7.2: Important characteristics for effective marketing segmentation

developing an effective marketing strategy. Otherwise, segmentation may prove to be a futile exercise.

For market segmentation to be effective, the identified segments must satisfy the following criteria.

- *Homogeneous within:* The segments into which the market is divided should be homogeneous within. The customers in a segment should have similar needs and wants and follow similar buying behaviour as much as possible so that their needs can be addressed through a uniform marketing programme.
- *Heterogeneous between*: The customers in different segments should be as different as possible with respect to their needs and buying behaviour. This will help a retailer to focus its efforts on its identified target segments.
- *Substantial*: The market segment or segments that a retailer plans to target must be large enough and have enough discretionary income to help the retailer to be profitable. Stores like Bombay Stores and Lifestyle, which target higher income groups, should ensure that there is a significantly large population of such high-income groups in their trade area before locating a store.
- *Actionable*: The segmenting dimensioins should be useful for identifying customers and deciding on marketing mix variables. Barista targets youngsters who seek to enjoy a coffee in a fashionable outlet; it should be accessible to its target customers.
- *Accessible:* The target market segment must be reachable so as to serve them effectively. A mall in a city suburb, like Koramangala in Bangalore, must be accessible to its target population. There should be good roads to facilitate smooth movement of traffic from the surrounding colonies. It should also have sufficient parking facilities to appeal to its target segment of car-owning consumers.
- *Measurable:* The size, purchasing power, and the characteristics of the market segment must be measurable. The retailer needs to determine the size of the target segment and estimate its purchasing power to develop an effective marketing programme.

7.3 Types of Markets

A market is any group of existing or potential buyers of a product. There are three major types of markets—consumer, industrial, and reseller:

- The consumer market includes individuals and households who buy goods or services for their own use. Grocery and stationery items are among the most common types of consumer products.
- The industrial market includes individuals, groups, or organizations that purchase products or services for direct use in producing other products.

- The re-seller market includes middlemen or intermediaries, such as wholesalers and retailers, who buy finished goods and re-sell them for a profit.

Retailing is associated with that aspect of the transaction where the final customer in the value chain purchases products or services for self-consumption. Our focus in this unit is on segmentation of retail markets which deal with consumer products.

Consumer products are those products that are intended for the ultimate consumer. Consumer products can be sub-divided into four subgroups:

- *Convenience products:* Convenience products are products that are purchased frequently but on which the consumer is not willing to spend much time or effort. These include staples like packaged foods, milk, bread, and emergency products like medicine, umbrellas, etc.
- *Shopping products:* Shopping products are products that a customer feels are worth the time and effort to compare with competing products. These include furniture, clothing, washing machines, television sets, etc.
- *Speciality items:* Speciality products are consumer products that the customer makes a special effort to purchase. The consumer is willing to search for such speciality products. Any branded product that customers insist on by name is a speciality product.
- *Unsought items:* Unsought goods are products that potential customers do not yet want or know about. Customers do not buy such products unless promotion shows their value. Life insurance and encyclopedias are examples of unsought products.

A retailer has to understand the product class it is dealing with in order to understand customers' buying behaviour and to be able to segment markets.

7.4 Dimensions for Segmentation

A retailer must decide on product-market dimensions for segmenting the market, which might be useful in planning marketing strategies. Customers can be described by many specific dimensions. Table 7.4 shows a comprehensive list of dimensions useful for segmenting consumer markets. A few dimensions are demographic; others are geographic, psychographic and behavioural. In segmenting the total market, the retailer must first decide which combination of segmenting dimensions to use. For example, a retailer may use a geographical dimension to define its trade area, a demographic dimension to identify its customers, and a behavioural dimension to understand their buying practices.

Table 7.4 Dimensions used to segment markets

1.	Sex Male, female	8.	**Family size** 2, 3, 4, 5, more
2.	**Age** 0-5, pre-school 16—12, pre-teen 13-19, teenage 20-30, young	9.	**Family life cycle** Young, single Young, married, no children Young, married, youngest Pre-school Older, no children at home
3.	**Marital status** Single Married Separated Widowed	10.	**Religion** Hindu Muslim Christian, etc.
4.	**Income** <Rs 5,000 ... . Over Rs 10,00,000	11.	**Social class** Upper-upper Lower-upper Upper-middle Upper-lower, etc.
5.	**Occupation** Professional Manager Labour Student Businessman Homemaker	12.	**Housing** Owned Rent
6.	**Education** Primary Secondary Intermediate Graduate Professional degree	13.	**Geographic** Rural Suburban Urban Metro Driving time
7.	**Type of family** Nuclear family Joint family		

Geographic Segmentation

In case of geographic segmentation, the market is divided into geographical units such as nations, states, regions, countries, cities, or neighbourhoods. Retailers in India have often segmented markets by cities and focused on metros and large cities. Globus started its first store in the metropolitan city

Table: 7.5 Top 5 money-spending priorities of SEC A and SEC B by region

West	North	South	East
Grocery	Grocery	Grocery	Grocery
Eating out	Personal care	Eating out	Apparel
Books and music	Eating out	Apparel	Savings
Personal care	Books and music	Books and music	Personal care
Savings	Savings	Savings	Eating out

Source **:** *Consumer Outlook 2002*, KSATechnopak

Chennai as well as the size city of Indore to gauge market potential in cities of different sizes. Subhiksha has stores in Chennai, at short distances, serving the near by colonies. A study done by KSA Technopak in India among segments SEC A and SEC B revealed that while the four regions—north, south, east and west had consensus on top-spending priorities in their preference order (Table 7.5).

Demographic Segmentation

In case of demographic segmentation, the market is devied into groups based on demographic variables such as age, religion gender, income level, social class, family size, occupation, education level, and marital status. The retailer should segment the market on varieties which reflect interest, need, and ability of the customer to a particular kind of shopping centre or retail outlet. Thus, an retailer like Benetton may segment the market by gender. While an up-market department store like LifeStyle may segment market by income class. The major objective of analyzing demographic characteristics is to locate the market, whereas psychological and socio-cultural indicators help in understanding the buying behaviour. In India, most market research agencies prefer to segment on the basis of socio-economic class (SEC A, SEC B, and SEC C) rather than income per se. In this context, it is also important to continuously the preference patterns of each of the segments due to fluidity in the socio-economic situation facilitated by economic development.

Age is very popularly used as a basis of segmentation of product categories that receive a differentiated consumer response on such basis. The KSA Technopak study (2002) states that the youth (15-24 years) in India is emerging as a core target customer for lifestyle products like personal care, music, books and magazines, entertainment parks, movies and theatre, and eating out. It also states that relative spending of youth with respect to older age groups is on the increase since 1999.

In terms of occupational status, a significant segmentation basis has been the spending habits of professionally employed women as compared to housewives. The KSA Technopak study (2002) states that the overall spending of working women is about 10% more than that of a housewife, and that the former spend much more on lifestyle products (Table 5.6).

Table : 7.6 Ratio of spending of working women to that of housewives

Category	Ratio of Spending of Working Women to that of Housewives
Eating out	1.5
Books and music	1.7
Gifts	1.7
Mobile phones	2.5
Movies	2.8

Source: *Consumer Outlook* 2002, KSA Technopak

Family income can also be used as an effective basis for segmentation. Large shopping malls located on the outskirts of a city like the Metropolitan Mall in Gurgaon with state-of-the-art facilities, and tenants like McDonalds, Shoppers' Stop, Reebok, Marks and Spencer, etc., which sell an extensive range of premium brands, can segment market on demographic basis focusing on family income. They can target professionals, married, aged between 30 to 45 years old with young children, and with incomes more than Rs. 4,00,000 per annum. Tupperware targets middle-class, married women in their thirties, keen to make some money through marketing its products.

Family

Retailers can target bachelors or families. They may also target various family set-ups like joint families, nuclear families, DINKS (double income no kids), etc. Nirula's, a restaurant chain in Delhi, has positioned itself as a family point providing pleasant experience and fun while McDonald's has positioned itself as a family joint which provides a reliable and safe dining experience. Many retail outlets and shopping malls that target families have begun to provide play areas for children so that the parents can better enjoy the shopping experience.

Social Classes and Preferences

Upper Elite Class

Those who have inherited wealth. This class is less than 0.1% and have preference in antiques, jewellery, homes, vacations, higher education, fitness, beauty treatment, traveling, etc.

Upper Middle Class

Career oriented professionals and corporate managers are the people who prefer to spend on : Education, books, cloths, furniture, home appliances, etc.

Middle Class

These are average pay white-collar class of society who prefer to spend on popular and trendy products, cars, branded goods, good homes, college education for children, entertainment, etc.

Lower Upper Class

These are people who have earned wealth due to their exceptional ability, are neorich, and prefer to spend on cars, big home, good schooling, education for their children, etc.

Working Class

These are average pay blue-collar class of society who prefer unbranded goods, cheap food, liquor, etc.

Lower Class

This class of people would prefer to spend on necessities from local market and local unbranded goods.

Source: www.retailyatra.com

Retail Spenders
Fifteen per cent of the purchases of the upper elite class were of foreign make mostly bought from abroad during foreign travel. The 3 million Indian upper class families with average household income of about 4-5,00,000 is the next segment, wherein average per person spending was about Rs 5000. This segment accounted for more than 17% of the total spending on clothing and about 28% on branded clothing. Eight per cent of it was spent on gifts. The largest spender on clothing was the middle class with an average per household spend of Rs 3750. Overall it accounted for about 55% of the total clothing consumption in the country. The middle class consists of about 315 million people, which is also the largest consumer of unbranded as well as tailor-made clothing. This is the segment that is likely to switch over to branded wear in quite a few categories within next 2 years. An important observation in this segment is its high spend on kidswear. All children of this class go to schools and buy a minimum of two sets of uniform a year. The rest 141 million households put together spent less than what was spent by 0.4 million house-holds of the super-rich segment. The 'Age Group wise Spending' study shows how much spending was done by different age groups in the year 2001-02. Out of 1037 million people (by September 2001) it was expected that 537 million were male and 500 million were female consumers. In above 14 years age group there were 353 million male and 328 million female consumers. The table once again shows the strength of the Indian youth in their numbers as well as in consumption capacities. While in men, age group 25-34 was the strongest segment with 83 million consumers (24% of total men population) accounting for 30% of its spending on clothing, in women, age group 15-24 was the highest spender with 97 million consum-ers(30% of total women population) accounting for 32% of women's clothing purchases. These two, being the marriageable age groups, make substantial purchases of clothing. Thirty five years and above age groups in both men and women went for almost similar spending.

Psychographic Segmentation

When a retailer segments markets based on psychographic characteristics it divides buyers into different groups based on their lifestyle, personality, or values. Lifestyle is a distinctive mode of living. It gets reflected by activities performed (work, social, and hobbies), interests (family, job, sports and fashion), and opinion (politics, education, and social issues).

In major Indian cities, Indian Coffee House provides good quality coffee at a very modest price. It targets customers above 40 years, interested in discussing politics, intellectual issues, or business matters while shoping coffee. On the other hand, Cafe Coffee Day and Barista target youngsters from high income families looking for fun, with their up-market decor and attractive layout.

Values

Value refers to belief systems that go beyond behaviour or attitude. Values are stable and occupy a central position in a person's cognitive system. Values are determinants of attitudes and behaviour, and provide a stable and inner oriented understanding of consumers. For example, an individual may value ambition and honesty, which in turn determines his attitude and lifestyle.

Benetton, the apparel retailer, has targeted customers who value protection of environment. It encourages recyclable packaging and re-fill services. Benetton also contributes a fraction of its profits to environment related causes, protection of forests, afforestation programmes, etc.

Cultural Values

Retailers like Planet M encourage their staff to greet the customers and suggest support in product selection. While some customers appreciate such services others consider it an intrusion in their privacy. The later sentiment is at times echoed by women shoppers from certain conservative families.

Value and Lifestyle Segmentation

Unlike traditional segmentation, value and lifestyle segmentation (VALS) begins with people instead of products and classifies them into different types, each characterized by a unique style of living. It then determines how marketing factors fit into their lives. This perspective provides a three-dimensional view of the target consumer.

VALS is a relatively new concept, pioneered by SRI International, a management consulting firm in California. This model was later modified in 1989 and renamed VALS-II which segmented the American consumers into 8 consumer profiles.

Some of the uses to which value and lifestyle segmentation has been put are:

- To identify whom to target and find niche markets easily
- To locate where concentrations of a retailer's group lives

- To gain insight into why the target group acts the way it does
- To improve and introduce products that are in harmony with customers' values
- To target marketing and advertising campaigns more effectively and accurately
- To position products more accurately in the marketplace

Behavioural Segmentation

In this case customers are divided into groups based on the way they respond to, use, or know a product. Products and services are purchased for a variety of reasons. A girl may buy a dress to make a fashion statement, or she may buy it as a casual wear. Retailers must determine reasons for purchase. Marketers can compile information on behavioural variables such as occasions, benefits, user status, usage rate, etc. to understand the customer-purchasing behaviour before finding suitable basis for segmenting the market.

Reason/occasion for purchase: For example, many Indians paint the houses just before the Deepawali festival leading to higher sales (paints during Deepawali. A retailer may segment market on the basis of purchase occasions and target customers purchasing paints during Deepawali with special offers.

Frequency of purchase: Some customers purchase vegetables on a weekly basis; others purchase it every day. A retailer can segment market on frequency of purchase and target customers who desire fresh vegetables every day.

Quantity of purchase: Some customers purchase in bulk occasioally while others buy in smaller volumes more frequently. In rural India, many consumers purchase goods on daily basis in small quantities; a retailer may target such customers.

Product usage: Markets can be segmented on the basis of usage—heavy drinkers drink beer regularly on a daily basis; some others drink on weekends; and others are occasional drinkers. A retailer may target heavy drinkers.

Loyalty status: Some customers patronize a particular store; others shop for best bargains. A retailer may segment the market by loyalty status and target customers who are loyal with special offers. Most large retailers including Shoppers' Stop and IifeStyle have cards for regular shoppers on which discount and other benefits can be availed.

Buyer readiness stage: A retailer may segment the market by the buyer's readiness to purchase a product. Some customers may be innovators and early adopters of sophisticated telecom products; others may be laggards. The retailer may target the innovators.

Source of purchase: Some customers may prefer purchasing in a neighbourhood business district; others may prefer purchases in a mall during weekends. A retailer may segment the market by customers-choice of shopping locations.

Market Targeting—Choosing the Segments to Focus

Once a retailer has segmented the market, he has to identify the segments for focussing the marketing effort. While choosing target segments, a retailer has to measure the attractiveness of the segment and its capacity to serve the segment. In evaluating segment attractiveness, a retailer has to estimate the size of the segment, its purchasing power, its growth rate, presence of competition etc. In this context, marketers may opt for an untapped segment or choose to operate in a segment where there are already existing players. Such a decision would depend on the respective profitability of each segment besides factors such as the retailer's capacity to serve the segment and the degree of accord between the requirement of the segment and retailer's product offerings and marketing mix. Crossroads in Mumbai identified its target clientele as the upper middle-class customers, projecting daily walk-ins of about 10,000 people. To serve the target customers visiting the mall a floor was devoted to each of the four shopping categories-women, kids, men, and home furnishings. Anchor stores—McDonald's and Pantaloon—were placed inside the mall.

It is important to identify not just the target customers but also the kind of customers who are likely to visit the store, who are likely to make purchases, and those who are likely to continue as repeat customers (Fig. 7.7). Incidently, all the visitors to the store may not be members of the identified target market. Many retailers in India are missing the big picture and concentrating their efforts primarily on customers who make purchases. Retailbiz (Oct. 9, 2003) reports that in India only about 15-20% of the so-called target customers walks into the store and as much as 80-90% do not even enter the store—a clear case of major error in customer identification. Amongst those who go to the store, only one-third end up buying, and two-thirds go to the shop next door—a case of poor merchandise and service. Thus, a target customer base of 100 is reduced to a buyer base of 5. Out of these 5 buyers, only 2-3 are repeat customers.

Many retailers in India, instead of looking at a potential of 100 customers, are looking at maximizing their share among the five customers.

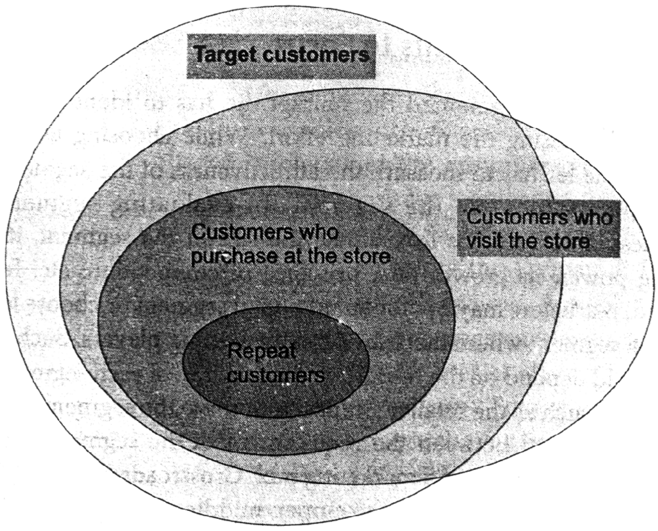


Fig. 7.7 Levels of customer identification

KSA Technopak conducted a research to identify the gain and effort at each stage and found that the gain-effort ratio reduces exponentially from step I (identification of target customers) to step IV (ensuring repeat purchase). Hence, efforts are minimal and usually one-time in step I (identification of target customers) and II (ensuring customers visit the store) and gains are much higher. In step III (ensuring customers make a purchase) and IV (ensuring repeat purchase), it takes a lot of effort, almost on an ongoing basis, and gains are disproportionately low. Therefore, Indian retailers must pay increasing attention to more precise identification of the target customer base (step I). Behavioural segmentation, discussed earlier, is quite useful in this context.

A retailer should ensure that the customers patronizing the store should mix well. Retailers focusing on elite upper class segments should not simultaneously try to attract lower class segments. Similarly, the retailer targeting trendy youngsters should not simultaneously target the traditional shoppers. This can often result inconvenience to both groups of customers.

The Crossroads Experience

Crossroads opened in Mumbai in 1999. Initially, it attracted 30,000-40,000 people during week days and 100,000 customers during weekends. Most of the visitors were browsers and not serious customers. The high numbers put enormous pressure on mall's infrastructure and disconcerted the posh clientele targeted by Crossroads. The mall management restricted entry by requiring visitors to produce a credit card, visiting card, cell phone, etc., or pay a entry fee of Rs 60 to be refunded against purchases. The traffic fell drastically to only 6000 to 8000 per day. Premium outlets like the jewellery shop and hi-fi equipment vendors were elated with the reduction in traffic. The bookshop and the music store, which depend on large traffic, were however badly hurt. Fountainhead, the bookshop, moved out in 2001. The lesson to be learned is that a mall management should target tenants whose clientele comes from the same target segments.

Profitability of Segments in Branded Apparel Market in India

Market segments such as men's ready-to-wear and sports clothing have begun to evolve in recent years and look potentially profitable. Men's clothing accounts for 70% of all branded apparel sales (which is pegged at Rs 4,000 crores), compared to 22% of children's wear, and 8% of women's wear. This trend is expected to continue, with men's branded apparel slated to grow by 30% a year, against 10% for both women's and children's clothing.

Mr. B. S. Nagesh, Chief Executive Officer, Shoppers' Stop, feels that markets for retail branded women's wear have still a long way to go. Branded apparel forms at best 3% of the women's clothing market and around 13 % of their apparel market. Western clothes for women, easier to standardize, are restricted to students in urban markets and a minority of women executives. It is estimated to be less than 10% of women's apparel market, implying a market size of Rs 60 crores at best. The kids' wear market (organized and unorganized) is estimated at Rs 6,000 crores. The branded players are targeting 10-12% of this market, leaving the balance to the unorganized market and small-scale regional/local labels.

Source: Mckinsey 2000,Report on India's Retail Sector, The Hindu, November 9.

7.5 Exercise

1. Using the different bases for segmentation, segment the Indian Market and locate the target audience for the following

(a) A new brand of multiplex.

(b) A retail chain for fashion jewellery.

(c) A retail chain selling organic food.

Justify all your assumption.

Unit 8 Consumar Behaviour

Structure

8.1 Consumer behaviour & Factors influencing Buying Decision.

Consumer behaviour is the understanding of how consumers make decisions to use their resources such as time, money, and effort for buying, using and disposing goods and services.

In the retail context, marketers would specifically be more interested to know about consumers' shopping behaviour, which involves an understanding of decision variables regarding when, where, and what to shop (shopping timing, choice of retail format and store, etc.). Such decision variables are the factors to be considered by the retailer while taking decisions regarding the above criteria.

For instance, in case of pickle, marketers will be interested in finding out the type of pickle consumers intend to buy (single vegetable/fruit or mixed, spicy or not, oily or dry, veg or non-veg); the brand preference (national, private, generic); the reason for using (to add taste, for food preparation, to eat along with snacks); the place of purchase (super bazaar, convenience store, vendors, home made); and frequency of purchase (weekly, biweekly, monthly). On the basis of vairous alternatives to consumer needs, marketers evolve the best possible marketing mix to attract the target market.

Therefore, shoppers' response to retail marketing mix has a great impact on the firms' success in the long run. As described by Cohen (1991), in consumer buying behaviour analysis the marketing mix inputs (or the four Ps of price, place, promotion, and product) are adapted and focused upon the consumer. Individual consumers consider each element of retail marketing mix in relation to their culture, attitude, previous learning. and personal perception.

Many a time consumers' patronize more than one retail outlet for the same product. The consumer is influenced by both the intrinsic and extrinsic factors. Intrinsically, his needs, motives, perceptions, and attitudes tend to influence what he purchases and where he purchases. However, extrinsic influences such as family, social class, the culture and economic factors will also affect his behaviour. With the understanding of these elements retailers or marketers would be well placed to devise their retail marketing mix in accordance with their respective target segments.

To understand what and from where do the shoppers shop, it is important to analyse the reasons that prompt shopping behaviour.

8.2 Why do People Shop?

It has been suggested that consumer shopping activities are influenced by personal and social motives. Consumers' motives are important and positively related to their pleasure and satisfaction while shopping in terms of retail choices.

Personal Motives

- Role playing-shopping activities are learned behaviours and are expected or accepted as part of one's position or role, such as mother or housewife.
- Diversion-shopping can offer a diversion from the routine of daily life and is a form of recreation.
- Self-gratification-shopping may be motivated not by the expected utility of consuming, but the utility of their buying process itself. Thus, emotional states or moods may explain why or when someone goes shopping.
- Learning about new trends—shopping provides consumers with information about trends and movements and product symbols reflecting attitudes and lifestyle.
- Physical activity—it involves considerable amount of exercise.
- Sensory stimulation—shopping can provide sensory benefits such as looking at and handling merchandise, listening to the sounds (e.g., noise, music) and smelling scents.

Social Motives

- Social experience outside home—shopping can provide opportunities for seeking new acquaintances, encounters with friends, or just 'people watching'.

- Communication with other similar interests—it provides opportunity for interactions with other customers or sales people.
- Peer group attraction—certain stores provide a meeting place where members of peer group may gather.
- Status and authority—shopping may provide an opportunity to attain status and power by being waited.
- Pleasure Bargaining—shopping may offer the enjoyment of gaining a lower price through bargaining comparison shopping or visiting special sales.

Having understood why do people shop it is important to analyse the factors that affect the consumers' decision making process regarding what, when, and from where to shop.

Factors Affecting Consumer Decision-making

A consumer's purchase decision tends to be affected by the following four factors:

1. Demographic
2. Psychological
3. Environmental
4. Lifestyle

DEMOGRAPHIC FACTORS Gender Age Occupation Education Family size Income	**PSYCHOLOGICAL FACTORS** Motives Perception Learning Attitude Personality
ENVIRONMENTAL FACTORS Physical Environment Social Environment—culture, sub-culture, social class	**LIFESTYLE** Activities and interests Nature of occupation Availability of leisure

Fig. 8.1 Factors affecting the consumer decision-making process

Demographic Factors

Demographic factors are unique to a particular person. They are objective, quantifiable, and easily identifiable population data such as sex, income, age, marital status, etc. It also involves identification of who is responsible for the decision-making or buying and who is the ultimate consumer. Even Saravana Stores and Shoppers' Stop, as discussed earlier, have focussed themselves on respective segments based on demographic factors such as income, age, family size, gender, occupation, education, nature and number of vehicles owned, etc.

Psychological Factors

Psychological factors refer to the intrinsic or inner aspects of the individual. An understanding of consumers' psychology guides the marketers' segmentation strategy. For example, consumers respond differently towards the same retail marketing mix due to their respective motives, personality, perception, learning, level of involvement, and attitude.

Indian Working Women and Dressing

Study findings indicate maximum usage of ethnic salwar-kameez (34.3%) by Indian working women at the workplace. This dress is generally tailor-stitched. But the branded offerings are not far behind. Formal shirts with trousers (28%) are the second most widely used workwear; then comes Indo - Western kurta (10%) followed by formal shirt with jeans (6.9%), t-shirt with jeans (6.2%), and finally the traditional sari (5%).

Income-group-wise analyses of findings show salwar-kameez being most widely used across all major sections of working women. Usage of rest of the dress combinations also conform to the overall scores except for the Sari that takes dominance over Indo-Western Kurta among the Rs 10,001-15,000 monthly income category of respondents. The overall income-level impact on usage of different dress combinations is however quite insignificant. The study then assesses the age factor impact.

Amongst the youngest group of working women, aged 21-25 years, formal shirt with trousers emerges as the most widely used dress combination with 208 weighted points. The jinx is finally broken. The age factor clearly appears to have a distinct impact on fashion lifestyles of working women.

Source: CD. Singh & Tulika Sen 2003, 'What Women Want, www.imagesfashion.com, May.

Motives

A motive is an internal energizing force that orients a person's activities towards satisfying a need or achieving a goal. Actions are affected by a set of motives, not just one. If marketers can identify the relevant motives then they can develop a better retail marketing mix.

Maslow's hierarchy of needs is one of the best frameworks used in this respect. It consists of the following five needs:

1. Physiological
2. Safety
3. Social
4. Esteem
5. Self-actualization

Retailers are required to determine the need level of the consumers to have a sound understanding of what motivates consumer preference towards a particular retail format or store.

An instance of satisfaction of social needs is presented when, in rural India, consumers regularly visit periodic markets not only to purchase goods or services but also to enjoy an outing with family and friends and to participate in local festivals and other activities.

In Chennai, it is considered a status symbol if women shop for silk sarees from Kanchipuram (a town famous for Silk work) avoiding a long list of leading silk saree stores in Chennai even though they offer better selection and at times lower prices. This occurs due to customers" desire to satisfy their esteem needs.

In Indian metros, consumers are replacing milk vendor or milk store (traditional-independent) with Mother Dairy products, which they have to collect from their retail outlets at comparatively higher price, because of the emerging concerns about the quality of milk. This is largely an outcome of the consumers' safety needs.

Perception

Perception is the process of selecting, organizing, and interpreting information inputs to produce meaning. Recognition, selection, organization, and interpretation of particular stimuli is a highly individual process subject to individual needs, values, and expectations. A stimulus is any unit of input to any of the senses. The same stimulus may be perceived differently by different set of customers based on their unique personal and situational context. Hence, the indifferent service offered at the Saravana stores may be perceived positively by a certain set of customers due to the opportunity it provides them to look up the products at leisure. However, another set of customers may perceive it negatively, assuming it to be a reflection of the lack of interest of the store management in the needs of the customers.

Shoppers tend to seek out favourable information on products which are compatible with their needs, values, and expectation. They prefer to avoid unpleasant information. For instance, they prefer to pay more attention to advertising message that is in consonance with their value system and prefer to ignore a message that is in contradiction with their cultural values. This is done primarily to avoid the creation of cognitive dissonance. During Diwali most of the retail stores announce discounts and various other promotional schemes. Customers become highly uncomfortable if they do not get a good bargain at a particular market known for offering deals. Examples of some such markets are Palika Bazaar and Sarojni Nagar in Delhi, Linking Road in Mumbai, and Palton Bazaar in Dehradun.

Indian consumers initially perceived McDonald's outlets as costly and were not well aware of its product offerings. To overcome this perception among prospective consumers, McDonald's management introduced a seven-rupee softy ice cream to attract the shoppers. Retailers or marketers design the retail marketing mix to ensure patronization of the retail store or format by the target segment and/or to attract new customers.

Learning

Learning is the process through which a relatively permanent change in behaviour results from the consequences of past behaviour. There are various theories regarding the processes involved in causing such a permanent change in behaviour. Some of these theories are classical conditioning, operant conditioning, vicarious learning, and mere exposure.

Classical conditioning results from the association of two stimuli in the environment that work together to create an unconditioned response. The two stimuli in the environment are referred to as conditioned and unconditioned stimuli. The repeated association of conditioned and unconditioned stimuli may, in due course, lead the conditioned stimulus to produce the unconditioned response. Initially, self service (conditioned stimulus) was resisted by Indian consumers particularly in smaller townships, but with repeated occurrence of benefits such as low price and fast service (unconditioned stimulus people became more frequent visitors at eating joints (unconditioned response) with the policy of self-service.

Operant conditioning occurs when a person learns to associate its behaviour with the consequences or results of the behaviour. There are positive and negative types of operant conditioning. When a dog shakes its master's hand it gets a biscuit. If you work hard and study, you will get good grades. These are both positive parts of classical conditioning. Similarly, when a customer shops from an up-market store and receives appreciation from his peer group, the behaviour is likely to be reinforced, provided he values the opinion of his peer group. Operant conditioning is different from classical conditioning because the former is a learned behaviour and not a conditioned response.

Vicarious learning is defined as change in behaviour due to experience of others which could be a model, celebrity, or a member of the family or peer group. This is popularly used in case of advertising and publicity by ensuring the association and endorsement of specific retail outlets by celebrities, examples being Priety Zinta with PVR cinema in Delhi, Jackie Shroff with IBP of Indian oil, and Shilpa Shetty with P.P. Jewellers.

Mere exposure effect, in case of retailing, may occur in case of development of an emotional preference for previously unfamiliar retail outlets because of frequent exposure to that store from personal or impersonal sources. For example, Shoppers' Stop is briefly mentioned as a radio show's sponsor each week on various FM channels.

According to all these theories, a permanent change in behaviour is caused by information and experience. Therefore, to change consumers' shopping behaviour retailers need to provide them with new or modified information about aspects such as the nature of the store, product profile, shopping environment, etc. For example, most of the middle- and upper middle-class women prefer to shop for jewellery from their trusted local shop patronized by their family for generations. Tanishq, by its positioning strategy and increased awareness among women about the quality, authenticity, returns and adjustments (crucial in gold purchase), and variety in their store, attracted a good crowd in metros.

Time Zone, the first organized retail network for watches, was introduced by Titan. Before the advent of Time Zone, watches were sold through the unorganized retail set up. Time Zone has made sustainable efforts to educate people about the availability of wide variety, multiple brands, and authentic products at their franchised outlets.

Attitude

Attitude is consumers' predisposition to respond favourably or unfavourably to an element of retail mix or the retail mix in its entirety. It comprises knowledge and positive and negative feelings about an object or activity. The object could be tangible or intangible, living or non-living. An individual learns attitudes through experience and interaction with others.

Consumers' attitude towards a store and its products greatly influences the success or failure of a retail oudet's marketing strategy. Consumers' personality and lifestyle influences attitude and attitude change. Consumers screen information that conflicts with their attitudes. There is a difference between attitude and intention, and ability to buy. For example, in India consumers have a positive attitude towards pizza. But its limited availability and high price restrict people from enjoying it frequently. Amul, the leading milk cooperative in India, found it an economically viable gap and introduced pizza at Rs 20. The offering was supplemented with extensive retail penetration.

Fishbein's *multi-attribute model* proposes that attitude towards an object is based on the summed set of beliefs about the object's attributes weighed by the evaluation of these attributes.

$$A_b = {}^{(n)a}{}_{i=1} b_i\, e_i$$

Where A_b equals the brand, b_i equals the belief that performing behaviour b leads to consequence i, e_i equals evaluation for consequence i and n equals the number of salient consequences.

As a rule, marketers want their consumers to perceive their brand as: (1) possessing positively evaluated attributes (i.e., when e, is positive, b_i is positive), and (2) not possessing negatively evaluated attributes. Both approaches are commonly employed in advertising for favourable attitudes. For example, Big Bazaar is most strongly advertised as a department store with low prices, and consumers are also told that the variety and quality of offerings were given due consideration.

Fishbein's model is extremely helpful to retailers in, besides other things, devising their advertising strategy because it provides the reasons for consumer preferences, identifies unfulfilled needs, and provides suggestions for new products.

Theory of reasoned action says that a person's behaviour is determined by his attitude towards the outcome of that behaviour and by the opinions of the person's social environment. Ajzen and Fishbein proposed that a person's behaviour is determined by his intention to perform the behaviour and that this intention is, in tum, a function of his attitude toward the behaviour and his subjective norm. This is more clearly explained through the following example:

Attitude: 'I think I must shop for furniture from the outlets selling branded imported furniture.'

Subjective Norm: 'I bet my friends would be impressed by the branded furniture labels.'

Intention: 'I want to shop for furniture at the outlets selling branded imported furniture.'

Behaviour: 'I am going to the outlets selling branded imported furniture to make the purchase.'

Indian Consumers

J. Walter Thompson's (JWT) study identifies eight core, underlying truths about Indian consumers that significantly influ1ence their attitudes and behaviour. The eight most significant norms moulding attitudes and behaviour, according to the study, are:

1. Entrepreneurial
2. Speed and lightness in all aspects of life
3. Enjoyment
4. Religion and spirituality for physical and mental health
5. The family as a brand
6. The 'nowness' of life
7. Manipulation and powerplay for family harmony and
8. Getting more out of less

There is also an increasing penchant for 'lightness' among families, be it in terms of being more casual than traditional, seeking lightness in the kitchen through convenience foods and ready-to-use i masalas, or looking for lightness in terms of convenience— purchase through supermarkets and home delivery systems. More than the need for a product or service, it was found that Indian consumers today lay greater emphasis on the experience and enjoyment that come with it. Enjoying the simple pleasures of life, working to earn that enjoyment, and enjoying the small dreams that come true with the help of brands, new products and services are the top priorities among Indians.

The study also revealed that although people are willing to spend money, their expectations of return from every rupee spent are much more than what they were earlier. Consumers today are seeking better deals and better bargains, and are looking to get more than they bargained for, not just from a product but also from the entire experience. Source: www.aandm.com 2003,26 September.

Personality

Personality refers to all the internal traits and behaviours that make a person unique. Uniqueness is derived from heredity and personal experience. In the retail context, consumers' consistent and enduring patterns of shopping behaviour represents a set of consumer characteristics which is used to target segments. Examples of such consumer characteristics are:

- Workaholism
- Compulsiveness
- Self-confidence
- Friendliness
- Adaptability
- Ambitiousness
- Dogmatism
- Authoritarianism
- Introversion
- Extroversion
- Aggressiveness
- Competitiveness.

Traits affect the way people behave. Marketers try to match the store image to the perceived image of their customers. For example, Indian consumers give due importance to retailers' image to a great extent while selecting the store. This holds true even for branded goods. This is because Indians value relationship and try to attribute importance to relationship even in formal interactions. For example, most households in semi-urban areas depend on a particular set of retailers for their needs, right from grocery items to durable purchases.

Environmental Factors

Environmental factors cover all the physical and social characteristics of a consumer's external world, including physical objects (goods and outlets), spatial relationships (location of the shopping centre and merchandise in stores), and the social factors (opinion leaders, the person's family, co-customers, reference groups, social class, and culture). The environmental factors influence consumers' wants, learning, motives, etc., which in turn influence affective and cognitive responses and, among other things, the shopping behaviour of the individual.

The environment can be analysed at two levels—macro and micro. The macro environment includes large-scale, general environmental factors such as economic conditions with easy credit facility for durable goods and vehicles. Today, consumers in India are buying goods on easy installments. There has been an increase in the population owning vehicles. This has made it viable to locate shopping centres out of city, such as Metropolitan, DLF City centre, Sahara Mall on Mehrauli-Gurgaon Highway, and Fun Republic in Mumbai and Ahmedabad. The repeal of Land Ceiling Act and liberalization and poor performance by stock markets has led to shift of funds towards trading and organized retail business. This has helped the Indian consumers to experience new kinds of formats with excellent and varied facilities.

These environmental drivers have a general influence on behaviour, for instance, when the state of the economy influences collective purchases of household items, automobiles and investment options.

The microenvironment refers to the more tangible physical and social aspects of an individual's immediate surroundings. Examples of physical environment include aspects such as nature of the market structure (planned or unplanned), temperature controlled environment, visual merchandise and display, roads and other infrastructural components. For instance, the congested lanes in the shopping centre and the transportation facility available are important aspects of the physical environment. Such factors have an immediate influence on consumers' buying and shopping behaviour. For example, consumers with cars normally avoid congested lanes (Chandni Chowk and Karol Bagh in Delhi). In north India people prefer shopping at noon time in winters and in the evening in summers.

The social environment includes all social interactions among people. Consumers interact with friends, relatives, and salespersons regarding prospective or past purchases and sometimes observe others (family members or friends) buying and using the products. Consumers learn from both types of social interactions—participation and observation.

Leisure

Qwiky's, Barista, and Cafe Coffee Day are providing a comfortable place to teenagers, young professionals, families, and working couples in cities to relax and unwind while sipping coffee. A similar function is performed by existing institutions like adda in Calcutta, chaupal in rural area, and roadside coffee or tea shops. The popularity of such coffee bars is also due to the fact that it provides an alternative to people uncomfortable with roadside chaiwallas (tea shops) or the formal setting of five-star coffee shops and restaurants. It is also popular among youth from middle-class families as they find it easier to get pocket money for visiting a coffee bar than for a beer bar.

It is acknowledged that culture, subculture, and social class along with face-to-face social interaction among small groups of people such as families and reference groups are components of social environment, which influence values, beliefs, attitudes, emotions, and behaviour of individual consumers. Social interactions with fellow workers, family, and friends have significant influence on consumers' perception and therefore on behaviour.

For example, people learn acceptable and appropriate behaviour and acquire many of their values, beliefs, and attitudes through direct social interaction with family and reference groups. The influence of family is specially relevant in case of brand and store preference and loyalty.

In the Indian context, many studies claim that women play a major role in the need of identification phase. Children have a major say in brand selection while the head of the family largely decides on financial matter and selection of the store.

In urban areas, Indian women are the key decision-makers for garments and food items for the entire family. In rural India, the male members of the family perform most of the city-based shopping. The female members participate in decision-making related to product and brand selection.

Hence, retailers need to provide the appropriate product profile and service environment as per the preference of shoppers and key decision-makers.

Men—The Major Decision-makers

In India consumption-related family decision-making in all areas—ranging from which cars to buy to what cloth manufacturers to patronize—is dictated by men when it comes to the most upscale market segment in India.

Who decides?

	Self	Spouse	Joint	Family	Elders	Children
Buying a house	25%	5.8%	20.8%	30.1%	14%	0.4%
Child's marriage	7.7%	5.9%	21.8%	18.7%	11.5%	4%
Own marriage	20.4%	2.5%	6.2%	22.4%	29.7%	0.9%
Child's education	15.1%	6.6%	34%	12.5%	5.6%	4.6%
Taking a loan	31.4%	5%	24.3%	18.1%	9.2%	0.6%
Fixing monthly budget	24.2%	10.3%	33.3%	18.5%	11.2%	0.6%
Buying entertainment durables, such as TVs	21.4%	8.2%	33.4%	26.7%	7.4%	1.6%
Buying durables such as washing machines	19.3%	10.7%	33.3%	26.2%	8.2%	1%
Deciding on holiday destinations	20.6%	6.1%	28.4%	31.8%	4.5%	5.6%

The male member of the family seems to play a major role in deciding the monthly budget or whether to take a loan, but when it comes to deciding whom he should marry, it is still the older people in the family who play a key role. Interestingly, people in the six metros surveyed seemed to show entirely different tastes in watching television. The average number of channels watched were five and an average of 100 minutes of television is watched a day, with 30 minutes devoted to news. News and sports are the most preferred programme genres, followed by general entertainment. However, 29% of the respondents in Delhi preferred news channels, while only 14% of those surveyed in Bangalore preferred news. Bangaloreans prefer watching sports with a high rate of 34%.

Source: 'Horizon 2003', a study by BBC World, conducted by market research agency NFO-MBL across six top Indian metros (www.rediff.com, May 02, 2003)

For example, McDonald's in Delhi attempted to attract entire family at their outlets by targeting kids. This they did by arranging concessional trip to their outlets directly from nearby schools. Since kids play a major role in the decision of the family regarding entertainment and food-related outings, this strategy proved to be a great success.

Retailer as Referral

In urban townships' consumers tend to have a closer association with most retailers of all the possible products they consume. Therefore, brands have limited inconsidered strong reference groups. This ensures trust in the transactions between two entities. Some of the retailers tend to fluence on their decision-making irrespective of the product category. This is because of the characteristic of the Indian society, where most of the retailers are be associated for generations with a particular family. Therefore, personal relations is an important characteristic of retail marketing in India.

Social Class

Social class is referred to as the classification of members of a society into a hierarchy of distinct status classes, so that members of each class have relatively similar status and members of all other classes either have more or less status. Social class of an individual is then determined by variables such as education attained, occupation, wealth, and ownership of assets. Market research has established a link between social class and consumer attitudes concerning shopping behaviour. For example, most of the upmarket clubs or resorts, such as Sutlej Club in Ludhiana or Mahindra and Mahindra resorts, before granting membership to their facility, expect prospective members to fulfil certain conditions. Most of these conditions are meant to determine if their social status matches that of their existing members.

Middle class and higher sections of society prefer to shop for grocery items once a month from a particular shop. They, therefore, look for packaged products to maintain their quality during the storage period. They usually prefer stores with wide variety and those which possess most of their requirements. On the other hand, lower sections of the society usually shop for such items on a daily basis. They are also not very particular about the shop from which the purchase is to be made.

In urban centres, the re-emergence of the periodic market is attributed to the immigration of rural sections of society and the labour class. They perceive urban retail set-ups as costly and find themselves in an alien environment while shopping in retail outlets selling the same product range which they buy from periodic markets.

Social status of an individual plays an important role even in determining the frequency of purchase. Most of the middle-class people prefer to buy fresh vegetables and fruits from the vegetable market in morning time on a daily basis even though it may be available at a higher price. On the other hand, lower classes prefer to buy vegetables and fruits in the evening at lower prices. Similarly, the lower class prefers to buy snacks prepared by street vendors rather than going to a snacks bar.

Customer Classification and Preferences

Upper Elite Class
Those who have inherited wealth. This class is less than 0.1% and have prefer ence for antiques, jewellery, homes, vacation, higher education, fitness, beauty treatement, traveling, etc.

Lower Upper Class
These are the people who have earned wealth due to their exceptional ability and who are neo-rich. They prefer to spend on, big home, good school education for their children, etc.

Upper Middle Class
These are career-oriented professionals and corporate managers who prefer to Spend on education, books, cloths, furniture, home appliances, etc.

Middle Class
These are average-pay white-collar class of society who prefer to spend on popular and trendy products, personal vehicles, branded goods, good homes, college edu cation for children, entertainment, etc.

Working Class
These are again average-pay blue-collar class of society who prefer to spend on unbranded goods, cheap food and liquor, etc.

Lower Class
This class of people would prefer to spend on necessities from local market ana local unbranded goods.

Source: www.retailyatra.com

Culture and Sub-culture

Culture refers to the set of values, ideas, and attitudes that are accepted by a homogeneous group of people and transmitted to the next generation. Culture also influences the nature of retail advertising. Culture determines what people wear or eat, and where and how do they reside and travel. India is known for its cultural diversification specifically based on language, symbols, religion, rituals, and customs.

In India, religion is not the only basis for segmentation as is the case of the Arab world. Hindus and Muslims do not form a homogeneous group to enable consistent marketing mix. There are three significant influences on the local culture, Westernization, emergent national cultural styles, and popular culture. The pre-independence Western way of living was patronized by the feudal class and high-ranking civil servants. Later it seeped into the upper and middle classes. During the freedom struggle and revival of political nationalism a new nationalistic style emerged. Some aspects of it persist even today— swadeshi, cultural nationalism, boycotting of foreign goods, spartan living, etc. Lastly, popular culture, largely an output of the mass media, is a unifying factor. The impact of films (Hindi, English, and regional), TV, radio, and newspaper has reshaped images and attitude of the masses.

Consumers in semi-urban India are not very attracted towards credit offered by banks or companies for acquiring the consumer durable. For the purchase of consumer durable like CTV, microwave, CD system, two wheelers, etc., many consumers prefer to obtain credit facility from a known person in their social circle, such as a relative, friend, or well-known retailer. Hence, some retailers in the semi-urban areas started the system of a pool party where a person is required to pay a monthly instalment for the product acquired at a monthly party organized by the retailer. This party comprises most people from the social group of the concerned members. Here retailers obtain the assured payment of their instalment because the social group creates sufficient pressure on the individual concerned and his family for such payments. A defaulter is not given due respect in Indian society. This system involves no paper work for retailers and consumers in comparison with bank loans.

Modernization has taken roots in India. However there is still a lot of conformity to the traditional value system. This is more true in case of preferences related to food. McDonald's and Pizza Hut revised their offerings as per the preferences of the Indian consumers. While pork is against the religious tenants of Muslims, many Hindus avoid non-vegetarian food. Hence, appropriate changes were made by multinational food chains in their cooking medium, processes, and cuisine.

Similarly, in western India, most of the restaurants advertise the availability of Jain Thalli (a unit of offering) to attract the Jain community which constitutes a major chunk of the population and is also a profitable consumer segment. Fast-food eating joints such as Pizza World are offering Jain Pizza', which includes baby corn, capsicum, and paneer.

Eating joints in India while offering non-vegetarian dishes have provide information on the manner particular animal was choppy because individuals following certain religions are prohibited to consume meat chopped in certain ways.

Indian Food Habits

American fast food giants are fast finding out that if they want to tap into the huge Indian market, the key is to 'Indianize' the American food. Just a little twist to the recipe here and a little touch to a side dish there and they are on their way to acceptance. KFC added rice pulao and a little bit of spicy tomato gravy along with its chicken 'Hot and Crispy'.

Vegetarian offerings are derived from the Indian market. The impressive vegetarian selection offers 'Spicy Paneer' pizza with chunks of seasoned paneer, capsicum, and hot red paprika. Incidentally, the vegetarian selection is as wide as the non-vegetarian menu. And on the non-vegetarian menu, chicken takes the predominant position, with a splattering of pork and lamb.

Values represent the core level of culture. Values are defined as mental images that affect attitudes of individuals, which in turn influences their respective behaviour in a specific situation or environment. Values are considered as guidelines for behaviour. In contrast, customs and rituals are considered the usual and acceptable ways of behaving. This has an impact on the effectiveness of many retail strategies. For instance, many middle-aged women irrespective of age and religion feel uncomfortable when asked for their names while placing the order or when intervened by a male salesperson while surfing in the retail store.

Similarly, while practising direct selling, Eureka Forbes salespersons take ample initiative to meet a male member of the family when they try to approach their prospective consumers as some Indian, women are uncomfortable interacting with unknown individuals.

Khadder

Khadder is a popular store in Bangalore that specialises in dresses for women. It is owned by a Kolkata-based company. It gives a fine example of trying to incorporate the cultural values of Indian women in their garments. They noticed a very unique taste characteristic of Indian women in the extra-large (XL) garment size-group. Unlike their Western counterparts, Indian women in this size-category do not want the contours of their body to get highlighted and are consciously looking for dresses that would conceal them. The solution? Khaddar decided that all of their offerings in this range would have straight-cuts. It worked.

Lifestyle

Lifestyle refers to an individual's mode of living as identified by his or her activities, interests, and opinions. Lifestyle variables have been measured by identifying a consumer's day-to-day activities and interests. Lifestyle is considered to be highly correlated with consumer's values and personality.

An individual's lifestyle is influenced by, among other things, the social group he belongs to and his occupation. For example, double-income-no-kids (DINKS) families in metros shop very regularly at the-super malls because of the limited time at their disposal, and they also look for entertainment while shopping on weekends. At the same time, they are higher spenders than, for e.g., single-income families.

A study by imagesfashion.com highlights that Indian working women have to balance their wardrobe collection based on requirements of different occasions related to professional workplace or family gathering.

Table 8.2 Dress working women prefer for different occasions

Occasions	Western wear	Ethnic wear	Total
In Office	66.7	31.3	100
At Home	77.8	20.2	100
To Party	69.7	30.3	100
While Shopping	85.9	11.1	100
During Festivals	3.1	93.9	100
Family Occassions	17.2	80.8	100
While Travelling	89.9	10.1	100

Source : G.D. Singh & Tulika Sen 2003, 'What Women Want', www.imagesfashion.com, May.

To cater to their specific requirements, different brands have emerged. In ethnic wear, there are just a handful of quality brands like Nalli, Kumarans, Bombay Selection, and Meena Bazaar. They have positioned themselves to meet the need for ethnic wear at family or festive occasions. On the other hand, W (women store) and Khadder are trying to infuse global styling and design functionality with salwar kameez. It has created a women's career wear brand that is retailed in a smart, modern format that appeals to the lifestyle of their target segment.

Bases of Loyalty Programmes

Retailers focus on loyalty programmes since it is believed that:

- Loyal customers are cheaper to serve, therefore more profitable.
- They are willing to pay more for a given bundle of goods.
- They act as effective marketers for the store's offerings.

Loyal Customers are Cheaper to Serve: Customers who almost invariably do business in high volumes know their value to the company and often exploit it to get premium service and price discounts. On the other hand, retailers may not be required to invest to attract, maintain, and communicate with loyal customers as they are already predisposed to search for information on new arrivals, services, and developments of the store in comparison to customers who are not loyal.

Loyal Customers are willing to Pay More for a given bundle of offerings: Many proponents of loyalty programme argue that customers who stick to one business entity do so because the cost of switching to another supplier is too high, which not only comprises economic but also psychological stress. They will, therefore, be willing to pay higher prices up to a point to avoid making the switch or try some other store. Contrary to this, customers expect, and get, some tangible benefits for their loyalty.

A number of theories could explain this phenomenon. First, loyal customers generally are more knowledgeable about product offerings and can better assess their quality. That means they can develop solid reference prices and make better judgements about value than sporadic customers can. Perhaps more fundamental, though, is the fact that customers seem to strongly resent companies that try to profit from loyalty. Finally, it is impossible these days to get away with price differentiation for any length of time. Remember how close Amazon came to destroying its brand when it attempted to charge different prices to different customers for the same DVDs.

They act as effective marketers for the Store's Offerings : The frequent customers are also the strongest advocates for patronization of a particular retail store. The word-of-mouth marketing is very effective, and many stores justify their investments in loyalty programmes by seeking profits not so much from the loyal customers as from the new customers the loyal ones bring in.

Apparently, the link between customer longevity and the propensity to market by word-of-mouth was not that strong. But when we looked at attitudinal and actual loyalty separately, the results were intriguing. Customers who scored high on both loyalty measures were 54% more likely to be active word-of-mouth marketers and 33% more likely to be passive word-of-mouth marketers than those who scored high on behavioural loyalty alone.

The results of a survey of the corporate service provider's customers produced similar if less striking results: customers who exhibited high level of both behavioural and attitudinal loyalty were 44% more likely to be active marketers and 26% more likely to be passive word-of-mouth marketers.

Identifying the Loyal Customers

In order to formulate an effective marketing programme to cater loyal customers profitably and effectively, retailers need to have a proper understanding of their customers' demographic and psychographic characteristics, and shopping behaviour.

But the biggest challenge faced by marketers is to identify or classify the loyal set of customers from the entire set of customers the business is catering to. The most common way to sort customers is to score them according to how often they make purchases and how much they spend. Many tools can be used for that; one of the most familiar is called RFM (which stands for recency, frequency, and monetary value). Mail-order companies, in particular, rely on this tool to assess whether a customer relationship merits further investment.

To understand how methods like RFM work, let us imagine for the sake of simplicity that a retailer focuses on just two dimensions, recency and frequency of purchase. Retailers or marketers measure recency by finding out from their database if the customer bought anything in the last six months, a year ago, or more than a year ago, assigning a higher score to the more recent purchases.

It then measures how frequently the customer made purchases in each of these three time frames—twice or more, once, or never— assigning a score in a similar way. Then it adds the two scores together. In general, the more items a customer purchases and the more recent the transactions, the higher the overall score and the more resources the company lavishes on the person. In actual practice, many companies weight the scores in favour of recency.

Scoring approaches of this kind result in significant over-investment in lapsed customers. Customers who purchase very intensively but only for a brief period have high RFM scores even though they have stopped buying from the store. This results in poor investment on the part of the business due to the assessment tool that they use.

Customer loyalty is the cornerstone of the independent stores that are so prevalent in Indian retail industry. It is an in-built composition of the relationship enjoyed by two entities, namely customers and retailers. The retailers running such stores have accepted long back the importance of maintaining sound relationships with customers.

They look after their best customers really well because they are the ones who generate the most business and profits. These stores do not have technological support to identify or classify the profitable, loyal, or non-profitable customers, but they depend on manual records or experiences.

At the same time, they know all the customers personally and what they buy regularly and, therefore, anticipate their needs and reward those who generate the most profits. These stores do not insist on loyalty cards or bill receipt to extend benefits in future. They usually prefer to reward their regular and profitable customers on every purchase made without or with limited formalities or paper work.

The other drawback of scoring methods like RFM is that the monetary value component is almost always based on revenue rather than on profitability. Whereas, retailers are more interested in profitability than in revenues. Specifically, we need an estimate of the average profit earned on each customer in any typical purchase period (per period profitability). To estimate a customer's future profitability, simply multiply his average periodic profit figure by the probability that the customer will still be active at the end of that period.

Table 8.3 : Choosing a loyalty strategy

Status	**Short-term customers**	**Long-term customers**
High profitability	**Butterflies** • Good fit between company's offerings and customers' needs • High profit potential *Actions:* • Aim to achieve transactional satisfaction, not attitudinal loyalty • Milk the accounts only as long as they are active • Key challenge is to cease investing soon enough **Strangers** • Little fit between company's offerings and customers' needs • Lowest profit potential	**True friends** • Good fit between company's offerings and customers' need • Highest profit potential *Actions:* • Communicate consistently but not too often • Build both attitudinal and behavioural loyalty • Delight these customers to nurture, defend, and retain them **Barnacles** • Limited fit between company's offerings and customers' needs • Low profit potential
Low profitability	*Actions:* • Make no investment in these relationships • Make profit on every transaction	*Actions:* • Measure both the size and share of wallet • If share of wallet is low, focus on up- and cross-selling • If size of wallet is small, impose strict costs controls

Loyalty programmes are the means of encouraging customers to stay and not to switch to a competitor or elsewhere. Loyalty is all about the creation of a continuing perception of comparatively superior value while meeting the changing customer needs and the continued adherence of individual customers.

On this basis, customer loyalty can only exist if there is a competitive market. Unless the customer remains connected, the service provider can do nothing more and cannot profit from adding further value. The basic priority is that the customer stays. The key loyalty drivers identified and patronized by Department's are: quality, service, value, and cleanliness.

For non-retailers, the ‘C’ would more aptly stand for convenience (e.g., how easy is it to place a catalogue order or a stock trade). Until those four elements are in good shape, it is probably best to defer the introduction of a loyalty programme. Table 8.3 shows the variou loyalty strategies.

To qualify, a loyalty programme must:

- Require customers to enroll
- Provide rewards, discounts, or services based on a customer’s spending patterns
- Communicate benefits customers can receive from specific purchasing behaviours

Requirements to be met by Loyalty Programmes

A set of criteria that should be observed when drafting a loyalty programme:

- Enrolments must be voluntary.
- Rights and obligations must be stated clearly and in writing on conclusion of an agreement.
- Information registered must be administered in an ethically proper manner.
- There should be proportional and undifferentiated earning of bonus.
- No rules should be established concerning expiry limits.

Programmes are typically delivered in one of the three following ways:

- *Frequent shopper card without credit linkage* : Shoppers scan card at the time of purchase to get real-time discounts. Cards are often used for making payments, particularly at grocery stores, as against cheques.
- *Store credit card with tiered membership benefits* : Rewards and incentives encourage or reward higher spending levels. Benefits often include ‘cardholder only’ sales and promotions based on customer’s spending levels.
- *Co-branded credit cards (e.g., Visa, MasterCard) with accrued rewards and other benefits based on spending* : Often provide differentiated rebates to consumers based on purchases in store versus elsewhere (e.g., 5% cash back for gas purchases, 1% back for all other purchases).

Classification of **Loyalty Programmes**

On the basis of ownership and management, loyalty programmes may be classified as multi-sector loyalty programmes, single-operator, multi-partner programmes, and true coalition programmes (Fig 8.4).

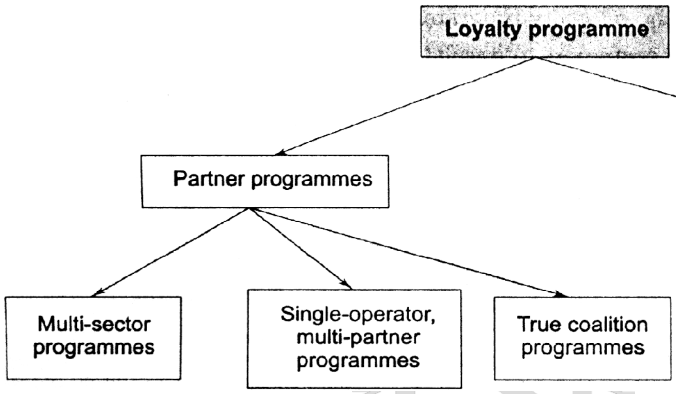


Fig. 8.4 Types of loyalty programmes based on ownership and operation

Multi-sector Loyalty Programmes. There are un-partnered loyalty programmes and partnered programmes (called 'coalitions'). Within the partner category of programme, there are two main types of multi-partner programmes that have proved their value time and again true coalition programmes and single operator programmes that include other partners.

Single-operator, Multi-partner Programmes. Tesco's Clubcard is an example of a single-operator programme that involves other partners. The programme is owned and run by Tesco. However, Clubcard holders can collect points when buying from various partners in the programme, such as Alders, Beefeater, Marriott, and National Tyres. Vidal Sassoon is an example of redemption partner.

True Coalition Programmes. For example, Air Miles and Nectar are true coalition programmes. The programme management is independent of any of the partners. The partners have contracts with the operators of the programme to issue and/or redeem the currency of the programme, and only have access to data harvested by the programme through its operator.

Affinity Loyalty Programmes : The important objectives of affinity loyalty programme are :

- Rapid and wide market penetration
- Delivery of attractive and an optimal combination of incentives
- Building multiple communication channels

The success of partnered loyalty programme depends not only on the design and execution of loyalty programme but also the role and terms of the entities involved. The critical factors for the success of partnered loyalty programme are:

- Interest in the programme
- Limited number of cards to carry
- Provision for members to earn points quickly
- Greater variety of incentives (rewards)
- Concentrated, coherent communication and promotions
- Economical on account of time and cost involved in development
- Database run and managed by professionals
- Collaborative marketing campaigns
- Wide penetration

Use of Loyalty Card Data

The retailer loyalty card is of great help to gather data about customers. This provides extensive understanding about customer (e.g., cost insights, customer retention rates at different spending levels, response to offers, and new customer conversion rates), followed by optimal marketing action and follow-up analysis. In other words, a loyalty card is primarily an information card from which follows better decision-making in both marketing and cost-reduction.

Some business firms realized that the major beneficiary of their loyalty card programmes was not their marketing department but their real estate department that was looking for locations for new stores. For example, not just how far customers travelled to their stores but also how many customers' spending changed as the distance varied. This was of significant importance to the real estate department as they evaluated new store sites.

The information related aspects of loyalty cards are potentially more important than their apparent reason for existence. With the current trend towards micro-marketing, the requirement for highly accurate information at an individual level has increased significantly.

Although loyalty cards have been in existence for a reasonable period of time, there is a sense that the industry is still very much on the edge of the information and targeting opportunities provided by these cards. Loyalty card data is used on a very selective basis in category management and ECR programmes, although most manufacturers would probably like greater access to the information sets

8.3 Exercise

1. Discuss critically the importance of attaining customer loyalty in the organized Indian Retail Market. Also discuss the factors influencing customer loyalty.
2. 'Customer is the king". Discuss this statement in context of the Indian Retail Market.
3. Write short notes on
   (i) Personality
   (ii) Attitude.

Unit 9 Retail & Direct Selling Skills

Structure

9.1. Introduction

You are interested in a career in selling. What makes you think you can make a career out of that? Why not try something more reliable—like working for a bank, or a building society?"

The plain truth is that, in every business, everyone needs to be a seller—and to be good at it. Yes, everyone from the switchboard operator to the delivery Van driver, finance director to the cash desk staff, central buyer to the merchandiser - all need to help drive the business forward. This may not mean that everyone actually sells merchandise, but it does mean that there will be occasions when they all sell ideas and concentrate on putting the customer's needs first.

The process will be easier if they show their :

- Concern for customers' needs
- Enthusiastic support of the business's merchandise and sales methods
- Wish to see the business prosper and grow
- Cheerfulness in everyday contact with colleagues, staff and customers.

Approaches which will work perfectly satisfactorily with one customer may seem to "turn off' another. This irritating fact actually provides the key to what makes any customer contact role so fascinating. We really have to become a bit of a psychologist.

9. 2 Personal Skills

So, what are the qualities that are likely to help us achieve success? We are going to follow a simple framework, adding up to a powerful memory-jogger:

P-E-R-S-O-N-A-L S-K-l-L-L-S

P = Presentation with confidence

Dealing with the public can often feel a little like being on a stage. Customers expect service assistants to know what they are talking about and, with good knowledge, our confidence level will improve. (In contrast, absence of an adequate level of knowledge is likely to make the sales person diffident at best—and positively stand-office at worst.) This could explain why some sales people seem reluctant to approach customers: they are worried they might be asked a question which they cannot handle.

The process of selling involves imparting or presenting information to customers in such a way as to encourage them to make the purchase, return again in the future and continue to deal with your firm. In later sections we will consider ways in which we can enhance our presentations to make them even more persuasive. For the moment, you could begin by assessing your present level of confidence. Is it as good as your colleagues - not as good -or better?

Even when we have a good level of knowledge there are still pitfalls to avoid. In-depth knowledge can lead to overconfidence and even cockiness. Customers may be quickly put off by the "clever" sales person.

E = Empathy in meeting and greeting strangers

Empathy is a way of describing our ability to get on the same "wavelength" as the customer and to establish a constructive relationship - quickly. The best way of achieving this is by presenting a warm, friendly image - building good eye contact, smiling and being prepared to listen to the customer. All rather obvious points! However, this is not always as easy as it sounds. Have you ever had to keep smiling for a length of time - say, for a photograph? You were very lucky if your face muscles did not hurt after a while (unless your normal expression is to smile!). A constant passage of customers by your cash desk, counter or work station can be exhausting for most of us -

even when we really like people. So, consider what it can be like for the person who finds people tiresome or unnerving. Customers do not know what kind of day you have been experiencing - they expect you to be as fresh at 5.30 pm or 8 pm as you might have been at 9 am.

We all have a "body-clock" and our ability to cope with the pressures of business can be affected by our clock. Some people are best in the morning -they have sometimes been called "larks". Others are "night-owls" and are at their best after lunch or in the evening. The way our body-clock works can affect our levels of :

- Patience
- Concentration
- Energy
- Enthusiasm

and, if these resources are low, customers will often detect it. How can you control these factors? First of all, your physical health will play a part. If you are constantly tired, your empathy and enthusiasm level will probably suffer. So, if you are working the next day - don't go to bed too late! Also, your energy levels will be affected by your eating habits. Customer service requires concentration and alertness - so it is demanding on our brainpower. You will find that your ability to concentrate on customers' needs may decline during the day and will only be refreshed by work-breaks. It is a mistake not to take a break at "coffee" or "tea" time and it is also a good idea to take your full lunch break and get away from your normal workplace for a while. You will feel refreshed - even if you only browse around a competitor's business.

R = Resilience in handling rejection

Most natural sales people have a personality which could be described as extrovert; we enjoy meeting people and warm to the challenge of trying to influence their purchasing decisions. However, the job can also involve a great deal of rejection. This can come from:

- Customers who are resistant to being persuaded into a purchase they had not intended to make
- Customers who do not have the same kind of extrovert personality as the sales person and may therefore seem rather "cold"
- Customers who are low reactors - they just do not talk very much
- Ill-mannered'people.

The fact is that all of these types of people could easily become customers -and that is our aim. So we have to be able to rise above the negative vibes which we may feel in suffering rejection from these customers.

S = Sincerity

When we are trying to influence other people it is very tempting to put on an act - to become something of an entertainer, or perhaps to adopt a quick-fire way of speaking which might be similar to the methods used by street vendors. Customers can quickly distinguish between "Sales chat" and sincere advice. How can they tell? It could be through:

- Tone of voice - not too brash
- An open manner - good, positive eye contact
- Careful use of posture and gesture - open hand movements (but not too many of them)
- Avoidance of catchphrases - as used by popular comedians
- Ability to "talk from the heart".

O = Open questions

An important quality (or skill) is that of being able to ask questions of your customers. This implies not only being able to keep quiet long enough to give the customer a chance to speak, but also listening to the answers! Questions can lead us down a cul-de-sac if we are not careful "Can I help you" is a closed question - it is likely to lead to the response "Yes" or "No".

N = Normally overcoming objections

Objections occur in most sales persons' daily lives. Not every customer or client will readily accept everything we might say about the merchandise or service we have to offer.

Comments like:

- "I don't like the colour" or
- "That is too expensive"

may seem like an insurmountable roadblock - but effective sales people just see them as a hurdle to jump *with* the customer rather than an impossible barrier which could lead to the loss of the sale.

How do you see objections? Do you work hard to overcome them, with a positive attitude, or are they yet another tiresome factor contributing to the overall stress of the salesperson's life?

A = Answering questions honestly

Have you ever met someone who never seemed to answer your questions or avoided them, leaving you with an uncomfortable feeling that they either did not know the answer to your question or preferred you not to know the answer? Would you want to do business with them again? Probably not. This does not mean that you always have to give the customer the blunt truth in such a way that it puts them off buying the product. For example:

Customer: "How do you think I look in this jacket?"
Assistant: "To be truthful, it has enough room in it for two of you!"
Perhaps the customer is deliberately seeking the loose, casual look, in which case the assistant might have said:
"Well, it will be ideal for using on the golf course - as you were telling me you play quite a lot. There is plenty of room in it to allow you complete freedom of movement. Just what you need for a good swing!"

L = Looking for buying signals

Skilled sales people know when to stop talking and close the sale. They are sensitive to customers' moods, attitudes and reactions - and the subtle shifts in body language which say "I want to buy this - don't say any more."

Insensitive or less skilled people keep babbling on about the product or service and talking themselves out of the sale altogether. Hasn't this happened to you as a customer at some time? You have really wanted to say: "Please shut up ... I give in ... I want to buy it ..."

S = Selection of the product or service

There is a bewildering selection of goods and services available in a sophisticated country such as ours and, for uninitiated customers, it is easy to see why some are simply confused by choice. The fact is that many people need professional guidance in order to make the right choice - whether this is a suitable cocktail dress, a durable carpet, a flexible payment plan or a low calorie meal.

K= Knowledge of products

All this is easier if the sales person has detailed knowledge of the portfolio of products and services available in today's menu, this season's collection or the latest model range. You can never have too much knowledge about your range of products or services; the secret lies in how to use that knowledge. We will return to this theme again later, but for the time being here is another Key Learning Point:

I = Integrity

Another word for integrity is 'trust' - and customers need to feel that they can trust their sales person or customer adviser. This grows in importance with the value of the purchase and also with the extent of the customer's dependence on the assistant. If customers need technical information to help with their decision, the extent of the person's trust in the advice will affect that decision.

Many customers have a secret and inherent mistrust of sales people. They expect that the sales person will exert too much influence and that they will be talked into a decision they will subsequently regret. Sometimes it is possible to read the customer's mind: "I must be alert here or I will be stitched up!" Persuading customers that they can relax and that the purchase selection will be easy, reliable and even enjoyable is not always as easy as it sounds.

So, the customer service process needs to be carried out with professionalism and care. It is important that the customer can detect that the "assistant" is acting with a concern for honesty. But whoever sold anything by being totally truthful? "Will this lambswool jumper wear well?" you may be asked. You are hardly likely to sell it if you say "No". However, a careful comparison between the softness of the lambswool article and the harsher Shetland will enable the assistant to help the customer choose between wear-ability and comfort. If your business is concerned about repeat purchases and building goodwill, it will want you to work with integrity.

L = Listening skills

We have already seen that the sales person will find the task much easier if he or she asks customers relevant questions and encourages them to participate in the sales interview. Many customers know exactly what they want; but others need help, advice and encouragement.

One of the hardest lessons to learn is not to keep talking like a person with verbal diarrhoea! There is something of the "babbler" in all sales people, but this quality definitely needs to be kept under control. How good a listener are you?

L = Leading to a close

However much time and effort is invested in greeting customers, finding out about their needs and presenting merchandise and information to them, the whole process is purely speculative unless it results in a sale. This does not mean that the assistant should grasp every prospective customer by the labels and demand to know: "Are you really keen to buy today or perhaps you intend to choose something in time for the millennium?" This approach would of course be unacceptable. The patient approach will usually pay dividends - and the customer could even end up buying something quite different from their original intentions. We have all bought products on an impulse and customers will often decide to buy your product or service in this way. Our job is to lead the customer round to the purchasing decision and close the sale. We will look at some specific ways of doing this later.

S = Selling up and selling on

Our last quality covers these twin factors which are used to describe the selling of the better item and encouraging the customer to buy other items which are related to the first purchase. Most of us at some time or another have made a purchase decision based on a low price—only to regret not having chosen a better quality item at the time. Many customers can be persuaded to spend "that little bit more" when they are convinced that it is in their best interest to do so (the sales person has "sold up", or sold the better item). Apart from the extra value gained by the customer, your firm also gains by increasing the value of the sale (and probably the profit as well).

Similar benefits are to be gained from "selling on", or introducing related purchases before the customer has closed the sale. Suggesting a new tie to go with the shirt, a handbag to go with the shoes, "Guardsman" finish to protect the fabric on the new three-piece suite or a liqueur to go with the coffee might sound cheeky to some people, but is often accepted as an extra service by the customer. The new outfit could be really let down by last season's accessory. *You* know that; but can you convince the customer?

Review

Retailers normally see the role of sales people as:

- Meeting, greeting and concluding sales with customers who are so satisfied that they want to return in the future.

This objective can be best achieved by:

- Selling yourself
- Selling the company, and
- Selling the product.

Most sales interviews contain an element of each of these functions.

Successful sales people generally have:

An extrovert personality

- An empathy for people
- An ability to cope with rejection
- And an ability to persuade other people to do things.

Tailpiece

Under our unit heading we quoted the salesperson's personality in terms of warmth, friendliness and leadership. The most successful salespeople are those who are able to reveal these aspects of their personality and use them to help customers make the most effective purchases for their needs:

"I have an outgoing personality, I try to project warm and friendly feelings and feel quite comfortable about leading customers towards the purchases which will best fit their needs."

How would you describe your personality? In these terms or not? If this is not you-don't panic.

It is possible to work at presenting yourself in this way. It may not come easily at first and you may find it exhausting—but your efforts will be rewarded. If you are ready to find out more about how to use this selling style with customers.

Questionnaire

Try our multi-choice questionnaire, which deals with issues related to Unit: Please put each statement in rank order, i.e.

1 = Statement you feel to be *most* important/correct,

4 = Statement you feel to be *least* important/correct.

	1	2	3	4
1. A successful salesperson should always be:				
(a) professional, polite and friendly	☐	☐	☐	☐
(b) entertaining in conversation	☐	☐	☐	☐
(c) patient	☐	☐	☐	☐
(d) well dressed and tidy	☐	☐	☐	☐
2. Selling skills could be described as:				
(a) an aptitude with which people are born	☐	☐	☐	☐
(b) based on product knowledge	☐	☐	☐	☐
(c) simply a matter of "getting on" with people	☐	☐	☐	☐
(d) skills which can be learned	☐	☐	☐	☐
3. Success in selling lies in:				
(a) achieving high sales by being "pushy"	☐	☐	☐	☐
(b) satisfying customer needs	☐	☐	☐	☐
(c) "chatting up" the customer	☐	☐	☐	☐
(d) dazzling the customer with words or flattery	☐	☐	☐	☐
4. The sales person is employed to:				
(a) keep the customer happy	☐	☐	☐	☐
(b) keep the stock moving	☐	☐	☐	☐
(c) make the customer feel "better off with the purchase	☐	☐	☐	☐
(d) help the customer feel totally relaxed and friendly	☐	☐	☐	☐
5. Having the right approach to customers:				
(a) is the basis of a joint relationship with all customers	☐	☐	☐	☐
(b) means putting manners before commission	☐	☐	☐	☐
(c) means making customers feel at home	☐	☐	☐	☐
(d) means being enthusiastic and optimistic at all times	☐	☐	☐	☐

6. All sales people should:

(a) carefully consider the effect they have on others	☐	☐	☐	☐
(b) ask themselves what effect they have on customers	☐	☐	☐	☐
(c) concentrate on "being themselves"	☐	☐	☐	☐
(d) concentrate on getting on with their colleagues	☐	☐	☐	☐

7. Eye contact with customers is a:

(a) matter of good manners	☐	☐	☐	☐
(b) a sign of being relaxed	☐	☐	☐	☐
(c) means of projecting enthusiasm for the job	☐	☐	☐	☐
(d) demonstration of honesty or sincerity	☐	☐	☐	☐

8. The essence of the task of selling is:

(a) being pleasant to customers so they "help themselves"	☐	☐	☐	☐
(b) persuading customers to buy the firm's merchandise	☐	☐	☐	☐
(c) ensuring you have the right stock to sell	☐	☐	☐	☐
(d) displaying new products as soon as they arrive.	☐	☐	☐	☐

Introduction and Expectations

All sales people are expected to fit into the trading environment of their employer. This rather obvious point conceals a number of expectations. First of all, your firm will expect you to be successful at selling its merchandise. This could mean selling anything from the equivalent of a Rolls Royce to a cheap, battered runabout and still being comfortable about the sale.

Most retail businesses have very clear expectations about the appearance of the business and the staff who work in it. Put simply, "staff uniform" helps customers to be able to distinguish staff from visitors and also helps project an image to the shopping public. Has it occurred to you that businesses need to decide their image - and then choose the most appropriate methods of projecting it? How we dress contributes to that image to quite a large degree. This has as much relevance to the jeans and T-shirt shop as it might have in the bespoke tailors' business.

To Develop a positive frame of mind of the customers entering a retail shop one may consider the followings :

- Ways in which the customer's attention may be grasped
- Customer expectations and how we may be seen
- Stock location and the importance of presentation

- Current promotions
- How the merchandise should "speak" to customers
- Observing customer behaviour

Once again, you will be able to undertake a short assignment and consider a real-life case study.

- **Grasping Customers' Attention**

Most customers take as little as three second's to pass the entrance to your business. Unless they have already made a conscious decision to visit you, the frontage and fascia, the windows and the displays all need to arrest the customer's attention and attract the customer into the premises. This is why so much investment is made into new shop fronts and why the display method used in the windows themselves is so important.

The display person's skill lies in making the merchandise look attractive. If the business looks exciting, then there is a likelihood that the customer will come in to seek more information about your products and services.

- **Customer Expectations**

Customers who are attracted inside will expect that the pavement image created in the windows is reflected inside the business. A modern, stylish presentation will be completely ineffective if the interior is dowdy, with torn or worn carpets, tatty fixturing and miserable looking staff. Actually, the best attraction to potential customers is a busy shop or restaurant: few of us can resist that sense of curiosity created by a large number of customers inside. Conversely, a totally empty interior can be most offputting. That is why it is important for the shop to appear busy - even when it isn't. (Some managers have even been known to ask staff members to put on their coats and stand in the shop, or sit at a table, and look like customers. It is amazing how often real customers are attracted this way!).

A relaxed interior atmosphere can be created by soft music, which will help to take the cold edge off total silence. You can always tell when customers are not relaxed: they whisper to each other as if they are frightened to speak out loud for fear that they will be overheard!

Stock Location

There is nothing worse than being expected to know something and to discover that you have a knowledge gap. This is a quick way to destroy confidence and every sales person needs to be confident.

So, if you have any doubts about where things are kept in your section you must find out. How? Don't wait to be told - ask! Customers will not be impressed if they have to wait while you shuffle around the place trying to find what they are looking for. If you have just transferred to a new section -or started a new job - you might find the assignment below helpful. Experienced salespeople could use this assignment to check on the range and quantity of items which are held in the stockroom or storage areas.

The knowledgeable and alert sales person can make a significant difference to the:

- Quality of customer service and information provided to them
- Rotation of stock
- Identification of slow-selling lines
- Identification of low stocks (indicating the need for orders to be placed)
- Levels of sales achieved.

(Failure to rotate stock properly can also lead to stock loss through damage, wastage or even theft.)

- **Customer Behaviour**

There are some common factors which affect the way in which shops and customer areas are designed and fitted. These points can help or hinder the selling environment.

First, in a browsing or self-selection environment people seem to prefer to circulate in a clockwise direction. (This psychological factor seems to have its origins in the fact that most of us are right-handed, thus making us more comfortable when we turn to the right.) This means that some customers may feel less comfortable if they are "influenced" to circulate in an anti-clockwise direction and may leave the sales area prematurely.

Secondly, the shop layout should take account of the basic facts about customers' physiques. Merchandise that is presented at eye level is much more likely to catch the customer's attention than items that are presented too high or too low. So, 5' 4" is an important level for fashion merchandisers and 5' 9" is a vital level for designers of fixturing in a men's shop.

Thirdly, customers like to be able to touch and feel the merchandise you are hoping to sell. The more accessible the stock item, the more likely it is that the customer will want to test it - and being able to test it is more likely to encourage the customer to buy than if the item is shut away, out of reach. (This might create additional security risks but, generally, the increased chances of selling the products will outweigh those risks. As one designer said recently: "We must open up the stock to the risk of it being sold!").

• **Merchandise Attraction**

Some merchandise is inherently attractive. It may be its design, colour, packaging, texture or perhaps its shape or topicality and fashion appeal. There is little doubt that, if the visual appeal of the products you have to sell is enhanced, then sales will increase. These points will have led your business to present stock in particular ways - for example:

- Ties presented on, or alongside, shirts
- Jackets and skirts coordinated in displays alongside each other
- Chairs shown with tables - dressed with ornaments featured on the table
- Drinks and sweet dishes illustrated alongside main courses.

Some of the management decisions made about merchandise presentation will have a vital effect on the tasks expected of the sales person. For example, if stock is stacked onto shelves and the only way customers can see it is for sales staff to fetch it down, then staff will be spending a significant part of their day tidying up after customers and putting the stock back. (This method is used to great effect by Bennetton and their sales do not seem to be affected by this merchandising method.)

• **Customers and Impulse Purchasing**

Have you noticed how many customers choose to make a purchase totally on impulse? You could hardly have said that the item they chose was an absolute necessity - in fact, you might have wondered what made them choose it in the first place. There is little doubt that once we have made up our minds to "go shopping" it is probable that we are going to make a purchase, unless we are a "definite customer". (This is the type of person who has a very specific purchase mind and will not be satisfied until it is found.)

Apart from the different ways in which merchandising units might be used to attract the customer's attention, purchases can be encouraged by autosuggestion. For example, placing small displays of "impulse merchandise" alongside the cash or service point undoubtedly creates attention and results in increased sales (remember the sweets by the checkout in supermarkets?).

Customer Awareness

As we are all customers at some time, it is important for us to remember our own likes and dislikes when we are shopping. As we have seen, many customers wish to avoid the feeling of being pressurised into making a purchase that they did not intend and therefore are somewhat defensive when it comes to their reception in the shop. It can also be said that, when we have made up our minds to investigate an item, to try it on or to seek advice which might lead to a purchase, we can become quite impatient if the staff seem not to pay us any attention. So, it is important for sales staff to remain vigilant and customer aware. This means being sensitive to those little customer signals which show that customers may be ready to make a decision (or ready for some assistance) and that we should stop what we are doing and give them our undivided attention.

Members of strong sales teams keep active, even though they are unable to serve customers when there are none about. They also show they are ready for action. Such sales people speak volumes about the quality of their motivation and enthusiasm - and the leadership of their managers. Discriminating customers are usually impressed by these qualities, which means they keep coming back.

9.3 Who is my Customer?

Experienced sales people have been heard to say that they know exactly who their customers are - just by looking at them: that is to say that they know just what kind of person the customer is and how much they can afford to spend.

Do you feel you can do this? If so, how?

There is no doubt that we can develop a ''sixth sense" for customers - but this can also lead us down the path of many mistakes. Most people would say, today, that it is very dangerous to try to judge customers by their appearance, and even more so, by how they speak. The fact is that customers who enjoy a high disposable income may pay little importance to their appearance, and others who dress to impress may not be able to afford everything they would like.

Have you ever tried to guess the occupations of your customers? Obviously as you become more familiar with the regular customers, you may get to know them better - and their own particular occupations or professions. Have you had some surprises?

This means that we have to develop a set of skills in order to assess our customers' needs, and even when we have done this we may still have some real surprises in what the customer ends up by buying.

Customer Motivation

As we have seen, it would be a mistake to assume that every customer is the same - think the same way, is interested in the same potential purchases or is even driven by the same interests and desires. Here is the second Key Learning Point:

Let us consider an example. Suppose that you chose to vary your outfit this morning and put on a different pair of shoes from those you have been wearing for the last few days. Perhaps they are a different colour or style that you normally keep for "best". It was raining last night and on your approach to the business from the bus-stop or station, you have to walk through an area where the road or pavement is being repaired. Unwillingly, you step in a puddle and, moments later, you realise that you must have a hole in your right shoe as that foot is feeling decidedly wet.

"Blow it!" you think (or words to that effect). "How can these shoes need repairing; I haven't worn them that much."

A closer look shows that the shoes have had harder wear than you had thought and you are now confronted with a stark choice: repair or replace. It happens that just around the corner from your business is an attractive shoe shop and so, this morning, you pause on your way past to look in the window to see if anything catches your eye.

Sure enough, your attention is caught by an ideal shoe style, at just the right price, tucked into the corner of the window and you make a mental note to return to the shop in your lunch break. Here is an example of the customer's interest being aroused - initially because the need arose for the new shoes. Actually the need to repair or replace the shoes was really *dormant* because you were unaware of it until getting your foot wet. It was quickly recognised and then it became a *motivating need* (that is to say, it drove you to take some action).

Many customer situations are like this. The customer has a desire, wish, or need to change the situation and will expect the sales person to understand (even when the precise need may remain unspoken). The pressure is on the assistant to identify the motivating needs in conversation, and this is best achieved by tactful questioning.

Another example which can sometimes lead to customer expectation is the service in a restaurant. Our expectation for a meal may be speedy service so that it will fit into a lunch hour; or it could be that we are "filling time" in which case we might be prepared to have a slow, leisurely meal with reasonable delays between courses. If, however, the staff misread the situation (or fail to check on the customer's expectations), a great deal of embarrassment or frustration can be caused.

Seeking Information

Returning to the shoe purchase example, the customer's study of the window revealed a new pair of shoes which was attractive. However, the customer now needs some crucial information about them and this can only be discovered by going inside the shop. So, the customer's next step is seeking information and here we find ourselves back at the beginning of this book - the greeting of the customer. Our customer, initially, may wish to assure him or herself that, close-to, the shoe looks as nice as it did in the window and that the advertised price seems "about right" for its style and quality.

At this point, customers may still be quite uncommitted to the purchase and want only to assure themselves that the shoes are, or are not, what they expected. It would be quite usual for this customer to be very defensive to the assistant's approach. Some customers may be thinking: "If this shoe is not good, I don't want to be talked into something else." However, should the shoe be on display in the showroom and meet the customer's expectations, the assistant is needed to satisfy the next level of information need: does the style really suit me, is it a comfortable fit, how will it wear? So, the search for the customer's correct size shoe, the process of making the customer comfortable while the shoes are fitted and tried out, are all part of the same process - the customer's search for more information.

- **Body Language**

Do all these points apply to all customers? The identification of motivating needs and the search for information applies to most people. However, the customer's timing might vary a good deal. For example, the wet-footed customer might be about to embark on a shopping survey around your town, which will involve a good deal of walking, so the purchase now becomes a "disaster purchase". Provided the shoes are comfortable and are reasonably business-like, the customer will most likely buy them.

How can we tell?

As human "animals" we behave in fairly predictable ways and give off "signals" in our body language. Many visitors are not even aware that they are doing this but a skilled sales person will be able to "read" the signals sent and act accordingly to provide the right level of service.

- **What to Look for**

The first signal we notice about strangers is their level of eye contact. Most people will engage us with level eye contact: that is to say, they neither look at us "down their noses" nor do they roll their eyes around or avert their gaze. People who find it difficult to look others straight in the eye tend to be thought of as a little "shifty". This signal is also reversible; your customers may be thinking the same of you, which might explain any difficulty you may have in closing sales - or perhaps you find that your customers seem to look for a second opinion about the merchandise or services you are trying to introduce. These could all be signs of a lack of trust.

Unfortunately, body language is not quite as scientific as it might appear and it would be a mistake to assume that every customer who has a difficulty in engaging eye contact is really dishonest. The customer could have a serious eye problem - or may just be rather shy! The people who provide the greatest "threat" are those who can engage strong eye contact and still be economical (or downright misleading) about the truth.

Discusinging the concept of Body language further,
Body language can be categorised into the following groups:

- Posture
- Movement
- Eye contact
- Touch
- Facial expression
- Gestures
- Appearance
- Non-verbal speech

Let us examine these points in more detail.

Posture

A great deal of information can be revealed from the ways in which people might stand, sit or walk. Our inner feelings can vary from elation and excitement to downright depression and dismay and our posture may reveal some of these feelings - perhaps as a result of past experiences. For example, a veteran soldier may still have an erect posture but the ravages of time or illness may have caused him to have a stoop. This may be a matter of great irritation to him and the assistant may detect this but it probably has nothing to do with his reactions to the assistant. Tense customers may present themselves with "wooden" smiles and body movements and convey a total dislike for the whole shopping experience. This, too, can be very disorientating, and it must be remembered that this probably has nothing to do with the current expedition (which we should try to make as pleasurable as possible).

On another dimension, customers can also appear totally at ease in all situations, even to the point of being relaxed, casual or slovenly (in dress and appearance). If you have preferences for well-dressed people, you should not let this show to such customers. Their appearance may be totally irrelevant to their spending capacity.

Movement and space

Visitors need to be given time and space - especially those who want to browse around the merchandise. Positive customers who have a definite purchase in mind will probably show their feelings by making a direct approach to the sales person and open with a direct question or statement:

"Do you have any ...?"
"I would like to see one of those......in the window."
Most others are looking for information about their potential purchase and, if the assistant is too positive, the customer may think them too forward or pushy. So, it is important not to crowd the customer. Greeting politely is one thing, but rushing up close to the customer is quite another.

How near should we be? It is said that people who live in towns are used to being as close to others as a half to a full metre (regular users of buses and tubes may find themselves even closer than that!). However, those who are more used to the open spaces of the countryside may be more comfortable with greater distance between themselves and the sales person.

How can you tell which approach is acceptable?

Customers who back away may do so because they are losing interest in making a purchase - or it may simply be that you have encroached on their personal space and that you are now too close for comfort.

More about eye contact

We have already seen above that eye contact - or the lack of it - can be misread as untrustworthy, and that our ability to maintain strong eye contact can be most influential when dealing with customers. However, our eyes can also be most expressive. For example, surprise can be readily identified when we open our eyes wider and, if this is accompanied by a smile, the surprise can be read as a pleasant one. So, what if the customer is a trifle disappointed with the product displayed in the window now it can be seen in close-up? Eyes narrowing, or slightly closed, could be signals of disappointment and losing interest.

Customers who have thought of objections to your sales presentation may also close their eyes as you attempt to overcome a particular objection. This could be a signal of a closed mind. We also send messages to partners or friends when we hear a statement with which we disagree. A typical "eye message" would be a glance towards the heavens as we express amazement or disgust at what we have heard.

Unfortunately, many service occupations can be dangerous today. It is important that sales people are alert to the possibilities of violent behaviour, even when handling quite innocuous situations. A customer's eyes could alert you to a variety of unexpected situations - even dilated pupils, which could be a sign of drug abuse.

Touch

When observing customers in your business, have you noticed that they convey a great deal of information with their hands? We sometimes say that somebody "speaks" with his or her hands, which is intended to convey that the person emphasises a great deal of their speech with hand (and sometimes even arm) movements. What does this tell us about that person? Well, at the very least it tells us that they are very expressive and cannot help giving their ideas this extra emphasis.

Please do not take this description personally. If you habitually "talk with your hands" do not become so inhibited that you cannot speak: just try to keep your enthusiasm under control.

In the main, we are taught as children that it is impolite to go around touching other people. This unwritten "rule" creates a reservation which causes us all some inhibitions in everyday life (contrast this with our neighbours in France who do not have the same reserve when it comes to physical contact and embraces). So, we tend to notice the special touching which happens to customers as they are shopping.

Touch can also be used to convey warmth and intimacy and, as such, is mostly avoided in business situations - often limited to shaking hands. However, careful touch is allowable when helping a customer to try on clothes - for example, holding out a jacket and smoothing it across the shoulders to remove any "rucks" or creases when the customer has it on. Shopping is a very social activity and sometimes used as therapy by many lonely people. Most sales people have their "regulars" who share the latest family news and confidences with them and this can be a rewarding part of the job, provided that it does not provide too much of a distraction or is too time-consuming. Sometimes real life problems are revealed during a sales interview, and reassurance and sympathy may be sought from members of the sales team. In such situations the sales person may find sympathetic behaviour helps cement the relationship with the customer.

Facial expression

We are all very sensitive to facial expression and find ourselves trying to read another person's thoughts through their expressions. With some people this is easy. They are extremely "open" people and react quickly to situations with smiles, frowns, puzzlement, surprise and so on. The most sensitive part of the face m conveying expression is the eyebrows and they often reveal inner thoughts more quickly than our mouth. (Some people are ultra-cautious when it comes to conveying smiles in case the signal is misread as over-friendly).

These points are valuable when trying to convey messages, but may be highly misleading when the person has a natural facial expression which is dominated by a particular physical feature. For example:

- Naturally bushy eyebrows and a furrowed brow may project an angry expression though the customer may not be experiencing this emotion.

- A prominent chin or jaw may be read as aggressive but, again, the inner person may not have any inclination towards aggression or conflict; it might be a good idea to look for other signs (e.g. gestures) which might confirm or deny this assumption.

- A naturally smiling face may cause us to relax and not present our case so assertively and yet a smile, coupled with a sarcastic approach to the assistant, can be devastating.

Gestures

As we have seen, many people "talk" with their hands and bodies and the experienced sales person quickly learns to interpret these messages. We could categorise the common gestures as follows:

- Openness. A customer who is attempting to convince you about something he or she is saying may accompany their speech with open-handed gestures. This is really saying I have nothing to hide.

- Anger and aggression. Complaining customers may be angry and an obvious giveaway is the way in which their hands may shake or are even clenched.

Personal discomfort. Customers may feel physical discomfort as a result of temperature changes; this is often noticeable in the winter, when the heating is turned up inside the business to benefit staff who may choose to wear rather less than they would outside. Customers with outdoor clothes on may become very hot and you may notice them constantly wiping their foreheads. This level of discomfort may discourage customers from spending time trying on clothes or spending much time in the business at all.

Appearance

Many mistakes have been made in trying to assess customers from these "signals". They probably tell us something about the customer's choice of what to wear today, on this particular outing, but not very much about the individual's taste, needs or interests in this particular visit to your shop or department. (Some very experienced retailers have identified an exception to this approach, citing the case of customers' shoes, which they believe can indicate customer taste and spending power. This could be especially valuable when you are selling clothing and fashion items.)

Non-verbal speech

Customers may use a lot of non-verbal speech and this can also convey their inner thoughts. For example, a person who sighs a lot may be expressing frustration (could they be in a hurry, or perhaps they are irritated by the sales person's presentation?). People sometimes grunt or make noises like 'Mmm'; they might also use simple words to indicate they are listening - but not much more. For example, responses like "Yes", "Right" or "I see" may not progress the sale very far but they may indicate that the customer is listening to you. Complete silence, by contrast, can be quite disconcerting and experienced sales people can feel most uncomfortable if the customer goes silent. As a result the sales person may simply babble on and on until the customer gets bored and leaves.

9.4 Store design and the retailing image mix

The needs of customers who go to a local grocer differ from those who visit a specialty goods retail outlet or a department store. Each retailer strategically plans a mix of elements to match the needs of his customer. A mix of the following six elements meet the physical and emotional needs of the customer:

(1) *Employee Type and Density:* The retailer employs sales staff to match the selling and image needs of his store. A speciality store like one selling saris will have a higher density of staff at about one per 100 sft and the salesperson would be one who caters to the needs of the customer — speak the local language and look more homely (as the customers are mostly women). In contrast, in a large department store the density of staff would be one per 400 sft. They will be well educated and suitably dressed (in most cases in western clothes as these form a major chunk of the store offering).

(2) *Merchandise Type and Density:* The type of merchandise determines its density in the store. A supermarket is very dense and averages about 8,000 pieces per 100 sft whereas a large department store would have about 750 pieces per 100 sft. A designer-wear exclusive store, a boutique or a furniture retailer would have low density so as to make the merchandise appear exclusive.
The density of merchandise also determines the margins planned on the merchandise. The lower the density the higher the margins.

(3) *Fixture Type and Density:* The fixtures have to complement the value of the merchandise. A jeweller uses a lot of expensive woodwork and stones like marble and granite to add value to his merchandise, while a sportswear goods store uses more of metal and plastic.
The density of fixtures is measured as the number of fixtures per 100 sft of store space. This should complement the density of the merchandise as it has a big impact on the convenience of shopping.

(4) *Sound Type and Density:* Sound can be pleasant or unpleasant and can have a direct impact on the store atmosphere. A pleasant sound, like music in a department store or the sound of the balls rolling and pins falling in a bowling alley adds to the intensity of the experience. An unpleasant sound like motor traffic or the roar of jet planes, on the other hand, can have a negative effect. The category of the merchandise determines the type and density of sound. Soft instrumental music is usually used in jewellery and cosmetics while the casuals and youth fashionwear segments are complemented by contemporary sound tracks

from new bands. Department stores play music based on the category of merchandise.

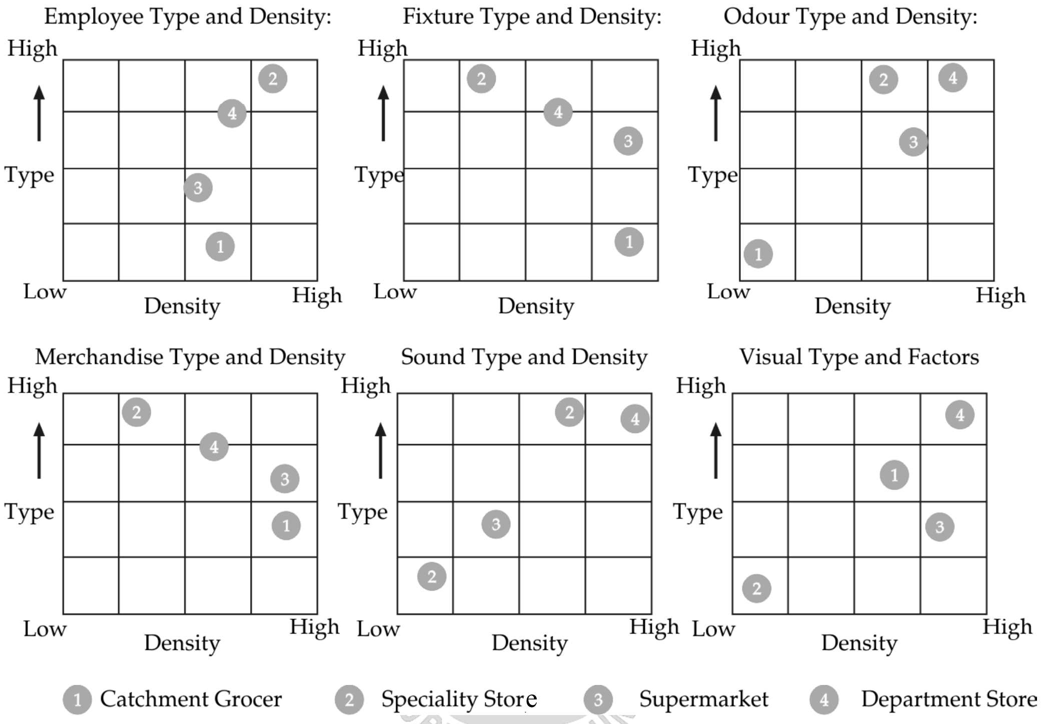
(5) *Odour Type and Density:* Like sound, odour too has a positive or negative effect on the store atmosphere. Positive odours like that of fresh coffee beans or flowers add to the shopping experience in the men's wear and cosmetics departments in a store. Negative odours like those of a musty carpet, cigarette smoke, etc. can drive the customer away. The strength of the odour is also important and even the right odour if it's too strong can have a negative effect.

(6) *Visual Type and Factors:* These are a result of the overall store presentation — the interior design, display and visual merchandising. Elements like lighting and colour can be controlled to make customers buy more. Warm yellow shades of lights complement gold jewellery as they add richness. Natural shades (daylight colours) are good for garments as they bring out the true colour of the merchandise. Warm colours like bright red or yellow are said to increase the pulse rate in human beings and trigger impulse purchases (FMCG goods use this effectively). Softer colours like pastels keep the pulse rate comfortable and are used in merchandise backdrops that need a longer time for inspection and selection (like watches and jewellery).

9.5 The space mix

For the retailer, space is money. The store has to be planned in such a way that it optimizes the selling area and minimizes the non-selling parts. The selling area is used to present the merchandise and the non-selling part is accounted for by circulation space, aisles, staircases, lifts, facilities, the back area, etc. The area mix in a typical department store is: selling area about 60%, circulation area 15% and back area 25%.

If the store has any extra area, it is given to concessionaires to complement the store offering mix and to de-risk space. Examples are Planet M in Shoppers' Stop. Planet Sports in Piramyd and Qwikys in Lifestyle.



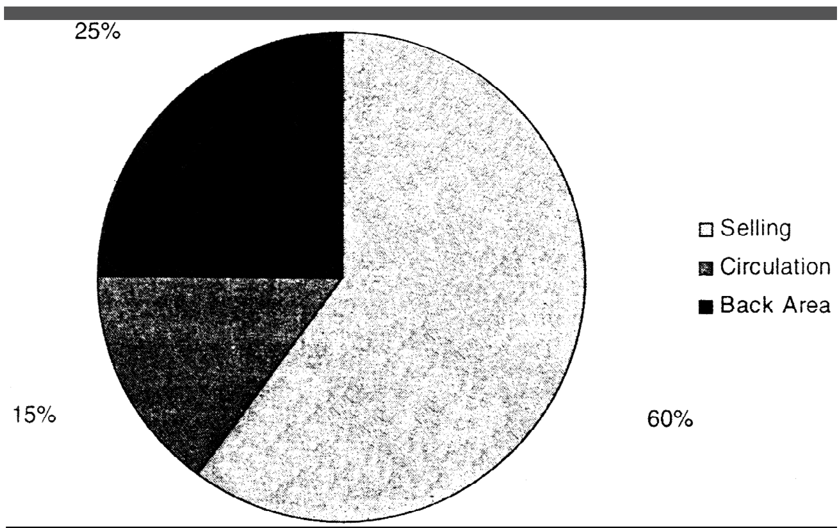


Fig. 9.1 Area Mix

In a garment retail store, planning the size of the selling space starts with a wardrobe audit where a sample size of the customer segment is intercepted and their wardrobe mix of garments and accessories mapped. This then determines the number of styles and the range width of the category. Then n business plan is made based on this integration with space.

The selling space is then configured in terms of size-and location of goods based on the mix of staple, convenience and impulse merchandise

Staple goods are the core USP of the store. These constitute about 55% of the store offering and are kept at the central and deeper ends of the store. This enhances visibility, since the customer has to pass through the entire store to reach them. The shirts and trousers section in department stores form the staple merchandise. Similarly, grains and sugar are the staples in a supermarket.

Convenience goods are no-fuss basic merchandise that constitute about 30% of the store and are bought in multiple units. These need to be in convenient locations in the store to ensure conversions. Undergarments and white basic cotton T-shirts in a department store are convenience merchandise.

Impulse purchase merchandise — which usually constitutes about 15% of the store and has the highest rate of sale — is given maximum exposure in order to tempt the customer into buying them. Candies in a supermarket and socks and hair accessories in a fashion store are impulse purchase items and are kept near the cash counters and entrances/exits. The customer picks them up after shopping for convenience and staple merchandise. The locations of various goods are chosen carefully to ensure that the customer is exposed to the entire store, thus increasing the possibility of a purchase.

Talking about space management and optimization in a retail store, Ajay Mehra, CEO of Times Retail (Planet M) says: "Space management does not end with just optimization, but has a much larger opportunity for merchandise promotion and display which not only can bring profit for a retail organization but entertain and delight customers too."

9.6 Effective Retail Space Management

The sight of a good retail store with attractive windows and an enticing entrance induce the customer into entering. The customer enters the store and often keeps walking inside following the walkway wherever it leads, or sometimes takes a while to look for directions within the store. Sometimes the customer's attention is drawn to certain displays and merchandise presentations before he moves on. To reach his destination inside the store, the customer tends to follow directions to reach there, especially in a big-box format, Seldom does he realize that subconsciously he is directed to 'walk' the entire store and thus exposing him to all that the store has to offer. This is achieved through a well thought-out and laid-out retail floor design.

A well-planned and properly designed retail floor achieves a great deal for the store:

(a) It enables a smooth and efficient customer flow into the store and within it. The design of the fixtures, the placement of merchandise and the fixtures on the floor too direct customers through the store.

(b) It helps the customer reach and access the merchandise he is looking for, without fail.

(c) It helps create a feeling of comfort in the minds of customers, enabling them to waltz their way through without facing any bottlenecks on the way. (It is said that generally the customer, while walking through the retail floor, thinks of the benefits he is going to get from his prospective purchase and feels happy about the right choice he is currently making).

(d) The aesthetics of a weil-planned floor are a visual feast for the customer and trigger the 'come-back' feeling in him, as he feels a sense of belonging in the store.

(e) A well laid-out floor, in essence, helps the store to sell more effectived and retain customers.

Effective retail floor space management is critical to the successful operation of a retail store, as more and more sales from the same space would lead to increased margins for the organization. According to R. Sriram, CEO of Crossword: "Space planning is integral to the success of any retail store since she biggest investment in retail is in space."

Let us now look at the ground rules for effective floor space planning and management. At the same time, let us get an insight into the customers' physical and emotional needs that contribute to store design conceptualization and space planning.

9.7 Store Layout: The Circulation Plan (the "Silent Guide")

Once inside the store, the customer needs to be guided silently to where he/

she wants to go and also expose him/her to the entire store offering. This can be achieved by planning the circulation and the location of the merchandise.

While designing store layout, circulation planning is done to lead the customer from area to area with the help of aisles that weave through the merchandise area. Focal points highlighted with accent lighting and displays strategically placed along the aisles pull the customer from section to section in a 'Pinball Effect". A series of these ensure that the customer is silently guided through the entire store.

The width of the aisles is planned according to the density and traffic pattern. The main aisle or 'highway' in a department store is six feet wide. which is the width of a double doorway, and facilitates easy passage in both directions. The side aisles or 'side roads' that branch out are three to four feet wide. In supermarkets, the aisles are three feet wide and form a denser grid around the fixtures.

The aisles form a circulation pattern that can be of different types depending on the store configuration. The area occupied by the aisles is normally 12-15% of the store carpet area. Some of the layout circulation types used are Free Flow. Grid, Race Track. Herringbone and Spine.

— Free Flow Circulation is used in stores where the merchandise and fixtures are grouped in clusters as in boutiques.

— Grid Circulation is used typically in a supermarket where the aisles and fixtures are at right angles to each other.

— Race Track Circulation is used in larger and wider stores where the customer is made to circle around the floor and get back to the beginning, usually the staircase lobby, to move to the next level of the store.

— Herringbone Circulation is used for a narrow store of maximum 40 ft width where the highway is a single two-way one, bisecting the store alone its length with 'side roads' leading to the walls from it.

— The Spine form is a Herringbone layout without the 'side roads'.

Says Sriram of Crossword; "Since the browsing experience in books is a critical part of the book-buying process, circulation planning plays a critical role, enabling the right experience."

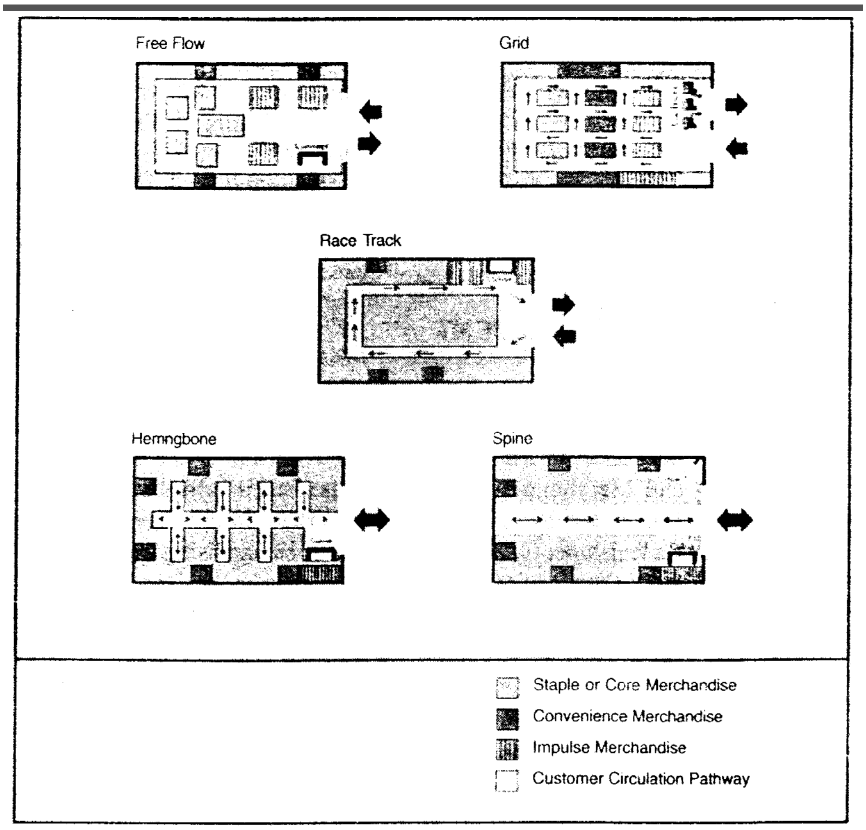


Fig. 9.2 : *Store Layout & Circulation Plan*

• **Floor Space Management**

One of the common problems in retail floor space management in India is lack of attention paid to space productivity. Usually space productivity does not figure in the Key Result Areas of either the Store Operations or Buying and Merchandising departments. But ideally both should pay attention to this area. Store Operations, since it is responsible for reorders and replenishments, and Buying and Merchandising because it is accountable for the Gross Profit Return (GPR) on the space occupied by the merchandise.

• **Parameters to Judge Space Performance**

How the space performs can be judged by:

— The sales output and the ensuing margins.

— The inventory holding that leads to sales and the ensuing margins.

In a nutshell the performance parameters are sales and margins and their direct relationship to the stock holding on the retail floor.

- Sales per square foot, or top-line plan (sales): Here, space productivity is measured by sales volumes and value achieved per square foot per day.
- Margins per square foot, or bottom-line plan (gross margin returns on footage, or GMROF): Here, space productivity is determined by gross margins earned per square foot per day.
- Stock-holding per square foot, or bottom-line tool (gross margin returns on inventory, or GMROI): Here, space productivity is determined by the average inventory holding per square foot per day and how it measures against the ideal level of stock holding planned for a designated space in the store. Stock-turns in such designated space play a vital role in earning good revenue returns on the space occupied when they are optimized.

This space performance measurement can be done for any *of* the rungs in the SKU hierarchy: a department/division, a category/class, a sub-category/sub-class, a brand and even for any style or size options.

Says G.S.M. Ghaznavi, former Senior Vice-President (Retail) at Bata India Ltd: "One must analyse statistics of the value of merchandise and margins broken down to the space occupied by micro-groups of merchandise in the store. This will help retailers develop a blueprint for profitable deployment of space especially in chain store operations. In addition, not only should merchandise categories be placed in the right locations that will maximize profitability but such placement should help attain uniformity for comfortable shopping by customers."

9.8 Space Audit: Non-treaded Space and Black Holes

Any successful retail store audits its space productivity from time to time. This audit looks at the various retail functions and activities for which space is employed and analyses returns in order to optimize them. It compares the performance of each function or activity with others in relation to space occupied.

Hot Spot Analysis: Hot spots are areas where the offtake of merchandise is the highest. Similarly, there are warm spots and cold spots, where merchandise sales are lower. An analysis of these hot spots, warm spots and cold spots is made periodically and steps taken to convert cold spots to warm spots and warm spots to hot spots while retaining the best sales and the stock-turns of the hot spots.

Such audits reveal non-traded space, where there is no customer traffic, and less treaded space which has low traffic. The possible reasons for these are analysed and hurdles and bottlenecks identified and removed to ensure that there are no non-treaded and black hole areas.

Efficiency of Selling Space to Non-selling Space: The utilization of selling and non-selling spaces — back area, facilities area. etc. — are periodically monitored for their efficiency in deliveries. A good retailer always aims to optimize selling space to improve the bottom-line, while taking care not to compromise on the efficiency of deliveries of the non-selling space.

Ground Rules for Successful Space and Layout Management

- Remember the golden rule of the retail floor space planning and management game — the convenience of the customer comes first.
- Provide the greatest opportunity for the customer to walk around the store and browse through all the merchandise displayed, for it is the browsers who turn into buyers —- buyers of a larger basket size.
- Optimize the trading space to achieve maximum sales, while not neglecting the non-trading area for customer converiesce/concessions in order to ensure that they spend a longer time in the store and increase revernues.
- Make the right floor space management decisions after every space audit, effecting the necessasry course-corrections on time as space costs a good deal of money.
- Appeal to all the five senses of the customer by creating an asthetic and functionally effective ambience so that you can cling to the mind space of the customer and bring him back to the store again and again.

9.3 Exercises

1. Answer the Questionaire from pages 188-189.
2. Discuss in details the different factors influencing proper store layout.
3. Why do you think understanding Body Language of customers is importnt for a retailer.
4. Discuss the basic selling skills required by a marketer.