Unit-1

Overview of Retailing

Introduction:

In the complex world of today, the consumer is king and retailers are keener on consumer satisfaction. Considering the busy lifestyles of today's consumers, the retailers also provide services apart from products.

Retailing occupies a very important place in the economics of any country. It is the final stage of distribution of product or service. It not only contributes to country's GDP but also empowers a large number of people by providing employment.

Retail Management starts with understanding the term 'Retail'.

Retail:

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

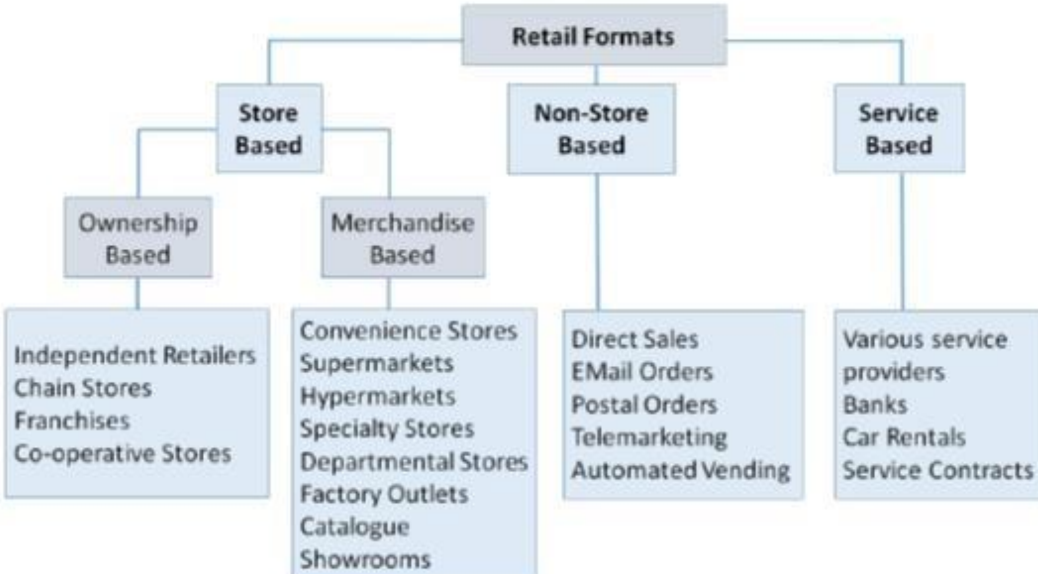
Functions of Retailer:

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

- A retailor does not sell raw material. He sells finished goods or services in the **form** that customer wants.
- A retailer buys a wide range of products from different wholesalers and offers the best products under one roof. Thus, the retailor performs the function of both **buying** and **selling**.
- A retailor keeps the products or services within easy reach of the customer by making them available at appropriate **location**.

Classification of Retailing Formats

The retailing formats can be classified into following types as shown in the diagram −


Retail Formats
Store Based
Non-Store Based
Service Based
Ownership Based
Merchandise Based
Independent Retailers
Chain Stores
Franchises
Co-operative Stores
Convenience Stores
Supermarkets
Hypermarkets
Specialty Stores
Departmental Stores
Factory Outlets
Catalogue
Showrooms
Direct Sales
EMail Orders
Postal Orders
Telemarketing
Automated Vending
Various service providers
Banks
Car Rentals
Service Contracts

Ownership Based Retailing

Let us see these retailers in detail −

- **Independent Retailers** − They own and run a single shop, and determine their policies independently. Their family members can help in business and the ownership of the unit can be passed from one generation to next. The biggest advantage is they can build personal rapport with consumers very easily. For example, stand-alone grocery shops, florists, stationery shops, book shops, etc.
- **Chain Stores** − When multiple outlets are under common ownership it is called a chain of stores. Chain stores offer and keep similar merchandise. They are spread over cities and regions. The advantage is, the stores can keep selected merchandise according to the consumers' preferences in a particular area. For example, Westside Stores, Shopper's Stop, etc.
- **Franchises** − These are stores that run business under an established brand name or a particular format by an agreement between franchiser and a franchisee. They can be of two types −
    - Business format. For example, Pizza Hut.
    - Product format. For example, Ice cream parlors of Amul.
- **Consumers Co-Operative Stores** − These are businesses owned and run by consumers with the aim of providing essentials at reasonable cost as compared to market rates. They have to be contemporary with the current business and political policies to keep the business healthy. For example, Sahakar Bhandar from India, Puget Consumers Food Co-Operative from north US, Dublin Food Co-Operative from Ireland.

Merchandise Based Retailing

Let us see these in detail −

- **Convenience Stores** − They are small stores generally located near residential premises, and are kept open till late night or 24x7. These stores offer basic essentials such as food, eggs, milk, toiletries, and groceries. They target consumers who want to make quick and easy purchases.
  For example, mom-and-pop stores, stores located near petrol pumps, 7-Eleven from US, etc.
- **Supermarkets** − These are large stores with high volume and low profit margin. They target mass consumer and their selling area ranges from 8000 sq.ft. to 10,000 sq.ft. They offer fresh as well as preserved food items, toiletries, groceries and basic household items. Here, at least 70% selling space is reserved for food and grocery products.
  For example, Food Bazar and Tesco.
- **Hypermarkets** − These are one-stop shopping retail stores with at least 3000 sq.ft. selling space, out of which 35% space is dedicated towards non-grocery products. They target consumers over large area, and often share space with restaurants and coffee shops. The hypermarket can spread over the space of 80,000 sq.ft. to 250,000 sq.ft. They offer exercise equipment, cycles, CD/DVDs, Books, Electronics equipment, etc.
  For example, Big Bazar from India, Walmart from US.

- **Specialty Stores** − These retail stores offer a particular kind of merchandise such as home furnishing, domestic electronic appliances, computers and related products, etc. They also offer high level service and product information to consumers. They occupy at least 8000 sq.ft. selling space.
  For example, Gautier Furniture and Croma from India, High & Mighty from UK.
- **Departmental Stores** − It is a multi-level, multi-product retail store spread across average size of 20,000 sq.ft. to 50,000 sq.ft. It offers selling space in the range of 10% to 70% for food, clothing, and household items.
  For example, The Bombay Store, Ebony, Meena Bazar from India, Marks & Spencer from UK.
- **Factory Outlets** − These are retail stores which sell items that are produced in excess quantity at discounted price. These outlets are located in the close proximity of manufacturing units or in association with other factory outlets.
  For example, Nike, Bombay Dyeing factory outlets.
- **Catalogue Showrooms** − These retail outlets keep catalogues of the products for the consumers to refer. The consumer needs to select the product, write its product code and handover it to the clerk who then manages to provide the selected product from the company's warehouse.
  For example, Argos from UK. India's retail HyperCity has joined hands with Argos to provide a catalogue of over 4000 best quality products in the categories of computers, home furnishing, electronics, cookware, fitness, etc.

Non-Store Based (Direct) Retailing

It is the form of retailing where the retailer is in direct contact with the consumer at the workplace or at home. The consumer becomes aware of the product via email or phone call from the retailer, or through an ad on the television, or Internet. The seller hosts a party for interacting with people. Then introduces and demonstrates the products, their utility, and benefits. Buying and selling happens at the same place. The consumer itself is a distributor.
For example, Amway and Herbalife multi-level marketing.
Non-Store based retailing includes non-personal contact based retailing such as −

- **Mail Orders/Postal Orders/E-Shopping** − The consumer can refer a product catalogue on internet and place order for purchasing the product via email/post.
- **Telemarketing** − The products are advertised on the television. The price, warranty, return policies, buying schemes, contact number etc. are described at the end of the Ad. The consumers can place order by calling the retailer's number. The retailer then delivers the product at the consumer's doorstep. For example, Asian Skyshop.
- **Automated Vending/Kiosks** − It is most convenient to the consumers and offers frequently purchased items round the clock, such as drinks, candies, chips, newspapers, etc.

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

Service Based Retailing

These retailers provide various services to the end consumer. The services include banking, car rentals, electricity, and cooking gas container delivery. The success of service based retailer lies in service quality, customization, differentiation and timeliness of service, technological upgradation, and consumer-oriented pricing.

Product Retailing versus Service Retailing

Product Retailing	**Service Retailing**
Quality and cost are prime factors in the success of product retailing.	Timeliness and nature of people involved in service retailing are crucial factors in the success.
Product retailer and consumer relationship is established only if the consumer frequently visits the outlet.	Service provider and customer relationship is established right from start.
Products can be stored in outlet while retailing.	Services are intangible hence cannot be stored while retailing.
Product retailing can be standardized.	Service retailing cannot be standardized as it highly depends upon the human entities involved.
In product retailing, the ownership of the purchased product can be transferred from owner to consumer after transaction.	In service retailing, there is no transfer of ownership. The consumer can only access the service.

Retail Strategy:

It is a plan designed by a retail organization on how the business intends to offer its products and services to the customers. There can be various strategies such as merchandise strategy, own-brand strategy, promotion strategy, to name a few.

A retail strategy includes identification of the following −

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

Strategies for Effective Market Segmentation:

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

Concentration (Niche) Strategy

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

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

Multi-segment Strategy

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

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

Strategies for Market Penetration:

Market penetration strategies include the following −

Price Penetration

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

Aggressive Promotion

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

High Product Distribution

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

Growth Strategies:

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

Ansoff's Matrix

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

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

- **Market Penetration** − Company focuses on selling the existing products or services in the existing market for higher market share.

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

Achieving Competitive Advantage and Positioning Retailing Environment:

Any business effort taken by a retailer from time to time can be a reason for competitive advantage but some advantages are sustainable over a long period of time, while others are of trial nature. Sustainable advantages are usually hard nut to crack. A retailer puts its full energy to keep competitors away from the market.

By providing, the same quality goods and services and by following the same price policy, any retailer can be in and out of retailing competition. If a retailer is successful due to its wide merchandise assortments, its competitors can be provide wider and deeper merchandise to attract the customers. This phenomenon does not come under the concept of sustainable competitive advantage.

Building a sustainable competitive advantage means besides developing private/ store brands, lucrative offers and customer service, retailers should create certain advantages that enable them to survive against all odds as and when presented by its competitors.

Retailers throughout the globe basically have seven key areas to develop sustainable competitive advantage:

(1) Customer loyalty
(2) Store location
(3) Human resource management
(4) Distribution and information systems
(5) Unique merchandise
(6) Vendor relations
(7) Customer service

1. Customer Loyalty:

Loyal customers are long-term assets for a retail organization. They have emotional bond with a retailer and regularly visit the retailer. From a retailer’s point of view, customer loyality means that customers are committed to purchase merchandise and services as and when required from the retailer with resistance of competitors’ move. To retain loyal customers is not an easy task.

2. Store Location:

The selection of location for a retail store is one of the most crucial strategic decisions a typical retailer makes. Since most of the retail sales in India take place at stores, utmost care should be taken before taking a site location decision. A good location not only reduces distribution cost to considerable extent but also attracts more customers. No matter what quality merchandise a store offers, customer service or attractive pricing, every retailer has to compete over three success elements: location, location and location.

3. Human Resource Management:

Human resource management plays a vital role in success of retailing. Despite technological advancements, retailers still rely on people (human resources) to perform the fundamental retail activities such as procurement, displaying merchandise and providing service to customers. Retailers know the importance of hardworking and loyal employees.

4. Distribution and Information Systems:

All retailers wish that they should supply exactly the same quality, quantity and price what their customers need. They take all possible steps to supply the goods well in time and at prices which are lesser than their competitors. Some retailers instead of using low price policy provide additional facilities (margin) to lure customers such as wide merchandise assortments under one roof, even better customer service and visual presentations.

5. Unique Merchandise:

Technological advancement, borderless economies and free flow of goods across the countries have enabled a retailer to procure any good and sell it in their stores, whenever and wherever they want, but in order to keep themselves ahead in the retailing race, many retailers get competitive advantage through development of personal/private/store brands.

6. Vendor Relations:

Successful retailers develop strong relationships with their vendors and get competitive edge over competitors under following ways:

(i) By obtaining special selling rights to sell merchandise in a particular region where they have monopoly bird position.

(ii) To obtain special terms/conditions rights that are not available to competitors who lack good vendor relations and

(iii) To obtain popular/fast moving merchandise in short supply/short notice. The longer the relationship exists, the longer the competitive advantage retailers will get.

7. Customer Services:

Good customer service has today become an integral part of the retail industry. In retailing, where floor staff has to directly interact with the customers, customer service acts as lifeblood. With the sales promotion and lucrative offers you can increase the temporary sales but out of these customers if half or some of the customers do not come back then your store will not survive for long time.

Political/Legal Environment:

Retail marketing decisions are substantially impacted by developments in the political / legal environment. This environment is composed of laws, government agencies and pressure groups that influence and constrain various organisations and individuals in society. Legislation affecting retail business has steadily increased over the years. The legislation has a number of purposes. The first is to protect from each others. So laws are passed to prevent unfair competition. The second purpose of Government regulation is to protect consumers from unfair retail practices. Some firms, if left alone, would adulterate their products, tell lies in their advertising, deceive through their packages and bait through their prices. Unfair consumer practices have been defined and are enforced by various agencies. The third purpose of Government Regulation is to protect the larger interest of society against unbridled business behaviour. The retail marketing executive needs a good working knowledge of the major laws protecting competition consumers and the larger interests of society.

Social/Cultural Environment:

In recent years, the concept of social responsibility has entered into the marketing literature as an alternative to the marketing concept. The implication of socially responsible marketing is that retail firms should take the lead in eliminating socially harmful products such as cigarettes and other harmful drugs etc. There are innumerable pressure groups such as consumer activists, social workers, mass media, professional groups and others who impose restrictions on marketing process and its impact may be felt by retailers in doing their business. The society that people grow up in shapes their basic beliefs, values and norms. People live in different parts of the country may have different cultural values – which has to be analysed by retail business people/firm. This will help them to reorient their strategy to fulfill the demands of their consumers. Retail marketers have a keen interest in anticipating cultural shifts in order to spot new marketing opportunities and threats. Several firms such as ORG, MARG etc. offer social / cultural forecasts in this connection. For example, marketers of foods, exercise equipment and so on will want to cater to this trend with appropriate products and communication appeals.

Economic Environment:

Retail markets consist of purchasing power as well as people. Total purchasing power is a function of current income, prices, savings and credit availability. Marketers should be cognizant of major trends in the economic environment. The changes in economic conditions can have destructive impacts on business plans of a firm. Economic forecasters looking ahead through the next decade are likely to find their predictions clouded by the recurrent themes of shortages, rising costs and up and down business cycles. These changes in economic conditions provide marketers with new challenges and threats. How effectively these challenges could be converted into opportunities depend on well-thought-out marketing programmes and strategies. Further, no economy is free from the tendency of variation between boom and depression, whether it is a free economy or controlled economy. In any event, economic swings affect marketing activity, because they affect purchasing power. Retail marketing firms are susceptible to economic conditions, both directly and through the medium of market place. For example, the cost of all inputs positively respond to upward swing of economic condition – which will affect the output price and consequently affect the sales. The effect on consumers also influences the marketing through changes in consumer habits. This is an indirect influence. For example, in the event of increase in prices, consumers often curtail or postpone their expenditures. Conversely, during time of fall in prices, consumers are much less conscious of small price differences and would buy luxury and shopping products.

Technological Environment:

The most dramatic force shaping people’s lives is technology. Advances in technology are an important factor which affect detail marketers in two ways. First, they are totally unpredictable and secondly, adoption of new technology often is prevented by constraints imposed by internal and external resources. At the same time, it should be remembered that technological progress creates new avenues of opportunity and also poses threat for individual firms. Technology has helped retailers to measure the products with modern weighing machines. Earlier, they have used balances which could not measure the merchandise correctly. With the help of weighing machine, products can be measured with the result customer satisfaction can be enhanced. In the following areas where technology have been extensively used.

- Packing of the products
- Printing the name of the shop on the product visibly
- Modern refrigerators where merchandise can be used for a long time and
- Billing.

Technological change faces opposition from one group of people-telling that it may lead to retrenchment of employees. But in the long run, this argument may not sustain, retail marketers need to understand the changing technological environment and how new technologies can serve human needs. They need to work closely with research and development people to encourage more consumer oriented research. The retail marketers must be alert to the negative aspects of any innovation that might harm the users and create consumer distrust and opposition.

Trends in the Indian retailing industry:

The top seven trends in retailing in India are as follows: 1. Shift from Unorganized to Organized Retailing 2. Store Design 3. Competition 4. New Form of Retailing 5. Technology 6. Consumer Buying Behaviour 7. Entertainment.

1. Shift from Unorganized to Organized Retailing:

Retailing in India is thoroughly unorganized. There is no supply chain management perspective. The key factors that drive the growth of organized retailing in India are higher disposable incomes, rising urbanization, growing consumerism, nuclear family structure, growing number of educated and employed women population.

2. Store Design:

Irrespective of the format, the biggest challenge for organized retailing is to create an environment that pulls in people and makes them spend more time in shopping and also increases the amount of impulse shopping.

3. Competition:

Competition is increasing between different types of retailers. Discount stores, departmental stores, supermarkets, etc. all compete for the same customers. The small independent retailers survive by providing personal services to the customers.

4. New Form of Retailing:

Modem malls made their entry into India in the late 1990s, with the establishment of Crossroads in Mumbai and Ansal Plaza in Delhi. India’s first true shopping mall, ‘Crossroads’—complete with food courts, recreation facilities and large car parking space—was inaugurated as late as 1999 in Mumbai. Malls have given a new dimension to shopping experience.

5. Technology:

Technology today has become a competitive tool. It is the technology that helps the organized retailer to score over the unorganized players, giving both cost and service advantages. Technology has also made possible the growth of non-store retailing.

6. Consumer Buying Behaviour:

In India, there are no uniform trends with respect to consumer buying behaviour. There are visible differences in the shopping pattern of consumers across income segments. Organized retailing has definitely made headway in the upper class.

However, even in this segment, items such as milk, fruits, vegetables and a significant portion of 'through-the-month' purchases seem to be done at traditional outlets. Organized retail outlets seem to be associated with branded items/special purchases. Organized retailing does not seem to have made an impact on the lower class, except for 'curiosity' shopping.

7. Entertainment:

Modem retail formats provide a place for people to assemble, and a means of entertainment, by providing facilities such as food courts, mini theatre, children's play spaces and coffee shops. These facilities help the customers enjoy shopping.

Unit-2

Retail Store Location and Layout

Store Location:

The location of stores is a strategic decision which if once taken cannot be easily undone. It would be extremely costly to change the storage location at a later stage. It should be carefully decided and planned so as to ensure maximum efficiency. The optimal location of stores minimizes the total transportation, handling and other costs related to stores operation and at the same time provide the needed protection for stores items. The models of facilities planning can be applied to determine the optimal storage location in large size organizations. Store location depends upon the nature and value of the items to be stored and the frequency with which the items are received and issued to the different departments. Other important factors governing the location are the number and location of end users, variety and volume of goods to be handled, location of the central receiving station and accessibility to rail or road links.

In general, stores are located close to the point of use. Raw materials stores are usually located near the first operation (in case of line layout), in process stores near to subsequent operation, and finished goods stores near the shipping area. The tools and supplies stores are located centrally to the personnel and equipment served.

In big plants it may not be possible to locate the stores which are convenient to all the departments and at the same time near to the receiving section. Usually a central store is located near the receiving section and the issues are decentralized by setting-up sub stores conveniently located to serve user departments.

The location and building up of stores should be done with a futuristic outlook. The provision for the new departments and the increase in the volume to be stored should be kept.

Layout and Design of Stores:

The efficient layout and design of stores is very important from the point of view of its functioning which is linked to the overall functioning of the plant. A good layout must bring the point of origin, store room and point of use in adjacent and proper reference of best material flow. The planning and design of stores should be carried out with the following objectives in mind:

- To achieve maximum ease of operation with ready accessibility of major materials
- To achieve minimum waste of space and flexibility of arrangement
- Minimization of material handling requirements
- Minimization of material deterioration and pilferage

To assist the planning to meet the objectives, following information should be generated from the records:

- Classification of store items by size, number, weight, frequency of handling (FSN-Fast moving, Slow moving, Non-moving), handling arrangements, perish ability
- Space requirement to store the item
- Units withdrawn at a time
- Maximum number of units to be stored at one time
- Storage facility best suiting the item
- List of available storage space for different kinds of storage facilities
- Size and shape of the space available for laying out the stores
- Prepare a flow diagram of the flow of materials through the stores.
- REL Chart for the storage of different classes of materials can be prepared.

While planning the layout and design of the stores, following factors should be considered:

- The space for receipt and inspection should be provided adjacent to the main stores.
- Use of third dimension must be made effectively.
- Different storage facilities should be situated in clearly defined lanes, so that items are quickly stored and located.
- Main lanes or aisles should usually be 1.5 to 3 meters wide, depending upon the type of material and the amount of traffic involved.
- Clear markings should be made at storage space to facilitate location and identification.
- The fast moving items should be stored near the dispensing window; the slow moving should be away from the window.
- The layout should permit the use of modern material handling equipment.
- Stores layout should encourage the FIFO, i.e. the old stock should be used earlier and the storekeeper should not be compelled to keep the new stock above the old one.
- Due space should be left for expansion purposes in each portion.
- A pleasing and hygienic environment must be provided within the store room. This may be done by proper selection of the colour of walls, provisions of exhaust removal, provision of cleaning etc.
- Adequate and clear lighting arrangements should be provided.
- Adequate safety provisions including firefighting equipment, alarms, accident control and prevention methods should be inbuilt in the store room design.
- Special facilities, such as cold room, heating equipment, air-conditioning etc., if required, should be carefully planned in advance.

Country and Region Analysis:

In populous cities such as Mumbai, Delhi, Tokyo, and Shanghai to name a few, consumers face rush-hour traffic jams or jams because of road structure. In such cases, to access a retail outlet to procure day-to-day needs becomes very difficult. It is very important for the consumers to have retail stores near where they stay.

Importance of Location in Retail Business

Retail store location is also an important factor for the marketing team to consider while setting retail marketing strategy. Here are some reasons −

- Business location is a unique factor which the competitors cannot imitate. Hence, it can give a strong competitive advantage.
- Selection of retail location is a long-term decision.
- It requires long-term capital investment.
- Good location is the key element for attracting customers to the outlet.
- A well-located store makes supply and distribution easier.
- Locations can help to change customers' buying habits.

Trade Area Analysis:

A **trade area** is an area where the retailer attracts customers. It is also called **catchment area**. There are three basic types of trade areas −

Solitary Sites

These are single, free standing shops/outlets, which are isolated from other retailers. They are positioned on roads or near other retailers or shopping centers. They are mainly used for food and non-food retailing, or as convenience shops. For example, kiosks, mom-andpop stores (similar to *kirana* stores in India).

Advantages − Less occupancy cost, away from competition, less operation restrictions.

Disadvantages − No pedestrian traffic, low visibility.

Unplanned Shopping Areas

These are retail locations that have evolved over time and have multiple outlets in close proximity. They are further divided as −

- Central business districts such as traditional "downtown" areas in cities/towns.
- Secondary business districts in larger cities and main street or high street locations.
- Neighborhood districts.
- Locations along a street or motorway (Strip locations).

Advantages − High pedestrian traffic during business hours, high resident traffic, nearby transport hub.

Disadvantages − High security required, threat of shoplifting, Poor parking facilities.

Planned Shopping Areas

These are retail locations that are architecturally well-planned to provide a number of outlets preferably under a theme. These sites have large, key retail brand stores (also called **"anchor stores"**) and a few small stores to add diversity and elevate customers' interest. There are various types of planned shopping centers such as neighborhood or strip/community centers, malls, lifestyle centers, specialty centers, outlet centers.

Advantages − High visibility, high customer traffic, excellent parking facilities.

Disadvantages − High security required, high cost of occupancy.

Site Evaluation and Location:

The marketing team must analyze retail location with respect to the following issues −

- **Size of Catchment Area** − *Primary* (with 60 to 80% customers), *Secondary* (15 to 25% customers), and *Tertiary* (with remaining customers who shop occasionally).
- **Occupancy Costs** − Costs of lease/owning are different in different areas, property taxes, location maintenance costs.
- **Customer Traffic** − Number of customers visiting the location, number of private vehicles passing through the location, number of pedestrians visiting the location.
- **Restrictions Placed on Store Operations** − Restrictions on working hours, noise intensity during media promotion events.
- **Location Convenience** − Proximity to residential areas, proximity to public transport facility.

Steps to Choose the Right Retail Location:

A retail company needs to follow the given steps for choosing the right location −

Step 1 - Analyze the market in terms of industry, product, and competitors − How old is the company in this business? How many similar businesses are there in this location? What the new location is supposed to provide: new products or new market? How far is the competitor's location from the company's prospective location?

Step 2 – Understand the Demographics − Literacy of customers in the prospective location, age groups, profession, income groups, lifestyles, religion.

Step 3 – Evaluate the Market Potential − Density of population in the prospective location, anticipation of competition impact, estimation of product demand, knowledge of laws and regulations in operations.

Step 4 - Identify Alternative Locations − Is there any other potential location? What is its cost of occupancy? Which factors can be compromised if there is a better location around?

Step 5 – Finalize the best and most suitable Location for the retail outlet.

Measuring the Success of Location:

Once the retail outlet is opened at the selected location, it is important to keep track of how feasible was the choice of the location. To understand this, the retail company carries out two types of location assessments −

Macro Location Evaluation

It is conducted at a national level when the company wants to start a retail business internationally. Under this assessment, the following steps are carried out −

- Detailed external audit of the market by analyzing locations as macro environment such as political, social, economic, and technical.
- Most important factors are listed such as customer's level of spending, degree of competition, Personal Disposable Income (PDI), availability of locations, etc., and minimum acceptable level for each factor is defined and the countries are ranked.
- The same factors listed above are considered for local regions within the selected countries to find a reliable location.

Micro Location Evaluation

At this level of evaluation, the location is assessed against four factors namely −

- **Population** − Desirable number of suitable customers who will shop.
- **Infrastructure** − The degree to which the store is accessible to the potential customers.
- **Store Outlet** − Identifying the level of competing stores (those which the decrease attractiveness of a location) as well as complementary stores (which increase attractiveness of a location).
- **Cost** − Costs of development and operation. High startup and ongoing costs affect the performance of retail business.

Store Design and Layout:

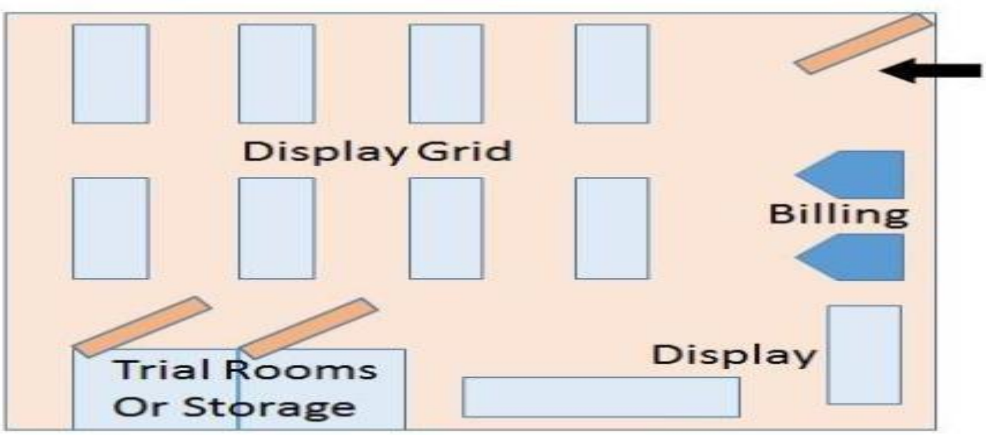
Customer buying behavior is an important point of consideration while designing store layout. The objectives of store layout and design are −

- It should attract customers.
- It should help the customers to locate the products effortlessly.
- It should help the customers spend longer time in the store.
- It should motivate customers to make unplanned, impulsive purchases.
- It should influence the customers' buying behavior.

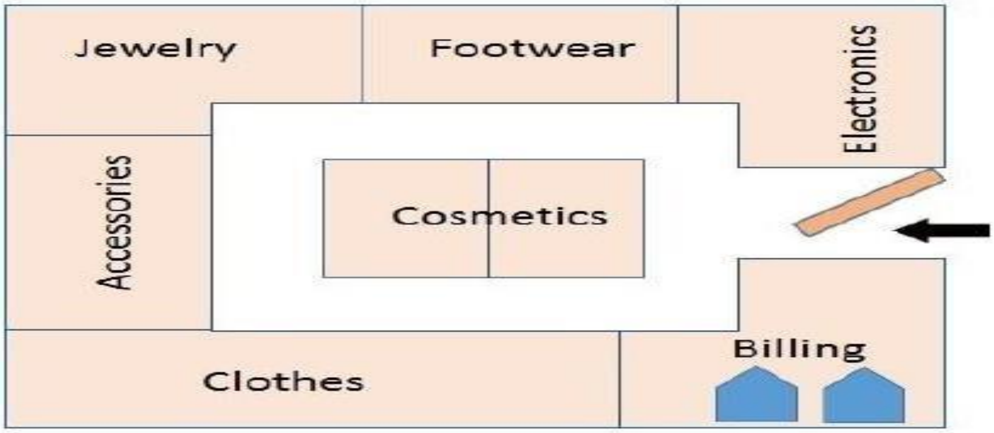
Store Layout Formats

The retail store layouts are designed in way to use the space efficiently. There are broadly three popular layouts for retail stores −

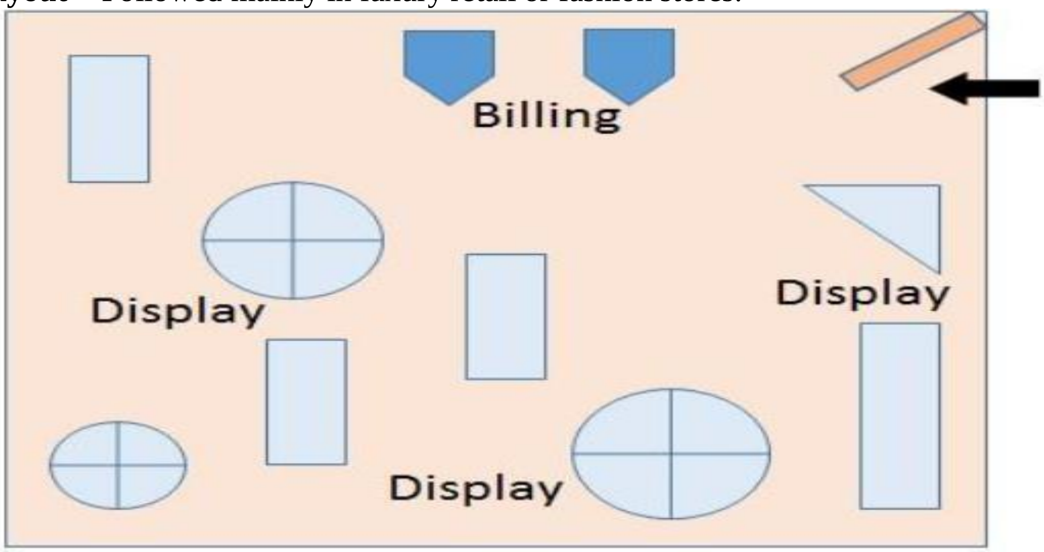
Grid Layout − Mainly used in grocery stores.



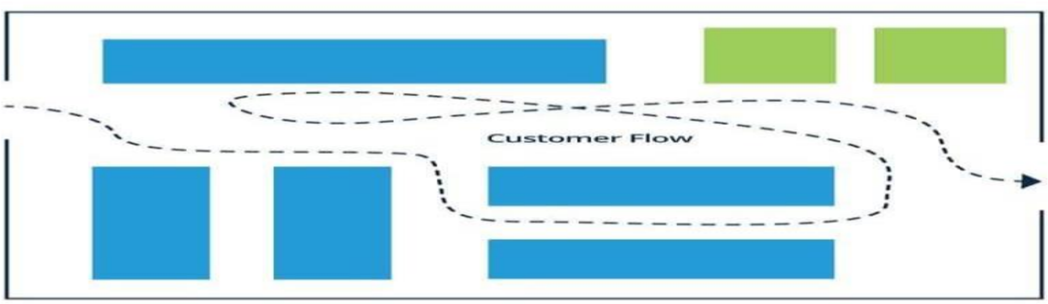
Loop Layout − Used in malls and departmental stores.



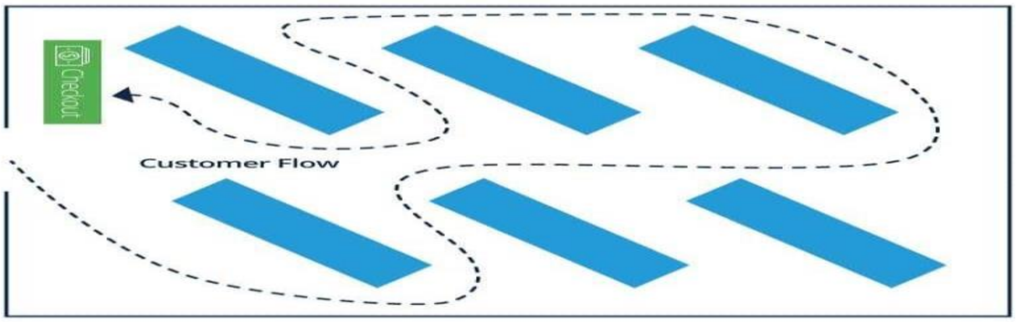
Free Layout − Followed mainly in luxury retail or fashion stores.



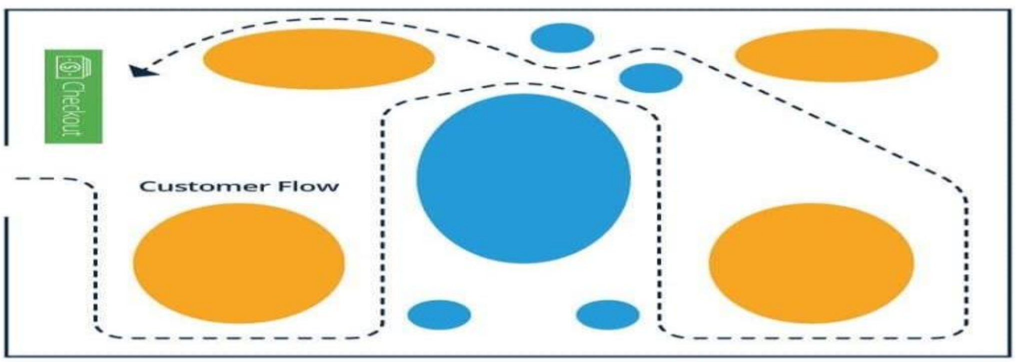
Straight Store Layout



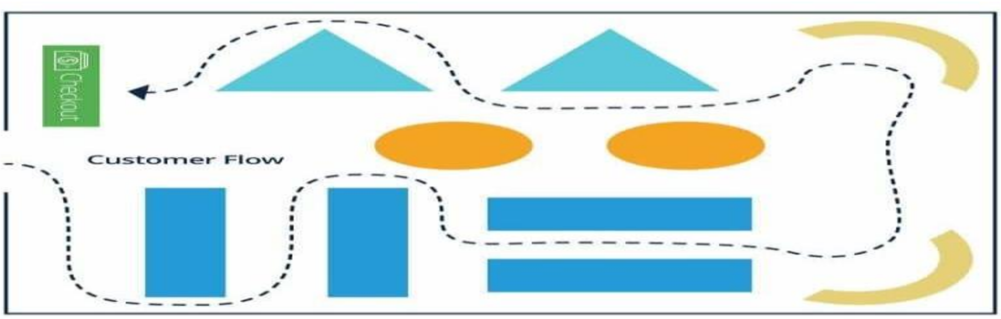
Diagonal Store Layout



Angular Store Layout



Mixed Store Layout



Store Design

Both internal and external factors matter when it comes to store design.

Interior Design

The store interior is the area where customers actually look for products and make purchases. It directly contributes to influence customer decision making. In includes the following −

- Clear and adequate walking space, separate from product display area.
- Free standing displays: Fixtures, rotary displays, or mannequins installed to attract customers' attention and bring them to the store.

- End caps: These displays at the end of the aisles can be used to display promotional offers.
- Windows and doors can provide visual messages about merchandise on sale.
- Proper lighting at the product display. For example, jewelry retail needs more acute lighting.
- Relevant signage with readable typefaces and limited text for product categories, for promotional schemes, and at Point of Sale (POS) that guides customers' decision-making process. It can also include hanging signage for enhancing visibility.
- Sitting area for a few differently abled people or senior citizens.

Exterior Design:

This area outside the store is as much important as the interior of the store. It communicates with the customer on who the retailer is and what it stands for. The exterior includes −

- Name of the store, which tells the world that it exists. It can be a plain painted board or as fancy as an aesthetically designed digital board of the outlet.
- The store entrance: Standard or automatic, glass, wood, or metal? Width of the entrance.
- The cleanliness of the area around the store.
- The aesthetics used to draw the customers inside the store.

Comprehensive Store Planning:

It is essential to understand your customer flow and the general patterns of navigation in your specific retail environment before you can optimize customer experience and plan a strategic store layout. Retailers, consultants, store planners, interior designers, and architects all use a variety of retail floor plans and concepts to influence customer flow and behavior. Retail giants along with small, independent retailers can improve customer experience, and in return, long-term profitability with efficient store layouts. In Store Design and Visual Merchandising: Creating Store Space That Encourages Buying, author Claus Ebster offers valuable insight into maximizing your retail space.

Step One: Target The First Floor

The first step to maximize your profitable retail space might be the most unavoidable, however the principle and knowledge behind the customer behavior is crucial for understanding your overall design strategy. Ebster's research indicates that customers prefer to navigate the floor of a retail store they initially entered. Walking up and down stairs or using elevators and escalators to navigate a store hurts customer flow. When possible, planning for a single floor store design will optimize the customer experience. Exceptions exist, such as downtown locations where real estate is at a premium or large department stores with multiple categories of merchandise. Further, Ebster points out that retailers should consider customer perception if they are a luxury retailer, as shoppers often associate multi-level stores as "elite." Conversely, if a discount retailer is planning store layouts, as customers associate single floor layouts with "less high-end" merchandise. Consider your overall retail strategy and store layout design prior to selecting your store location. If you have multiple floors, account for the preferences of first floor shoppers by using this space for the feature or high-margin merchandise in your retail mix.

Step Two: Identify Customer Flow

Ebster presents some general rules for customer traffic. Customer flow patterns vary depending on the type of retailer, the size of the store, and the target customer. Ebster encourages retailers to use their observations to discover the problems and opportunities unique to their environment. The next step in maximizing your space for profitability is identifying your customer flow. The most effective method for understanding your existing customer flow and identifying areas of opportunity is video recording and heat mapping analysis. This service is available via solution providers such as Prism (you can also do a quick online search for heat mapping consultant services in your area). However, setting aside different times of the day to make in-store observations in person and recording your notes is a step in the right direction for identifying customer flow patterns.

Step Three: Avoid The Transition Zone

After you identify how your customers navigate your entire retail space, turn your attention back to the entrance. The transition zone area, coined the "decompression zone" by Underhill, refers to the space just beyond the entrance to a retail store. The average customer needs this space to transition so they can familiarize with the new environment. Underhill is adamant that nothing of value to the retailer, not high-margin merchandise, prominent signage, or brand information goes inside this zone. Customers need time, however brief, to adjust to new lighting, smells, the music, and the visual stimulation in the store.

Step Four: Design for Clockwork Navigation

The next step moves beyond the transition zone and shifts the focus on how to leverage a customer's tendency to navigate the retail environment. The area just outside of the transition zone is where most retailers make a first impression. Customers consistently turn right after entering the store and continue to navigate the store in a counterclockwise direction. Ebster points out that this customer behavior repeats itself time and again in consumer research. Although researchers and design professionals have different explanations for the reaction, in general, many recommend displaying high-margin merchandise and valuable information just to the right of the entrance (outside of the transition zone). Underhill popularized the "invariant right" and proved the effectiveness of the technique with thousands of hours of video.

Step Five: Remove Narrow Aisles

Finally, follow your customer flow through the transition zone and around the retail space in a counterclockwise pattern. Search for tight spaces or bottlenecks along aisles or around fixtures and displays. Repeated analysis of Underhill's video research demonstrates that customers in the US — women in particular — value their personal space when shopping. If a customer is touched, bumped, or otherwise interrupted when interacting with merchandise, they are likely to move on from the items or exit the store altogether. Ebster uses customer behavior research from one study of a supermarket to further advocate for broader aisle design. Video analysis showed fewer customers entering narrow aisles in the store compared to the more expansive, accessible walkways. These aisles send positive signals to shoppers and positively impact customer flow and merchandise interaction. Avoid narrow aisles and corridors when planning your store layout and strive to protect customers from what Underhill coined as the "butt-brush effect."

<u>Exterior Design and Layout:</u>

The **exterior design of any retail store** must protect the interior from the outside elements (heat, dust, humidity, light etc.). Just as important, it also serves to convey information to potential customers. The exterior is first part of the store that potential customers see. They will determine from the outside whether or not they wish to enter and shop. It is critical that the outside of the store gain the attention of customers and entice them to enter. If the outside does not reflect an image appropriate to customers, they will not enter into the store.

The important exterior design considerations for the retail store design are:

1. New Building versus Existing Facility

The decision to build a new facility or seek existing space is a critical element in exterior design planning. Each option has its advantages. Building allows the retailer to design all aspects of the exterior and interior. However, this option may be limited by location availability, time, or cost. Buying, renting, or leasing existing space has the advantage of being much quicker, may offer the advantage of a superior location and may be less expensive. However, a retailer is often limited in what can be done with regard to design issues. It is often the case where major renovations of existing space are as expensive as building from the ground up.

2. Restrictions

Recognizing the importance of the exterior, retailers have become very competitive in their designs. Unfortunately, this has often led to many areas looking like a war zone of competing colors, signs, shapes, and sounds. Both property owners and governments alike have taken steps to ensure that consumers are not assaulted by on overwhelming amount of stimuli.

- **Lease requirements.** Many property owners require retailers that lease their space to adhere to certain rules regarding store design. These rules serve two purposes. First, they assure the owner that property will be maintained good condition; and second, they ensure that the surrounding property does not lose value. For example, most malls require that signs be certain sizes and often limit the use of intense light.
- **Building codes.** Most cities have building codes for businesses; often many are directed at retailers. These serve several purposes. First, they protect the public. Fire codes and safety regulations are examples. Some codes include sign ordinances that try to create some kind of visual harmony. Second, they ensure equal access to shopping for those with disabilities; and third, they reflect the community's attitude with regard to appearance. For example, many town recognize the need of retailers to promote their business through the use of signs. However, for aesthetic purposes, they have limited or abolished signs in particular areas.
- **Theme areas.** Theme areas are those in which buildings must meet structural requirements that fit a certain theme. Many downtown areas are implementing very strict building codes that allow businesses to stay only if they fit with the atmosphere the area is trying to create.

3. Color and Materials

The exterior color texture of a store give a lasting first impression to the consumer. Often, this will be the first and sometimes the only thing a customer sees of a store. It is important that the exterior look and "Feel" right to the shopper. The colors and material should express the image of the store. Today's retailers are increasingly using textured building materials (brick, rough-sawn wood, and so on) at the store entrance to give a pleasant feeling to the facade. Steel buildings tend to create an impression of strength, whereas glass tends to create an altogether different impression, usually of a more modern store. Concrete or bock can contribute to the overall image of low cost or value. Brick may create a more upscale feeling.

4. Signs

Effective use of signs identifies the nature of the business, build a corporate identity, communicates an image, ties the company to its advertising through the use of a logo, and attracts to the store. The most common signage is in plastic based materials despite the relatively high cost. Companies find that effective signs have individual letters that are coated in tough plastics and illuminated from within by neon tubes. This type of sign has advantages because it uses 15 to 20 percent less energy than other lighted signs and has an extremely long life. Stores desiring a very contemporary look may use exposed tubes; small strip shopping centers may use hand crafted wooden signs to maintain a low profile. Backlight signs offer a slightly more expensive possibility. Instead of the light splashing out of the front of the letter, it washes the wall with a silhouette. Mall tenants may be limited in the type and size of their sign management rules. Signs from materials such as wood or metal that have direct lighting can be used to create different images from luxury to country. However, plastic technology today allows the creation of nearby and look.

- **Exterior walls and signs.** Many retailers use the exterior wall space to promote their store. Painting the name and logo of a business on the exterior is often less expensive than having a custom-made sign. Examples of this vary from a simple, elegant script indicating the name of the store to more exotic art that includes not only the name but also pictures. It artwork is used on the exterior of the building, it must conform to the principles of design, appeal to the customer base, and be integrated with the rest of the architecture.

5.Windows

The main purpose of windows is to attract attention and create an image to potential customers standing outside. Humor, theatrical flair, color, motion, or sound playing outside the windows work well to increase the effectiveness of the display. One of the biggest advantages of display windows is the ability to dramatically affect the exterior of the store. Most of the exterior requires major renovations to change. A retailer can take advantage of its window space to reflect changes in the store’s offerings on a seasonal or monthly basis. The window displays project the image of the store. While one story may be trying to say “Quality” in its windows by showing specific brands or fashions, other stores may use window displays to project a low price or value image. Regardless of whether it is a children’s store, a sporting goods store, or a home furnishings store, the window display is often one of the first efforts to communicate with customers and invite them. Window design is a function of the physical design of the store, and not something specifically requested by the retail manager or merchandising designer. The open back, as opposed to the closed back, is a window through which the interior of the store itself becomes the display case. When open-back windows are used, the store does not have valuable selling space tied up in windows, management need not concern itself with planning window displays, and the problems of keeping windows clean and timely are usually avoided. However, the open-back window can cause unexpected display problems and exaggerate old ones. For example, the most significant concerns are reflection, sun glare, sun control, artificial lighting for both day and night, and the necessity for a general organisation of merchandise within a completely exposed store.

- **Awnings.** The use of awnings is a subset of the window and exterior design issue and often poses a particular problem for retailers. Most awnings are made of fabric and are of the old scissors or outrigger style. In recent years, fabric awnings that can be fastened into a recessed box at the end of the building have been developed. Other ways of awnings are structural part of the building. Awnings come in many assorted sizes, colours, and styles. Merchants can take advantage of an awning to attract attention by using it as promotional space. Many companies now sell custom awnings that are designed to fit with the store's image.

6. The Store Entrance

One of the first and most striking impressions customers get of a store is the one they receive as they go through the front door. An entrance should be more than a device to keep people out of the store, to encourage them to come in, or to protect against the elements. An entrance should have character, and it should say to prospective customer, "Please come through the door where you will be treated with courtesy and friendliness and served to the best of our ability." The entrance might be graceful and elegant or dull and functional; in any case, it should be compatible with the store design and provide an easy way to enter.

7. Store Name

Although not strictly related to external design, the choice of a store name does have an effect on the overall store image. The favorable or unfavorable image generated by the use of a name can enhance or negate the style set by store design.

At first glance, choosing a name for the business may seem to be a rather easy task. Unfortunately, this is not the case. The retailer who thought of the name Equ-ulus for a small gift shop certainly made a mistake. This name is not pronounceable, and it has little meaning for the majority of the customers to whom the store is appealing. Often it is desirable that the name sound not only attractive but prestigious. Certainly it must fit the type of store. For example, Budget Weddings was chosen as the name of store that provided package services for brides. It failed because brides-to-be did not like the mental picture of a truck with that store name pulling up to the church and the reception hall. They liked the low price but were embarrassed by the name.

8. Theft Prevention

Another area of concern with exterior design is employee and customer theft. The design must consider the flow of people in and out of the store and how they may be observed or pass through technology-based theft prevention. Exterior doors and docks for receiving goods or trash disposal should also be designed and arranged to minimize opportunities for unauthorized entrance and exit.

9. Multilevel Stores

Because of the need for increased parking space in relation to shopping area in suburban stores and shopping centers, the multiple-level store is especially appealing to retailers. Even super markets have experimented with this type of design. Properly carried out, a multilevel facility offers the merchant a means of both expanding the selling area separating areas from one another. It also gives an overall feeling is that of "pulling people" though the store. Careful attention has to be paid to which merchandise is in high demand so that it can be placed on the upper levels. In the process of seeking it out customers will move through the store. Putting a restaurant on the top level, for example, helps this pulling process.

<u>Interior store design and layout and Elements:</u>

The **layout and design of a retail store** communicate a significant amount of information about the retailer to the consumer. The retail store's interior must contribute to the retailer's fundamental objectives of minimizing operational expenses and maximize sales and consumer satisfaction, therefore, profits. To attain these goals, the **store's interior** not only must be inviting, comfortable and convenient for the consumer. It must also permit the retailer to use the interior space efficiency and effectively. Let us try to touch up on the **basic elements of the retail store interior design**.

1. Fixtures

A major consideration in developing an appropriate store design involves the use of fixtures. They are used to display merchandise, to help sell it, to guard it, and to provide a storage space for it. They should be attractive and focus customer's attention and interest on the merchandise.

2. Displays

Display an important role in a retail store. An attractive and informative display can help sell gods. Poorly designed displays can ruin the store's atmosphere and center an uncomfortable setting. Since displays often take up premium space with in the store, they carry a heavy burden of productivity in terms of creating sales. There are several principals of rules of displays that help ensure their effectiveness :

- **Balance.** In building a display, it is important to make sure that it appears balanced to the viewer. This is achieved by arranging products in a symmetric manner. Displays may have formal or informal balance. Formal balance is achieved by placing similar items equal distance from the center. Informal balance is achieved by placing different sized goods or objects away from the center based on their relative size.
- **Dominance.** All displays should have a central point that will attract the viewer's eye. The point may be achieved by using prominent piece of merchandise, such as a diamond pendant, using dramatic colors, such as a bright scarf, or using streamers arranged toward the center of the display.
- **Eye Movement.** Displays should direct the eyes away from the point of dominance in a systematic fashion, instead of encouraging them to jump from one end to the other. If the viewer's eyes move indiscriminately around the display, the shopper will miss some of the merchandise and will not get the full message intended.
- **Gradation.** The gradation is the sequence in which items are arranged. For example, small items are usually placed at the front of the display, medium items father back, and large items at the rear. The creates harmony and an appealing illusion.
- **Height of Merchandise.** Merchandise that has the greatest effect should be placed at the eye level of the customer. Because viewers tend to look straight ahead, merchandise placed at eyes level is most likely to be seen.
- **Grouping Merchandise.** Too many retailers place one item after another in a long row. Shoe stores, jewelry stores, and mass merchandisers tend to do this. Stores with large amounts of one item or with one line of goods are likely to build longer displays. Instead of creating long displays where the customer has problems picking out merchandise,

retailers should group items so that the customer's eyes cannot travel from group to group but stop and focus on particular products.

- **Sales appeal.** Displays should always show the best merchandise that the retailer has to offer.
- **Keeping it Simple.** Since displays take up a great deal valuable space, there is a tendency to get as much into them as possible. While the idea of more is better may be true for chocolate, it is not true for displays. Too many items in a display district and confuse the consumer, and they tend to create an atmosphere of chaos or congestion.

As discussed above, displays take up some of the most valuable space in the store. Using show-moving items for display is a waste. One way to generate sales appeal is to choose the most important feature of the merchandise being displayed and focus on it. Another way is create a theme that already exists within the customer's mind, such as Valentine's Day, Christmas, or Back to School. Customers relate best when they can grasp the total picture.

3. Color

The psychological effect of color continues to be important to retailers. Color is also important in ware house type stores because of the vast open area of the interior. Bold colors are frequently used to highlight merchandise sections or departments and to reduce attention to what is typically an open—girder ceiling. Clearly, intelligent use of color is important in store design. Since people are drawn to warm colors, yellow and red can help draw customers into the store through the entrance. Cool colors such as blues and greens tend to calm people and are useful in areas where customers need time to deliberate over the purchase decision.

4. Lighting

Proper lighting is one of the most important considerations in retail design. At one point in time the function of lighting was to provide customers with a means of finding their way through the store. Today, lighting has become a display medium. It is an integral part of the store's interior and exterior design. Lighting should match the mood retailer is attempting to create with the rest of the store decor and should complement, rather than detract from, the merchandise.

5. Ceilings

Ceilings represent a potentially important element interior design. In older stores, ceilings of twelve to sixteen feet are still common, but most department store ceilings are now in the nine-to-ten foot range. Remember, the higher the ceiling, the more space to heat and cool at increasing energy rates. Ceiling heights are becoming much less standardized within stores. Designers are making use of varied ceiling drops to create distinct for different departments within a store.

6. Flooring

Retailers are taking a sophisticated "return investment" approach to flooring decisions. Firms are willing to pay higher-up-front installation costs for more expensive materials if they see a return in greater durability and reduced maintenance expenses. Flooring choices are important because the coverings can be used to separate departments, muffle noise in high — traffic areas, and strengthen the store image. The range of choices for floor coverings is endless: Carpeting, wood, terrazzo, quarry tile, and vinyl composition all have applications in different settings.

7. Shelving

The material used for shelving as well as its design must be compatible with the merchandising strategy and the over all image desired. Stainless steel shelving creates an entirely different effect than the painted wood cubes in the Country Seat or the typical metal shaving seen in a general merchandise store, Glass shelving, framed in the woods, creates an element of elegance difficult to achieve otherwise. General shelving considerations and merchandise display are discussed in the next selection.

8. Plano Grams and Shelf Layout Design

One of the key tools of modern shelf and layout planning is the Plano gram. This is a graphical representation that visually shows the space to be allocated by describing where every stock keeping unit(SKU) within a space is physically located. Every product has its own SKU. The Plano gram produces a map for the length, height, and depth of shelves with the number and location of the SKU.

9. Other considerations

There are other considerations that can round out the image and atmosphere created by the interior design elements. For example, the type and sound level of music can be focused on a given market segment. Scents can be used to help identify with a market group or create a feeling about being in the store. The level of maintenance and cleanliness also sets a tone.

Unit-3

Planning Merchandise Needs and Merchandise Budgets

A merchandise budget plan, as the very name implies, is a forecast of particular merchandise related activities designed for a particular period of time, say, one year or six months. Under this plan, rather than physical control of items, stress is given towards their financial planning.
Merchandise Budget Plans usually are made for one season and then broken down into shorter periods like monthly & weekly plans.
In an effective merchandise Budget Plan, a retailer forecasts and plans about five fundamental variables, namely, sales level, stock levels, purchases, reductions (markdowns) and gross margin.

1. Objectives:

The primary objective of having a merchandise budget plan is that a retailer would like to have a proper balance between:

(a) What will be paid to suppliers for purchase of merchandise and making it available to customers; and

(b) The cash inflow that will come in the business from sales to customers.

Though in practice, there are several accounting practices that allow some flexibility (for example extended credit terms or easy payment options), this balance is vital to maintain the firm's liquidity. For the effective accomplishment, the firm's internal records, past years experience must be carefully considered instead of relying on historical data alone that will lead to repeating previous mistakes, including previous missed opportunities.

2. Components of Merchandise Budget Plan:

The various components of a merchandise budget plans are as follows:

(1) Planned Sales and Stock levels:

Planning sales and stock levels is the first step in preparation of a sales forecast for a particular period (say one season) and for each month in that particular season for which a retailer wish to prepare a budget plan. After this, retailer should determine the beginning of month (B.O.M.) inventory in order to specify the desired rate of stock turn for each month of the season under study.
For example, a retailer's stock sales ratio for the month of February is six and predicted sales during February is Rs.80,000 then the planned BOM stock would be Rs.4,80,000.
Note: For the purpose of making budgeting effective, it is always suggested to calculate End-of-Month (E.O.M. stock), which is same as B.O.M. stock for the following month. Thus in this case, retailer's EOM stock for January will be same (Rs.4,80,000) to February's BOM stock.

(2) Planning for Reductions:

Planning for reductions is the third step in a merchandising budget plan which involves deciding about markdowns, employee discounts and shortages. Reducing prices is critical because the degree of reduction will have exactly the same effect on the value of stock as an equal amount of sales for that period. Markdown is used to push retail sales that offer particular merchandise at a price less than the merchandise marked price (normal price).

Shortages result from pilferage (in retailing it is known as shop lifting), accounting frauds, vendor theft and employee theft. Employee discount is also provided by some retail firms in order to build public image and employees' welfare by extra rebate and inviting them to buy merchandise before offering to general public by the way of sales.

(3) Planning For Purchases:

After planning sales and stock levels, opening stock (BOM), closing stock (EOM) and reductions, next step under merchandise budget plan is to plan for purchases in Rupees.

It is calculated as under:

Purchase Planning = Planned Sales + Planned Reductions + EOM – BOM

Suppose for example, the planned E.O.M. stock for February was Rs 5, 60,000 and that reductions for February were estimated to be Rs 10,000.

Therefore, planned purchase will be calculated as under:

Planned Sales (Feb 1 – Feb 28)	=	Rs. 80,000
Planned Reductions	=	Rs. 10,000
Planned EOM stock (Feb 28)	=	Rs.5,60,000
Total:		Rs.6,50,000
Less: Planned BOM stock (Feb 1)	=	Rs.4,80,000
Therefore, planned purchases	=	Rs.1,70,000

The planned purchases figure usually is based on retail prices rather than at cost. In order to determine the financial resources required to procure merchandise, it becomes imperative on the part of retailer that he should determine planned purchases at cost.

The underlying gap between planned purchases at cost and at retail denotes the initial mark up goal for the merchandise under consideration. This objective is achieved by calculating by the amount of operating expenses required to attain the estimated sales volume, the profit expectations, and adding it with the reduction figure. Therefore,

$$\text{Initial Mark Up Goal} = \frac{(\text{Expenses} + \text{Profit} + \text{Reductions})}{(\text{Net Sales} + \text{Reductions})}$$

Sometimes, term Open-to-Buy is used synonymously with planned purchases where forecasts concur with actual results.

(4) Planning For Gross Margin and Operating Profit:

The gross margin usually is the initial mark up attuned for price variations, reductions, shrinkage and other stock shortages. The gap between gross margin and expenses needed to create sales will either contribute to profit or a net profit (i.e. profit before taxes), depending on retailer's accounting practice and the thinness of merchandise budgeting.

3. Evaluation of Merchandise Budget Plan:

Merchandise budget plan is used by retailers to determine how much money to allocate in each month on a particular merchandise category, considering the firm's sales forecast, inventory turnover and profit margins.

After developing a merchandise budget plan, retailer purchases the inventory for the upcoming season in advance and when season comes, retailer sells the merchandise. After the selling season, the retailer should determine how actually the category has performed against the plan forecasted. If the actual turnover and GMROI are greater than the forecasted, then the performance is better than retail's expectations and vice versa.

Evaluating the merchandise budget plan aims to balance the money outflows (for supplies) and inflows (received from customers by selling merchandise) for the next financial year or upcoming season. Is there any need to pre-order for some stock or the budget provided was sufficient to meet customers' demand, may be determined through evaluation only.

Following issues must be answered to evaluate the retailers' performance:

(i) Why the performance is better/fall short of expectations?

(ii) Is there any major discrepancy between the forecasted and actual plan? Was such deviation under the retail's control and knowledge?

(iii) Whether retailer responded quickly to marked demand by announcing a sale or by additional purchases?

(iv) What was the reason for deviation? Was it a part of retailer's external or internal environment?

<u>Methods for Determining inventory Evaluation:</u>

The Institute of Chartered Accountant of India as per Accounting Standard-2 (Revised) defines **inventory** as the assets held −

- For sale in the ordinary course of a business or
- In the process of production for such a sale or
- In the form of materials or supplies to be consumed in the production process or in rendering of the services.

Thus, the term inventory includes −

- Raw Material and supplies,
- Work in progress, and
- Finished goods.

Importance of Inventory Valuation

Proper valuation of inventory is important because of the following three reasons −

- **Importance of sufficient Inventory** − An inventory represents major current asset investment of any trading or manufacturing concern. Shortage of inventory may close down the business. Realization of profit from resale of an inventory makes valuation of inventory. Therefore, the point is that every business unit has to follow a proper method of inventory valuation.

- **To Determine True Financial Position** − Proper valuation of an inventory can only give true and fair view of the financial position of a business unit, as it constitutes a significant portion of the current assets.
- **For Proper Determination of Income** − Proper determination of income and profit depends on correct valuation of the inventories. Over valuation of closing inventory may overstate the profit figure and vice-versa. Therefore, proper valuation of an inventory is necessary to determine the true income and profit by the business concern.

Methods of Taking Inventory

Following are the two important methods of taking inventory −

- Periodic Inventory Method and
- Perpetual Inventory Method

Let's discuss each of them separately −

Periodic Inventory Method

This method of stock valuation is also known as physical stock taking method or annual stock taking method. Under this system of taking inventories, stock is determined by physical counting at the end of the accounting period i.e. the date of preparation of final accounts. This system is very simple and useful in small business organizations.

Perpetual Inventory Method

This system of inventory valuation records every movement of stock on the receipt and issue of material reflecting running balances of different kind of inventories through preparation of store ledgers for raw material, work-in- progress, and finished goods. To insure the accuracy of store records, a periodic reconciliation of records is done by taking physical inventories.

Valuation of Inventory at Lower Cost or Market Price

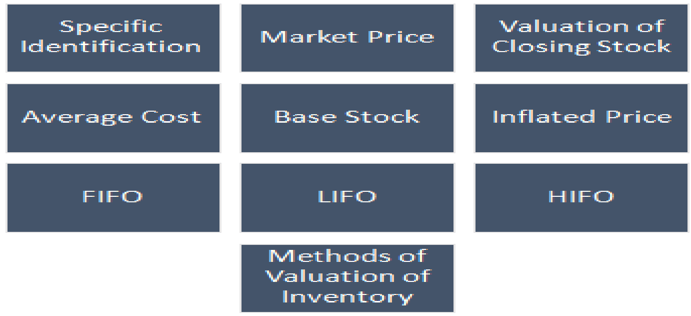
An inventory is valued at a cost or market price, whichever is lower to ensure that the anticipated profit should not be accounted for and full provision for anticipated losses should be done.

As per American Institute of Certified Public Accountants −

"A departure from the cost basis of pricing the inventory is required when the utility of the goods is no longer as great as its cost. Where there is evidence that the utility of goods, in their disposal in the ordinary course of business, will be less than cost, whether due to physical deterioration, obsolescence, changes in price levels, or other causes, the difference should be recognized as loss of the current period. This is generally accomplished by stating such goods at a lower level commonly designated as market."

Methods of Valuation of Inventory

The following illustration shows the methods of Valuation of Inventory −



Let's discuss each one of the methods in detail.

First in First out (FIFO) Method

FIFO is the most popular method of an inventory valuation, which is based on assumption that the material first received or purchased are the first to be sold or issued. It means, closing stock is out of the last or latest received or manufactured goods.

It will clear with a small and simple example as given below –

Date	**No. of Item**	**Rate**	**Value**
Opening stock	100	10	1000
Purchased on 01-04-13	500	10	5000
Purchased on 01-07-13	500	12	6000
Purchased on 01-01-14	1000	15	15000
Total Purchases	**2100**		**27000**
Item Sold	1700		
Closing stock	**400**	15	6000

In above example, it is assumed that closing stock of 400 items was out 1000 items purchased on 01-01-2014.

Last in First out (LIFO) Method

As name suggests, closing stock is valued on the basis of oldest purchased or manufactured items. First time, this method was used by the U.S.A., at the time of Second World War to get the advantage of hike in prices. In the above example, closing stock will be valued at 400 items @ Rs. 10 each = Rs. 4000

Note − Here 100 items from opening stock and 300 items were out of purchases made on 01-04-2013

Average Cost Method

Average cost method is used where identification of stock with rate or value of stock is not possible. It is of two types Viz…

- Simple Average Price Method
- Weighted Average Price Method

Simple Average Price Method

Simple average price method may be explained as below −

Suppose, four types of items are in stock as follows −

500 units purchased @ Rs. 10 per unit	= Rs. 5000
750 units purchased @ Rs. 12 per unit	= Rs. 9000
600 units purchased @ Rs. 14 per unit	= Rs. 8400
Total Units 1850 for	= Rs. 22400

Simple average method ignored the inventory at cost, therefore the valuation of stock of 1850 units will be = 12 × 1850 = Rs. 22,200 whereas the actual cost is Rs. 22,400

So, if we want to choose average method then weighted price method should be followed under which valuation will be done as hereunder.

Weighted Average Price Method

In the above example, Rs. 22,400 will be divided by 1850 units and the average price will be Rs. 12.1081.

Highest in First out (HIFO) Method

This method is based on the assumption that the highest value of material always consumed first and closing stock will be valued at the lowest cost of purchased or manufactured material. This method is not a popular method of valuation of inventory and so, used only by the business units having monopoly products or who are dealing with the cost + contract.

Base Stock Method

Base stock means — minimum level of stock maintained by a business unit to run his business without any interruption or which is according to **AS-2 issued by The Institute of Chartered Accountants of India** as "*the base stock formula proceeds on the assumption that a minimum quantity of inventory (base stock) must be held at all times in order to carry on business*."

Note − This method can be followed only when LIFO method is used.

Inflated Price Method

This method of valuation covers normal losses, increasing price of purchases to calculate closing value of an inventory. For example, if 550 units purchased for Rs. 2000 and due to normal loss units, remain 500 then the cost per unit will be 2000/500 = Rs. 4 per unit, and while calculating closing stock value for 100 unit, cost will be Rs. 400 (100 × 4).

Specific Identification Method

Under this method, where identification of items with price is possible, then closing stock will be valued accordingly.

Market Price Method

Under this method of valuation, stock is valued at current market price. It is also called replacement price or realizable price method.

Method of Valuation of Closing Stock when it is not given

In case, where the value of closing stock is not given, we may calculate it as −

Opening stock	xx
Add: Net Purchases	xx
Less: Cost of Sales	xx
Less: Gross Profit	xx
Value of Closing stock	xx

Putting value in above formula, we may also calculate the value of opening stock.

Assortment Planning:

Customer demands and expectations for retailers are increasing faster than ever in recent years. Therefore, you need to have a well-developed assortment planning, or retail planning strategy to provide the best customer experience and achieve your sales targets.

The assortment planning strategy sounds complex and might be new to you, so we are here to give you some insights about it. We will go through what assortment planning is, how it works, its benefits, and how you can improve upon it.

What is assortment planning?

Before understanding the term, you may have a question in mind – "what is an assortment?" The word is defined as a collection of products that a company offers.

Assortment planning in retail is the process of selecting the products that a retailer wants to sell during a particular period to maximize profitability. In other words, it means that retailers decide what merchandise they should buy and market to their customers. It is all about having the right goods in the right place at the right time.

Customers' satisfaction highly depends on the variety of products that retailers provide. Your customers might get disappointed if the products they look for are out of stock or if the color they prefer is not available. As a result, they will go to your competitor's store instead.

It is important to note that putting all your products in your store is impossible since the inventory cost will go up. Thus, you should optimize assortment and make retail strategy planning a priority in order to save costs and achieve profit maximization.

What does the process look like?

You may wonder where to start and how the assortment planning process works. Have a look at the following steps.

Research and build a plan

Before building an assortment strategy or plan, you have to first analyze each branch and store's historical sales performance, followed by identifying the latest trends. You are going to study the items required, such as the cost, average selling price, and the lifespan of a batch of products, to name a few. Retailers can develop a plan according to the data and the information cited.

Store clustering

Store clustering is the process of grouping stores with similar attributes, including location, sales, store size, customer demographics, product features, etc. By doing so, you can apply a similar assortment plan to stores in the same group. More importantly, this step allows you to localize product assortments and promotions to meet the customers' demand in various regions.

Decide the breadth and depth of assortments

Retailers have to decide the number of items being sold in each cluster. Product breadth refers to the number of categories, while depth is various styles and items in a particular category. It is important to strike a balance between breadth and depth to attract the most customers.

Create a visual merchandising plan

Visual merchandising is to present products in the most appealing way. This forces you to think about what products are placed in the center of the store and what options are located near the cashier. Bear in mind that the purpose of carrying out visual merchandising is to motivate your customers to consume by highlighting each product's benefits. Again, you should localize your plan for different stores and work on it according to past data.

Double-check and execute the plan

After you finished the above steps, you have to ensure everything is on track. You might want to confirm the colors, styles, quantities are delivering to the right stores, and the plan is aligned with the financial budget. When all the examinations are done, you're good to go.

How can you benefit from assortment planning?

Assortment planning in retail brings a lot of advantages to your business. We will look into some of the greatest benefits here.

Retain your loyal customers

Instead of guessing, you are making evaluations based on each store's past sales performance and formulating a plan accordingly. In this way, your loyal customers will find what they want in your store since they might have bought similar items last year and assume that you are providing them this year.

Control inventory spending

When your retail strategy planning is carefully done, you will have an accurate estimation of the assortment needed. Retailers will thus spend money on inventory according to the plan and will not overspend. As a result, we will reduce unnecessary inventory costs and spending. You can avoid misallocation of goods and discard redundant inventory since everything is well planned.

Stand out from competitors

Having a good assortment strategy enables you to know what the hottest products are and put them on your shelves. If you can be the fastest to bring in the latest trend, you can beat your competitors and optimize the foot traffic.

How can you improve retail assortment planning?

To ensure that customers are being targeted, you have to understand what they want in order to satisfy their needs. Here are some tips for you to improve your assortment management.

Have a full understanding of your target customers

It is crucial to understand what motivates your customers to spend and why your customers choose to visit your store. Imagine you are the owner of a grocery store; you are going to include a higher product breadth with low depth instead of the other way round since your target customers might want to find a wide range of products. On the other hand, if you are the owner of fast fashion brands, like Zara or Forever 21, that offer trending styles, you will put a large variety of affordable products, while the assortment plan should be updated frequently.

Work on cross-merchandising

Cross merchandising is the technique of putting complementary goods together to increase sales. When you have decided to sell sandals in a specific store, you may consider displaying sunglasses next to them. Customers are more likely to purchase the sunglasses when they are next to each other since these two items are what your customers need for the summertime.

Spend more time on localization

Localization is the process of adapting your products to cater to the needs of customers in various clusters. This concept matters a lot since your customers have different preferences, needs, and habits. For example, you have a fashion brand; some store locations possibly have an earlier winter than others. During the seasonal transition period, you will need to increase the product variety in particular stores, including summer and fall clothes, while keeping the product breadth normal for other clusters. Only when customers' demands are met, will they come back to your store, as they associate your store with great buying experiences.

Find an assortment planning tool

There are more and more business software companies that offer merchandise assortment tools nowadays. These tools allow you to respond quickly to changes in trends and consumer behavior. Retailers can free up time, costs, and effort since these systems are going to manage most of the daunting work for you, e.g. predict future demand, inventory management, store planning, data analysis, and so on. CBX Software has lots of experience in helping to streamline your strategic retail planning process and expand assortments. You are always welcome to schedule a demo to better understand how it works.

Identify market trends using different platforms

We have been talking a lot about spotting trends in this article, but how can you do it? Apart from using tools like Google Analytics and Google Ads, you can simply study blog posts, trend reports, Google trends, etc. You may also find the most popular items in each product category on large scale eCommerce platforms, such as Amazon, Shopify, eBay, and so forth.

Buying and Vendor Relations:

When starting any new relationship with the vendor, the buyer often assumes the onus in figuring out whether it's a good match. The reality is that any good vendor-buyer relationship should be a team effort from the beginning.

Certain traits set the tone for a successful venture between a vendor and a buyer. If you want to give your collaboration the best chance of success, prioritize the following characteristics:

1. Great Service

Great customer service never goes out of style. For some companies, though, the term has become something of a commodity that gets tossed around without substance.
So, what should great service look like?
In some cases, it could be listening and learning before responding and reacting. It could be addressing needs promptly or going the extra mile to make the other party happy, even when it's not in your own best interest.
The key isn't to deliver service *you* think is great, but rather create a level of service that people you are serving will remember for all the right reasons.

2. Honesty in Collaboration

Every positive vendor-buyer relationship should be built on a foundation of honesty. It's not just about providing transparent prices, but also setting the right expectations for service, problem-solving, and commitment.
This leaves no room for excuses or backtracking. Vendors and buyers alike should be mindful when communicating expectations and making promises to the other side.

3. Easy to Work With

Most people don't have to think too hard of a time when a company was difficult to work with. Rigid policies, lack of accessibility, and other obstacles can severely stifle a relationship. And when one party wants out, the other side suffers, too.
The most successful vendor-buyer relationships are fluid and dynamic. They function like a well-oiled machine with little friction, if any.
Each side is easy to work with in terms of getting answers to questions, negotiating terms, and helping the other party achieve their goals.

4. Speed and Efficiency

Responsiveness is key in any relationship. Vendors and buyers alike prioritize speed and efficiency to ensure they don't keep the other party waiting.
Each wants to make the relationship easier on the other. The shared goal is to keep business (and the relationship) moving forward.

5. Growth Oriented

The purpose of any vendor-buyer relationship is growth. It's a mutually beneficial relationship that will ideally lead to higher revenue for both sides.
As a result, being growth-oriented should be a priority. This allows each side to explore new opportunities to expand their reach and strengthen the partnership.

How to Start a Strong Vendor-Buyer Relationship

There's no doubt that product profitability is an important consideration when vetting vendors, but money isn't the end-all factor.
A successful vendor-buyer relationship should ultimately benefit both parties. When both sides can walk away winners, you're more likely to build on each other's successes and contributions.
At Argires Snacks, we take our vendor-buyer relationships very seriously and have staked our success on that of our partnerships.

Merchandise Pricing

A retailer must price merchandise in a way that besides satisfying the customers, achieves profitability for the firm. Pricing is a crucial exercise due to its direct relationship with a firm's goals and its interaction with other retailing matters. A pricing policy, if not appropriate, send a store out of competition.
A pricing strategy must be consistent over a period of time and consider retailer's overall positioning, profits, sales and appropriate rate of return on investment. Lowest price does not necessarily be the best price, but the lowest responsible price is the best right price. The difference between price and cost is profit which can be very high when the sales person wants to exploit an urgent situation.

The Consumer and Retail Pricing:

Retailers should understand the importance of pricing because it has direct relation with consumer purchases and perceptions. During pricing decisions, retailers should also under the price elasticity of customers to price changes in terms of the quantities bought.

$$\textbf{Elasticity} = \frac{\dfrac{\text{Quantity 1} - \text{Quantity 2}}{\text{Quantity 1} + \text{Quantity 2}}}{\dfrac{\text{Price 1} - \text{Price 2}}{\text{Price 1} + \text{Price 2}}}$$

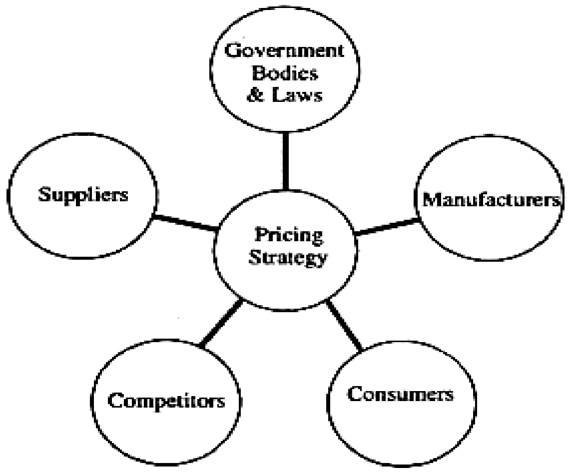
If relatively small percentage change in price results in substantial percentage changes in the number of articles purchased, price elasticity will be high. This is the situation where the urgency to purchase is low or substitutes are well available. If large percentage changes in price have small percentage changes in the number of articles purchased, demand is considered to be inelastic.
This is the situation where purchase urgency is high and substitutes are not easily available. The formula to compute price elasticity is given below. The price elasticity is calculated by dividing the percentage change in the quality demanded by the percentage change in the price charged. Because in retail market sales usually decline as prices go up, elasticity tends to be on negative side.

Factors Affecting Retail Price Strategy:

Following factors have direct or indirect influence on retail pricing. Three are usually basic pricing options before a retailer. Each has its own merits and demerits.

These are as follows:

Figure 13.1: Factors Affecting Retail Price



Pricing Options, Objectives and Types:

1. Pricing Options:

(i) Predatory Pricing:

It involves large retailers that normally seek to produce competition by selling merchandise at very low prices and create the situation where it becomes difficult for small retailers to stay.

(ii) Prestige pricing:

It assumes that customers will not buy merchandise displayed if price fixed are too low. It is based on the price-quality association.

(iii) Price lining:

A pricing practice where by retailers sell merchandise at a limited rate/limited range of price points, where each point represents a different level of quality.

2. Pricing Objectives:

Pricing objectives are generally considered as part of the general business strategy and give direction to the retail pricing process. While deciding on pricing objectives, a retailer must understand that pricing strategy must reflect the retailer's overall goals that can be stated in terms of profit and sales.

Usually, while setting the price, the firm may aim at one or more of the following objectives:

(i) Achieving pre-determined return on investment (ROI)
(ii) Building company's image, goodwill and brand's name
(iii) Building sustainable competitive advantage
(iv) Creating curiosity and interest about goods and services
(v) Creating store traffic
(vi) Early recovery of cash
(vii) Having price leadership
(viii) Increasing company' growth
(ix) Increasing market share
(x) Increasing rupee sales

3. Types of Pricing:

(i) Horizontal pricing:

This practice involves agreements among manufacturers, wholesalers, retailers to set certain prices. These agreements usually are illegal under Indian sales act.

(ii) Vertical Price Fixing:

A practice where manufacturers or wholesalers seek to control the retail prices of their merchandise through some sort of agreements.

(iii) Price Discrimination:

A pricing practice where different prices are charged from different retailers for the same merchandise and same quality.

(iv) Minimum Price Laws:

These laws prevent retailers from selling certain items for less than their cost plus a fixed percentage to cover overhead.

(v) Unit Pricing:

The objective of such legislation is to let the customers compare the prices of product available in many sizes. For instance, Food and Grocery stores must express both the total price of an item and its price per unit of measure.

(vi) Item Price Removal:

A pricing practice whereby prices are marked only on shelves or signs and not on individual item.

Price Strategies:

Price is a highly sensitive and visible part of a retail marketing mix and has bearing on the retailer's overall profitability. Further, pricing itself is an essential part of marketing mix and has its own place in strategic decision-making process. Out of 4 Ps (Product, Price, Place & Promotion), price is the only element of marketing mix that generates income for the firm, while rest of the elements are parts of the variable cost for the firm.

Pricing strategy must consider that it costs to manufacturer to develop a product; it requires expense on distribution and promotion. A lot of pricing strategies are on hand and are practiced throughout the world. The main criterion to adopt a particular strategy is "what objectives' a firm decides to achieve?" A price strategy can be demand, cost and/ or competitive in nature. As charging too high or too low may cause loss to the firm, pricing should take demand, cost and/or competition into account.

1. Demand Oriented Pricing:

Under demand oriented pricing, prices are based on what customers expect or may be willing to pay. It determines the range of prices affordable to the target market. Under this method, retailers not only consider their profit structure but also calculate the price-margin effect that any price will have on sales volume. As the very name implies, demand oriented pricing strategy seeks to forecast the quantities (sales volume), customers would purchase at various prices and concentrates on the prices associated with pre-determined sales targets.

2. Cost Oriented Pricing:

Under this form of pricing policy, a retailer decides a floor price of the merchandise a minimum price suitable to the organization to achieve its financial goals. A retailer under this method sets the price to cover production cost, operating costs and a predetermined percentage for profit. The percentage varies strikingly among industries, among member outlets and even merchandise of the same retail firm. One popular form of such pricing strategy is to mark up pricing. In mark up pricing, a retailer sets the prices of the merchandise by adding per unit merchandise costs, retail store operating expenses and determined profit.

3. Competition Oriented Pricing:

As the very name suggest, under this pricing policy, retailers set the prices of merchandise after considering competitors' prices rather than demand or supply considerations. The company following this policy may not react to changes in demand or an increase in cost of merchandise. The retailer can charge higher than the market price, when the location of their stores is attractive and convenient to majority of its customers, offer wide assortments, exceptional customer service, a well established image, long experience and an executive brand. On the other hand, stores with inconvenient location and absence of value-added characteristics can charge less than the market price.

<u>Psychological Pricing:</u>

Following are the different strategies that can be used –

#1 – Buy One and Get One Free

Under this amount is paid for one product for which another product or service is given for free. This strategy has a psychological effect on the customer as the customer tends to make purchases to get an item for free. For example, the retailer adopted the strategy of buy one and get two free.

#2 – Prestige Pricing Strategy

This strategy works mainly for the product that appeals to certain customers. For example, the use of this strategy by the luxury clothing brand to present the picture in mind of their customer about the excellent quality of the products. It is a practice of keeping prices higher than normal as this strategy attracts customers who link higher prices with the superior quality of the products.

#3 – Artificial Time Constraints

Under this strategy, there is a constraint on the time limit of sales. It will attract customers to buy the products within the time limit to avail the benefits of the sale. For example, offer stating 1-Day sale on selected products.

#4 – Charm Pricing

Shops may mainly use this strategy to attract customers by presenting lower prices. These prices are set so that they are just below the whole number. For example, instead of $9, the product is priced at $8.99.

Advantages of Psychological Pricing

- **Price Bands –** If a customer has a predetermined budget or mindset regarding the purchase, fractional pricing of the product may sometimes come within their budget; it would be easier for them to decide. In this way, it would help in increasing sales.
- **Control –** It also acts as a control measure as it would become tough for the cashier or other staff to calculate and steal cash out of the fractional amount.
- **A barrier to Competitors –** It targets consumers who are more sensitive toward the product or service cost within any segment of a specific market. It helps eliminate cost control pressure and acts as a barrier in respect of competitive products shortly.

- **Discount Pricing –** This pricing technique may be used for pricing a product in discount and mapping with a price ending with a specified digit so that it would be easier to identify the products with discount.

Disadvantages of Psychological Pricing

- **Consistent Demand Level –** Its effectiveness can be attained only when there is a constant demand for such a product or service within the market. If the price is reduced because of low demand, it may adversely impact customers as they wait for a further price reduction.
- **Calculation –** The pricing calculation may be a bit confusing for the cashier, and he might commit some unintentional errors which result in monetary loss to the organization.
- **Dilute Goodwill –** The offer price displayed at the time of confirmation may differ from the final payable amount because of some shipping charges, taxes, etc. It might make the customer feel like they are being cheated, and they may create a wrong impression for the company.

Mark-Down and Mark-Up Strategies:

Pricing Adjustments Techniques:

After deciding the prices of merchandise, the retailer's next step is to consider whether there is any need to change some prices due to reasons like changing demand patterns, pilferage issues, competition and seasonal shift during normal course of business. Price adjustments include either mark down or additional mark ups.

Mark Down:

Mark down is a most common technique to push retail sales that offers particular merchandise at a price less than the merchandise' marked price (normal price).

The reasons for several types of merchandise include:

(i) Overstocking / over buying
(ii) Season (climate) change
(iii) Clear out store worn / slow moving merchandise
(iv) Clear out old fashioned / old trend merchandise
(v) To generate customer traffic

Mark down always does not mean that store is not performing well but this is a part of doing business and to run a retail store efficiently. Sometimes, some retailers initially mark up their merchandise high enough that after reductions and marking downs (whatever the reason may be) the planned maintained mark up is achieved. Thus a retailer's intentions should not be to reduce mark downs. If mark downs are too less, it may mean that the retailer is probably charging the merchandise too low, not purchasing in bulk, or not having interest to purchase particular merchandise.

Types of Mark downs:

(i) Temporary Markdowns:

This is a policy of reducing the prices of merchandise for a particular time period due to a particular reason. For instance, markdown because of clear out shop worn / substandard merchandise. Once such merchandise is sold, the product will be priced to the normal selling price.

(ii) Permanent Markdowns:

In such markdowns, price reduction is made for comparatively longer periods, may be few weeks, few months or more. Unlike the temporary markdown, where price reduction takes place for a particular cause and price eventually will be raised to the original one, the permanent mark down is used to replace the old quality merchandise with the new one.

The reasons for permanent markdown are:

(a) Merchandise is of perishable nature and will be of no use after sometime

(b) To replace the old technology goods to new and latest versions

(c) Particular merchandise that a manufacturer / marketer no longer wish to produce/sell.

(iii) Seasonal mark downs:

Under such markdowns, prices are reduced to clear out the seasonal retail merchandise, such as 'Ludhiana woolen sales' in the last months of winter season are very common in North Indian states like Haryana, Punjab, and Delhi etc.

<u>Additional Markup:</u>

Unlike the markdown where the prices are reduced, the additional mark up is intended to increase the retail price above the original mark up due to certain reasons like:

(i) When the demand for merchandise offered is exceptionally high

(ii) Due to monopoly like situation

(iii) When competitors are not able to meet the consumers' demand

(iv) In case private labels are performing well in retail market and have good demand, retailer would like to have quick and fast returns.

Price Discrimination Policy:

The important level of price discrimination policy are listed below:

It is a pricing policy where a retailer charges different prices from different customers for the same merchandise. Price discrimination is based on the philosophy of 'ability-to- pay' and requires market segmentation. Price discrimination may be studied under few degrees such as first, second and third level price discrimination.

1. First Level Price Discrimination:

This type of price discrimination occurs when retailer charges the price of merchandise according to the customers' ability to pay. Usually for a retailer, it is not easy to identify which customer is able to pay more but when a retailer is able to do so, he would like to increase his profit base.

For example, this type of price discrimination practice is usually common for sale of both new and second hand cars. People pay different prices for the cars having same features, model and make. The success of such price discrimination policy depends upon the ability and selling art of the floor employees to convince the customers that they are paying genuine and reasonable price for the merchandise. A customer having less/no bargaining power is welcomed by the retailer.

2. Second Degree Price Discrimination:

It refers to a practice where retail companies charge less prices for bulk buying. A retailer when gets big orders or purchase order for the same items at once in high number, offers the merchandise at a discounted rate. This practice is very common not only in retail business but in wholesaling too.

This reduced rate will not be applicable to a customer who places order for a few items. A reduced price (discounted rate) is offered if one buys 5 kg or more instead of 1 kg or two shirts instead of one. It is helpful in clearing out the merchandise and generates quick revenue for a retail firm.

3. Third Degree Price Discrimination:

It refers to a practice where price vary by customer group or by location. One another form of such type of price discrimination is a practice of offering temporary discounts for airfares during particular seasons to cover up the low traffic fleet. In practice, this pricing discrimination takes various forms.

For example, 'students' are considered a group and are offered discounts at cinema halls, amusement parks, trade fairs and museums. Some public and private airlines offer discounts to 'senior citizens'. Both students and senior citizens have higher elasticity of demand but less affordability.

Communicating with the Retail Customer

Communication is key in engaging your audience and encouraging sales. When it is done correctly, communication will keep you at the forefront of consumers' minds. We take a look at 6 ways to communicate with customers in retail.

Learn how to communicate with customers in retail

Here's how you can make sure you are communicating in the best possible way with your audience:

1. Have a range of content to share

Before you begin, it's important to list the different types of content that could bring value to your customers. You should then determine how regularly you will post each type of content, making sure it is varied enough.

Here are some of the most common types of content:

User-generated content

User-generated content is a fantastic way to boost trust and showcase the benefits of the products you sell. Customer reviews and social media imagery are examples of user-generated content that you can share.

Product imagery

Product imagery is essential in showing your products in the best light. Remember, not all product imagery has to be plain. As well as only showing the products, why not show imagery of people using the products, or include a background that complements the item? Use feedback and data to judge the most effective types of product imagery for your business.

Business news and updates

People love to hear inspiring stories that help them to connect with a brand. Share your feel-good updates, inform readers about upcoming news or events and add your personality into your communications.

Examples of this include announcing new team members, sharing new product lines, talking about collaborations and engaging with community projects.

Engaging content

Why not use your communications to engage your target market? Consider polls, questions and encouraging your audience to have their own input. By doing this, you can make sure readers feel involved, while also gaining valuable insights.

Promotions

Everybody loves an offer, so don't be afraid to shout about discounts and deals that you have for shoppers. Just make sure you don't share promotions too often, as this can reduce the excitement and defeat the purpose.

2. Use multiple channels

Remember to use a wide range of channels to communicate with your customers and share your messages.

Popular channels for retail communications include:

- Instore
- Email
- WhatsApp or text
- Website

- Social media
- Phone
- Press

3. Reach customers in the places they consume information

When deciding which channels to invest the most time and effort into, it's essential to begin by understanding your customers. Speak to shoppers, carry out market research and keep an eye on trends to gain an understanding of the places that they like to consume information.

Once you know the most popular platforms and methods of communication within your target market, invest the greatest amount of time into this.

4. Create a regular communications schedule

Having a consistent schedule for communication is the best way to keep consumers engaged. It also allows you to plan ahead and use your time as efficiently as possible.

5. Reply in a timely manner

Two-way communication is vital, as there's no point in engaging your audience and then ignoring their messages. Make sure you keep track of any incoming messages and respond in a timely manner, so you build rapport with your customers and can remove any potential barriers to purchase.

6. Regularly analyse and adapt

Communication channels are continuously evolving, as well as trends, so make sure you keep up to date and adapt as required. This could involve using new communication channels, responding in different ways and trialling new ideas.

Retail Promotion Mix:

(a) Advertising:

Advertising is multidimensional. It is a form of mass communication, a powerful marketing tool, a component of the economic system, a means of financing the mass media, a social institution, and an art form, an instrument of business management, a field of employment and a profession. Advertising may be sign, a symbol, an illustration, an ad message in a magazine or newspaper, a commercial on the radio or on television, a circular dispatched through mail or a pamphlet etc. Non – personal advertising would mean that it is not on a person-to-person basis. Goods, Services, Ideas for action would mean making a consumer aware about the product of the firm. Paid by an identified sponsor implies that the advertiser has to pay the media for the services it seeks.

(b) Sales Promotion:

Sales promotion programs are used by a wide range of organizations in both the consumer and business markets, though the frequency and spending levels are much greater for FMCG goods. Sales promotion describes promotional methods using special short-term techniques to persuade customers of a target market to respond or make purchases. As a reward, retailers offer goods at an affordable price or provide with certain gift items.

Sales promotions are usually confused with advertising. For instance, a television advertisement mentioning a contest awarding winners with a free trip to a foreign country may give the contest the impression of advertising. While the delivery of the marketer's message through television media is certainly labeled as advertising, what is contained in the message, namely the contest, is considered a sales promotion.

The factors that distinguish between the two promotional approaches are:

1. Time period: Whether the sales promotion involves offer for short term or long, and
2. The customer must perform some activity in order to be eligible to receive the reward (e.g., customer must enter contest).

The inclusion of the time framework and an activity requirement are hallmarks of sales promotion.

Here are some examples of popular sales promotions activities:

(i) 5% cash back
(ii) Buy one get one free
(iii) Discounted prices
(iv) Free finance facility
(v) Free gifts
(vi) Free samples
(vii) Joint Promotions between retailer and manufacturers
(viii) Offering bonus points on every purchase
(ix) Online lucky number checking
(x) Vouchers and coupons

(c) Publicity:

Publicity refers to any non-paid communication to promote an organization or its products and services in public media. The publicity differs from advertisement in following senses.

(i) In case of advertisement, sponsor bears all the expenses while in publicity, media is not paid for the presentation.

(ii) In advertisement, how the message will be shown, what text will be used and when and where it will be shown, everything by and large is in the control of the concerned company, whose products are to be shown and who is bearing the broadcasting expenses.

Objectives of Publicity:

1. It assists in the launch of new goods and services at mass level.
2. It creates interest in the goods and services category.
3. Publicity helps in reposting a mature product.

Advantages of Publicity:

Publicity has the following advantages:

1. The first advantage of publicity is that it is credible because nothing is paid for it and the presentation is entirely based on independent assessment.
2. Publicity appeals to mass audience at a time.
3. It costs nothing to an organization and is widely used means of promoting a product.
4. As publicity is done in newspapers, magazines, journals and online newspapers etc, large number of general persons can be covered.

Methods of Publicity:

There are various methods that can be employed to promote the product and / or its company. But the senior management has to decide what advertising vehicle should be selected on the basis of availability of funds, reach of the media, nature of competition and considering on whom the goods and services are aimed for.

These media include:

(i) Press publicity:

It means releasing news in the media about the company, its offerings etc.

(ii) Speech:

It implies giving presentations through speeches about the company and its goods and services etc.

(iii) Special events:

Sometimes, marketers organize some special events such as conferences, debates, seminars, workshops, awareness camps, games, quizzes, star nights, beauty contests, singing competitions etc.

(iv) Sponsorships:

Under this mode of publicity, company sponsors some social activities dedicated to public welfare like sponsoring health check up camps, maintaining public parks, children parks, planting trees, blood donation camps, eye check up / operation camps etc.

Retail Selling Process:

The retail process is quite a complicated one, which involves the development of value propositions, looking for customer preferences, the establishment of retail networks and supply chains, getting the customers for buying merchandise, setting up stores, and filling it up with merchandise. While doing all these, you are required to deliver excellent performance and a joyful shopping experience to the consumers.

For the retail selling process, the salesperson is the major element who needs to participate in mutiple activities to make this process a success. All these activities are called as selling cycle. And each salesperson is an inseparable part of this selling cycle. He should be knowledgeable enough to carry out all these processes efficiently. Following are some of the activities which a salesperson must carry out diligently:

- **Studying the customer:** The salesperson needs to be highly observant about the behavior and mannerisms of the customer. He needs to listen to the customer carefully in order to match up with the quality, price, color that the customer wants. The salesman needs to take an interest in the requirements of customers. He has to ask questions so that he can offer maximum comfort and pleasure to the customer.
- **Acquiring merchandise/ product knowledge:** The most valued asset of a salesperson is his knowledge regarding the merchandise he is dealing in. Accurate product knowledge makes things easier for the salesperson. He can convince the customers all the more conveniently.
- **Approaching the customer:** The approach of the salesperson determines the level of interest which a customer shows in the products or services. He should be available to help the customer out. He cannot ignore any customer and remain busy in any other

work. As soon as a customer enters a store, a salesperson should approach him/her and offer him quality assistance. This makes sure that the customer spends more time in the store and increases the chances of his making any purchase.

- **Overcoming any hurdle/resistance:** First of all, it is necessary to be able to clarify the difference between excuses and objections made by customers. A customer may make an excuse when the salesperson offers him/her some product which the customer has not asked for in the first place. Objections indicate the hint of desire on the part of the customer. The salesman needs to understand that objections are genuine. He should be able to understand the objection of the customer and try to his maximum potential to counter that objection.
- **Presenting the products:** A salesperson, first of all, needs to differentiate between the features and advantages of merchandise. Once he is clear about this difference, he should know when is the right time to describe the benefits and features to the clients. A salesperson should be able to emphasize enough on the features and benefits separately so as to convince the customer completely.

Retail Database:

Data is an indispensable resource for retailers. Today, most retail businesses understand that they must capitalize on digital data, but fewer know how to make the most of it. If these companies hope to reach their full potential, they must improve their data management.

Data management is often a struggling point for businesses. In a 2017 study, only 3% of companies' data met basic quality standards, and 47% of newly created records contained at least one critical error. Retailers are rushing to take advantage of data, but poor management is holding back their results.

Improved data management can help retailers see better returns from these operations. Here are seven opportunities for these businesses to benefit from better data management.

1. Increasing Marketing Personalization

Personalized marketing is one of the most common uses of data in retail. Retailers could significantly improve these efforts by putting more emphasis on the management side of data. For example, enriching their first-party information with data from third-party sources can help target consumers on a more specific level.

Data enrichment can reveal more about the users retailers are trying to target with personalized marketing. They can then reach out to them through multiple channels, emphasizing those they use the most. This will make these efforts more effective, leading to higher conversion rates.

2. Preventing Mistargeting

Similarly, better data management can improve personalized marketing by minimizing errors. Mistargeting is a shockingly common issue, with 96% of surveyed consumers receiving mistargeted information or promotions. Retailers can avoid these mistakes by using more thorough data cleansing and enrichment.

Before using data to customize marketing campaigns, retailers should check it against other sources to verify its accuracy. Removing questionable or unverifiable information will prevent mismarketing, create more relevant messages, and keep consumers engaged.

3. Minimizing Supply Chain Costs

Another area of untapped potential for data in retail is supply chain management. Just as retailers must cleanse and verify consumer data in marketing, they must ensure supply chain data is accurate before acting on it. Better accuracy and organization in these data sets can lead to significant savings.

For example, fuel is often one of the highest fleet expenses, and fuel savings rely on many factors. Poor or misleading data about regional fuel costs, engine efficiency, or route travel time can lead to higher fuel consumption. Spending more time and effort ensuring this data is accurate will help minimize these expenses.

4. Improving the Accuracy of e-Commerce Listings

Better data management can also improve the functionality of retailers' e-commerce sites. Poor data management can lead to errors like incomplete information on product listings or inaccurate inventory figures. These errors can then impact shoppers, making them less likely to return after a negative site experience.

Before listing new items on their online store, retailers should look over the data to ensure it's complete. Similarly, they should clean and organize inventory data to ensure it updates in a timely manner, reflecting actual stock numbers. Even small changes like this can have a considerable impact.

5. Avoiding Stock Shortages

Keeping accurate inventory records is essential for more than just maintaining functional e-commerce sites, too. Retailers who improve their inventory data management can prevent shortages by gaining a better understanding of their needs.

Data cleansing and organization will provide more transparency over retailers' supply of various items. Retailers can then enrich these records with sales data to predict what customers want before these trends shift. They can then adjust inventory levels accordingly to meet changing seasonal demand, minimizing waste.

6. Appealing to Socially- and Eco-Conscious Consumers

Better data management improves visibility across retailers' processes by compiling and structuring otherwise vast, unnavigable data sets. When retailers improve their internal transparency, they can then become more transparent with consumers. This will help appeal to eco-conscious or socially-minded customers.

Data management makes it easier to track where parts and products come from or how much waste a company generates, for example. Retailers can then communicate this information to consumers to demonstrate their social or environmental governance. This transparency will build trust and can improve sales.

7. Complying With Data Privacy Regulations

As retailers collect more data, data privacy regulations become a more relevant concern. At least 21 states have proposed privacy legislation that retailers may have to comply with, requiring more insight into their data operations. This compliance will be far easier with better data management.

Deduplicating, cleansing, and organizing data will make it easier to provide any necessary documentation to authorities. Similarly, it can offer more insight into retailers' data operations, showing whether and how they need to adjust to remain compliant. As these regulations become more common and strict, this will become a crucial consideration.

Instore Customer Service:

The following actionable tips and advice will help you to improve the customer service you offer, whether it's in-person, over the phone or online:

1. Always offer a friendly face (or avatar)

Remember to greet customers with a smile and a friendly hello when they enter your retail premises and say thank you and goodbye to them when they leave. If you're talking on the phone, smile whilst you're speaking, and on social media or live chat try to be personable and not corporate – or worse, scripted. Furthermore, ensure you're looking presentable if you're meeting customers in person: polish your shoes, iron your clothes and brush your hair. Obvious, maybe, but essential for a good first impression.

2. Be available, all the time

Our instant, on-demand lifestyle means customers expect answers to their queries and problems quickly, if not immediately, and at any time of day or night. For retailers, this can be a challenge, especially if you only work 9-5. Having a social media page or a live chat facility that's monitored as close to 24/7 as possible will help – could you take it in turns to check your company Facebook page on an evening, to ensure comments and questions don't go unanswered?

3. Know your product, service and company inside out

Just as customers expect you to be there 24/7, they also expect you to know everything. There's nothing more frustrating than having a question about a product and being unable to obtain an answer. In most cases like this, the customer will simply remove the item from their basket and take their business elsewhere. That's not to say you literally have to know it all but you should have a comprehensive knowledge of what you're selling. If it's something you can't answer straight away, or need to go away and look into or fix, then it's vital that you keep the customer in the loop about what's happening. The customer will tolerate a longer wait time if they're kept informed. If they're not, they'll abandon the transaction and head elsewhere.

4. Avoid being negative

You might not know the answer, you might be having a bad day or the customer might clearly be wrong, but it's part of your role in customer service to keep these less-than-positive thoughts to yourself. If you have to say no to a customer, phrase it politely and positively: "I'm sorry you're unhappy and I'm not sure of the answer myself, but give me one moment and I'll do my best to find out for you." If the customer service you provide is worded negatively, rudely or unhelpfully, you can guarantee the customer will tell their friends or leave a bad review about your business online, and bad reviews can spread like wildfire.

5. Fix problems and issues, immediately

People complain because they haven't had their needs or expectations met and, in today's world of review sites, direct messaging and social media posts, it's unlikely that the issue will go unseen or unheard. Therefore, it's important that your organisation makes it easy for people to complain – if it's hard, the customer will only get more annoyed. To ensure the customer service you provide is exemplary, a speedy response is also vital – don't leave people hanging for days, they'll only get more frustrated – and professional in tone. Be mindful of what you say in response to complaining customers, especially if it's in the public arena and visible to the whole internet. This means being polite, apologetic and helpful, just as you would if you were dealing with a customer in-person.

6. Remember your regulars

People love to be remembered. It makes them feel unique, cared for and valued as a customer. If a customer you've seen before enters your retail premises, greet them by name if you know it or simply welcome them back – they'll be delighted you've remembered them. If your retail space is online, then make use of personalised email communications that use customers' names at the start of them. This makes your emails or messages feel more human and less robotic. It can also be impressive to a customer if you can quickly recall details from past conversations – most live chat software will capture data from previous interactions that you can use.

7. Good manners cost nothing

First impressions play a significant role in good customer service in retail. Being polite, saying please and thank you, being respectful and smiling are small gestures but they all add up. Remember to always keep the focus on the customer too – don't be distracted by chatty colleagues, your phone or your pile of stock. Give the customer your full attention and your business will reap the rewards.

8. Stop, look, listen

It doesn't matter what you're doing – stocking shelves, writing an email or catching up with a colleague – your number one priority is to listen to your customers. This doesn't mean half listening to their query whilst you formulate the perfect answer in your head, nor does it mean getting ahead and saving some time by copying and pasting a stock response into an email ready to hit send. Listening means being patient, giving the customer time to speak without jumping in and ensuring you understand everything they've said before responding. How often can you say you've truly listened to what someone's had to say before interrupting with your own thoughts on the situation? Have you ever preempted what someone is going to say and then replied with the wrong information because you've not waited to hear the whole story? This is called active listening.

9. Let the customer help themselves

Many people (especially us Brits) prefer to try and solve their own problem before asking for help, so empower customers to help themselves by giving them information upfront. For example, clearly display things like return policies, postage costs, payment options, shop locations and opening hours, etc. on your website. Similarly, it's a good idea to curate a frequently asked questions list to encourage self-service and reduce the amount of time spent answering the same queries. Empowering your customers in this way means you can focus on providing excellent customer service in other areas of your business where the time is better spent.

10. Don't forget about the internet

Often, the feedback you receive from a customer will be in the form of a review online, whether on a social media page, a reviews website, an online forum, a local listings page or a comments section on your company website. If you work in a bricks-and-mortar retail premises then it can sometimes be easy to forget about your online presence, but a negative comment on the internet can be highly damaging to your business's reputation. Responding quickly to these online reviews shows your customers that they are the most important aspect of your business. Be empathetic and understanding – never use a copy-and-paste stock response – and do what you can to help. Although you might want to move the conversation offline or into private emails, it's important to respond publicly as this is a great opportunity to show others just how much you value your customers and the effort you'll put into fixing issues.

Customer Experience Management:

Customer experience refers to the sentiments of customers when they interact with your service, product, or staff. **Customer experience management (CXM) is the name for the methods and tools you use to maintain and enhance these interactions**.

But it's more than that. CXM is the way for you to become strategic about your customers' experience—and tie it to your wider business goals. This way, insight into CX doesn't stay siloed in different departments. Instead, it helps your entire business gain visibility at every stage in the customer journey.

CX has conventionally been just a B2C thing. But it's no longer that way. B2B businesses can use the Account Experience methodology and CXM & NPS tools like CustomerGauge to keep track of their relationships with customer accounts of all sizes. While that's a more complex job than tracking a single account touchpoint, it unlocks incredibly valuable business opportunities.

Customer Experience Management Definition

Customer experience management is the tools, tactics, and strategies businesses use to understand, maintain, and improve customer interactions. It gives you deeper insight into who your customers are, what they like about your company, and what more they want. And it empowers you to use that knowledge to drive revenue growth.

We've seen what customer experience management can do for you. It's time to start reaping its benefits.

What is the Main Goal of Customer Experience Management?

So, what does CXM actually help you achieve? In short, the main goal of customer experience management is **revenue growth**. CXM can help you to:

- **Link your CX to revenue.** CX means nothing if it's not linked to your bottom line. A CXM program makes this possible (more about this later).
- **Reduce churn**. While many companies have churn rates around 1-5%, some B2B brands can suffer from as high as 15% churn. The goal of CX management is to keep this to a minimum, while showing you who is churning and how much they are worth to your company.
- **Identify your brand promoters**. Your brand promoters will be most useful for customer referrals. This is a way to win new customers fast.
- **Find your most lucrative clients.** Gartner states that 80% of your business profits come from 20% of your customers. Finding those customers to which you can dedicate extra resources will be one of the main goals of your CXM.

The main goal of CXM is to make customer experience work for your bottom line. But it's not the only reason why it matters:

Why is Customer Experience Management So Important?

In the everyday running of your business, you probably don't want yet another metric to track, tweak, and optimize. But CX management is really worth it. You will power your revenue, while getting a deeper understanding of what makes your customers tick.

And the benefits of customer experience management don't end there:

- **Get deeper insights into your customers and their journey**. Understanding your B2B accounts involves knowing when different people interact with your business and when. Effective CXM tools make this easy.
- **Better understand customer feedback**. By making feedback measurable, CXM helps make it actionable.
- **Create a business-wide CX strategy**. CX can get siloed, with marketing, customer service, and sales each with their own view of the customer. CXM makes customer experience visible to everyone.
- **Improve your business processes**. Gain full visibility on the parts of your business that are positively or negatively impacting satisfaction, and build plans to improve those areas.
- **Promote transparency and accountability**. Customer experience management is cross-functional. That means every department needs to get behind your CXM goals and be responsible for your CX success.
- **Drive business growth**. It's worth repeating. Simply, customer experience management can boost your bottom line.

Unit-5

Globalization and Changing Retail Formats

Global retailing is the concept of selling products (i.e., goods and services) across the geographical boundaries of a country to the consumers available in the different parts of the world to attain global presence and recognition and to capture the opportunities prevailing in the potential overseas markets.The concept of global retailing is widely adopted today by many big brands and organizations to capture the potential markets in multiple countries.

Some of the well-known examples of the companies operating on a global level are 'Intel', 'Facebook', 'Toyota', 'IBM', 'L'Oreal', 'PepsiCo' and 'Domino's'.

Changing Global Retailing Trends:

To enter the new markets and avail the business opportunities, the organizations need to understand the presently prevailing flow of global retailing.

Following are some of the most recent trends of global marketing adopted by business entities:

- **Internationalization**: The companies these days are preferring international markets due to the saturation of the domestic markets and seeking expansion and economies of scale.
- **Improvising Service Offerings**: In today's highly competitive market, global retailers are also focusing on adding value to the consumer experience by providing some assistance or services with their products.
- **Boutiques**: The business organizations are moving towards speciality stores concentrating on a single product line or category to get global recognition for their expertise in a particular product or service.
- **Mass Merchandizers**: Also, some of the large retail organizations are expanding globally by selling a variety of products or services and having a diversified product line to target high volume of sales at minimal margin or profit.
- **Retail Format Migration**: There has been a massive transformation in the retailing sector due to the emergence of e-commerce. Therefore, it has become a necessity for companies to adopt e-retailing for creating a global presence.
- **Private Brand Expansion**: It has become an essential platform for private companies to introduce their products to consumers spread across the globe and also to gain global recognition.

Online Retailing:

Online retailing is growing at an astonishing rate, with online sales now accounting for around one quarter of the total retail market. Retailers who ignore e-commerce may see their trade lessening as customers continue to shift to ordering products online.

However you need to think carefully and weigh all the advantages and disadvantages - backed by good market research - before deciding on whether or not to trade online.

Advantages of online retail

The benefits of retailing online include:

- **Easy access to market -** in many ways the access to market for entrepreneurs has never been easier. Online marketplaces such as eBay and Amazon allow anyone to set up a simple online shop and sell products within minutes. See selling through online marketplaces.
- **Reduced overheads -** selling online can remove the need for expensive retail premises and customer-facing staff, allowing you to invest in better marketing and customer experience on your e-commerce site.

- **Potential for rapid growth -** selling on the internet means traditional constraints to retail growth - eg finding and paying for larger - are not major factors. With a good digital marketing strategy and a plan a scale up order fulfilment systems, you can respond and boost growing sales. See planning for e-commerce.
- **Widen your market / export -** one major advantage over premises-based retailers is the ability expand your market beyond local customers very quickly. You may discover a strong demand for your products in other countries which you can respond to by targeted marketing, offering your website in a different language, or perhaps partnering with an overseas company. See basics of exporting.
- **Customer intelligence -** ability to use online marketing tools to target new customers and website analysis tools to gain insight into your customers' needs. For advice on improving your customer's on-site experience, read how to measure your online marketing.

Read further guidance on online selling.

Disadvantages of online retail

Some negatives of online retail include:

- **Website costs** - planning, designing, creating, hosting, securing and maintaining a professional e-commerce website isn't cheap, especially if you expect large and growing sales volumes. See common e-commerce pitfalls.
- **Infrastructure costs -** even if you aren't paying the cost of customer-facing premises, you'll need to think about the costs of physical space for order fulfilment, warehousing goods, dealing with returns and staffing for these tasks. See fulfilling online orders.
- **Security and fraud -** the growth of online retail market has attracted the attention of sophisticated criminal elements. The reputation of your business could be fatally damaged if you don't invest in the latest security systems to protect your website and transaction processes. See e-commerce pitfalls - security weaknesses.
- **Legal issues -** getting to grips with e-commerce and the law can be a challenge and you'll need to be aware of, and plan to cope with, the additional customer rights which are attached to online sales. See the law and selling online.
- **Advertising costs -** while online marketing can be a very efficient way of getting the right customers to your products, it demands a generous budget. This is especially true if you are competing in a crowded sector or for popular keywords. See pay-per-click and paid search advertising.
- **Customer trust -** it can be difficult to establish a trusted brand name, especially without a physical business with a track record and face-to-face interaction between customers and sales staff. You need to consider the costs or setting up a good customer service system as part of your online offering. See manage your customer service.

International Retailing:

International trade and commerce has existed for centuries and played a very important part in the World History. However International Retailing has been in existence and has gained ground in the past two to three decades. The economic boom in several countries, coupled with globalization have given way to Organisations looking at setting up retailing across borders. The advent of internet and multimedia has further changed the dimensions as far as International Retailing is concerned.

Who are the International Retailers

When you think of International Retailers the names that come to one's mind would be the Wal-Mart, Gucci, Ralph Lauren, Mango, GAP etc. All of these are International Retailers. However we can broadly classify the International Retailers under two categories. The first category would be the global grocery retailers and the second category belongs to the International fashion Brands.

Features of International Retailers:

International Retailing and branding has been one of the sectors that is seeing exponential growth. With increase in standard of living and disposable income, people in developing countries are getting exposed to international brands.

Rise of internet and multi-media has further provided impetus to the dream of people to aspire for branded consumer goods. Along with the rising awareness and aspirations of the people, the opening up of economies and foreign direct investment opportunities have fuelled the growth of international retailing business.

International Retail business consists of two groups of businesses. The biggest value and volume business happens to be the International Multi brand grocery Retailers like Wal-Mart, Tesco, Metro and Carrefour etc. The second group of international retail business refers to the fashion brands mainly in fashion, luxury brands and personal product category of businesses.

In this topic we aim to explain some of the characteristic features and challenges of the second group of International retail business dealing with fashion and brands. Brands such as Ralph Lauren, Hugo Boss, GAP, Dolce & Gabbana, Gucci, Escada, Armani, Versace, Louis Vuitton and many more are known all over the world and are available at exclusive showrooms in various countries.

In the past two to three decades all these brands have grown to become Global brands, and this has been made possible by their strategic branding, multi product range expansion and innovative merchandising methods.

Though International Retail Companies are Global businesses, the business and products are hugely influenced by the multi cultural and pan country specific product requirements. The product categories largely comprise of fashion clothes, food, gadgets as well as personal and luxury products.

Each country and each market is characterised by different fashion trends and consumer behaviour. While the products are fast moving and have very short shelf life, the local culture and outlook has a large part to play in the localisation of the international brands in domestic markets. These global companies therefore are forced to work on global branding as well as local brand promotion and have international as well as domestic-country specific customer reach programs and marketing as well as promotional methods.

Impact of Global Brands:

Global branding refers to the management of a brand in different regions of the world, intending to increase its strength and recognition in the markets in which it operates. This strategy may also be called **global branding** or **international branding**.Global branding involves planning **how the brand wants to be perceived worldwide** and how it will position itself in each market to generate such perception.With global marketing strategies, it is possible to transform this idea into concrete actions that impact contact points with consumers (price, product, place, and promotion).Branding is already a challenge in local markets. It is hard to obtain your space in the consumers' minds in your own city or country and make your brand recognizable and remembered.

What are the advantages of global branding?

For brands that have already increased their regional market share and want to grow, expanding to other countries could be the natural way to go.

This decision can bring a series of benefits to brands, as we will see below:

Increase the brand's reach

The most obvious advantage for brands that become global is to reach more people in new markets.

The brand becomes well-known worldwide, attracts more clients and enthusiasts, and becomes stronger in sales.

Increase brand value

Globally recognized brands gain market value. Just look at the list of the most valuable brands in the world, according to Brand Finance:

1. Amazon (US$ 220,8 bi);
2. Google (US$ 159,7 bi);
3. Apple (US$ 140,5 bi);
4. Microsoft (US$ 117 bi);
5. Samsung (US$ 94,5 bi);
6. ICBC (US$ 80,7 bi);
7. Facebook (US$ 79,8 bi);
8. Walmart (US$ 77,5 bi);
9. Ping An (US$ 69 bi);
10. Huawei (US$ 65 bi).

Most of them are famous worldwide. Many of them are probably part of your everyday life, right?

This indicates that, as the company expands worldwide, **the brand itself becomes its greatest asset.**

Finding opportunities

When exploring new countries, you may find excellent opportunities. Does your product meet any unanswered needs in any part of the world?

Perhaps you can enter this market free of competition barriers and position yourself as the reference for the local population.

Take the example of Uber, which has explored a market in which the public was poorly supplied: public transportation.

Through an **aggressive expansion strategy**, the brand has become a reference in the ride-hailing market, and its name is even used as a synonym of the category in several countries.

Achieving better ROIs

Global branding also tends to generate more room for marketing and branding investments.

Global brands can launch a single campaign that fits each region, rather than creating several separate campaigns for different markets. Thus, they have lower costs with advertising, packaging, and promotional materials, for example.

They also usually focus all their advertising budget on hiring an international agency, bringing together the best global talent — fewer costs and more efficiency.

Improving brand perception

Brands that become global also tend to gain a reputation. They become symbols of status and quality and are often more desired than local brands (although this perception changes in some markets, as we will see below).

Also, **a global brand strategy strengthens identity**. By adapting to each region, the brand manages to win the people's trust without losing its essence, which is reinforced in all places of operation.

Increasing bargaining power

If the brand gains prestige and improves its reputation within the market, it also gains bargaining power. This yields much more profitable negotiations with suppliers, clients, and partners.

Overcoming local competitors

Global branding is an ingredient to build a competitive advantage over your local competitors.

Global brands are stronger and more valuable, generating greater consumer awareness. Thus, they stay ahead of the competition.

Opportunities and Challenges in Global Retailers:

Opportunities by Global Retailers

The attainment of business exercises monitoring, directing and controlling the channel of a company's products and services to its customers at the global level to earn profit and satisfy the demands internationally is the motto of international marketing.

The main advantages of international marketing are discussed below −

Provides higher standard of living

International marketing ensures high standard life style & wealth to citizens of nations participating in international marketing. Goods that cannot be produced in home country due to certain geographical restrictions prevailing in the country are produced by countries which have abundance of raw material required for the production and also have no restrictions imposed towards production.

Ensures rational & optimum utilization of resources

Logical allocation of resource & ensuring their best use at the international level is one of the major advantages of international marketing. It invites all the nations to export whatever is available as surplus. For example, raw material, crude oil, consumer goods & even machinery & services.

Rapid industrial growth

Demand for new goods is created through international market. This leads to growth in industrial economy. Industrial development of a nation is guided by international marketing. For example, new job opportunities, complete utilization of natural resources, etc.

Benefits of comparative cost

International marketing ensures comparative cost benefits to all the participating countries. These countries avail the benefits of division of labor & specialization at the international level through international marketing.

International cooperation and world peace

Trade relations established through international marketing brings all the nations closer to one another and gives them the chance to sort out their differences through mutual understanding. This also encourages countries to work collaboratively with one another. This thereby designs a cycle wherein developed countries help developing countries in their developmental activities and this removes economic disparities and technological gap between the countries.

Facilitates cultural exchange

International marketing makes social & cultural exchange possible between different countries of the world. Along with the goods, the current trends and fashion followed in one nation pass to another, thereby developing cultural relation among nations. Thus, cultural integration is achieved at global level.

Better utilization of surplus production

Goods produced in surplus in one country are shipped to other countries that have the need for the goods in international marketing. Thus, foreign exchange of products between exporting country & importing countries meets the needs of each other. This is only possible if all the participating countries effectively use surplus goods, service, raw material, etc. In short, the major advantages of international marketing include effective utilization of surplus domestic production, introduction of new varieties of goods, improvement in the quality of production & promotion of mutual co-operation among countries.

Availability of foreign exchange

International marketing eases the availability of foreign exchange required for importing capital goods, modern technology & many more. Essential imports of items can be sponsored by the foreign exchange earned due to exports.

Expansion of tertiary sector

International marketing promotes exports of goods from one country to another encouraging industrial development. Infrastructure facilities are expanded through international marketing. It indirectly facilitates the use of transport, banking, and insurance in a country ensuring additional benefits to the national economy.

Special benefits at times of emergency

Whenever a country faces natural calamities like floods & famines, it is supported by other countries in the international market. The international market provides emergency supply of goods and services to meet urgent requirements of the country facing the calamity. This distribution can only be facilitated by a country which has surplus imports.

A company exporting goods to other foreign countries earns substantial profit through export operation as domestic marketing is less profitable than international marketing. The loss a company suffers in domestic marketing can be compensated from the profit earned through exports in international marketing. Foreign exchange can be earned by exporting goods to foreign countries. Thus, the profit earned can be used for the import of essential goods, new machinery, technology, etc. This would further facilitate large-scale export in future.

Challenges Faced by Global Retailers

When an organization moves from domestic to the global market, it has to deal with many problems and complexities.

Given below are some of the global retailing challenges commonly faced by the companies:

- **Coping Up with Changing Technology**: The organizations today are judged more based on their efficiency receiving and transmitting information. Therefore, the companies operating on an international level need to depend upon the technology and e-retailing platforms.
- **Language and Communication Barriers**: While selling goods or services overseas, the organization faces difficulty to connect with locals or potential consumers. This is due to the difference in language, preference of communication modes, translation errors, etc.
- **Consumer Empowerment**: With the rapid change in technology, lifestyle and demand has lead to consumer empowerment and thus, made it difficult for the companies to generate customer loyalty.
- **Cultural Complexities**: Every market is culturally diverse, and the consumers' values define their priorities for the goods or services, purchasing power and modes of shopping and making payments. Understanding the culture of the potential market is a complicated task.
- **International Shipping Policies**: The overseas trading policies like licence, excise duty, taxes and rates, import-export policies, exchange rates, etc. act as a considerable challenge for the companies going global.

Market Entry Formulas:

A market entry strategy is how companies seek to expand their local market and find new audiences through franchising, international trade, and exporting. This business strategy typically arises when entrepreneurs or brands have secured a target demographic and domestic market and seek global expansion to bring products or intellectual property to fresh or overseas markets.

4 Types of Market Entry Strategies

Before expanding into the global market, companies should explore the following marketing strategies:

1. **Exporting**: Direct exporting gives companies more control over shipping and lets them more efficiently reach customers. Indirect exporting has a company go through a third-party seller, but it will also be one with established distribution lists.
2. **Greenfield investments**: This bolder form of market entry strategy restarts the brand in a new market, building a subsidiary company to match the ethos and needs of the region. This is a more time-intensive process but rewarding in the long run.
3. **Licensing**: A licensing agreement will allow the original company to license its product or intellectual property to another partner to handle the manufacturing and logistics of selling the goods in a foreign market. This streamlines processes, but originators lose some control over quality and marketing plans.
4. **Merging**: Mergers or acquisitions involve absorbing another rival company in a similar market to expand—and sometimes double—your business.

4 Benefits of Market Entry Strategies

Venturing into the international market can unlock a brand's potential. Consider how expanding your business model to foreign countries can offer a competitive advantage:

1. **Clear direction**: Market entry strategies require market research about exporting guidelines, foreign tariffs, and more. This research process involves legal counsel and international distributors. In the months and years before expanding, laying out the groundwork can help companies identify a clear direction and achieve success.
2. **Creative growth**: Working with local partners in different markets means establishing the business overseas, sharing ideas, and growing together. New talent can come on board once you are in the global market, and these new employees will bring their strengths to the company to help it prosper.
3. **Larger profits**: Entering a foreign market can be challenging but highly lucrative. The more you grow in international business, the easier it is to continue growing—it becomes a snowball effect.
4. **Smaller competition**: Once new products gain steam, other foreign companies will try to replicate them. Quick and direct exporting can get your product into the global market, giving you complete control and increasing your piece of the market share.

<u>New Customized Formats in retailing:</u>

The word retail is derived from French words "re" and "tailer" whose meaning is to "cut again". retail store works exactly as their name describes. Goods are sold in small pieces to make a profit. Retailing involves various activities to sell to end consumers for their non-business and personal use.

The meaning of retailing is to sell goods from a fixed location such as from kiosk, departmental store, or by post. Goods are sold to consumers in small portions so that consumers can consume them.

A retailer purchase goods from an importer or manufacturer directly or through a wholesaler to sell small portions of goods to final-consumers. Retail stores are also referred to as stores or shops. Retailers are the last element of the supply chain.

The process of retailing is considered as one of the most important parts of their complete distribution strategy.

The role of the retailer in the distribution channel

1) Retailers

A retailer is different from the rest of the elements of the supply chain because only the retailer directly interacts with the end-consumers and sell them goods. You must have observed while shopping that there are different types of retailers. The difference can be made on the basis of the shapes and sizes of the retail stores. Therefore, retailers can be grouped together on the basis of one of the following categories.

2) Ownership

The retail store which is made of brick and mortar irrespective of its size and shape can be categorized as a national chain store, regional chain store, or a franchise.

3) Pricing Philosophy

Retail stores can be classified on the basis of their pricing style. For example, there can be stores which sell products at discounts and there are some stores which sell products at full prices. The stores which sell products on discount have several categories such as consignment stores, factory outlets, specialty discount stores, dollar stores, warehouse membership clubs, etc.

4) Product assortment

The product lines sold by a store depends on the ownership of the store. take the example of an Ann Taylor store. this store sells branded clothes. There are not many types of clothes sold in the store. but it sells the extensive style of products in existing categories. On the other hand, Kmart sells clothes from different brands but it does not have a various variety of clothes of all brands.

5) Service Level

Exclusive and specialized stores provide more types of services such as store-named credit cards, liberal return policies, on-site alterations to their loyal customers.

Customized Stores:

Retail is an industry which is at war right now. There are many products of different kinds being sold from various type of retail outlets. Naturally, due to so much competition and so much saturation, each retailer wants to stand out and differentiate themselves. This can be done by retailers if they focus on the different type of retail categories retail services that they want to provide.

Each industry is different. In the clothing industry, you do not need the help of anyone to choose the type of clothes you want to wear. Thus, retail stores are the most non-interfering. However, if you go to the hardware store or a pottery shop, you might need guided assistance to buy the right kind of hardware or pots for your home or office.

Based on the level of involvement of retail salesperson as well as the level of service required by the customer, there are four different types of retail categories possible. Most retailers fall in one or the other type of retail category. What are these? Let us find out.

Type 1 in Retail Categories – Self Service

In this type, the customer generally serves himself which means he or she chooses their own products and makes their own decision. There is no involvement of the retail store. The epitome of a self-service retail outlet is the AMAZON GO retail outlet wherein customers have to just walk in, pick the products they want, and they can leave without even standing in queue for paying the bills. Through a barcode scanner, the bill is directly raised to your bank account.

Another example of Self-service stores are hypermarkets like Walmart or Tesco or others. Here the customers themselves select the products, compare them and decide on what they want to buy. There is no involvement of any retail service executive. It is one of the most common types of retail services and even restaurants are more and more opting for self-service.

Type 2 in Retail Categories – Self-selection

This is a common type of retail observed in Furniture outlets. Here, customers may walk in and choose what they want. However, they might need more guidance and information from time to time which is very selective. 1 executive for every 5 person is enough. Most of the selection depends on the customer themselves.

In Ikea for example – A customer decides what he wants, collects all the material from the showroom and assembles the furniture at home. A lot of this is done by the customer himself. But from time to time, the customer might need guidance on the right parts or the mode of assembly wherein he can take the help of the store executive.

Type 3 in Retail Categories – Limited service

In this type of retail, the customer needs additional assurances besides the goods that he buys. For example – He might need more credit or he might need better facilities or even the assurance that they can return the material If they don’t like it.

Small electronics stores can be an example of a limited service retail outlet. Here the retail executive pays direct attention to the customer, clears all their doubts. They might offer financial benefits in terms of EMI’s or consumer loans and will, in general, make your purchase easier.

Their limited service includes explaining and helping you with your decision and your purchase. If you do not like the purchase or if there is the problem with the purchase they might call the main company to assist you or take the machine back. Basically, because of these services received, many customers stick to small retailers.

Type 4 in Retail Categories – Full service

Whenever buying complicated machines, there is a mandatory service requirement along with the machine. For example – Buying a water purifier from a retail outlet selling all different kinds of water purifiers in the market. This water purifier retailer has to ensure that the installation happens after the sale of the water purifier.

Portable Stores:

Portable retail shops may be small, but they offer a huge range of advantages to a discerning owner. We take a look at a few of these benefits in the following post – please continue reading if you would like to find out more.

Price

Portable retail shops, small as they are, generally offer low start up costs to initially get going. The diminutive units are available for much less than a conventional brick and mortar outlet. What’s more, running costs are also far more economical than those of static counterparts. Plot rent is less because of the diminutive size of the units, while staff overheads are reduced because the units can be manned by a single person.

Mobility

Mobility is perhaps the key advantage of a portable retail shop. This major benefit allows you to take your business to the people. You are able to target great locations that provide excellent visibility and maximise profitability. Places you may want to consider include areas immediately outside sporting venues, concourses in shopping centres and platforms on a train stations. Other locations that allow you access to potentially profitable customer base are festivals, airports and well known commuter routes.

Inventory

As a small business, you customers won't expect you to stock a massive range of products. This means that you are able to focus on smaller niche markets and become a specialist in the field. Of course, your diminutive size also means that you will be agile enough to test out new products without breaking the bank, and be able to take advantage of passing fads without having a load of unsold items left over once the trend dies out.

Marchandise Depots:

1. Product Merchandising

Both in-store and online stores use these promotional activities to increase products sales. It deals with presenting physical or digital products in a way that customers will spend money on them. This method could involve correctly packaging the product or featuring product photographs on the website.

2. Retail Merchandising

It refers to promotional and marketing strategies used for the presentation of products in brick-and-mortar stores. When it comes to displaying products within a retail store, arranging them orderly is crucial besides the behavior of salespersons.

3. Digital/E-Commerce/Online Merchandising

Products on e-commerce websites, unlike those in traditional stores, are hard to assess. As a result, online retailers focus on the performance of their website and put the necessary information on display alongside products. Also, they have an efficient and instant customer care service to manage customer inquiries. Other promotional efforts may include social media and email marketing. With this, digital platforms gain the trust of consumers and a devoted consumer base.

4. Visual Merchandising

Stores display the product design, packaging, benefits, and related information, such as pricing and discount, to encourage consumers to buy instantly. Advertisement banners and signage are the best ways to make this approach impactful for increased product sales. Other presentation elements used by physical and digital stores can include spacing, color selection, lighting, web design, online videos, etc.

5. Omnichannel Merchandising

It includes providing robust customer support to customers across all platforms (brick-and-mortar and online). It, thus, helps them decide whether to purchase a particular product or look for something else.

Retail Theatre:

Retail theatre is all about creating a theatrical or dramatic experience in order to make the shopping experience more enjoyable. It can be applied in numerous ways, such as devising displays that are artistic or creative, or genuinely staging your whole pop up shop as if it was a theatre set. In some cases, people consider it as an offshoot of experiential marketing, but it differs in that retail theatre is about enhancing the shopping experience, whilst experiential marketing is aimed more at building relationships. On a grand scale, we might consider what the Disney company does to be retail theatre. Whether you're in a theme park or one of their stores, their employees are all cast members. Each person is expected to play a specific role, even if their only job is to take out trash, and all their visual merchandising efforts are themed to create more engagement. They set the stage perfectly to be branded as "The happiest place on earth." Even tired shoppers can't help but crack a smile at the displays, and people feel welcome due to the efforts of the cast members.

What Can Retail Theatre Do for a Pop Up Shop?

Whilst the Disney Store is not a pop-up, the same benefits carry over into short-term retail spaces too.

Capture Attention: Unique approaches and uncommon displays catch the attention of shoppers. Most people tend to go on auto-pilot when shopping, and they may walk past things of interest because of this tunnel vision. However, you can use retail theatre to draw people into your pop up shop when there's existing traffic, and use it to call attention to specific elements within the store.

Create Engagement: Once you have their attention, you can use retail theatre to encourage people to examine or hold your products. Naturally, getting products into the hands of consumers is the first step on the path to making the purchase, but the physical act of holding a product also increases familiarity, and will make them more prone to buying in the future.

Service Malls:

As the needs of the consumers grew and changed, one saw the emergence of commodity specialized mass merchandisers in the 1970's. The seventies also were witness to the use of technology in the retail sector with the introduction of the 'barcode'. Speciality chains developed in the 80s, as did the large shopping malls.

Shopping malls, a late 20th -century development, were created to provide for all of a consumer's needs in a single, self-contained shopping area. Although they were first created for the convenience of suburban populations, they are now found in many main city thoroughfares. A large branch of a well-known retail chain usually serves as a mall's retail flagship, which is the primary attraction for customers.

In Asian countries, many malls house swimming pools, arcades and amusement parks. Hong Kong's City Plaza shopping mall includes one of the territory's two ice rinks. The Mall of America, which opened in 1992, employs more than 12 thousand people and is over 98 percent leased. Visitors spend an average of three hours in the Mall, which is three times the national average for shopping malls. The Mall of America is one of the most visited destinations in the United Stages, attracting more visitors annually, than Disney World, Grace land and the Grand Canyon combined. Malls have also become a rage in Asia and The Times Square, Kuala

Lumpur, with a built-up area of 7.5 million sq.ft. (697,000 sqm), is the world's largest integrated complex built in a single phase. It's also the biggest shopping mall in Asia.

Customer Made Stores or Cash & Carry:

The term "Cash & Carry" means that customers do their own order picking, pay in cash and carry the merchandise away. Cash and carry is a wholesale format that aids small retailers and businessman. The advantages that this format has over the traditional wholesale operations are:

1) It offers a wide assortment of goods, food and non-food items, thus providing for one stop shopping and allowing the customers to save time.

2) Given the permanent availability of goods in the store, the customer can always purchase the goods he needs and is able to store and finance them in the short term. Thus, despite the principle of cash payment, cash and carry largely takes over the function of financing and stock holding on behalf of is customers.

3) Longer business hours per week enable the customer to do his shopping at a convenient time, seven days a week.

This format has been featured in this section as two of the largest groups, which operate under the cash and carry format, viz., Metro AG, Germany and Shoprite of South Africa, have recently started their operations in India.

Interactive Kiosk 'shopping arcades:

Information kiosks have emerged in the western markets as a new type of electronic retailing. These kiosks, comprising of computer terminals housed inside and a touch screen on the outside, provide customers with product and company information and may actually aid the customer in making a purchase. A large number of international cosmetic companies have used this technology to their advantage. The terminals also serve as a market research tool for the retailers. A large amount of information about the people who have interacted with the system can be collected and programs and products developed accordingly.

Franchising:

The modern era of franchising began in the 1950s when Ray Kroc, a salesman, first discovered a San Bernadino, California, drive-in restaurant operated by the McDonald brothers. Impressed by the crowded parking lot and the tasty french fries, Kroc bought the rights to franchise the business, and went on to build one of the most successful companies in the history of American business – McDonald's! And he did it through franchising!

The success stories are endless. McDonald's, Burger King, HFS< Midas, Culligan, Century 21, Singer Sewing Machine, Kentucky Fried Chicken, Subway, and Coco-Cola are only a few of the most visible international examples of franchising success. Today, doctors, dentists, opticians, attorneys, accountants, salespeople, and most other types of operations are profiting from expansion via the franchise method.

Types of Franchising

There are basically two types of franchises:

(1) Product and Trade Name Franchise

In this type of arrangement, the distribution of a product is done through dealers. Common examples are auto dealerships that sell products manufactured by the franchiser or the auto manufacturers.

(2) Business Format Franchise

Business format franchise is the most common type of franchising today. In this type of franchising, the franchiser provides the product, the trade names, the operating procedures, and the training required for running the franchise. The franchisee, on the other hand, incurs the expenditure for the premises and its interior decoration and the staff. He also manages the day-to-day business.

Many familiar fast food outlets and training institutes fall into this category. Franchising as a format of retail expansion is not new to India. It is estimated that there are over 1,000 national and regional franchisers spread across sectors like education, retail, professional services and healthcare, among others. The number of franchisees is approximately 40,000, with their combined annual turnover ranging between ` 8,000 to` 10,000 crores. Investments are believed to be at ` 5,000 crore and over 3,00,000 people are employed in this business.

The franchise showrooms of various readymade garment manufacturers like Arvind, Madura Garments, Color Plus, etc. and Titan are perhaps the most visible successes of franchising in India. The next wave belonged to the computer education and training centers, fuelled by the IT boom.

Successful examples include Aptech and NIIT. One of the pioneers in this field in the area of beauty and personal care products, has been Shahnaz Hussain. Today, the chain of Shahnaz Hussain parlours has more than 400 clinics in India and abroad. Some of the new sectors in which the emergence of franchising has been witnessed are illustrated in Table below.

With retail formats evolving rapidly, retailers need to stick to what they know best, adapt to the changes in the environment, in the competition and in the consumers' needs. While predicting the future is not possible, retailers need to anticipate the trends, and adapt their strategies accordingly. While change will present new opportunities, it will be the ability of the retailers to adapt to this change, which will determine their survival.

Ethics in Retailing:

Ethics is a branch of philosophy that deals with values relating to human conduct, with respect to right or good and wrong or bad actions. Here ethics relates to retailers moral principles and values. Ethics is derived from the Greek word ‘ethos’ which means character. Ethics in retailing pose certain critical issues. Retailing plays a vital role in the economy. The retail industry is the first link in the distribution chain, from the customer’s point of view. It is therefore vital for retailers to act in an ethical manner because they affect the lives of many people.

The unethical practices used by the retailers towards consumers are:

i. They charge full price for a sale item without the customers’ knowledge.

ii. Don’t tell the complete truth to a customer about the characteristics of a product.

a. Ethical practice towards consumers:

The retailers should charge fair price for the products offered to them. The consumers have the right to get correct and precise knowledge about the products sold to them in respect of warranty, guaranty, price, usage, ingredients etc. Ethics is essential for the long run of the business. Ethical business is essential in today’s competitive and dynamic environment.

b. Ethical practice towards investors/shareholders:

The shareholders are the owners of the business. Shareholders must be given fair returns on their investment at regular intervals. The share holders should be disclosed with correct information about the financial status of the business organisation. The business organisation must act in the interest of the shareholders.

c. Ethical practices towards employees:

Ethical practices must also be followed towards the employees. The retail industry employs large volume of retail staff. Therefore proper policies and procedures must be framed for the employees regarding recruitment, selection, training, promotion, welfare etc.

Negative issues relating employment relations in the work place can lead to loss of reputation and customers, it leads to poor staff morale, low productivity, and high labour turnover. To avoid these confrontations the retail manager should follow ethical practices towards employees.