Retail Business Environment

DMGT551

Edited by:
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LOVELY PROFESSIONAL UNIVERSITY

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SYLLABUS

Retail Business Environment

Objectives: The objective of the course is to:

- Provide an inclusive perspective on new developing organizational retail formats
- Develop and acquire a conceptualized framework to understand and analyze the turbulent retail business environment
- Make students learn designing principles to create retail organizations capable of performing in uncertain and unstable environment

Sr. No.	Description
1.	**Introduction to Retail Environment:** The functions of retailing, Retail formats, Successful Retailing.
2.	**Structural change in retail environment:** Various types of changes, Sociodemographic change, Technology and economic change, socio-economic changes, Impact of changes on retail industry.
3.	**International Retailing: Internationalization and Globalization:** Shopping at World Stores, Internationalization and Globalization, Going International, The Internationalization Process, Culture, Business and International Management.
4.	**Retailing Structure:** Environment & competition, Competitive Environment in different Retail Sectors, Govt. Policies in Retail Sectors, Retail Development and Competition.
5.	**Managing retailing in good times and bad:** Changes in consumer spending, Impact of economic fluctuation on Retailing industry, Maintaining the balance in the economy, Govt. macroeconomics policy in retail industry, Managing Fluctuations in Retail Industry, Dealing with recession in retail industry
6.	**Retail planning and environment:** Strategic planning process, SWOT analyses of retail sector, Integrated marketing system forging Relationship for success in retail, Role of retail formats and merchandise
7.	**The Customer and the Retail Business:** Knowing Your Customers: Focusing on the consumer, Mapping out society: Psychographics, Postmodern Consumers, Learning Attitudes, Motivation and Perception, Modeling Consumer Behavior.
8.	**Logistics and Distribution:** Shipping the Goods to Market: The Distribution Process, The stages of distribution, Trends in supply chain management, Physical Distribution and Inventory Management, Warehouse Management.
9.	**People in Retailing:** Making People Matter: Retail Employment, Planning the Workforce, Management and Organizational Culture, Personnel Management and Administration, Health and Safety.
10.	**A Review of Retailing:** Environment and Operations: Retail Change: A Review, Cultural Transformation and Retailing, New Approaches in Retailing, Emerging Themes and Niches, Building for the future: Learning from the past.

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Unit 1: Introduction to Retail Environment

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Objectives

After studying this unit, you will be able to:

- Discuss the Concept and Scope of Retailing
- Explain Functions of Retailing
- Discuss Retail Formats
- Explain Successful Retailing
- Discuss Careers in Retailing

Introduction

Retailing comes at the end of the marketing distributive channel. The word 'retail' has been derived from the French word "retaillier" and means 'to cut a piece' or 'to break bulk'. It covers all the activities involved in the sale of product and services. Retailing is a high-intensity competition industry and second largest globally. The reason for its popularity lies in its ability to provide easier access to a variety of products, freedom of choice, and many services to consumers. The size of an average retail store varies across countries depending largely on the level of a particular country's economic development. The largest retail store in the world is Wal-Mart of USA.

Retailing is the world's largest private sector contributing to 8% of the GDP and it employs one sixth of the labor force. The estimated retail trade is expected to be 7 trillion US $. Many countries have developed only due to retailing and presently we see there is a vast change in the retail industry. As far as India is concerned it contributes to 14% of our GDP and it is the second largest sector next to agriculture which provides employment to more number of persons.

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Now according to a survey, India is classified in to the fifth most attractive retail destination and second among the countries in Asia. Worldwide it is ranked as fifth most attractive retail destination.

1.1 Definition and Scope

Retailing is the business activity of selling goods and services to the final consumer.

Retailing can be defined as the business products and services to consumers for their own use. According to Kotler, "Retailing includes all the activities involved in selling goods or services to the final consumers for personal, non business use".

Retailing is the activity of selling goods and services to last level consumers for their use. It is concerned with getting goods in their finished state into the hands of customers who are prepared to pay for the pleasure of eating, wearing or experiencing particular product items. Retailing is all about the distribution of goods and services because retailers play a key role in the route that products take after originating from a manufacturer, grower or service-provider to reach the person who consumes. Retailing is also one of the key elements of a marketing strategy facilitating the targeting process, making sure that a product reaches particular groups of consumers. It is important in a marketing strategy to match the arena in which a product is purchased to the benefits and characteristics of the product itself and its price. Retailers provide a collection of service benefits to their customers such as being located in convenient places, editing product ranges according to shopping tasks, and selling goods in quantities that match personal consumption levels. Ensuring that this process runs smoothly presents a host of managerial challenges. Retailing is therefore a deceptively simple management process – yet fascinatingly complex in its detail.

Caution The term retailing applies not only to the selling of tangible products like loaves of bread or pairs of shoes, but also to the selling of service products.

Companies who provide meals out, haircuts and aromatherapy sessions are all essentially retailers, as they sell to the final consumer, and yet customers do not take goods away from these retailers in a carrier bag. The consumption of the service product coincides with the retailing activity itself.

From a traditional marketing viewpoint, the retailer is one of a number possible organization through which goods produced by manufacture flow on their way to their consumer destiny. These organizations perform various roles by being a member of a distribution channel.

Example: Chocolate producer like Cadbury's will use a number of distribution channels for its confectionery, which involve members such as agents, wholesalers, supermarkets, convenience stores, petrol stations, vending machine operators and so on.

Channel members, or marketing intermediaries as they are sometimes referred to, take on activities that a manufacturer doesn't have the resources to perform, such as displaying the product alongside related or alternative items in a location that is convenient for consumer to access for shopping.

Retailing consists of the sale of goods or merchandise from a fixed location, such as a department store or kiosk, or by post, in small or individual lots for direct consumption by the purchaser. Retailing may include subordinated services, such as delivery. Purchasers may be individuals or businesses. In commerce, a retailer buys goods or products in large quantities from manufacturers or importers, either directly or through a wholesaler, and then sells smaller quantities to the end-user. Retail establishments are often called shops or stores.

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Caselet

Industry Status for Retail Sector?

Barely recovering from the slump in the economy, organised retailers in the country demand that the sector should be given industry status, besides easing foreign investment norms in the forthcoming Budget. "Industry status has been a long standing demand of the retail sector. Besides we also want a relaxation in the foreign direct investment (FDI) norms," Retailers Association of India chief executive officer Kumar Rajagopalan said. Sharing similar views, Koutons Retail India chairman D P S Kohli said: "Industry status has been a recurring demand of the retail sector for many years since only then will the retailers be able to fully enjoy the benefits of organised financing, insurance and fiscal incentives."

According to industry figures, only around five per cent of the estimated over USD 450 billion Indian retail sector is currently organised. Calling for easing of FDI norms, Rajagopalan said, "No industry in India has grown without FDI participation and for retail to emerge as a big player, more FDI should be allowed." Besides, he said even if FDI norms are not relaxed in the Budget, the government must give a clarification on FII and foreign PE funding route as there is a lot of ambiguity.

Kohli said clarity on the issue will help Indian retailers raise funds from abroad as the global liquidity condition is showing improvement. At present, the government allows 51 per cent FDI in single brand retailing and prohibits any foreign investments in the multi-brand segment.

Source: indianrealitynews.com

Self Assessment

State whether the following statements are true or false:

1. Retailing is the last link in the supply chain that delivers goods to the final consumers.
2. Retailing is concerned with selling of goods only to the final consumers.
3. Retailing is a part of manufacturer's overall distribution strategy.

1.2 Functions of Retailing

Retailers are crucial players in the emerging market scenario. Large brands are running first to get into the desired retail formats to cater to the growing middle class of India. Retailers perform various functions like providing assortments, sorting, breaking the bulk, rendering services, bearing risk, serve as a channel of communication, transportation, advertising and holding inventory. They significantly contribute towards increasing the product value and satisfying the consumers. Following are the functions of a retailer/retailing:

- ***Providing assortments:*** Offering an assortment enables customers to choose from a wide selection of brands, designs, sizes, colors, and prices in one location. Manufacturers specialize in producing specific types of products.

  Example: Kellogg's makes breakfast cereals, Knorr makes soups.

  If each manufacturer had its own stores that only sold its own products, consumers would have to go to many different stores to buy groceries to prepare a single meal. Retailers offer assortment of multiple products and brands for consumer convenience.

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- ***Sorting:*** Manufacturers make one single line or multiple product lines and will always prefer to sell their entire output to few buyers to reduce their costs. Final consumers will prefer to choose from a large variety of goods and services and then usually buy in smaller quantities. Retailers have to strike a balance between demands of both the sides, by collecting a combination of goods from different producers, buying them in large quantities and selling them to individual consumers in smaller quantities. The above process is called sorting and under this process, the retailer undertakes activities and performs functions that add value to the products and services while selling them to consumers.

Example: A shopping supermarket of Pantaloon Retail in the name of 'Big Bazaar' sells more than 20,000 assortments from 900 companies. Customers can choose from such a basket in just one location. There are specialized retailers like Nilgiris or Barista, which offers specialized assortments of a single product line.

- ***Breaking Bulk:*** Retailers offer the products in smaller quantities tailored to individual consumers and household consumption patterns. This reduces transportation costs, warehouse costs and inventory costs. This is called breaking bulk.
- ***Rendering Services:*** Retailers render services that make it easier for customers to buy and use products. They provide credit facilities to the customers. They display products, which attract the customers. Retailers keep ready information on hand to answer queries of the customers. They provide services by which the ownership can be transferred from manufacturer to the end consumers with convenience. They also provide product guarantee from owner's side, after sales service and also deal with consumer complaints. Retailers also offer credit to consumers and develop hire purchase facilities to enable them to buy a product immediately and pay the price at their ease. Retailers also fill orders, promptly process, deliver and install the product at customer point. Retail sales people answer the customer complaints and demonstrate the product for the customer to evaluate before making a choice. They also help in completing a transaction and realizing the sale.
- ***Risk Bearing:*** Retailers bear a different kind of risk to the manufacturers and wholesalers. Even the customers can come back to the retail point and return the product. In that case, the risk of product ownership many times rests with the retailers. Many companies have buy back schemes and return schemes whereby the retailers can always return the unsold items to the manufacturer.
- ***Holding Inventory:*** A major function of retailers is to keep inventory so that products will be available for consumers. Thus, consumers can keep a much smaller inventory of products at home because they can easily access more from the nearby retailers. Retailer's inventory allows customers instant availability of the products and services.
- ***Channel of Communication:*** Retailers are the bridge between the manufacturer or his representative and the end customers. They serve as a two-way channel of communication. The manufacturer collects customer choice and preference data and provides information about existing and new products through the retailers. The point of purchase displays provide serve as advertisements that provide information about new products and many times retailers inform the consumers about likely date of availability of a product or entry of variants into the market. The shoppers get a chance to learn about products and services from the stores and even acquire trial habits by seeing others buying a product or service in the store. The manufacturer too collects customer data, data on gaps in demand and supply cycles and customer satisfaction from retail points.
- ***Transportation:*** Retailers also help in transport and advertising function. The larger assortments are transported from wholesaler's point to retailers point by retailer's own arrangements and many times, the retailer delivers the goods at final consumer's point. So, retailers provide assistance in storage, transportation and pre-payment merchandise.

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The percentage that a retailer gets from the sale price depends on the number of functions that the retailer does for the manufacturer.

Task Visit your nearby retailers and find out what all activities do they perform to enrich customer service.

Self Assessment

Fill in the blanks:

4. Retail offers an ..... that enables customers to choose from a wide selection of brands, designs, sizes, colors, and prices in one location.
5. Under ..... process, the retailer undertakes activities and performs functions that add value to the products and services while selling them to consumers.
6. Retailer's ..... allows customers instant availability of the products and services.
7. Retailers also help in ..... and transport functions.
8. Retailers offer the products in small quantities to individual consumer and household ..... patterns.
9. Offerings an ..... enables customers to choose from a wide selection of brands, design etc. in one location.

1.3 Retailer

Retailers are at the end of the supply chain. Manufacturing marketers see the process of retailing as a necessary part of their overall distribution strategy. The term "retailer" is also applied where a service provider services the needs of a large number of individuals, such as a public utility like electric power.

The feature that sets a retailer distant from other members of its distribution channel is that the retailer is the party who eventually trades the product to its end user or consumer. As you know if you've ever shopped for anything, retailers come in numerous forms and sizes, so to converse. Retailers may be grouped according to any of the given four categories:

1. ***Ownership:*** Every brick-and-mortar retailer can be classified as a huge, national chain store; a smaller, regional chain store; an autonomous retailer; or a franchisee.
2. ***Pricing philosophy:*** Stores are usually either discounters or full-price retailers. Within the "discounter" group, there are numerous subcategories such as factory outlets, shipment stores, dollar stores, specialty discount stores, warehouse membership clubs, and so on.
3. ***Product assortment:*** The extent and depth of product lines carried by the store depends a lot on its possession. An Ann Taylor store, for instance, sells Ann Taylor branded clothing—not much width of product line there, but widespread depth in that line. A Kmart, on the other hand, carries thousands of brands, but possibly does not have much depth (not many brands) in any given class of product.
4. ***Service level:*** The more exclusive or specialized the store, the more kinds of services it will usually propose—from a name-branded credit card, to on-site alterations, to moderate return policies for its loyal customers. With the "big box" discounters, on the other hand, customers pay for ease and bypass conventional service, by bagging their own groceries and the like.

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1.4 Rise of the Retailer

The retail sector is changing at ever increasing rate and this is leading to greater competitor activity. Such activity leads to a need to improve the way companies approach retail marketing. Retailing is not only an integral part of our economic structure but also shapes and is shaped by, our way of life. While the trading of goods has always been a part of traditional societies, in recent times the buying and selling of products has became a much more formalized and brand-dominated activity. Even as relatively recently as the 1960s retailing was predominately seen as having a smaller and significantly less important role than other industries such as manufacturing.

Retailing is a major part of U.S. and world commerce. Retail sales and employment are vital economic contributors, and retail trends often mirror trends in a nation's overall economy.

Did u know? According to the Department of commerce, annual U.S. retail store sales exceed $3.5 trillion – representing 31 percent of the total economy. Telephone and mail-order sales by non-store retailers, vending machines, direct selling and the web generate hundreds of billions of dollars in additional yearly revenue. And personal consumption expenditures on financial, medical, legal, educational, and other services account for another several hundred billion dollars in annual retail revenues.

Durable goods stores – including the auto group; furniture and appliance group; and lumber, building materials, and hardware group – make up 42 percent of U.S retail store sales. Non-durable goods and services stores – including the general merchandise group, apparel group, gasoline service stations, eating and drinking places, food group, drug and proprietary stores and liquor stores – together account for 58 percent of U.S retail store sales.

Large and Increasing Contribution of GDP

The increasing importance of the retail sector is reflected in its contribution to GDP. In the India the retail sector accounted for a substantial 8-10% percent of GDP in 2007 (source: business.mapsofindia.com). This implies that a very significant proportion of the economy is linked to retailing hence public policy tends to recognize its importance as a driving force and aims to promote its sustained growth.

Major Employer

A significant historical reason underlying the perceived increasing importance of retailing is that its contribution to the economy is much more visible in the modern era than it was in the past. Due to the Cobble income of couple, they likely to make their purchases at retail stores. All products are available under one roof. There by you can save the time, efforts, save money and enjoy the shopping.

Retailers as Gatekeepers

Retailers are becoming less important in their role as gatekeepers within the channel of distribution. In the past, when suppliers were dominant, retailer supplied the merchandise that was on offer and consumers selected from this. However, as retailer have become significantly more powerful they are more able to exert their power over supplier and stock only the brands they wish to sell, depending on their overall retail strategy and supplier relationship.

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Retailers Diversifying their Activities

Large retail multiple chains are increasingly looking for new opportunities – new area in which to grow their business. This is especially the case in markets with highly developed retail structures where competition is fierce and regulation after restricts the development of further stores. The strategy of expansion has been for retailers to move away from their core business and into broader retail activities. Moving from the food sector to clothing or diversifying financial services. It is in part of a reflection of the high esteem in which retailer are held that many of the personal banking services are providing to be a success. Customers seem to be displaying increasing loyalty to the retailer fascia or brand rather than manufacturer brands.

Organizations Growing on an International Scale

Increasingly retailers are also expanding their business by moving internationally. Although there have long been examples of international retailers, they have focused mainly on the luxury goods markets; it was not until the late 1980s that the process of retail internationalization occurred on any significant scale.

Grow on Cost Perspective

From a cost perspective, retailing is a significant field of study. In the U.S.A, on an average, 31 cents of every dollar spent in department stores, 44 cents spent in furniture and home furnishings stores, 27 cents spent in grocery stores go to the retailer to cover the operating costs, activities performed, and profits. Cost includes rent, display, wages, ads and maintenance. Only a small part of each dollar is profit.

Notes Name the top ten retailers of the world and try to find out how much they contribute to the GDP of their home nation.

Self Assessment

State whether the following statements are true or false:

10. Retail sector makes an important contribution to the GDP of a nation.
11. Retailers also act as gatekeepers.

1.5 Evolution of Retailing Industry

Like the products that are sold within retailers, the formats used for retailing evolve over time. A retailing concept that appeared revolutionary when first introduced may Notes become dated within a couple of decades, and so retail businesses must constantly evolve their own portfolio of retail formats to reflect the changing requirements and aspirations of the shopping public, whilst responding to constraints imposed by the political and legal framework in which they operate.

The ways in which retailers evolve have been the subject of academic debate for over half of a century. Many of the academic references use the term 'retail institutions' to describe a type of retail outlet. However, it is easy to confuse the term retail institution with a large retail business (stores like Marks and Spencer are often referred to as institutions) and so the term format will continue to be used in this discussion. The evolutionary theories attempt to provide some

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predictive suggestions relating to the likely pattern of development of retailer types rather than specific retail companies.

1.6 Evolution of Retail Format

The format of a retailer is the overall appearance and feels that it presents to customers, primarily its look and layout, the sort of range it stocks and the approach taken to pricing.

The format, together with range, pricing and marketing, is one of the key determinants of a retailer's success. Of these, the format is very often the hardest to get right. A good format will both draw in customers (generating footfall) and help present products well to generate sales.

Because the format is so important, growth investors can often benefit by identifying smaller retailers who have recently developed formats that are good enough to provide a platform for sustained growth.

There are numerous types of retailers all over the world. From the small, independent grocery store to the highly sophisticated multi-level department store, the number of retailer is absolutely unlimited. In the business retailing, however, the type of retailer is identified and classified on the basis of the "Store Format" that the respective retailer adopts.

A retailer format is the type of retail mix that the retailer adopts, which includes the following factors:

- The nature of merchandise and service offered by the retailer
- The pricing policy of the merchandise by the retailer
- The retailer's approach to advertising and promotional programmes
- The retailer's approach to the design of the store as well as to visual merchandising
- The choice of location preferred by the retailer for the above, and
- The size of the store

Caution Deciding on a retail format is the most essential component of a retail strategy. While some of the most popular retailing formats adopted in organized retailing the world over are:

- Convenience stores
- Specialty stores
- Supermarkets
- Hyper markets
- Shopping malls

Time has changed radically since the house wife slipped her shopping bag over her arm and set out her daily food supply. The origins of retails are as old as traditional itself. Barter was the oldest form of trade. For centuries, most merchandise was sold in market places or by peddlers medieval markets were dependent on local sources for supplies of perishable foods because journeys were for too slow to allow for long distance transportation. However, customers did travel considerable distances for specialty items. The peddler, who provided people with the basic goods and necessities that they could not be self sufficient in, followed one of the earliest forms of retails trade. Even in prehistoric times, the peddler traveled long distances to bring

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products to locations, which were in short supply. They could be termed as the early entrepreneur and who saw the opportunity in serving the needs of the consumers at a profit. In most parts of the world, a flea market-typically a place where vendors come to sell their goods could be the earliest forms of retail congregations.

Social Development and their Impact

The development of trading has been intimately associated social development over the ages. The development of railroads and telegraphs largely affected the growth of retail trade. Orders could be placed largely and confirmed by telegraph and the goods arrived by train. The wholesale business actually developed with advent of the traveling salesman. The success of wholesale business led to the emergence of the departmental store.

Did u know? In 1852, Ban Marche, the first departmental store, was setup in Paris. Bon Marche revolutionized retail at that time by relying on volume rather high mark-ups, to make money. The store also offered customers a money back guarantee on purchases. By the year 1897, the store sold more than $30 million worth of goods per year. The success of Bon Marche led to other department stores coming up across Europe and America, which continued to grow and flourish. Until World War-II Theories believes that the department store was a format that evolved simultaneously in Paris and Philadelphia in the 1860s. One of the first department stores, which opened in United States, was Stewart's in New York, which was followed by Macy's after the civil war.

The world witnessed a new form of retail when Montgomery ward launched the world's first mail order catalogue. Most rural dwellers encountered mass merchandising in the form of mail-order categories. The success of mail order business led to the emergence of chain stores.

Industrial Revolution

The industrial revolution necessitated changes on the retail front. The increase in urbanization meant that consumers now clustered in smaller geographic areas. This led to the emergence of shops, to serve the needs of the locals. The middle-income consumer's increased and mass transportation became a way of life.

The industrial revolution saw the retailers' evolving new methods of operation. The importance of food for the working class customers and the difficulties faced by them in procuring the food products led to the emergence of cooperative societies in the United Kingdom. By the year 1900, these societies had achieved 6-7% of the retail sales in the country.

Emergence of Self-service

In the early part of the 20th century, the American housewife, while shopping for her family's dinner bought meat at one store, glossaries at another, and fruits and vegetables at still another. It was back then that chain stores which existed such as the great Atlantic and Pacific Tea Company (now known as the A & P chain of stores) started introducing new methods of food selling. Because they did large volume of business, these chain stores could stock larger quantities of a greater variety of products and afford to sell them at lower prices. Soon these chain stores too began to sell meat, fruits, vegetables and dairy products; all products under one roof and housewives liked this idea of one stop shopping.

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Popular Store Based Retail Formats

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

Department Stores

Department stores are the oldest form of large store. A department store is a multi-level store (at one time six or seven stories were common, but today there tend to be two or three levels) which is split up into clearly defined areas or departments according to product category. Any department stores offer width and depth in the product range so that almost every shopping need can be met, but other department stores concentrate on fewer categories and aim to offer a great choice within those categories.

Example: Pyramid Retail, Pantaloons Retail and Shoppers Stop, they all started off as department stores.

Variety stores are so named because they offer a large variety of goods under one roof, including both food and non-food items. This format combines the product and brand choice of the department store with the low price orientation of the variety store, with service level and store environment lying somewhere in between.

Specialist Stores

Although some department stores might be considered specialist stores because of the restricted product range (for example Harvey Nichols) or the customer market that they target (for example Harrods), most specialist stores are smaller, in line with the size of the product range offered. The majority of stores found in shopping centres or central retail areas are specialist stores due to the distinguishing feature of one product area dominating the retail offer.

Specialist retailers are not restricted to the selling of products; many speciality outlets offer service products to consumers.

Example: Fast-food outlets, cafes and restaurants, banks and building societies, repair centres and try cleaners, hair salons, nail bars and beauty salons.

Category Killers

The term category killer, which originated in the USA, describes the large specialist retailer that is typically found in an out-of-town or edge-of-town retail park or site. The product range is geared to a restricted merchandise area, but the large size of store allows a very extensive selection within that classification.

Example: Crossword, Comet, PC World, Toys R Us, IKEA, B&Q, Petsmart and Staples are all examples of this type of retailer.

The stores are based on a one-level format and the economies of scale and inexpensive locations allow a value driven price offer. Many of the stores offer goods that satisfy complex needs (for example a computer or a carpet), and therefore specialist help is usually available, but the service orientation is relatively low key allow in the opportunity to browse.

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Caselet

Toys R Us

Toys "R" Us, is a toy store chain based in the United States. The chain also has locations in Europe, Asia, Oceania, Africa, and Canada. The company currently operates 840 stores in the United States and 716 stores in 34 other countries, with some of them under franchises or licenses. The flagship store in New York City's Times Square is the largest toy store in the world. It is the largest toy-centered retailer and the second largest overall toy retailer in the United States. Toys R Us can be termed as a Category killer. Category killer is a term used in marketing and strategic management to describe a product, service, brand, or company that has such a distinct sustainable competitive advantage that competing firms find it almost impossible to operate profitably in that industry. The existence of a category killer eliminates almost all market entities, whether real or virtual. Many existing firms leave the industry, thereby increasing the industry's concentration ratio. Toys R Us can be termed as a category killer because it is focused on one or few categories of merchandise and offers a wide selection of merchandise in these categories at relatively low prices.

Convenience Stores (C-stores)

As yet, no official definition of a convenience store has been established although the following criteria generally apply to this format: self service, 1,000-3,000 sq ft selling area, parking facilities, open 7 days a week for long hours, a wide range of goods, but limited brand choice, including groceries, CTN (Confectionary, Tobacco and Newspaper) products, toiletries, OTC (Over-the-counter) medicines, alcohol and stationery. Other products and services that might be offered are take-away foods, toys, video hire, film processing and petrol (Nielsen, 2001).

Supermarkets, Superstores and Hypermarkets

Supermarkets, superstores and hypermarkets can be considered in the same 'family' of retail format, in that the stores are self-service, usually on one level and laid out in a functional grid pattern of aisles and shelving. Supermarkets are the smaller variant, usually located in a town centre or neighbourhood location, with a product range that concentrates on food and household consumables.

Caution Superstores are 25,000 square feet (approximately 8,000 square meters) or more, are usually in an edge or out-of-town location, and they have an extended product range featuring product categories such as clothing, home furnishing and home entertainment goods (for example ASDA and Casino). A hypermarket is a huge retail outlet (over 50,000 square feet) in an out-of-town location, which offers an extensive range of products with the proportion of non-food items being greater than a superstore (a hypermarket is typically 60 per cent non-food).

Example: Carrefour sells car tyres and bicycles in their hypermarkets in France and Spain.

They all provide faster product purchasing as customers are required to do self service.

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Warehouse Clubs

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

Discount Stores

Defining a discount store is not an easy task, because the key characteristic is the price of the merchandise, which is subject to individual customer perceptions. Discount stores are sometimes run on the basis of a product range geared by opportunistic buys by the retailer, or they have planned ranges, sold with an unusually low profit margin.

Example: Emerging strong players who have adopted this type of format are Reliance, West Side, Trent and Raymond's in the clothing sector.

Factory Outlets: Factory outlet retailers offer customers a range of seconds-quality and/or previous season's.

Charity Shops: Charity shops are usually run on the basis of selling stock that has been donated, although some, for example Oxfam, also have a range of specifically sourced products.

Non-store Based Formats include electronic retailers, catalogue and mail order sales, direct selling, vending machine retailing and television home shopping. These will be discussed one by one in subsequent sections

Task Give at least 5 examples of each type of retail format discussed above. Try to include as many Indian retailers as possible.

Popular Non-Store Based Retail Formats

Formats under non-store based retailing are:

Electronic Retailers

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

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Irrespective of the way we access the e-retailer, whether it is via the PC, the mobile phone or the hand-held personal organizer, consumers increasingly expect retail organizations to be able to offer flexibility in terms of information gathering (to supplement pre-sale shopping), purchase transaction, and taking delivery of the product or service (post-sale activity). By using a number of different retail formats, retail businesses are better able to allow consumers this flexibility. Most large retailers in the UK now fall into the category of the 'multi-channel' retailer, which is a term used to describe the strategy of using more than one 'route' to consumer markets. Typically, the multi-channel retailer runs stores and has a transactional website (the so called 'clicks-and-mortar', or 'clicks-and-bricks' approach), but other combinations might be stores/catalogue, stores/catalogue/website, stores/website/direct mail. Offering alternative ways to shop may encourage customers to remain loyal to a favoured retail brand as lifestyles change, but it can also present retailers with new operational and competitive challenges.

Catalogue and Mail Order Sales

Catalogue marketing helps companies reduce their cost per customer and increase their reach significantly. Catalogue retailing is a convenient way for customer to purchase products. Retailers too have an advantage in catalog marketing as they can operate from remote locations with minimum store operating expenses and need not spend heavy amounts on store décor. However, catalog marketing is suitable only for a limited range of products.

Example: Amazaon.com, an e-tailer in the US, mails its broachers to customers before occasions of festivals like Christmas and Father's day. The catalog contain information related to products such as books, electronics, toys and games, apparels and accessories, home and gardening products and software. A toll-free number provided for customers to place orders.

Direct Selling

Direct selling is a dynamic, vibrant, rapidly expanding channel of distribution for the marketing of products and services directly to consumers. Direct selling is the marketing of products or services to consumers through sales tactics including presentations, demonstrations, and phone calls. It is sometimes also considered to be a sale that does not utilize a "middle man" such as a retail outlets, distributors or brokers. This is needed where the products value needs more explanation and cannot be purchased off the shelf.

At its best, direct selling can be an opportunity for individuals to find fulfillment, express their entrepreneurial talents and gain financial independence.

Direct selling involves people and is a part of direct marketing which additionally involves the use of media, print which is handled by the business.

Features: In direct marketing, marketers invite customers to respond to their marketing efforts through the telephone, email, etc.

The effectiveness of direct marketing can be measured easily because direct feedback is available to marketers from customers

In direct marketing, generally, a data base of customers is maintained. This helps marketers understand customers and serve them better, and eventually gives the marketer a competitive advantage.

Direct marketing evaluates the direct response patterns of customers, enables a company to formulate future marketing strategies for building customer loyalty and for profitable business growth.

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Vending Machine Retailing

An automatic vending machine is formed of a commodity-selecting device for selecting a commodity to be purchased, a device for paying money required to purchase the commodity, a commodity-transfer device for transferring the selected commodity, and a main control section. The machine further includes one antenna section for communication by electric wave, a device for activating a non-contact IC card, a device for activating a mode showing the balance of the card, and a balance display in order to allow commodities to be purchased by using the non-contact IC card. Thus, in the automatic vending machine, a user can select the commodity and then settle the account simply by holding the non-contact IC card to one section of the automatic vending machine just once.

Example: Automated vending machines include:

- ***Potato Chip Vend Machines:*** Potato Chips Vending Machines With Different Flavored Sauces.
- ***Automated Rigging:*** Design, manufacture, installation of automated rigging equipment.
- ***AGVs by FMC Technologies:*** Automatic Guided Vehicle (AGV) Systems featuring laser guidance.
- ***Hospitality Equipment:*** Spanish Exporting Association for Hospitality and Catering Equipment.
- ***Coffee Vending Machine:*** Coffee and snack vending machine not for rent and not used machine.
- ***Snack Dispenser:*** Nuts, Snack & Topping Dispensers Portion Control and Easy To Clean.
- ***Laser video 24h:*** DVD vending machine, video dispense automatic DVD rental, DVD vending.
- ***Kiosks:*** Kiosks are highly beneficial for retail outlets, especially groceries, banks (ATM), etc. once a customer fills in the details regarding the products he needs, they are delivered to him either immediately (in an ATM) or at his address, where the payment for the goods is made. This facility reduces the dependence on e-commerce and the use of credit cards, especially in countries like India, where the usage of credit cards is quite low. Automated vending machines is beneficial for customers as it allows them to shop conveniently as well as for retailers by facilitating holding of minimum or negligible stock.

The use of kiosks is beneficial for customers because they can be setup at palaces convenient for them, and enable them to obtain relevant information about the company without visiting the company. They can be set up in even a very small area. On an average, each kiosk requires around four square feet space. These can be operated twenty-four hours a day, seven days a week, without any super vision.

Television Home Shopping

Did u know? The earliest form of shopping via the television was by means of information provider networks such as Ceefax in the UK.

This method of retailing suffers from the same product-presentation drawback as telesales, but has been useful for services retailing (travel, entertainment, and insurance) when the product is intangible, information-based and the price offer is variable. More recent TV shopping

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developments have used the three-dimensional visual representation abilities of a screen image to provide dynamism to print-based retail offerings, first in the form of videos, and soon after in the form of a shopping channel, QVC, which was launched in 1983.

One of the difficulties of programmed retail offerings is the need to provide the consumer with the opportunity to skip through unwanted product categories, and so interactive screen-based retailing is the most likely retailing format to offer the potential customer everything that is necessary to emulate the 'usual shopping experience'. The conversion to digital TV and broadband internet services will greatly facilitate the adoption of interactive TV shopping.

1.7 Successful Retailing

The following sub-points affirm the success of retailing in any nation.

Contribution to the Economy

Moving away from the role of retailing in the marketing activity of an individual producer, retailing activity can also be viewed as a significant contributor to the economy in general. In the last two decades of the twentieth century, the UK and many other developed nations have seen their economies change from being manufacturing-led to being service-led, in terms of wealth creation, employment and investment. Around one-third of consumer expenditure takes place through retail outlets (Verdict, 2001), and the retail industry employs one in nine workers (BRC, British Retail Consortium, 2001).

The retail price index is a frequently referred to economic indicator. It is a measure that is based on a 'basket' of products across all retail sectors and compares prices over time in order to reveal the changes in the cost to households of typical purchase needs (Hart, 1996). In recent years the retail price index in the UK has been relatively stable, indicating stability in the economy. When the retail price index starts to rise, a government might introduce an interest rate rise to curb inflation, and if the price index looks like it might fall, an interest rate cut could help to prevent stagnation in the economy.

A Global Viewpoint

Retailing is increasingly a global business. A more structured retail industry with more multiple retailers (those with more than one outlet) is a sign that an economy is developing, as organizations specialize and gain economies of scale. Additionally, when disposable incomes rise, retailers play an active part in distributing increasingly discretionary goods to centres of population. Emerging markets are a real (although highly complex) opportunity for experienced retailers, especially if they are faced with high levels of retail provision and therefore competition in their traditional markets.

As the artificial barriers to trade, such as import duty and quota restrictions, are removed from the global economy, many retailers will view the world as their marketplace and make sourcing and outlet operation decisions on a set of criteria that are relevant across the globe.

Example: In the UK some of the strongest recent entrants to the retail market are non-domestic players, such as Wal-Mart, IKEA, Marks and Spencers, Big Bazar and some modern age retailers are having considerable success on a global basis, such as Tesco, B&Q, Carrefour, etc.

However, long distances, political and cultural complexities are huge challenges to retailers, which can only be overcome by the strongest contenders. International retailing activities have often stemmed from retailers seeing opportunities for formats that are under represented in

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new markets, such as the entry by the 'hard discount' supermarket operators (Aldi, Netto, Lidl) into the UK in the early 1990s and Vishal Megamart, Big Bazar, Shoppers' Stop in India in the late 1990s.

Did u know? Brazil is now ranked as the top developing economy for global retail expansion, according to the 10th annual Global Retail Development Index (GRDI) released last week by A.T. Kearney.

Notes A.T. Kearney Global Retail Development Index, 2011

A.T. Kearney says the 2011 GRDI ranking mirrors the dramatic changes that have taken place in global markets, and the varying impacts they have had on different emerging economies.

For example, South American countries have fared well during the recession, posting an impressive 6 percent GDP growth in 2010. In addition to Brazil's top ranking, three other South American countries made the Top 10 of the GRDI: Uruguay, Chile and Peru. Brazil jumped to first place from no.5 in last year's GRDI. Likewise, Uruguay climbed up the rankings to no.2 from no. 8 last year, and Chile rose from #6 in 2010 to no.3 this year.

The Middle East and North Africa also ranked highly in the 2011 GRDI. Political unrest in countries like Egypt and Tunisia are undoubtedly current challenges to growth, but Kuwait, Saudi Arabia, and the UAE (all top 10 GRDI markets in 2011) have not experienced the turmoil of some of their neighbors and are expected to remain stable going forward.

Here is a complete list of the Top 10 GRDI markets in 2011:

1. Brazil
2. Uruguay
3. Chile
4. India
5. Kuwait
6. China
7. Saudi Arabia
8. Peru
9. U.A.E.
10. Turkey

Over the past ten years, the GRDI study has shown that global retail expansion is a portfolio game. Retailers must have an optimal mix of countries, formats and operating models to succeed.

Self Assessment

Fill in the blanks:

12. ..... is the world's biggest retailer.
13. ..... is at the top of GRDI.

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1.8 Career in Retail

Today, the retail industry is considered amongst the largest in India, and is ever-growing. This is because as long as there are buyers, this industry will prosper. In the last couple of years, the buying capacity of an average Indian citizen has increased. This is because of various factors; prime amongst them is the large pay packets.

Apart from that people have become more aware of themselves, and are willing additional rupees to feel good and look good. And all this has positive impact for job seekers – full time and part time.

Thus, today a career in retail is not a difficult one to enter to. It is exciting because of the number of people one gets to interact with. Apart from that one also needs to be aware of the changing trends in order to increase sales.

Sometimes being employed in the retail industry can be frustrating, especially when the customer is not satisfied with their purchase, or they start haggling over the price. But all in all there is a lot of excitement, with a good enough pay pack, depending where one is employed.

There are also many avenues where the world of retailing jobs has opened up. This brings in the need for an increasing number of qualified professionals. Interestingly, there are more and more students who have taken up Retailing, as their subject of specialization while pursuing their MBA.

The primary reason for the changing scenario in India is the number of malls and departmental stores that have already opened and are yet under construction. Mall Job in retail in India is a major demand. Every retail outlet requires customer-friendly sales executives, who relate to the product. Apart from the brand developers, there are retail specialists as well who look into every aspect to make the product successful amongst the consumers.

With the increasing demand for retail staff it has becoming a task to employ the right kind of staff. In fact, according to many the demand tends to be more than the supply. This situation is arising because of the lack of trained and qualified staff. However, to counter this, the larger retail outlets are prepared to spend some extra money in training their staff.

When hiring retail staff in India, some of the vital pointers to keep in mind, as far as attributes of the staff member is concerned are as follows:

- Communication skills
- Ability to speak in Hindi and good English speaking skills
- Friendly personality
- Well groomed
- Ability to tackle tricky situations
- A good team member
- Respect for the seniors
- Knowledge of the product
- Family background
- Educational background

Apart from these checkpoints, the employer should maintain a file of the employee, as many young sale persons tend to flick products on display. Some of them also work for thieving gangs. However, address records and identity proofs will maintain optimum security.

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While there are numerous retail jobs out there, yet one needs to conduct a thorough retail job search. This is because while generally speaking a retail job is exciting, one needs to ensure that they have chosen the right product.

Example: One is interested in cosmetics, but opts for retailing chocolates, and then it could create a lot of frustration in times to come.

But then, for those ready to take up a challenge the product or service does not matter.

There are a number of retail marketing jobs out there, wherein one is not a sales executive, but one who creates and supervises sales strategies in the retail market. It is a challenging job, as marketing is far more difficult than actual selling. In marketing one is involved in brand building and brand maintaining. In sales, it's all about selling, there and then.

Being a leader is not always the easiest of tasks, but yet it is challenging and keeps one on their toes all the time. The manager, or team leader has to stand on top and yet be a team member. Tough task, nonetheless! Where is all this leading to? Well, this all connects to a career in the field of retail management.

A retail manager is hired to supervise the entire team of salespersons, preferably regarded as sales executives. The manager is placed higher in hierarchy and is responsible for the sales being made. The manager is also responsible for hiring and firing staff, as per requirement.

Generally fresh retail management graduates get jobs in the following posts, from where they rise:

- Sales associate
- Department manager
- Assistant store manager
- Customer service representative
- Merchandising assistant
- Management trainee

As one rises in designation, the responsibilities also increase. But all said and done it is an exciting option.

Nowadays youngsters, as in studying adolescents seemed to have found exciting ways of keeping themselves beyond the short college hours. An increasing number of young adults are always on the lookout for opportunities to earn money to pay for their fees, as well as lead an independent life. Especially those studying in a different city; this is a positive trend on many counts.

One of the most interesting options is the retail sales jobs. With the increasing number of boutiques, malls and departmental stores, the youth are flocking to get jobs here. The pay is good and they get to interact with a large number of people daily. And primarily it is a brilliant training ground for their future career.

Self Assessment

State whether the following statements are true or false:

14. A retail manager is hired to supervise the entire team of salespersons, preferably regarded as sales executives.
15. Retail sales is an exciting career option.

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Case Study

Developing a Career Path in Retail

Introduction

Harrods of London is a British institution. It is probably the most well-known and respected retail store in the world. For 162 years, Harrods has built its unique reputation supported by its key brand values - British; Luxury; Innovation; Sensation; Service. Harrods employs approximately 5,000 people from 86 different nationalities who deal with up to 100,000 customers a day at peak times.

Harrods needs employees who can face the challenges that its reputation and standards bring. It needs people who are looking for an exciting and rewarding long-term career with responsibility and prospects. Its challenge is to find (and retain) employees with the right mix of skills and abilities, who can be developed to become the managers of the future.

To achieve this, Harrods has to counter some of the negative perceptions about working in retail. Working in a shop has traditionally been seen as low-skilled - with long hours, poor pay and little chance of promotion. However, because quality is key at Harrods, employees are well-paid, respected and have clear career paths open to them. Senior managers at Harrods have come from all walks of life and started out with various levels of qualifications. All have benefited from development opportunities provided by the company.

The importance of training and development

Training and development is vital to any business. Its purpose at Harrods is to better the performance of employees to enable Harrods to meet its business goals. For example, at Harrods the Sales Academy develops employees' sales skills, leading to increased sales when they return to the shop floor. Allowing employees to acquire new skills, expertise and qualifications supports employee progression which leads to increased motivation. This supports Harrods' retention strategies.

Training is about gaining the skills needed for a job. These may be learned at the place of work (on-the-job) or away from work (off-the-job). On-the-job training tends to be more cost-effective and relevant. However, off-the-job training is usually carried out by professional trainers. It also occurs away from the distractions of work. Training tends to have very specific and measurable goals, such as operating an IT system or till, understanding a process, or performing certain procedures (for example, cashing up).

Development is more about the individual - making him or her more efficient at a job or capable of facing different responsibilities and challenges. Development concentrates on the broader skills that are applicable to a wider variety of situations, such as thinking creatively, decision-making and managing people. In short, training is typically linked to a particular subject matter and is applicable to that subject only, while development is based on growing broader skills which can be used in many situations.

Harrods employees come from diverse backgrounds and different nationalities. They have differing levels of competency, education and experience. Harrods offers comprehensive Learning and Development opportunities. These opportunities are offered at a variety of levels to suit the needs of all Harrods employees. These range from workshops for Sales Associates and Warehouse Operatives to developmental programmes for senior managers.

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Amber is a Harrods Retail Manager who started as a Sales Associate at Harrods through an online application. Harrods has created a web site www.harrodscareers.com to enable candidates to apply for roles easily.

'I wasn't sure I would get the job but it seemed a really challenging role and I was keen to try. I had only a little background in retail and none at all in the luxury retail market. Mostly I had been working in the hospitality sector.' Amber.

However, Harrods Learning and Development ensured Amber acquired the skills she needed to carry out her role. Development at Harrods is linked to the company's Business Competencies which fall under four headings: Working at Harrods, Your Impact on Others, Making Things Happen, Focus on Improvements.

Each Business Competency is supported by workshops so that every skill can be improved. Learning is offered off-the-job in 'bite-size' sessions. These sessions give employees the chance to learn more effectively over a much shorter period, reducing time away from work and bringing a tightly focused approach to skills development. They have been described as concise and punchy and a workshop typically lasts 90 minutes. All the Business Competencies are supported by self-help guides which are run either on-or off-the-job and include activities such as observation and review, reading, and 'one minute guides' offering top tips and tactics.

Identifying key competencies also helps Harrods to design its recruitment process to ensure that it attracts the best candidates. They must have the right approach to sales, customer service and decision-making and support the 'theatre of retail' that underpins Harrods' reputation. This is about flair, showmanship and expertise. Harrods Learning and Development department must be proactive in responding to changing customer needs. For example, Harrods has introduced cultural awareness training for employees better to serve the increasing number of customers from the Middle East, China, Brazil and Russia.

Developing a career path

Harrods stands out from its competitors by providing a wide variety of development opportunities for all employees. This means the business can recruit and retain good managers and maintain improvements in sales and business performance. Individuals' self-esteem and motivation is raised. Once a year, managers talk to employees about their progress and ambitions during appraisals. Employees then identify their personal development targets.

The sales and service programmes include the 'Harrods Welcome'. This induction provides essential training for new employees, such as Harrods' brand values and the Theatre of Selling. Other courses ensure the effectiveness of Harrods sales associates:

'Your Theatre' is a two-day programme to improve sales skills and provide the highest level of customer service. It introduces the idea of selling as a 'theatre' requiring specific skills and expertise. 'The Theatre of Selling' element covers personal presentation, effective questioning, product selection and closing the sale. 'The Science of Selling' develops employee awareness of customer types and needs.

The Harrods Fashion Programme is run in partnership with the London College of Fashion. It enables sales associates to understand the entire 'product journey' from design to sale.

The School of Communication offers voice, body language and presentation skills workshops.

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For suitable candidates, the Harrods Sales Degree provides the high level sales skills the company needs. This is the first and only degree of its kind in Sales. It is recognised globally and can be completed in two years.

High Potential programmes are concerned with succession planning. They are aimed at ensuring there is a strong pipeline of potential senior managers. The Harrods Management Programme develops ambitious and career-focused employees into a management role. Jessica joined the company after graduating with a degree in Art History. After just 3 years she is now a Harrods Retail Manager. She runs the Designer Collection sales floor, managing 26 employees and controlling a substantial budget.

'My quick progression to Retail Manager was helped by the fact that Harrods allows people to take control of their own development to a large extent. Harrods supports you if you are keen to get on. The Harrods Management Programme gave me eight months of training, both in-house and external. This, together with the support of my mentor, has equipped me with the specific skills I need to carry out my job effectively' Jessica said.

Harrods offers other programmes:

- The Business Academy which supports managers as they progress into more senior positions.
- The Oxford Summer School which is a challenging academic learning opportunity held at Keble College, Oxford. This is designed to highlight some of the problems, decisions and challenges of running a retail business. 10 prized places are awarded to high potential managers.
- The Buying Academy which develops our Assistant Buyers into Buyers of the future.

Retaining talent

Employee retention is important for businesses. A low employee turnover can keep recruitment costs down. It also ensures a skilled and experienced workforce. Employee development is beneficial for both the employee and the business. However, sometimes employees think that their new-found skills will enable them to gain a better job elsewhere. Harrods, therefore, has put in place strategies to keep its talented Retail Managers. It has found that employees who develop within the company tend to stay. Those brought in from outside are more likely to leave. Another vital part of retention for Harrods involves identifying the 'DNA' (key factors) of great sales people. It then matches applicants to these factors.

To reduce employee turnover Harrods has developed a better management structure, improved benefits and created initiatives which make Harrods a 'great place to work'. Harrods has put in place a system of rewards and incentives:

- An excellent package of employee benefits including good pay, employee discounts and a good working environment.
- Commission and sales bonuses for individuals and teams.
- Improved work schedules which help to give a better work-life balance.

Harrods also has systems to improve employee communications so that it can listen to feedback and address any issues. There is an Internal Communications department, regular performance assessment meetings and SMART targets for employees to reach. These initiatives have seen employee turnover fall from 51.4% in 2006 to 25% in November 2011.

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Careers at Harrods

Harrods ensures there is a clear career path for any employee, from any background. Three key levels in Harrods are the sales employee, department managers and senior managers. At each level, employees can benefit from Harrods development programmes in order to build a career.

James is a Sales Associate and one of Harrods first Sales Degree students. When an injury prevented him from following his previously chosen career in contemporary dance, he applied to Harrods. He has never looked back. Harrods training has given him transferable skills. He has been able to work within more than one department, providing the same high levels of customer experience.

'The course is absolutely fantastic. I feel very privileged to be on it. It is very much focused on work-based learning. It provides real insight into consumer psychology and behaviour - why people do what they do and how they shop - and how to deal with challenging situations. My managers are very supportive. If I need to take some time out during the day to make notes on an interesting situation, then I can. It has offered some amazing opportunities, such as giving me behind-the-scenes information on how Harrods works and increasing my awareness of its global influence. I have realised that Harrods offers great benefits, good conditions and an opportunity to work amongst fantastic people.' James said.

James will complete his BA Honours in 2012. He believes that the qualification will provide the additional skills he needs before he steps up to the next level at Harrods. James now expects his future to be with Harrods.

Amber's application was successful because of the customer skills she was able to bring from previous experiences. She is now the Retail Manager of Childrenswear. Here well as upholding the Harrods standards of service. By taking advantage of the Harrods Management Programme, Amber has risen to a better paid and more responsible job.

'Retail is a challenging environment but I find it exciting. Although the company aims to hire the right people for the job in the first place, there is a whole range of training available to ensure we are equipped with key skills, for example, brand training for all the different ranges we offer. Harrods promotes the view that all employees should manage themselves responsibly and take advantage of opportunities offered.' Amber defines.

Sabrina joined Harrods 10 years ago as a part-time Sales Associate whilst studying for her degree. After graduating she worked in Human Resources (HR) and, with Harrods support, gained further qualifications. This led to a series of promotions and experience in other roles including Business Manager. Her current role is Head of Personal Shopping, managing a team of 50 people. Personal shopping is about creativity and exceptional service. Her role requires strong organisational skills, commercial understanding and practical and strategic thinking. Sabrina's experiences at Harrods shows how diverse a career in the retail environment can be.

'Knowing that my senior managers recognised my ability and supported me in my career development has made me eternally loyal to the company. Before coming to Harrods I hadn't really considered a career in retail, now I can't imagine working anywhere else. The thing I enjoy most about working at Harrods is that every day is unique and the work is interesting and innovative.' Sabrina defined.

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Conclusion

People may have negative ideas about retail work based on their own experiences of part-time or vacation work. Harrods is different as it is possible to start building a career from any level.

Harrods is about the 'theatre' of retail. As with a theatre production, however, excellence is built on hard work and basic skills. The flair must be underpinned with discipline and attending to day-to-day issues, such as unpacking and displaying stock and managing employees.

Providing development opportunities is a key factor in how Harrods maintains its high levels of employee retention. The business looks after its employees and helps them along their career path. As a result employees are loyal to the company and continue to offer exceptional levels of commitment and service.

Questions:

1. Study and analyze the case.
2. Write down the case facts.
3. What do you infer from it?

Source: http://businesscasestudies.co.uk/harrods/developing-a-career-path-in-retail/introduction.html# ixzz22YlAhU00

1.9 Summary

- Retailing in simple term can be defined as "Retailing is the business activity of selling goods and services to the final consumer". Retailing can be defined as the business products and services to consumers for their own use. It has its origin in the French word, retailer meaning 'to cut a piece off'.
- The term retailing applies not only to the selling of tangible products like loaves of bread or pairs of shoes, but also to the selling of service products.
- Retailing, one of the largest sectors in the global economy, has become the most active and attractive sector of the last decade.
- Retailers perform various functions like providing assortments, sorting, breaking the bulk, rendering services, bearing risk, serve as a channel of communication, transportation, advertising and holding inventory. They significantly contribute towards increasing the product value and satisfying the consumers.
- This unit also addresses the question of how the Marketing Mix framework can be used to analyse the competitive standing of a retail business organization and how the outcome of this analysis can then be translated into practical tactics which capitalize on the organization's strengths.
- To build a competitive advantage that can be sustained, retailers need to pay special attention to aspects like price, location, merchandise, service and communications.
- There are a number of retail marketing jobs out there, wherein one is not a sales executive, but one who creates and supervises sales strategies in the retail market.

1.10 Keywords

Breaking Bulk: Offering the products in smaller quantities tailored to individual consumers and household consumption patterns and thereby reducing transportation and inventory costs.

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Department Stores: It is a retail establishment which specializes in satisfying a wide range of the consumer's personal and residential durable goods product needs.

Gatekeeper: Member of a decision-making unit or social group who acts to prevent or discourage a purchase by controlling the flow of information and/or access to people in the buying center.

Kiosk: A small open-fronted hut or cubicle from which newspapers, refreshments, tickets, etc., are sold.

Marketing: The process by which individuals and groups obtain what they want and need through creating, offering and freely exchanging products and services of value with others.

Merchandise: Goods to be bought and sold.

Retailing: Business activity of selling goods and services to final consumers.

1.11 Review Questions

1. Describe the act of retailing. Why do you think retailing is important?
2. "Retailers provide a collection of service benefits to their customers." Substantiate.
3. Discuss the functions of retailing with the help of suitable examples.
4. Explain how sorting by the retailer helps you as a customer.
5. Describe the dimensions of retail equation.
6. "Retailing is not only an integral part of our economic structure but also shapes and is shaped by, our way of life." Discuss.
7. Explain the sudden surge in the global retail market. Why do developing countries like Brazil and India constantly feature in the top of Global Retail Development Index?
8. Discuss the pros and cons of a career in retail.
9. What are the jobs available in retail?
10. Explain the concept of 'breaking bulk'. What is its relevance?

Answers: Self Assessment

1.	True	2.	False
3.	True	4.	Assortment
5.	Sorting	6.	Inventory
7.	Advertising	8.	Consumption
9.	Assortment	10.	True
11.	True	12.	Wal-Mart
13.	Brazil	14.	True
15.	True		

1.12 Further Readings

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Books

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Gibson G. Vedamani, *Retail Management*, Mumbai: Jaico Publishing House

Lewison, D. M. and Delozier, W. M., *Retailing*, Columbus: Merrill Publishing Co.

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http://www.knowthis.com/principles-of-marketing-tutorials/retailing/what-is-retailing/

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http://www.mbaknol.com/retail-management/functions-of-retailing/

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Unit 2: Structural Change in Retail Environment

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Objectives

After studying this unit, you will be able to:

- Explain retail environment
- Discuss social demographic change
- Explain technology and economic change
- Describe the concept of Socio-economic change
- Explain the Impact of changes in retail industry

Introduction

This unit focuses on the structural changes in our society and their on retailing. These changes continue to occur over a long period of time and fundamentally change the ways in which we use retailers and the ways in which retailers supply our needs and wants.

Changes in our natural and social environment are constantly affecting what consumers wants and how retailers can provide them with their requirements. Customers are changing due to change in income, technology and lifestyles, retail formats change and supermarkets move into fashion. Retailers are interested in these changes because they affect how much people want to buy and the cost of providing customers with the products and services that they want.

2.1 Retailing Environment

Simultaneous assessment of the external environment and company profile enables a firm to identify a range of possibly attractive interactive opportunities. These opportunities are possible avenues for investment. However, the full list must be screened through the criterion of the

company mission before a set of possible and desired opportunities is generated. This process results in the selection of a strategic choice. It is meant to provide the combination of long-term objectives and grand strategy that will optimally position the firm in the external environment to achieve the company mission.

Consider the case when strategic managers feel that a firm is overly dependent on a single customer group, for example, a chain of record shops with principal customers 10 to 20 years old. The firm's interactive opportunities might include expanding the product line, heavily emphasizing related product, accepting the status quo, or selling out profitably to a competitor. While each of these option might be possible, a firm with a mission that stressed commitment to continued existence as a growth-oriented, autonomous organization might find that only the first two opportunities are desirable. In that case, these options would be evaluated on the basis of payoff and risk potential, compatibility with or capability for becoming the firm's competitive advantage, and other critical selection criteria.

A complicated sub-process is used to derive the strategic choice. Strategic analysis involves matching each of the possible and desirable interactive opportunities with reasonable long term objectives and targets. In turn, these are matched with the most promising means – known as grand strategies – for achieving the desired results. Each of the sets of alternative is then evaluated individually and comparatively to determine the single set or group of sets that is expected to best achieve the company mission. The chosen set (or sets) is known as the strategic choice.

Critical assessment of strategic alternatives initially involves developing criteria for comparing one set of alternatives with all others. As is the case in making any choice, a company's strategic selection involves evaluating alternatives that are rarely wholly acceptable or wholly unacceptable. The alternatives are therefore compared to determine which option will have the most favorable overall, long run impact on a firm.

The Legal Environment

Market economy in India is much more inclined towards the central, state and local governments.

Economic environment refers to the stage of economic development of the country like developed or developing, state of agriculture, industry and service sectors, level of national income, its composition or source-mix, i.e., percentage of national income derived from agriculture or industry and the service sector.

Private label is a label unique to a specific retailer, account for about 20 percent of sales.

The government rules and policies are must be followed for existing in the market. The basic legal conditions considered in environmental appraisal are:

1. Antitrust regulation
2. Protection laws
3. Environmental laws
4. Tax laws
5. Foreign trade regulations

Changes in government rules have been major effect to the future of many organisations.

Notes

The Economic Environment

The Market size/age: Is the market relatively small or large, and can it be broadly characterized by its stage of development (start-up, emerging, growth, maturing, declining)?

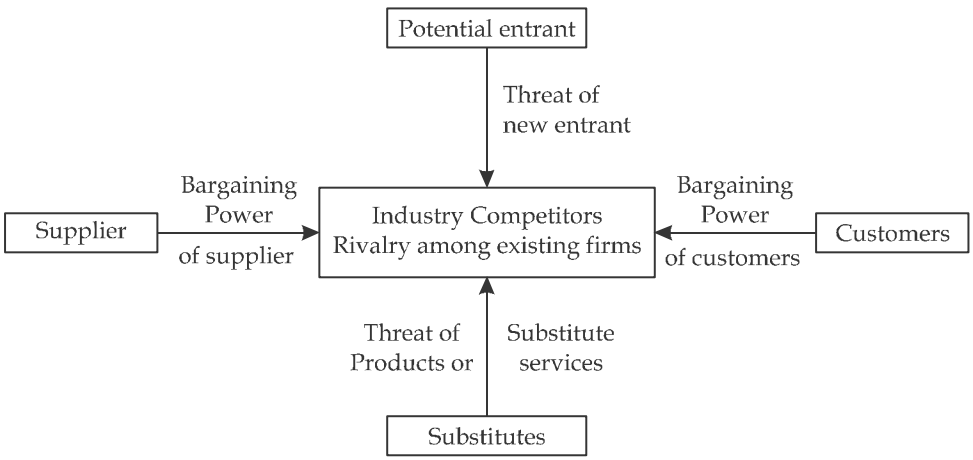
Industry attractiveness: The overall attractiveness of an industry is determined by the interaction of these key structural forces.

Industry structure analysis: The initial analysis of industry structure provides a snap of the competitive environment.

The Competitive Environment

There are five basic competitive forces, which influence the state of competition in an industry. Porter calls it the 'structural determinants of the intensity of competition', which collectively determine the profit potential of the industry as a whole. Some industries have a bigger profit potential than others, since keener competition means lower profits. These five competitive forces re shown in the figure 2.1 below.

Figure 2.1: Five Competitive Forces



The Threat of New Entrants: The strength of the threat from new entrants depends on two factors:

1. The strength of the barriers of entry.
2. The likely response of existing competitors to the new entrants.

The Threat from Substitute Products: The products or services that are produced in one industry are likely to have substitutes that are produced by another industry, which satisfy the same customer's need. Which firms in an industry are faced with threats from substitute products, they are likely to find that demand for their products is relatively sensitive to price. An important threat they must watch out for is any improvement in the price-performance characteristics of these substitutes.

The Bargaining Power of Customers: The profitability of an industry depends on the customers' bargaining power. Just how strong the position of customers will depend on a number of factors:

1. If the customers' purchase represent a substantial proportion of total sales by the producer, the customer will be in a strong position relative to the seller.

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2. In most of a customer's supplies come from a single industry, the customer will be in a weaker bargaining position than if only a small proportion did so.
3. Whether switching costs are high or low.
4. Whether the products supplied by the industry are standard items and undifferentiated. Suppliers will try to increase their bargaining power over customers by creating a strong brand image.
5. A customer who makes low profits will be forced to insist on low prices from suppliers.
6. The treats that customers might take over sources of supply, if suppliers charge too much.
7. The skills of the customers' might take over sources of supply, if suppliers charge too much.
8. The skills of the customers' purchasing staff, or the price-awareness of customers.
9. When product quality is important to the customer, the customer is less likely to be price-sensitive and so the industry might be more profitable as a consequence.

The bargaining power of suppliers: Just a customers can influence the profitability of an industry by exerting pressure for higher quality products or lower prices, so too can suppliers influence profitability by exerting pressure for higher prices. The ability of suppliers to get prices depends on the following factors:

1. Whether there are just one or two dominant suppliers to the industry able to change monopoly prices.
2. Whether the suppliers are threatened by new entrants to the market, or by substitute products.
3. Whether the suppliers have other customers outside the industry, and do not rely on the industry for the majority of their sales.
4. The importance of supplier's products to the customer's business.
5. Whether the supplier has a differentiated product which buyers need to obtain.
6. Whether switching costs for buyers would be high.

The Rivalry Amongst Current Competitors in the Industry: The intensity of competitive rivalry within an industry will affect profitability of the industry as a whole. Competitive action might take the from of price competition, advertising battles, sales promotion campaigns, introducing new product from the market, improving after sales services or providing guarantee or warranties.

The Technological Environment

Technological conditions determine the development of an organisation by increasing the efficiency, production and competitiveness. The adaptation to new technology can be in three ways:

1. Inventing or creating a new product
2. Introducing the products and processes in use
3. Diffusing the technology that cannot be used first

Technological conditions that may have impact in an organisation include:

1. Effectiveness of infrastructure, including roads, ports, airports, rolling stock, hospitals, education, healthcare and communication

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2. Productivity of the organisation
3. New manufacturing processes
4. New products and services of supply chain partners
5. New technology that could impact the company
6. Cost and accessibility of resources such as electrical power, water supply, fuel etc.

The Global Environment

A question fundamental to the discussion of retail globalization asks why retailers follow such a strategy. Invariably operating in a new market is a high cost and high risk method of growth. Indeed, it has been suggested, "Global retailing demands huge investment and gives no guarantee of return" (quoted in Lamey, 1997).

While there are certainly successful global retailers, there are many examples of failure. Failure is, undoubtedly, the result of a series of complex and interrelated factors.

Growth Strategies

It is assumed that retailers want to grow their company, and then they have three options:

1. From operating their core offer in the home market they may choose to follow a strategy of sectoral expansion, whereby they move into new formats, retail sectors or even outside the retail industry.
2. The second growth strategy open to retailers is to remain with the core offer and to transfer this is that they are experienced in the operation; however, they may need to learn about and adapt to new market conditions.
3. The third method of growth is to use a combined strategy, whereby a company may move away from its core offer and also gloablise. Although this may balance the risks somewhat it may mean the board lose focus. If this strategy is taken to its extreme, the company then becomes a global portfolio or holding company.

Self Assessment

Fill in the blanks:

1. Simultaneous assessment of the ……environment and company profile enables a firm to identify a range of possibly attractive interactive opportunities.
2. The ……the rate of growth and the weaker the competition, the more attractive the industry.
3. The ……..environment refers to the stage of economic development of the country like developed or developing, state of agriculture, industry and service sectors, level of national income, its composition or source-mix.
4. The intensity of competitive rivalry within an industry will affect ……of the industry as a whole.
5. The strength of the threat from new entrants depends on two factors firstly the strength of the barriers of entry and the likely response of existing ……to the new entrants.

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6. ……. appraisal is important for the changing environment as it offers new opportunities to the organisation.
7. In India …….. factors are the main consideration in retail business planning.
8. Every country has its own outlook and approach towards technology and ……..
9. Technological conditions determine the development of an organisation by …… the efficiency, production and competitiveness.
10. …….. has evolved the new marketing concepts like real-time marketing, database marketing, integrated retailing.

2.2 Socio Demographic Change

Retailing in India is at a very nascent stage of its evolution, but within a short period of time it will be in line with the global experience, going by the emerging trend indicators in the environment.

During the next ten years, the Indian population is expected to grow by 14 percent. But this increase will not be even across, various segments.

The number of children in the age group, 0-15 is expected to remain stable at approximately 30 million. This reflects a lesser demand for toys, games and some apparel segments. Nevertheless these sectors are still expected to offer reasonably high growth, given the nascent stage of the retailing industry in the country. The number of people in the age group 20-50 years will, in all likelihood grow by 30%. The sales of cosmetics, skin care, hair dyes and other beauty care products are likely to increase. More consumer resources will be spent on housing and retirement planning. Hence real estate businesses and companies offering financial services are expected to benefit.

The number of middle class households are expected to increase by about 25 percent. This should result in a higher growth in home furnishings and decor, along with personal items like apparel and fashion wear.

Dual income families are on the increase. A dual income family can spend more but has little time for shopping. Therefore speed and convenience will become critical dimensions in the retail business, in the years to come. The increase in population will also accentuate an increase in per capita spending.

Urbanization is another factor contributing to the unprecedented growth in retailing. Rural-Urban mobility has led to high customer density areas, which enables retailers to target a larger number of customers with lesser number of stores, thus resulting in economies of scale for the retailer.

An overall improvement in transportation structure and increased number of automobiles, covering distances has become much easier. Now a customer can travel a long distance to reach a particular shop if he/she sees value in shopping there.

2.3 Technology Change

Increasing the efficiency of business processes is a very important part of retailing today. Without accurate data gathering, analysis and the visibility to plan precisely, retailers risk, losing their competitive edge.

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Overtime, as consumer demand increased and retailers geared up to meet this challenge, technology evolved rapidly to support this growth. A number of hardware and software tools that have now become essential for retailing are listed below:

Bar Coding and Scanners

Bar coding and scanners are used to identify an item at the Point of Sale (POS). The Universal Product Code (UPC) is a black and white bar code which is used to collect Sales information using computer terminals that read (or scan) the code. The pre-stored data is used to calculate the cost and generate the total bill for the customer.

This information can also be transmitted from computer to computer, to buyers, distribution centers and then to vendors who in turn, quickly replenish the merchandise Tunnel scanning is a new concept where the consumer pushes the full shopping cart through an electronic gate to the point of sale. The items in the cart are hit by a laser beam and scanned, in a matter of seconds. The entire customer has to do, is pay for the goods.

Credit Cards

Payment through credit cards has become extremely widespread and enables an easy payment process. Electronic cheque conversion, a recent development, processes a cheque electronically by transmitting transaction information to the retailer and the customer's bank. The retailer then voids the cheque and hands it back to the customer along with a receipt.

Electronic Data Inter change (EDI)

This is the computer to computer exchange of information, and business documents, from retailer to vendor and back. In addition to sales data, information regarding purchase orders, invoices and returned merchandise are transmitted from the retailer to the vendor.

Many retailers now require vendors to provide notification of deliveries before they take place. Advanced Shopping Notice (ASN) is an electronic document received by the retailer's computer from the supplier in advance of the shipment. If accurate, the retailer can dispense with opening cartons and checking the merchandise.

Internet

Is very fast emerging as a customer interface, reducing the need for a customer to physically visit a store to view the product's attributes. He/She can do so from the comfort of his/her home and even place an order for the desired merchandise.

2.4 Economic Change

Despite the tremendous potential that exists, as stated earlier, retailing is among the lesser evolved sectors in the Indian environment. Given the enormous amounts of investments to be made, Foreign Direct Investment (FDI) is expected to play a very significant role. The Indian economy in this respect is highly regulated.

A strong FDI presence in the retail sector will not only boost main stream retailing but will also provide an impetus to FDI investments in up stream activities. This will be more prominent in food processing and packaging industries, because many large retail chains also promote their own brands by way of backward integration or contract manufacturing.

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Taking cognisance of the demands made by the industry and the need to give the retail trade a fillip, the Government is actively considering, removing this restriction. The Ministry of Commerce has proposed permission for 100% FDI, subject to Government approval on a case to case basis.

Land & Property Laws are also not very favourable to retailers, particularly the smaller ones. There is a shortage of good retail space and the rents are very high for what is available.

Only Indians can own property in India. This restricts the entry of foreign players and hence has a negative impact on FDI.

Stamp duties on property deals are significant (its about 8% in Delhi). The lease alone can cost upto 6%-10 % of sales, while it is 3%-5% globally, on an average. The initial urban planning of cities was done with smaller plots, which along with strict building and zoning laws makes the procurement of retail space difficult. The urban land ceiling and rent control acts have had an impact on the property markets, leading to exorbitant property prices.

The Labour Laws meant to protect workers are not flexible enough to support modern formats of retailing. Working hours are restricted, with most shops required to close one day of the week. The corporation tax is 38% and it would be even higher at 45% for a foreign business. Essential basic foodstuff is also taxed- 8% on milk. With the introduction of Value Added Tax (VAT), some of the sales tax anomolies in the supply chain could get corrected over a period of time.

However, VAT will be imposed at every stage between the manufacturer and the final customer. This means that the margin paid to intermediaries, including the retailer will also be taxed.

2.5 Socio-Economic Changes

Socio-Economic Development can cause changes in several community characteristics including demographics, housing, public services, markets, employment and income, and aesthetic quality. Methods for measuring each of these factors is discussed in the following section.

Development invites growth in new jobs in a community and draws new workers and their families into the community, either as permanent or temporary residents. When this occurs, the incoming population affects the social environment in various ways including increased demand for housing and social services (e.g., health care, day care, education, recreational facilities). Because residents' needs depend on a wide range of variables (e.g., age, gender, employment status, income level and health status), the diversity of service needs are determined not only by the absolute size of the incoming population but also by the old and new populations' demographic and employment profiles. As a result, a proposed development may have a significant impact on the community's ability to accommodate new residents and adapt to changes in the social environment for existing residents. Assessing the magnitude and rate of population change has important implications for community infrastructure and service requirements and can play a major role in determining social impacts associated with the proposed development.

Growing communities often attract a variety of new commercial developments including both free-standing stores and neighborhood or community shopping centers. These developments provide a community with products, services and conveniences important to the quality of life of local residents. The challenge to accommodating these types of new developments becomes one of minimizing losses to existing retailers in the area, such as those downtown, while allowing the market to respond to the wishes of the increasingly demanding consumer.

To respond to this challenge, community leaders can conduct an assessment of the retail market with a focus on anticipated market supply and demand by retail category. The intent is to

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anticipate how well the market will respond to changes in the number, type and location of retail businesses and to provide community leaders with information to guide future business expansion and recruitment efforts.

Before an analysis of a particular development can be conducted, the economic health of the local retail community must be assessed. This requires a close look at retail activity, particularly in the central business district. Key indicators of economic health in the retail sector include vacancy levels, property values, store turnover, retail mix, employment, tax revenues, new business incubation, critical mass/concentration of retail, and the availability of goods and services demanded by the community.

Second, changes in trade area demographics should be estimated. The trade area is generally defined as the geographic area in which three-fourths of current customers reside. A significant increase in population could signal new opportunities for retail expansion or development. The profile of these new or anticipated residents can help you assess future market demand for various types of products or services.

Third, regional retail competition must be assessed. New retail concepts are threatening traditional retail stores. These concepts include large non-mall stores offering assortment and low prices for selected types of goods like electronics, off-price apparel stores, food/drug stores and neighborhood drug stores that offer convenience, outlet centers, warehouse clubs and the internet. By recognizing the changes in competition, both locally and regionally, your assessment of proposed retail developments can offer valuable insight into the changing market and risk facing the traditional retailers in the community.

Finally, with an understanding of general retail trends, changes in trade area demographics, and regional competition you can use secondary data to measure market gaps in the community and assess the impacts of the proposed development. Two techniques can be used: retail mix analysis and retail space analysis.

Retail Mix Analysis: The retail mix in "comparison" communities can be used to measure how many and what type of retail stores might be supported in your community. Comparison communities might include those with similar population, household incomes and distances from major metropolitan areas. If your community is growing in population, comparison communities with a larger population can be used.

Once the comparison communities are identified, the retail mix in each community is inventoried by specific retail category. The average numbers of stores by retail category in the comparison communities is then compared with the number in your community to identify any significant differences that might suggest business expansion or development opportunities.

The amount of additional retail space that can be supported by a growing community can be projected using two types of data: Household Consumer Expenditure Estimates and Sales per Square Foot of Existing Retailers.

This analysis can be refined by using "household consumer expenditure data" or "median store sales per square foot" that more accurately reflect the socio-economic conditions of your community. Data can be purchased through private data firms that describe spending of consumers or store sales in your particular community or other representative areas. By using more reflective data, calculations will more accurately determine the additional retail space necessary to serve the market area.

2.6 Impact of Changes in Retailing

Retailing business in India is undergoing rapid transformation. The kirana store is a major element in the retail business in India. The emergence of new retail formats in retailing sector

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has attracted attention of many like government, large corporations, economists and general public in recent years. The environment of retailing business in India is witnessing several changes on the demand side due to increased income and changes in Indian consumers' preferences. The driving forces in Indian retail sector are: rapid economic development in recent years, changes in consumers' preferences, improvements in civic situation, liberalization policy and globalisation.

To satisfy the needs of global consumers, retailers have to meet these through the products they offer, whether these are principally food, fashion or multiple retailers. Consumers experience different cultures when they travel for work or pleasure and they have access to the Internet, television magazines, etc. and they demand products, which reflect these tastes. Retailers are sourcing globally for the fashion or cosmetic or electronic gadget that is new and exciting for their challenging consumer base.

The origins of retailing in India can be traced back to the emergence of Kirana stores and mom-and-pop stores. These stores used to cater to the local people. Eventually the government supported the rural retail and many indigenous franchise stores came up with the help of Khadi & Village Industries Commission. The economy began to open up in the 1980s resulting in the change of retailing. The first few companies to come up with retail chains were in textile sector.

Example: Bombay Dyeing, S Kumar's, Raymonds, etc.

Later Titan launched retail showrooms in the organized retail sector. With the passage of time new entrants moved on from manufacturing to pure retailing.

Much of the retail business in India is in the unorganized sector, with over 5 million retail outlets of various sizes and formats. According to an estimate by KSA Technopak (I) Pvt. Ltd., India's per capita retailing space is the lowest in the world.

Today the number of smaller retailers with a business less than ₹ 40000 per annum has grown to a greater percentage, whereas the number of large stores with a turnover of ₹ 150,000 has increased from 2.8% to 6.5%. So, the smaller outlets are growing faster than large retailers. However, changing shopping attitudes of an average customer will make future growth increasingly difficult for the unorganized retail sector.

Organized retailing accounts for 6% of the industry turnover, comprising value-added foods worth ₹ 770 billion, music and entertainment worth ₹ 40 billion and color cosmetics worth ₹ 12 billion. Big business houses today are in a position to provide Indian masses with shopping satisfaction, entertainment, quality products, polite salespersons, product information and discounts. Though current margins are low due to high property cost and poor infrastructure, this scenario is going to change. Retailing is the only business where one buys in credit and sells for cash. Further, there are 30 million houses with an annual income of more than ₹ 150,000 and this is expected to grow to 80 million by 2008. Financial institutions are encouraging such ventures, as there is permission for opening up of branded foreign retail outlets in India.

That organized retail is booming in India is evident from the figures. What was a ₹ 5,000 crore industry in 1999 was estimated at ₹ 30,000 crore in 2004 – making it one of India's fastest-growing sectors.

With malls, multiplexes and hypermarkets springing up all over the country, the consumer is exposed to a new shopping atmosphere and service ethic, and this has upped his expectations from shopping. Retail ambiences are getting upgraded and neighborhood kirana shops are fast becoming a thing of the past. The consumer is demanding (and getting) better aesthetics in his shopping environment. Nice looking retail environment is no longer perceived as expensive but as de rigueur.

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And this trend, although it started in the metros, is fast fanning out to the 'hinterlands'! Large format stores have been springing up in smaller towns like Amritsar, Bhubaneshwar, and Chandigarh. 'Small towners' are increasingly savvy and flock to these organized retail outlets wanting an enhanced buying experience.

While today's consumers are well-read, well-travelled, and exposed to international trends, the retailers themselves face a dearth of knowledge of international retail trends and styles. Much as they might want to match (or even surpass) international standards, they simply do not have access to retail fixtures of international quality.

India retail industry is the largest industry in India, with an employment of around 8% and contributing to over 10% of the country's GDP. Retail industry in India is expected to rise 25% yearly being driven by strong income growth, changing lifestyles, and favorable demographic patterns.

It is expected that by 2016 modern retail industry in India will be worth US$ 175-200 billion. India retail industry is one of the fastest growing industries with revenue expected in 2007 to amount US$ 320 billion and is increasing at a rate of 5% yearly. A further increase of 7-8% is expected in the industry of retail in India by growth in consumerism in urban areas, rising incomes, and a steep rise in rural consumption. It has further been predicted that the retailing industry in India will amount to US$ 21.5 billion by 2010 from the current size of US$ 7.5 billion.

Shopping in India has witnessed a revolution with the change in the consumer buying behavior and the whole format of shopping also altering. Industry of retail in India which have become modern can be seen from the fact that there are multi-stored malls, huge shopping centers, and sprawling complexes which offer food, shopping, and entertainment all under the same roof.

India retail industry is expanding itself most aggressively, as a result a great demand for real estate is being created. Indian retailers preferred means of expansion is to expand to other regions and to increase the number of their outlets in a city. It is expected that by 2010, India may have 600 new shopping centers.

In the Indian retailing industry, food is the most dominating sector and is growing at a rate of 9% annually. The branded food industry is trying to enter the India retail industry and convert Indian consumers to branded food. Since at present 60% of the Indian grocery basket consists of non-branded items.

Indian retail industry is progressing well and for this to continue retailers as well as the Indian government will have to make a combined effort.

While the Indian real estate markets boom with organized retailing, the segment ensures a fluffy growth pad for itself. According to the estimations of KSA-Technopark, a retail consulting and research firm, organized retailing in India will grow three-fold in the next 3-years, achieving the size of USD 21.5 billion from the current one of USD 7.5 billion.

Given the favourable growth patterns, expanding middle class and easing economic policies, India is ranked as the most attractive emerging markets for retail investment, even above Russia and China.

The growth story of Indian retail sector is based primarily on its huge middle class. According to a study undertaken by the National Council for Applied Economic Research (NCAER) "The Growing Indian Middle Class", the upper middle and high-income urban households in India will touch 3.8 crore by 2007 (from 1.46 crore in 2000).

The sheer size of its upbeat middle class market makes India a happening market place for retail players. Besides the number advantage, the purchasing power of Indian middle class is also growing substantially with a year-on-year growth rate of 5 percent in its household income.

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According to NCAER, the 9.2 crore strong Indian middle class (whose annual income ranges between ₹ 2 lakh and ₹ 10 lakh) is expected to cross 15.3 crore by 2009. Undoubtedly, such healthy trends corroborate that the retail sector boom is here to stay in India on sustained basis.

The Indian government allows 51 per cent Foreign Direct Investment (FDI) in single brand retailing owing to which foreign multinationals like Reebok and Louis Vuitton can now operate directly in the Indian markets instead of going through franchise route of earlier.

While Indian telecom major Bharti is all set to foray in the retail segment, a number of companies from the US, England and Australia have laid plans to sell their products directly at the retail outlets. As many as 12 Australian food producers have tied up with India-based distributor AB Mauri for the same. World's largest retailer Wal-Mart is also planning ambitiously to trade in India. With this there lies an exciting times ahead for the Indian retail markets.

Toy Retailing

The toy retailing industry in India is poised for growth in leaps and bounds due to the demographics of the country. In addition, the increase in purchasing power and greater propensity to spend would lead to much greater growth in the industry. However, as is seen in developed markets, toy retailing has not developed as a speciality retail format in spite of the development of the merchandise category. In the list of the top ten toy retailers in the U.S. until very recently, Toys R Us and KB toys were the major speciality toy retailers, whereas other store formats like hypermarkets were the largest sellers of toys.

Industry analysts estimate the growth rate of the Indian toy market at around 15%. This figure seems set to rocket upwards with the entry of speciality retailers who are targeting children. At the forefront of this retail wave is Toys Kemp, an offshoot of Ravi Melwani's Kemp Fort group. Melwani is out to create India's answer to Toys R Us, and is targeting a network of 500 stores in the next two years. He has adopted the franchise route for this process, and has already set up over 15 stores across several cities including Chennai, New Delhi, Bangalore, Mumbai, Indore and Nasik. Moreover, on the drawing board are stores in Hyderabad, Bhubaneswar, Vishakhapatnam, Pune and Ahmedabad, in addition to a 15,000 sq ft Toys Kemp store in New Delhi. Toys are first tested at the 50,000 sq ft toy store at Kemp Fort in Bangalore. The retailer tests around 100 toys each week and only around five make it through. Kemp Fort further distributes it to the franchisee stores. Chennai-based Jus! Kidding, a unit of Kids Mart India (Pvt) Ltd., which in turn is owned by real estate developer Mangal Thirth Estate is not an exclusive toy store, toys are one of its major product lines.

The toy industry is a highly seasonal industry. A relatively small number of products accounts for the bulk of industry toy sales. In addition, the identity of the top selling toys in the industry changes substantially from year-to-year and is hard to predict. The strong seasonality in toy sales and the hit-driven nature of demand contribute to frequent divergences between anticipated and realised demand. The supply of toys, however, generally does not respond rapidly to unanticipated demand due to the relatively long delivery cycles resulting from overseas production and water borne international shipments. In view of this situation, at the retailing end, the importance of supply chain management becomes important. Specifically, logistics – a combination of inventory management and transportation becomes crucial. Management of this aspect of marketing ensures that the service levels are high for the store. Merchandise management also depends on the same. Stringent product control measures would have an impact on the positive development of branded toys. This would help retailers, if in the future there were a greater sensitiveness to issues of safety of toys.

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Sports Goods Retailing

The Indian sports goods industry, which is now more than 100 years old, has matured into a very capable supplier of sports goods to almost every part of the world. The skilled labour force, which had mastered the art of manufacturing the traditional item of sports goods, is now also venturing into fabrication of more high tech equipment for new trendy sports in response to the demands of the global market. Today, all sectors of sports goods including sports equipment, sports apparel, sports footwear and sports accessories are flourishing sectors of production and export in India. Buyers of Indian goods include top international brands like Adidas, Asics, Dunlop, Decathlon, Fila, Gap, Kookabura, Maxfli, Mitre, Nike, Puma, Rawlings, Reebok, Spalding, Canterbury of New Zealand, Rip-Curl etc. However, due to the skewed nature of interest in only one major game in India, namely cricket, retailing in India for sports goods has so far mainly concentrated on selling cricket related accessories rather than several types of sports. However, off late there is an emerging interest in several types of games/sports. In view of this development as well as the catching up of retail as a phenomenon in India, there is great scope for development of sports goods retailing.

The availability of a strong manufacturing base for sports goods that meet international standards and at the same time a nascent market for sports goods provides a great combination for retailing to flourish in this sector.

Example: Sportswear manufacturer and retailer Sportiff India.

It has entered the sports goods retail segment by opening its first store "Sports Locker" in Chennai. Sports enthusiasts can now pick up cricket, tennis, badminton and other sports' gear from this outlet spread over 3,000 sq.ft. "Sports Locker" stocks sporting equipments for games like cricket, tennis, badminton among others. According to the company, Sportiff India plans to open 15 such stores in Hyderabad, Bangalore, Mumbai, Delhi, Mysore, Chandigarh, Pune and Noida. As of now a large number of small sports goods store exist in cities. Top Indian and multinational footwear stores like Action, Nike etc. dabble into sports goods through their footwear stores. However, we are yet to see the development of a national level sports goods chain.

Pharma Retailing

Imagine ordering prescribed medicines through the net, getting automatic refills on regular prescribed drugs, a loyalty programme and door delivery. These are some of the immediate possibilities in drug retailing in the country.

The drug store industry is a large and growing industry, especially after the mid 1990s. An important factor in driving industry growth is the increased life expectancy of the population brought about by the discovery and widespread usage of new life-saving drugs. Life expectancy has increased among both males and females in India. Longer life expectancy is slowly increasing the population of older people. In this emerging scenario, it is worthwhile to note that senior citizens (60 years and older) typically use twice the number of prescribed medication as compared to individuals who are half their age. The growth in prescribed medication also benefits from the continuing flow of new drug therapies as well as increasing participation in health care plans. New drug therapies result from greater investment and higher success rates in the research and development programmes of major pharmaceutical firms. While demographic factors help drive growth in sales volumes, the Indian drug store industry would be under pressure to reduce costs. In response, drug stores have tried to do the same by installing improved cost-reducing technologies, such as advanced point-of-sale and scanning equipment to provide

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them with the most up-to-date information on sales and inventory. To enhance profits, faster drug dispensing to speed up pharmacy transactions, reduce errors and improve customer satisfaction is being achieved. Moreover, drug stores are also trying to attract customers and enhance profits with higher-margin products such as convenience foods, cosmetics, etc. We seem to be following the west in such developments. Meanwhile, drug stores are also experiencing increased competition from supermarkets who are anxious to increase store traffic with pharmacy sales. Thus, we see that for a category like pharma too, generic competition is not something that stores can be immune to.

Jewellery Retailing

The jewellery market in India is estimated to be growing at 10% per annum. Of the total ₹ 50,000-crore Indian jewellery market, which is growing at 3-5%, the diamond studded market accounts for around ₹ 9,000 crore and is growing at 20%. Of the total diamond jewellery market, only 2% is branded jewellery catered to by around 8-10 brands, which is why there is a huge potential for branded diamond jewellery in India. Gold jewellery forms the major part of the jewellery market in India.

Jewellery is a very fragmented business. There are around 2,50,000 jewellery retailers and there are many more manufacturers. Tanishq and Oyzterbay are some of the prominent national players in the serious fine jewellery segment. The others jewellery retailers are in just one city or have a limited regional presence. Acquiring a high reputation for styling and reliability and becoming an aspirational brand are prerequisites for the success of the national brand. As regards reliability, the jewellery industry has chronically lacked ethics. In the Indian context, therefore hallmarking has become a major movement in order to convince consumers about genuineness of the jewellery purchased.

Furniture Retailing

An estimated 4.5 million houses are built every year and there is a latent demand for 33 million homes in India. The housing sector is expected to grow at a fast pace driven by easy availability of finance, rising 'youth' population and declining average age at which an individual purchases a house (at 25-30 years as against 35-40 a few years ago). One's furniture made by the local carpenter is time consuming and one has no guarantee of after-sales service. Only about 10% of the public still has their furniture made by local carpenters. In addition, there are not as many skilled carpenters as 10-15 years ago. Moreover, no matter how skilled the carpenter is, s/he cannot equal the finish that readymade or imported furniture can give. The furniture goods sector comes next to grocery and apparel in being one of the largest retail sales goods in the world. Furniture retail in India is a ₹ 17,500 crore annual industry including both residential furniture and office furniture segments. The United States furniture industry is a very large and fragmented market. No U.S. furniture retailer has more than 3% market share. In the U.S., average stock turns in the furniture retail industry are at just 2.5 to 3.0 per year. In spite of typical 50% (or greater) gross profit margins in the U.S., the cost of inbound freight, retail display, warehousing, handling, and pre-delivery make the job of furniture retailing quite difficult. The situation is no different in India. The lack of data on this front, however, makes it difficult to make an emphatic statement about furniture retailing in India.

The Indian consumer in the home furniture market is now in a situation where a deluge of options is available in terms of the material of furniture as well as its customisability. Case goods furniture retailers the traditional lot among the retailers now face an onslaught in terms of cheaper, trendier/fashionable, lighter, dismountable options. It has been observed in the U.S. too that the consumer goes only to furniture retailers, rather than to a departmental store for

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buying furniture. Therefore, the retailer needs to expand his outlet in order to provide variety. With the increase in variety it would be possible to also open niche furniture shops concentrating on one type of material, like say for example only cane furniture. Tax laws as well as problems of regional competition hamper branding, consolidation and establishment of a large retail network. In addition, the imported furniture effect also takes a toll on even the traditional furniture outlets. Better customisation than the conservative carpenter-constrained-customisation, and using technology at both the manufacturing and retailing end, would see the beginning of a new era of furniture retailing in India.

Home Furnishing Retailing

The unorganised sector dominates the Indian market in the home décor segment. The focus for the organised sector needs to incorporate the latest fashion trends and contemporary styles in our products so that their customers can never run out of choice. An in-house design studio consisting of a team of highly qualified and experienced designers and professionals will ensure that they offer the best to their customers. The advantage of being an export house will help companies like Welspun, as they are constantly catering to the demands of the international market — in terms of trends and designs — and can thus use the expertise for Indian market. Home furnishing is emerging as the next hot destination for textile players. Exports of home textiles – bed, bath and kitchen linen – have zoomed over the past six months, after the dismantling of quotas, sparking off a fresh wave of investment in the segment.

Larger players, such as Welspun India and Abhishek Industries, are sinking big money into expanding capacities. Smaller companies, some of whom are in unrelated businesses, are also foraying into home textiles - Gangotri Textiles, KG Denim, S. Kumars Nationwide, Bannari Amman Spinning, to name a few. GHCL (Gujarat Heavy Chemicals), which has a spinning division, plans to get ahead in the race by acquiring companies in the U.S. and Europe. With manufacturing facilities closing down in the west, international retailers are stepping up their sourcing of home textiles from countries such as China, India and Pakistan. Besides, home textiles appear to be a good way to scale up the value chain or diversify as is the case with companies such as KG Denim and Aarvee Denim. For fabric players, home textiles might prove to be a logical extension to their existing business.

Consumer Electronics Retailing

Several empirical studies have shown that the superstore method of product display works best in consumer electronics stores, although it is far from new. Originally, it was known as "price point merchandising," or PPM. This starts with a minimum of three different models for practically every SKU in the store. The first of these models is dubbed, appropriately, the "sell" model. The one provides all the benefits a consumer can expect from the product with a fair profit for the retailer. Signage on the model is so complete that the sell piece practically sells itself to the shopper.

Alongside the sell piece in a superstore floor display is a "high-end comparison" unit. This not only has all the features of a sell model, but also some extra semi-useful bells and whistles to justify its higher price. This leaves just one model, a "low-end comparison" sample, to round out the product mix. Although it has many of the same features as the sell piece, this model has sufficiently fewer features to allow a salesperson to convince a shopper that its lower price point makes it less of a bargain.

With all three SKU models in position, the superstore salesperson is now ready to step the prospective customer through a demonstration leading to a sale. In this way, a prospect attracted by the price of one sample can easily be shown the advantages of another. Customers enter your

store for a specific reason. This is where the "How may I help you?" greeting comes into play. Customers buy for the pleasure of it. Helping them achieve that goal is what makes the salesperson, working within a carefully planned display, the most important key to a sale. Thus, an understanding of the display, an evaluation of the consumer and the appropriate training of the salesperson can convert even consumer durable/electronics stores with a smaller assortment to succeed in retailing.

Luxury Retailing

The number of Indian households with an income of $100,000 or more and purchases of $9,000 on designer goods is growing and experts expect the segment to grow at 15% each year. With the arrival of luxury retailers, wealthy Indians will become increasingly aware of the value of designer brands. Tata International, the largest Indian leather exporter, has tied up with Lloyd, a leading German footwear maker whose shoes will retail in Indian showrooms in a range stretching from ₹ 9,000 to ₹ 45,000 a pair for men. The women's range starts from ₹ 8,000. Lloyd GmbH plans to hawk its top-of-the-line footwear through multi-brand luxury retail outlets and by the year-end will introduce an exclusive Lloyd store in Delhi. They said that the size of the premium market in the country is to the tune of ₹ 500 to ₹ 600 crore. Lloyd is a well-established lifestyle brand part of the Ara group that sells close to 14 million pairs of shoes a year.

In a clear indication of global luxury retail kicking in the $1.28-billion (€ 1.09 billion) high-end ready-to-wear German clothing major Hugo Boss has decided to set shop in the country. The store will retail top-of-the-line Hugo Boss Black Label for men, which is business-oriented urban wear. The base price for a suit will begin approximately at ₹ 35,000. There are no plans, as of now, to introduce the range for women or the Orange and Green labels. Alternatively, even Hugo the casual wear portfolio that has taken the world by storm. The reasons are clear. The company has a market presence in 108 countries, with a strong presence in Japan and China. BOSS already has a customer base among Indians, who currently buy our collections in shops outside the country. Now we are bringing the market to the consumer. At the same time, we will be building up the consumer base within India. Hugo Boss will not be the first luxury brand to dig into the country's blooming market for high-end lifestyle products, in particular clothes. Ermenegildo Zegna, Louis Vuitton and Escada already have stores in place in Delhi and Mumbai. BOSS is one of the few non-Italian labels that have succeeded in growing its market. Instead of taking on the competition, it joined them. The brand is known to use the finest virgin wool, cashmere, and cashmere mixtures from the leading Italian weavers Carlo Barbera, Loro Piana, Torello Viera, not to mention rivals in the ready-to-wear segment Cerruti and Zegna.

Canali's flagship store is to set shop at India's oldest running five star hotel — the Taj Mahal Palace & Towers, Mumbai — besides a host of others like Armani, Cartier, Bulgari, Rolex, Gucci, Louis Vuitton to Prada to name a few. The entry of these brands at the Taj Palace means is that the heritage wing of the hotel will add as much as 5,000 sq ft of new retail space. At present, the Taj Mumbai has a total retail space of 25,000 sq ft. According to market reports, there are close to 23 people in the reckoning for the new space, which commands a rate of ₹750-1,000 per sq. ft. All the new retailers will be on a three to six year licensee or franchisee arrangement. While the Palace wing will define the super luxury shopping experience, the Towers wing will retain the small shop formats with existing retailers for now, though it will be given the look, feel and unified character in keeping with the new positioning and retail strategy. For the Palace wing, the focus is to build an experience comparable to London's Bond Street, or Chimes in Singapore, where there has been an adaptive reuse of space. Unlike Europe, the U.S. or even South East Asia, India has failed to create public spaces like Champs Elysee or a Bond Street.

Christian Dior has opened its first store in India. The luxury goods brand's store in New Delhi offers Indian consumers the haute couture from $1,000 handbags to $400 sunglasses. Luxury

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retailers like Louis Vuitton, Chanel, Cartier, Fendi, Bulgari and Dolce & Gabbana already have outlets in India, and others like Gucci and Valentino are following their example. Western luxury retailers are more welcome in the country now that the Indian government has amended certain legislation pertaining to foreign ownership of a single- brand. The government allowed single-brand retailers to own up to 51% of an outlet in India. Christian Dior, however, had already chosen for a franchise before the changes were put into play.

E-retailing for luxury products is yet to take off, even in developed countries. There is a sense of insecurity about high-end online purchases. Furthermore, prices of high-end items must be lowered to sell online. This is because consumers think 'If I can get everything else online at a discount, why shouldn't I get a discount on fine art online too?' Online luxury retailers often have a hard time translating their brands and the look and feel of their luxury shops that connote exclusivity, extravagance, excessive wealth, and entertainment into a web-site that the masses will see.

2.7 Key Segments in Retailing

This section covers the growth engines of retail in India created by the Indian consumer. The key drivers of retail activity are food and apparel segments.

Food

Food retail is a rapidly growing sector in India's organised retail. A research conducted by the Economic Times Intelligence Group revealed that this category of retail represents just 10 percent of the total opportunity in organised retail in India. This works out to a present market size of over US $ 391 million and a projected size of US $ 1.6 billion over the next five years, a compounded aggregate growth rate of 33 percent. Food retail is more of essential commodities comprising of grains, pulses, etc.

South India has been witnessing frenetic activity in food retail especially the organised grocery segment. Stores built on the format of FoodWorld and Nilgiris in the south have started to expand their boundaries of grocery markets that have so far been extremely localised. The west and north of India are also expected to provide good growth opportunities for retail. The supermarkets and hypermarkets/discount stores and fresh produce store formats complementing each other is going to be the way of the future.

Looking at the trends in the last 2-3 years, discounting appears to be the direction where food retail seems to be heading. Industry experts believe that a successful national chain will be a discounter. While a discounter needs to keep store overheads low its winning edge comes from sourcing – how best it can leverage its scale to drive merchandise costs down, increase stock turns and get better credit terms from its vendors.

The study mentioned earlier reveals that the chain stores will account for the biggest share of the surge in food retail – no less than 95 percent of the total size, and growing at 33 percent, much faster than the 20 percent growth of the single stores. Chain stores are touching US $ 32 million sales, while single stores are at around US $ 1.3 million. Coffee house chains are the primary drivers in the F & B (food and beverage) sector. The leaders in this business are Barista and Café' Coffee Day who have a total of 223 outlets in India. This is expected to grow to 464 by mid-2004.

Apparel

The organised apparel segment worth US $ 1.8 billion is expected to grow at a steady 9.5 percent per annum. Multi-brand outlets are becoming the popular destination for customers and will outrank manufacturer retailers in size.

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Large retailers such as Shoppers' Stop, the RPG group, Pantaloon Retail and Trent have stabilised their retail models, and are rolling out more stores to grow in size. Some, like Shoppers' Stop and Trent, which had incurred losses in retail in some years, have started making profits now. In 2003, the second half was reported to have been much better than the first half due to an improvement in consumer spending.

Private labels are becoming a key component in retailers product mix. Private label is a label unique to a specific retailer, account for about 20 percent of sales, and expected to rise further. Case studies of Indian retailers such as Shoppers' Stop, Trent and Pantaloon show that they have invested in back-end processes to offer the best to the shoppers. Supply chain management and merchandising practices are increasingly converging into one function and apparel retailers are stepping up collaborative efforts with vendors.

Caution In merchandising, the top priority is to yield customer satisfaction and improve profitability. Merchandising, however, has yet to see systematized merchandise planning systems and tools in active use.

Organised Retail Players in India

1. *Hyper Market:* Big Bazaar, Spencers, Vishal Retail, Magnet, Star India Bazaar, Shop Rite.
2. *Department Stores:* Shoppers' Stop, Pantaloons, Pyramid Mega Store, Lifestyle, Globus, Westside, Central Mall.
3. *Convenience Stores:* Trumart, Nilgiris, Food World, Subhishka, Tirtenthra, Spencers Daily, Spinach.
4. *Speciality Stores:* M.A.C, Titan, Bata, Tanishq,
5. *Speciality Formats:* Archies, Depot, Landmark, Crossword, Planet M
6. *Food Retailers:* McDonald's, Pizza Hut, Pizza Cornier, Bombay Blues, KFC, Dominos, Smokin Joes.
7. *Furniture Retailing:* Concept, Living Room, Style Spa, Tangent
8. *Consumer Durable Chains:* Viveks, Croma, Vijay Sales, Sumaria, Sony Mony.

Self Assessment

Fill in the blanks:

11. ……. label is a label unique to a specific retailer, account for about 20 percent of sales.
12. Food retail is a rapidly growing sector in India's …….. retail.
13. With the arrival of …… retailers, wealthy Indians will become increasingly aware of the value of designer brands.
14. Home furnishing is emerging as the next hot destination for …….. players.
15. The ……..... sector dominates the Indian market in the home décor segment.

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Case Study

How McCain Responds to Changes in the External Environment

Introduction

Businesses have a number of objectives. Typical examples include:

- Winning the biggest share of the total market
- Increasing sales
- Satisfying customers
- Making profit for shareholders.

A business' ability to meet these objectives depends on two main groups of factors:

- The internal strengths of the organisation for example being able to make the right products in an efficient way.
- Being able to identify external influences in the business environment and on its consumers and adapt accordingly.
- The external environment today is changing fast. The external environment consists of everything outside the business. This case study shows how McCain needs to identify changes in the external environment. It must then rise to the challenges posed by change.

McCain Foods

The McCain product most people recognise is Oven Chips. McCain is the world's largest producer of chips. McCain buys 12% of the British potato crop. McCain is also one of the world's largest frozen foods companies.

McCain is a privately owned company with a strong market focus. This means that it carries out research to find out what consumers want. It then uses this market information to create products that consumers want to buy.

McCain is the world's largest producer of chips. McCain buys 12% of the British potato crop. McCain's business is broader than just chips, with a range as wide as frozen potato specialities and frozen light meals. It provides consumers with a wide variety of cut and seasoned potato products through UK retailers, like supermarkets and restaurants. These include roast potatoes, potato wedges, hash browns, waffles and potato croquettes.

McCain produces more specific potato shapes like Potato Smiles, Crispy Bites and Sumthings (shaped as numbers) which appeal to younger consumers. McCain also makes pizzas.

Chips have come a long way since the potato was first brought to this country by Walter Raleigh in the 17th century. By the 1850s fish and chips were sold in the streets and alleys of London and in some of Britain's industrial towns. If asked to name a typically English dish, most people will say 'fish and chips'. Chips are produced in lots of different shapes and sizes, ranging from those deep-fried in fish and chip shops to McCain's 5% fat Oven Chips.

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External challenges

One of the biggest environmental factors affecting McCain in 2005/6 was the growing concern about obesity, particularly in children. This case study shows how McCain has risen to the challenges of this debate and other external challenges.

McCain's view is that its chips can and do play a role in a healthy balanced diet and it is continually finding ways to ensure McCain products are as healthy as possible.

SLEPT analysis and social factors

In order to be able to understand its customers' requirements and respond to other changes, it is important for a company to analyse its environment. A SLEPT analysisis a tool that helps to analyse the environment.

To create a SLEPT analysis the company needs to examine the key environmental factors that affect its business. Having carried out the analysis it must then take action to respond to the important changes that have been identified. Of course, some of the factors in the SLEPT analysis can be placed under more than one of these headings.

The following analysis outlines SLEPT factors and indicates some of the changes that McCain has made and is making.

Social factors

Social trends are one of the key factors affecting a business. Consumer buying patterns are determined by trends. Just as the demand for some popular clothes are determined by fashion, demand for food products is determined by eating patterns. Eating habits are always changing. Currently one in four of all British potatoes consumed are eaten as chips.

Recently McCain and other food producers have seen a slow down in sales as a result of campaigns to encourage healthier eating such as that spearheaded by Jamie Oliver.

McCain has responded to this challenge in two main ways:

- by reducing quantities of salt and oil throughout its potato products range. McCain argues that these figures are very low already. For example, McCain's Oven Chips contain only 5% fat, 0.8% saturated fat and 62mg of sodium in every 100g portion. They are made with only natural ingredients - specially selected potatoes and sunflower oil.
- by seeking to get the message over that its chips are not unhealthy. The message that it communicates through public relations campaigns and advertising is that all McCain potato products are made from simple ingredients such as whole potatoes and sunflower oil.

A key way in which McCain has responded to changing customer tastes has been to improve the nutritional make-up of its products. All of McCain's potato products are now pre-cooked in sunflower oil instead of regular vegetable oil to reduce saturated fats. There is no added salt in oven chips and added salt has been reduced by up to 50% in other potato products.

Legal factors

Responsible businesses not only abide by the law, they seek to create standards above minimum requirements.

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Food labelling

McCain has to be aware of a number of legal factors. The government's Food Standards Agency has recommended that firms put 'traffic light' labels on food to help people understand what they are buying and to help them make the right choices:

- Red represents high levels of ingredients such as fats and salts.
- Green represents low levels.

McCain has put 'traffic light' labels on its British products as a response to consumer concerns about healthy eating. All of McCain's potato products are able to display the green label for saturated fat and none of its products show a red label.

Also featured on the labels are Guideline Daily Amounts (GDAs) which show how much fat, saturated fat, sugar and salt each product contains. This helps the consumer to achieve a consistently balanced diet.

Advertising

In the UK, advertising of products is supervised by a voluntary body within the advertising industry. It is called the Advertising Standards Authority (ASA).

McCain makes sure that all its advertising sticks rigidly within the requirements of the ASA. The ASA sets out that all adverts must be:

- legal
- decent
- honest and
- truthful.
- Legislation

McCain takes these responsibilities very seriously. It is important to build a reputation for honesty and fair play. In addition McCain's products comply with a range of laws, including:

- The Food Safety Act, covering the way in which food is prepared and served.
- The Trades Descriptions Act, which states that goods and services must be exactly as described.
- The Weights and Measures Act governing such aspects as giving the right weight on packs. For example, McCain's oven chips come in packs of 454g, 907g, 1kg, 1.5kg, and 1.8kg.

Economic and political factors

Economic factors

Economic factors include changes in buying patterns as people's incomes rise. For example, as incomes go up people prefer to buy what they see as superior varieties of a product type. We see this with the development of ready prepared foods.

As people become cash-rich and time-poor they prefer to switch to ready meals and simple to prepare foodstuffs that they can quickly heat in an oven or microwave. Rather than buying potatoes and making chips at home or taking the time to go to a fish and chip shop, it may be seen as more desirable to buy oven chips. Of course, it may be cheaper to

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make your own chips by peeling and cutting up potatoes. However, with growing affluence people prefer ready prepared oven chips.

Responsible eating and healthy exercise encourages everyone's health and well-being. McCain has risen to this challenge by creating a range of varieties e.g. McCain's Straight Cut Oven Chips, Home Fries, roast potatoes and wedges, to appeal to a variety of customers.

Political factors

On political factors, the UK government has increased the pressure on food suppliers to come up with healthier foods. The government publicises and supports healthy eating by creating initiatives such as 'Healthy Schools'. This encourages pupils to think about the choices they make when choosing what to eat.

McCain supports the government's initiative. It believes that the foods that it provides, including potato based products, are nutritious provided that they are prepared in a healthy and simple way.

Echnological Changes

Challenges of Food Technology

Food technology is one of the most dynamic technologies in the modern economy. Food technology involves researching and developing new techniques for making products as diverse as ice cream, probiotic yoghurt, frozen oven chips and muesli bars.

Each of these products involves finding technical solutions to problems such as how to:

- Freeze while retaining flavour
- Maximise natural nutritional characteristics
- Turn a frozen product into an oven heated product.

McCain is continually being faced by new challenges from technological factors. It should be no surprise therefore that McCain's food technologists were only too happy to rise to the challenge of making its potato products even healthier. McCain needed a solution that not only reduced fat and salt, but also kept the sort of flavour that would delight customers.

Solutions

The solution was to use sunflower oil which reduced saturated fats by 70% across the whole potato product range. Food technologists know that by working with real potatoes they are dealing with a product with a very strong nutritional pedigree.

For example, it is a little known fact that potatoes are a major source of vitamin C for the UK diet. As a product, potatoes are the second most important staple food in the world today (rice is the first), providing essential carbohydrates that help us to generate energy.

Potatoes also have tremendous future potential. In 1995 the potato became the first vegetable to be grown in space. NASA worked with top scientists to develop super-nutritious and versatile potatoes. These can be used to feed astronauts on long space voyages and NASA hopes one day that these will feed space colonies.

Conclusion

Change comes from a number of sources Social, Legal, Economic, Political and Technological. Change is the one constant in the business environment.

This case study has illustrated how these changes have affected McCain, particularly in relation to its core products.

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Because McCain is a market-focussed company, it recognises that it has to respond to what its consumers want. There are clear indicators that today's consumers want to live a healthier lifestyle.

Consumers are increasingly aware of food content and food issues. More and more people look at food labelling and read information in the press about what is good for them. They listen to people like Jamie Oliver and government spokespeople. They listen to advice from teachers and nutritionalists.

The challenge has been, and continues to be, to prepare chips and potato products in the healthiest way possible. Fortunately for McCain, it has market researchers and food technologists who enable the company to keep in tune with the changing environment.

McCain's advertising supports the company's message that chips are nutritionally acceptable provided they are made in the right way. The challenge now is to keep listening to consumers and to the external environment in order to continue to give those consumers the best value healthy chips and other food products.

Of course the choice rests with the consumer. What do you think? Is McCain doing the right thing?

Question:

How McCain responded to changes in social factors?

2.8 Summary

- Retaining environment combines various factors such as the competitive, technological and the global environment.
- Retailing, one of the largest sectors in the global economy, has become the most active and attractive sector of the last decade.
- The retail market in India is expected to reach ₹ 20,000 billion by 2008. This is possible through the growth of organized retailing in both food and non-food segments.
- India has the most unorganized retail market.
- However, the government policies have contributed a lot to make it organized.

2.9 Keywords

Economic environment: It refers to the stage of economic development of the country like developed or developing, state of agriculture, industry and service sectors, level of national income, its composition or source-mix.

Industry attractiveness: The overall attractiveness of an industry is determined by the interaction of these key structural forces.

Industry structure analysis: The initial analysis of industry structure provides a snap of the competitive environment.

Market size/age: Is the market relatively small or large, and can it be broadly characterized by its stage of development (start-up, emerging, growth, maturing, declining)?

Private label: It is a label unique to a specific retailer, account for about 20 percent of sales

The Legal Environment: Market economy in India is much more inclined towards the central, state and local governments.

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2.10 Review Questions

1. What do you understand by retailing environment? Write short notes on:
   (i) The legal environment
   (ii) The economic environment
   (iii) The competitive environment
   (iv) The technological environment
2. Why is retailing important to the Indian society?
3. Write short notes on:
   (i) Toy retailing in India
   (ii) Jewellery retailing in India
   (iii) Luxury retailing in India
4. Which sectors are expected to drive the retail growth in India?
5. What is the scope of economic environment in retailing industry?
6. "Retaining environment combines various factors such as the competitive, technological and the global environment" Discuss.
7. What are the key segments of retailing industry in India?

Answers: Self Assessment

1.	External	2.	Higher
3.	Economic	4.	Profitability
5.	competitors	6.	Environmental
7.	Technological	8.	Innovation
9.	Increasing	10.	Information technology
11.	Private	12.	Organized
13.	Luxury	14.	Textile
15.	unorganised		

2.11 Further Readings

Books

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Lewison, D.M. and Delozier, W.M., *Retailing*, Columbus: Merrill Publishing Co.

Online links

http://www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/Industries/Consumer%20Business/uk-cb-store-of-the-future-report.pdf

http://indianretail-sector.blogspot.in/2008/01/structural-changes-of-retail.html

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Unit 3: International Retailing: Internationalization and Globalization

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Objectives

After studying this unit, you will be able to:

- Explain the concept of Internationalization and Globalization
- Discuss the motivation for international expansion
- Explain the concept of Going international
- Elucidate the internationalization process

Introduction

To satisfy the needs of global consumers, retailers have to meet these through the products they offer, whether these are principally food, fashion or multiple retailers. Consumers experience different cultures when they travel for work or pleasure and they have access to the Internet, television magazines, etc. and they demand products, which reflect these tastes. Retailers are sourcing globally for the fashion or cosmetic or electronic gadget that is new and exciting for their challenging consumer base. Sustainability and fair trade are issues that are coming uppermost for retailers and they have to ensure that they are trading and sourcing ethically. Thus, they have to have in place optimum quality management to do so. One growing market is that of young consumers who have their own finance, are strongly influenced by celebrities and peer-group pressure. This market sector is fast moving, brand-led, difficult to satisfy and fickle. Consumers are increasingly aware of luxury brands, which is particularly challenging for private or own label retailers. Own label or private label products have to be of a premium quality and at a competitive price to attract and retail consumers. International retailers are under pressure to identify key trends in different regions and deliver the appropriate product mix, at the expected level of service quality to satisfy their global consumers. This entails having

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effective supplier relationships in place to guarantee product delivery on time and the agreed price point to meet demand globally. It means monitoring the retailer brand to ensure that it is strengthened, not diluted, by different expectations across the world. It includes keeping ahead of the game in terms of customer care and global trends. It means being aware of competitors that may come into the market through the Internet, through merger and acquisition, and through vertical integration.

Caselet

Internationalization of a French Retailer—Carrefour

In 1960, Carrefour opened its first supermarket in France. In 1963, Carrefour invented a new store concept—the hypermarket. The hypermarket concept was novel, and revolutionized the way French people did their shopping. It moved daily shopping from small stores to enormous stores where customers find everything they want under one roof, in addition to self-service, discount price, and free parking space. The first Carrefour hypermarket store was established at the intersection of five roads—hence the name, Carrefour, which means 'crossroads'. Carrefour is the leading retailer in Europe and the second largest worldwide, with more than 15,000 stores in thirty countries. In 2009, almost 55% of its revenues came from its international stores.

Exhibit 3.1A: International Development of Carrefour

Year	Country and mode of entry	No. of stores (2009)	Formats
1969	Belgium—Carrefour's first hypermarket outside France	120	57(HM), 63(SM)
1973	Spain	2,241	162(HM), 96(SM), 1,972(HD), 11(CS)
1975	Brazil—Carrefour's first hypermarket in the Americas	476	162(HM), 39(SM), 267(HD), 8(CS)
1982	Argentina	518	67(HM), 112(SM), 339(HD)
1989	Taiwan—Carrefour's first hypermarket in Asia	59	HM
1991	Greece	544	31(HM), 209 (SM), 271 (HD), 33(CS)
1993	Italy	494	66(HM), 236(SM), 178(CS), 14(C&C)
1993	Turkey	578	22(HM), 125(SM), 431(HD)
1994	Malaysia	16	HM
1995	China	443	134(HM), 309(HD)
1996	Thailand	31	HM
1997	Poland	303	78 (HM), 225(SM)
1997	Singapore	2	HM
1998	Colombia	59	HM
1998	Indonesia	43	HM
2000	Japan	0	

Note: HM = hypermarkets, SM = supermarkets, HD = hard discount stores, CS = convenience stores, C&C = cash and carry stores.

Source: P. Kamath and C. Codin (2001), 'French Carrefour in South-East Asia', *British Food Journal* 103(7): 479–94; E. Colla and M. Dupuis (2002), 'Research and managerial issues on global retail competition: Carrefour/Wal-Mart', *International Journal of Retail and Distribution Management* 30(2): 103–11; and Carrefour's website at http://www.carrefour.com/.

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In 1969, Carrefour opened its first hypermarket store outside France, in Belgium. Although French consumers welcomed the hypermarket concept, smaller stores lobbied against the spread of hypermarket stores in the late 1960s and early 1970s, and in 1973, the French legislature passed the Royer Law, which restricted the introduction of more hypermarkets. Carrefour had no choice but to expand internationally. It first moved to neighbouring European countries: Switzerland in 1970; Britain and Italy in 1972; and Spain in 1973. However, Carrefour soon withdrew from the Belgian and British markets, focusing mainly on southern European and Latin American countries where the distribution system was not yet modernized. In 1975, it expanded its format outside Europe, to Brazil. Carrefour's internationalization strategy further accelerated in the 1980s and 1990s (see Exhibit 3.1A).

Carrefour's international strategy is based on the hypermarket format with local adaptability. For example, while the store format is the same anywhere around the world, the company sells hot meals to French customers in France and pasta in Argentina and Italy, and has sushi bars in most Asian countries. The success of Carrefour's export of its hypermarket concept is due, at least in part, to its careful choice of countries and to its ability to adapt its format to local business environments. As shown in Exhibit 3.1A, most countries are emerging economies with a growing urban middle-class population that find the hypermarket concept appealing.

The international concept of Carrefour is based on:

- ***A simple and clear idea:*** People in major cities prefer to do all their shopping under one roof. Carrefour's logic is based on the belief that choice, self-service, free parking, and low prices have universal appeal. Although these principles might seem simple, the introduction of free parking in South Korea and Singapore was considered revolutionary, given the high cost of land in these countries.
- ***Evolving ideas:*** Each hypermarket around the world is expected to keep reinventing itself to meet the demands of local customers. For instance, the company has introduced organic food in France, optical shops and tyre fitting in Taiwan, and petrol stations in Argentina.

As shown in Exhibit 3.1A, different formats are present in different countries. While the hypermarket model is the only format in emerging economies in South America (with the exception of Brazil and Argentina) and Asia, different formats exist in European countries. This is mainly due to: (1) planning restrictions on building hypermarkets in Western European countries; and (2) historical growth through acquisition of small outlets. In addition, in contrast to its standard entry mode by ownership, Carrefour entered several countries—the United Arab Emirates, Madagascar, Qatar, Romania, the Dominican Republic, and Tunisia—through a franchise partnership.

Most Carrefour stores are still located in Europe. However, the importance of non-European markets has been steadily increasing. For instance, the number of Carrefour stores in Belgium fell from 483 to 120 in the ten-year period of 1999–2009, while the number of stores in Italy fell from 912 to 494. At the same time, the number of Carrefour stores in Brazil increased from 193 to 476, while the number of stores in China increased from 23 to 443.

3.1 Internationalization and Globalization

The motives underlying retail globalization are then explored. While in the past much prominence has been placed on a reactive interpretation of globalization, namely that retailers only move outside the domestic market when opportunities for growth at home are severely

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limited, more recently a more proactive stance has been taken. Prominence has been placed upon the notion that retailers actively seek opportunities outside the home market, regardless of the potential for growth within it. Both the direction of expansion (choice of host market) and the method of entering a market are considered. Emphasis is placed upon the different requirements of retailers operating in different sectors and with various retail offers.

Prior to examining the nature of the contemporary global retail arena, we will discuss the factors changed to promote the modern global retail environment. Manufacturers and retailers are at opposite ends of distribution channel. They may also be viewed as dichotomous in other ways. Until recently, manufacturers have dominated retailers within the channel of distribution. For example, Coca-Cola, as a supplier, has had the advantage of utilizing the expertise of overseas distributors familiar with local consumer attitudes and preferences. However, retailers faired less well. US players such as Sears had major problems in Belgium and Spain, and JC Penney was not successful in Italy and Belgium. Many of the problems of these US companies have been related to their lack of awareness of the European consumer. In fact, the problems have been multifaceted. There was a lack of awareness of the consumer market and the retail infrastructure.

Measures of Retail Development

The number of employees per retail business or per store are also increasing since traditional retail businesses are characterized as small scale, and employ few people per outlet and per company. As the retailer develops, the size of the store tends to increase, as does the number of outlets per business. Hence, more developed retail industries have more employees per business and more employees per store.

A more general measure of prosperity and development in a market is the proportion of consumer expenditure that goes on retail. As the population is more wealthy, a greater proportion of income is spent on non-essentials, thus a smaller percentage of total spend goes on food and clothing (although the actual amount may increase) and a higher share of spending power is directed towards non-essentials such as holidays and leisure activities. This is exemplified by the fact that in Germany some 28 per cent of consumer expenditure went through retailers, while in Portugal a much higher proportion, some 60 per cent, was accounted for by retail (Retail Intelligence, 2000b).

Tordjman (1995) has divided the markets of Western Europe into a four-stage matrix of structural development. The advanced markets of the UK and Germany are characterized by having the highest levels of concentration and a clearly segmented market. Next and the structured markets of France and the Netherlands, followed by the globally markets of Spain and Italy and, finally, the traditional retail structures of Portugal and Greece. Rather than regarding these is unchanging distinct phases, it is perhaps more useful to consider these markets as being as different points along a continuum of retail development.

Figure 3.1: Retail Structure from Advance to Traditional in Countries

The retail environments of former centrally planned economies (CPEs) may appear similar to other developing markets whereas there are fundamental differences. For example, the Russian retail industry is based on a legacy of a supply-led, not a demand-led, economy. Retailing has

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traditionally been perceived as an unproductive link in the channel of distribution. The outcome of this is that concepts such as marketing, product advertising or the role of the salesperson were previously unknown or at least absent. While many foreign operations are moving into former CPE markets as a result of consumer demand and limited indigenous competition, the former State-owned operations are moving into former CPE markets as a result of consumer demand and limited indigenous competition, the former State-owned operations are finding it difficult to transform themselves.

It is important to note that the above description does not fully explain the structure of CPEs and former CPEs. With a retail industry based on supply rather than demand, the pattern of growth in terms of size and number of retail businesses does not follow the same rules. The nature of the economy dictates that increased consumer demand is not met by more stores or the development multiple organizations, this former CPEs need to be analyzed.

The following section refers to markets by their national borders, which suggests that there are various differences between national retail markets. While fully supporting this assertion, it is also necessary to point out that there may be similarities between markets – retail characteristics do not necessarily change abruptly at national borders. For example, it may be difficult to distinguish differences between retailing in western Germany and conditions across the Dutch border. It is also true to say that conditions may vary considerably within national markets; indeed, this was a point made by Hollander (1970) in a similar study of global retailing. He suggested that differences between retailing on the East Coast of the USA and on the West Coast far outweighed variations between the retail environments of north-east USA and Canada, despite the national border separating them. This concept, that variations may be greater within a market than between them, has also been supported in a European context (Dawson, 1994; Myers, 1996).

3.2 The Motivations for International Expansion

Before discussing the motivations leading to globalization, it is important to have an understanding of the structural changes that have occurred in the retail industry in the last few decades. Although these trends have not in themselves caused globalization, they may be conserved as prerequisites to significant levels of retail globalization.

There have been major changes in the retail environment since the Second World War. While to some extent these structural shifts have occurred throughout Western Europe, they are most apparent in the advanced retail markets of the UK and Germany, and particularly within the food sector.

Structural Changes in Post-war Retailing

1. Retailers have grown in strength relative to manufacturers and in some cases are not characterized as dominating the distribution channel.
2. Traditional independent retailers and co-operative societies have lost market share to multiple retail organization.
3. Larger but fewer stores and retail companies.
4. Increasing consolidation of the retail sector measured by increasing rates of market concentration and claims of saturation.
5. Higher profitability of major EU and US retailers and subsequent ability to embark on expansionist strategies into foreign markets in order to achieve growth.

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Conditions Constraining the Global Development of Retailers

1. Retailers have traditionally been perceived as operating in a localized manner and holding limited market power, whereas many manufactures have long since had global presence.
2. While manufacturers have been characterized as large companies with sophisticated in organizational structures, retailers have been perceived as small scale and unsophisticated in comparison.
3. Manufacturers have established brands, while it is only recently that retailers have created strong brand images capable of global transfer.
4. There has been a lack of understanding of the consumers in foreign markets.

Each of these structural shifts have allowed, or indeed promoted, the process of retail globalization. The fact that retailers have grown in size and strength has given them the capability to operate on global basis. Intrinsically linked to this is the dominance of the multiple organizations. Their sheet size has given them the necessary financial resources and backing required to move globally and as they have grown in size so they have developed in terms of organizational structure. The multiples, therefore, have the management expertise and sophistication, as well as being more likely to have access to sufficient capital, to operate globally while smaller, more traditional, firms have not.

The first three structural changes listed below are prerequisites for global retailing on a mass scale, but the fourth provides the prompt. If retailers are to continue to grow in a concentrated market then they must look to diversify from their core activities. While some may allow a strategy of diversifying their activities within the home market – for example, one of the largest retailers in Germany, Rewe, operates a number of types of food store, from hypermarkets to convenience stores, as well as DIY stores, Klee garden centers, idea and sconti drugstores, Frick carpet outlets and Kressner clothing stores-other look to transfer their offer to a new market-for example, US clothing retailers The Gap's entry into Canada, Japan, France, Germany and the UK.

The type of decisions made, whether to globalize or not, will be based upon the following strategic concerns, discussed in further details later in this unit.

The Strength of the 'push' Factors

1. Saturation of the home market or strong competition;
2. National economic recession or limited growth in consumer spending;
3. A declining or ageing population which will affect the market size;
4. Strict planning policies on store development which will constrain growth;
5. Operating costs which are considered too high (labor, rents, taxation);
6. Shareholder pressure to maintain profit growth and be seen to be doing something;
7. Inability to find any further competitive advantages in the home market.

The Strength of the 'Pull' Factors

Global opportunity due to the underdevelopment of some markets or weak competition within them:

1. Strong economic growth or rising standards of living;
2. Population growth or rising standards of living;
3. A relaxed regulatory framework of employment and retail site development;

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4. Favorable operating costs of labor, rents taxation etc.;
5. A geographical spread of trading risks;
6. The opportunity to innovate, in new market conditions.

3.3 Understanding International Retailing

International retailing is an essential ingredient for the global economy. International retailing satisfies the increasingly complex and demanding needs of global consumers.

Global retailers are at the forefront of technology change to manage their operations and consumer interface. Consumers are international in their outlook through traveling for business through accessing the Internet, music, television and magazines, and so are looking for new experiences and a global appeal when shopping. Progressive retailers have to meet this demand through keeping abreast of global trends and working with suppliers to optimize the appropriate product mix in store. Sustainability and ethical aspects of retailing are particularly apt when working globally. This is a challenging area for retailers and is an aspect of their quality management. Addressing the dynamics of the market for teenagers and youth market is another demanding area. Young consumers have their own finance and make their own decisions about what products they chose to buy and where from. They tend to be strongly influenced by celebrities, brands and peer-group pressure. Retailers need to understand their shopping habits and cater for the needs of this cohort. In general, consumers are increasingly brand aware and want to have access to luxury products. Own brands, or private labels, have to offer premium quality and a sense of uniqueness to attract and retain consumers' loyalty.

Retailers have long operated on global basis, yet it is only since the last decade or so of the twentieth century that they have done so on any significant scale. In the past, companies trading outside their home market were rare by comparison with number of retailers operating solely within the domestic market. Also global operation usually accounted for a much smaller part of the business than domestic trade. However, the larger retail companies that have successfully developed their marketing strategy and human resource base in the domestic market are well suited to extend development into global markets. Other smaller players that have powerful brand and a strong retail concept also have the ability to globalize successfully through using a lower cost and risk strategy such as that of franchise.

Luxury goods retailers are among some of the earliest globalists, seeking to serve a similar consumer niche in a number of cosmopolitan cities around the world. This is exemplified by Harrods, which operated a store in Argentina in the early twentieth century in order to meet the needs of colonial expatriates.

This is not to say that we have witnessed significant global expansion by many retailers. Even today, it is noteworthy that many retailers remain essentially domestic operations. In addition, many of those retailers we might perceive to be developed globalists, or indeed global operations, receive only a minority of their turnover and profit from their operations outside the home market.

Self Assessment

Fill in the blanks:

1. ……. goods retailers are among some of the earliest globalists,
2. Sustainability and ethical aspects of retailing are particularly apt when working ……...

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3. …… are increasingly brand aware and want to have access to **luxury** products.
4. Own brands, or private labels, have to offer premium quality and a sense of uniqueness to attract and retain consumers' ……..
5. Smaller players that have powerful brand and a strong retail concept also have the ability to globalize successfully through using a …….. **cost** and risk strategy such as that of franchise.

3.4 Going International: Issues to be Considered While Going International in Retail Business

- Logistics and supply chain management
- Service quality across international boundaries
- Electronic Commerce and E-Retailing/E-tailing
- Design
- Ethical aspects of retail business
- Luxury brands
- Young potential consumers
- Global trends

Retailing is predominantly a domestic market activity. The total business of the vast majority of retailers is done within one particular country and in many cases, within one specific region or district. Consequently, when compared to other sectors, the proportion of foreign assets to total assets within retailing is low as such it has been noted that international retailing is still a minority activity for the majority of retailers.

Global Retail Structures

As indicated by Davis and Finny (1988), until the mid-1970s the level of global retailing was limited and characterized by many failures. The early companies were mostly American: Woolworth's in 1909 – although now not American owned; British Home Stores (now BHS) was incorporated in 1928 by two Americans and Safeway in 1963 prior to being acquired by Argyll (now Safeway plc). European retailers were far less ambitious, with the exception of early moves by C&A, Boots and Marks & Spencer.

While we may talk of a global retail environment there remain fundamental differences between national retail markets. Despite the existence of truly global retails brands, which are found throughout the world, retail structures remain traditional in many parts of the world. Informal retailing, such as open trading markets, characterize developing regions. Even though modern forms of retailing are emerging in such markets, traditional retail styles remain an inherent part of the market structure and are inescapably bound to the local culture and lifestyle.

For example, even in Singapore with its sophisticated shopping malls and whole array of global retailers, shopping for produce at markets remains a daily way of life for many people.

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Measuring Retail Structures

So what do us actually means by the term retail structure, and how do we measure it in order to compare markets? The structure of the retail environment generally refers to the nature and characteristics of the market: for example, the type of retail operations, the variety of retail offers, store location and nature of ownership.

In terms of measuring the retail environment, levels of market concentration are often used. Higher levels of concentration are associated with more developed markets. For example, the top three retailers of each country account for 58 per cent of all sales through food retailers in Germany and 47 per cent in the UK and in France, indicating that these are highly developed retail environments. Compare this with concentration levels of just 22 per cent for Italy and 8 per cent for Poland, illustrating their less-developed retail industries (Retail Intelligence, 2001b). This is explained by the fact that, as retail industries develop, so multiple organizations begin to take market share from traditional independent and co-operative retailers; thus a smaller number of larger organizations are taking a greater proportion of the market.

The level of retail structure development can be measured not just by the member of retail organizations, but also by the number of stores (Davis and Whitehead, 1995). As a demand-led retail market begins to develop, so the number of stores, and also the number of retail companies, increases. As the market becomes more structured, the number of retail organizations begins to drop off due to the dominance of fewer but larger multiple organizations. The number of stores begins to decrease because the size of individual shops increased in order to gain scale economies and efficiencies, and so one store can serve a larger group of the population. In the developed retail market of the UK there are some 185 inhabitants per retail outlet, this compares to just 66 people in Greece, implying that stores in Greece are much smaller (Retail Intelligence, 2000).

Task Choose a selection of markets from around the world. Using a matrix where international market boundaries are listed down the vertical axis and the markets are listed across the horizontal axis, try to identify which markets share common characteristics and which do not.

Caselet

Starbucks' Expansion into the Indian Territory

Starbucks aims to open 50 outlets in India by 2012 end, through a 50-50 joint venture with Tata Global Beverages, the companies said Monday.

Tata Starbucks Ltd., as their venture is known, hopes to capitalize on the rising aspirations – and fattening wallets – of many Indians, who are eager to partake of the global latte life.

"What we are seeing is an evolution in lifestyles," said R.K. Krishnakumar, vice chairman of Tata Global Beverages. "In some ways the distinctions between the developed world and the developing world are blurring."

He said the partners would initially invest 4 billion rupees ($80 million), with the first outlet to open in Mumbai or New Delhi by September.

Long known as a nation of tea drinkers – despite a rich tradition of coffee in the south – India has embraced coffee house culture with a vengeance.

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Last year, India had 1,600 cafes, up from just 700 in 2007, according to Technopak Advisors, which expects India's $170 million cafe market to grow 30 percent a year, adding up to 2,700 more outlets over the next five years.

"We're going to move as fast as possible in opening as many stores as we can so long as we are successful and so long as we are embraced by the Indian consumers," said John Culver, president of Starbucks China and Asia Pacific.

Unusually, the stores will be cobranded "Starbucks Coffee: A Tata Alliance."

The companies will also develop a tea for the Indian market under the Tata Tazo brand.

Last January, Starbucks signed an agreement with Tata Coffee, a unit of Tata Global Beverages, to source and roast coffee beans in India.

The alliance with Tata could help ease one of the main burdens for retailers in India: the high cost of real estate.

Source: www.huffingtonpost.com

3.5 Retail Globalisation

A question fundamental to the discussion of retail globalization asks why retailers follow such a strategy. Invariably operating in a new market is a high cost and high risk method of growth. Indeed, it has been suggested, "Global retailing demands huge investment and gives no guarantee of return" (quoted in Lamey, 1997).

While there are certainly successful global retailers, there are many examples of failure. Failure is, undoubtedly, the result of a series of complex and interrelated factors. For example, although a successful domestic retailer, Boots the Chemist has had a number of global ventures that it has subsequently pulled out of. It has retreated from Canada, New Zealand, France and the Netherlands and most recently its Japanese operation. It still has stores in Taiwan and concessions in Thailand.

Just because a retailer successfully globalizes into one market does not mean it can necessarily repeat this success elsewhere. For example, Tesco entered Ireland in 1978 only to pull out in 1986 after incurring substantial losses. Tesco reentered the Irish market in the late 1990s and also operates stores in Eastern Europe and Asia.

Growth Strategies

It is assumed that retailers want to grow their company, and then they have three options (Pelegrini, 1994; Treadgold, 1991):

- From operating their core offer in the home market they may choose to follow a strategy of sectoral expansion, whereby they move into new formats, retail sectors or even outside the retail industry.
- The second growth strategy open to retailers is to remain with the core offer and to transfer this is that they are experienced in the operation; however, they may need to learn about and adapt to new market conditions.
- The third method of growth is to use a combined strategy, whereby a company may move away from its core offer and also globalise. Although this may balance the risks somewhat it may mean the board lose focus. If this strategy is taken to its extreme, the company then becomes a global portfolio or holding company.

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Sectoral Expansion

The John Lewis Partnership runs a chain of some 25 department stores. In addition it also operates 120+ Wait raised supermarkets. There may seem little connection between the two but both are pitched at the mid to upper market and so have a similar target market and complementary retail offers. The company also has its own manufacturing operations and owns brand is important for both chains. The advantage of being a multi-sector retailer concentrating on the home market is that it is familiar with the domestic consumer market and its brand image is strong enough to transfer from one sector to another.

Global Expansion

An example of such a retailer is the German 'hard discounter' Aldi. The company was founded in the immediate post-war years with an orientation on heavily discounted limited lines of generic products. Since the 1960s Aldi has moved into numerous European markets and also the US, using a method of organic growth. Although a number of alternative fascias are used, all stores are practically identical. This generates vast economies and efficiencies of scale. Despite moving into a variety of markets, Aldi has made the very minimum of adaptations to its retail offer.

Table 3.1: Combined Sectoral and Global Expansion

Country	Format	Developments
UK, France	Internet	Major retailers seeking to exploit potential of the Internet
UK	Discount villages	Clerks success prompts retailers to invest in mall-style development
France	Factory outlets	Sector has become dominated by a handful of specialist operators
Czech Republic, Croatia, Hungary, Poland, Slovenia	Discounters	Lidl's geographic expansion plans to boost strength of discounter channel
Russia, Czech Republic, Slovenia	Internet	Increasing access to computers and development of credit cards boost growth
Hungary	Factory outlets	Factory outlets increasingly appealing to price- conscious consumers
Mexico, Argentina	Discounters	The end of the review period saw price-sensitive consumers attracted to discounters
Mexico	Warehouse clubs	Increasing number of outlets open during the review period
Colombia	Service Stations	Outlawing of kiosks benefited service stations in several cities
Japan, China, Indonesia	Warehouse Clubs	Foreign retailers develop format
Japan, South Korea	Discount superstores	Format benefits from consumer price sensitivity
Japan South Korea	Internet	Channel benefits from strong technological infrastructure
US	Dollar stores	Major players experiment with format
US	Warehouse clubs	Unit expansion leads to head-to-head competition
US	Airport retailing	Increased security poses threat to sales, although it also increases the time consumers spend in airports
Australia	Internet	Consumer good show strong growth, but outpaced by travel and tourism, insurance, and miscellaneous services
Australia	Category killers	Unit expansion drives strong growth
Morocco	Supermarkets/ hypermarkets	French companies drive emergence of the sector
South Africa	Garage forecourt stores	Demand for convenience encourages sector expansion
Egypt	Discount superstores	International export standards boosting supply of 'seconds' for discount superstores

Source: www.euromonitor.com

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Kingfisher operates in a number of chains in sectors including DIY (e.g., B&O, Castorama) and electrical (e.g., Comet, Darty) but is divesting in general merchandise (e.g., Woolworth's). It has stores in numerous European countries as well as the far East, Canada and Brazil. The company has also ventured into e-commerce. The advantage of this strategy is the array of opportunities it offers; however, it also increases the problems associated with working in unfamiliar markets and in unfamiliar sectors. A danger is that the company may lose direction. It is a strategy perhaps more appropriate for experienced global companies.

The Internet is having a strong impact of traditional high street shops and diverting a significant proportion of sales. The strongest Internet players tend to be retailers who operate online sales in tandem with a high street brand, as customer loyalty already exists and these operators already have extant logistical networks. Typically, online sales are highest in the run up and aftermath to Christmas. Consumers prefer to shop online to avoid the chaos of the high street.

3.6 The Internationalization Process

The internationalization process includes some common Market-entry Strategies that are discussed below:

1. ***Acquisition:*** Taking over a retail company already established in the market.
2. ***Joint Venture:*** Establishing a company with a partner, most usually one that is indigenous to the market or has experience of operating there. 7-Eleven entered Japan utilising this method, as it needed a partner that understood the complexity of the Japanese distribution systems.
3. ***Organic growth:*** Opening new outlets using existing brand/fascia or creating a new brand.
4. ***Shareholding:*** Acquiring shares of a retailer already operating in the chosen market.
5. ***Franchise:*** Allowing entrepreneurs to open outlets under a single brand/fascia, which are operated under certain, controlled conditions? US fast-food giants such as DFC, Burger King and McDonald's are key exponents of this approach. In the non-food sector, Benetton is a good example.

Figure 3.2: Steps in International Retailing

Evaluation of Entry Methods

Conditions within a new market will shape the decision on how to globalise. In markets that are economically and politically stable, retailers may feel it is safe to develop quickly by utilising a high cost strategy such as acquisition. Entries through acquisition can have a higher post-entry failure rate than entries through setting up new ventures. This is typically attributed to difficulties

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of integrating the acquired businesses into the existing system, and lower levels of managerial commitment to acquired outlets. In more risky environments retailers may favour a less costly strategy such as franchise and proceed at a more controlled pace. The geographical and cultural distance of the host market will also influence the decision. In markets perceived as distant, a slower more incremental entry strategy may be used in order that the company learns about market conditions and adapts accordingly. Acquiring a company outright in a culturally distant market is a very risky option, and one that may be extremely costly if the retailer subsequently withdraws.

The size of the company is also a determinant of market-entry method. Large, powerful companies have the financial backing to follow high investment strategies such as merger or full acquisition. They can also achieve large-scale entry, which may provide volume-driven cost advantages. The great scale of business is obtained. Smaller companies are obviously not in a position to follow the same path. Private companies also have the freedom of perhaps taking a longer-term view of expansion, as they are not restrained by the opinion of shareholders.

Linked to this, the management culture often influences strategy, while some retailers have a clear mission to be global players and will take risks to achieve this central aim; others are not willing to consider such strategies. The opinion of senior management often determines whether a retail company becomes global or not. Research suggests that it often takes a main board member to champion the idea of going global for it to occur.

Joint Ventures

A joint venture (often abbreviated JV) is an entity formed between two or more parties to undertake economic activity together. The parties agree to create a new entity by both contributing equity, and they then share in the revenues, expenses, and control of the enterprise. The venture can be for one specific project only, or a continuing business relationship such as the Sony Ericsson joint venture. This is in contrast to a strategic alliance, which involves no equity stake by the participants, and is a much less rigid arrangement.

Use of Joint Ventures

Joint ventures are common in the oil and gas industry, and are often cooperations between a local and foreign company (about 3/4 are international). A joint venture is often seen as a very viable business alternative in this sector, as the companies can complement their skill sets while it offers the foreign company a geographic presence. Studies show a failure rate of 30-61%, and that 60% failed to start or faded away within 5 years. (Osborn, 2003) It is also known that joint ventures in low-developed countries show a greater instability, and that JVs involving government partners have higher incidence of failure (private firms seem to be better equipped to supply key skills, marketing networks etc.) Furthermore, JVs have shown to fail miserably under highly volatile demand and rapid changes in product technology.

Some countries, such as the People's Republic of China and to some extent India, require foreign companies to form joint ventures with domestic firms in order to enter a market. This requirement often forces technology transfers and managerial control to the domestic partner.

Another form that joint ventures may take are the Joint Ventures (JV's) in the U.S., Canada, and Mexico dedicated to the conservation of priority bird species and their associated habitats. Each of these JV's is different in how they go about their respective missions, but all try to follow the principles of Strategic Habitat Conservation (SHC). SHC combines biological planning, conservation design, conservation delivery, and evaluation and monitoring. Gulf Coast Joint Venture, Lower Mississippi Valley Joint Venture, and Prairie Pothole Joint Venture are just three of the 20+ JV's found in North America.

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As well, Joint Ventures are practiced by a Joint venture broker who are people that often put together the two parties that participate in a Joint Venture. A Joint venture broker then often makes a percentage of the profit that is made from the deal between the two parties.

The phrase generally refers to the purpose of the entity and not to a type of entity. Therefore, a joint venture may be a corporation, limited liability company, partnership or other legal structure, depending on a number of considerations such as tax and tort liability.

Joint Ventures lead to increased exports of capital goods, spare parts and components from India Exports of technical know-how and consultancy services also increase. In fact, joint ventures help in projecting the image abroad as a supplier of capital goods and technology. They can help in the utilisation of idle capacity in the capital goods sector and thus in reducing costs in general. They might also lead to greater employment in the industries concerned. The country gains by greater inflow of foreign exchange in the form of dividends, royalties and technical know-how fees. Finally, they help fulfil the Governments aim of achieving collective self-reliance and mutual cooperation among the developing countries.

It may not be out of place to mention that the export-import Bank of India provides overseas investment finance to enable Indian parties to finance equity contribution in a joint venture. Developing countries generally welcome joint venture because intermediate labour-intensive technology developed by India is more suited to their requirements and they can adopt it directly without any or with slight modification. Moreover, most developing countries, because of their limited home market, may not be able to afford large scale capital-intensive technology provided by developed countries and thus prefer the medium-scale technology developed by India. Finally, host countries perceive little threat from Indian joint ventures to their political or economic independence.

Internal Reasons

1. Build on company's strengths
2. Spreading costs and risks
3. Improving access to financial resources
4. Economies of scale and advantages of size
5. Access to new technologies and customers
6. Access to innovative managerial practices

Competitive Goals

1. Influencing structural evolution of the industry
2. Pre-empting competition
3. Defensive response to blurring industry boundaries
4. Creation of stronger competitive units
5. Speed to market
6. Improved agility

Strategic Goals

1. Synergies
2. Transfer of technology/skills

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Diversification

There are some inherent risks in joint ventures, which might be faced by the Indian parties, some over which the management can exercise little control and some over which the management can exercise a degree of control. Expropriation, price controls, governmental discrimination and non-convertibility of currency fall under the former category. The possibility of expropriation should be a factor in any decision on joint ventures. However, there are two points which need mention in this connection are:

- The threat of expropriation usually develops over a long period of time and a careful study of the trends in the country could provide a forewarning.
- Joint ventures have a better chance of avoiding expropriation than full direct investment because of the involvement of the local capital and entrepreneurs.

Price control mechanism does provide for an increase in prices with escalation in costs but usually there is a time lag. Government discrimination should be taken as a fact of life. Even in India, different states have different incentives exchange controls, permit conversion of local currency within their domain, there might be delays in repatriation of funds. Fluctuations in exchange rates are a risk over which the management can exercise a certain degree of control.

Selection of a Country for JV

Some factors, which could be considered for selection of a country for the establishment of joint ventures, are given below:

Market for the Product Concerned

1. Size of the market
2. Market growth
3. Existing competition-local and foreign.

Government Regulations

1. Tax concessions and incentives
2. Price controls-their severity
3. Local content requirements
4. Export obligations
5. Extent of equity holding permitted
6. Degree and nature of protection
7. Repatriation of profits and capital

Economic Stability

1. The economy and its management-economic and fiscal policies-growth rate
2. Degree of inflation
3. Trade balance, balance of payments and balance of its indebtedness
4. Import and debt service cover.

Notes

Political Stability

1. Sound political institutions
2. Mechanism for orderly transfer of power
3. Acceptance of the obligations of the previous government
4. Political relations

Benefits from Joint Ventures

The benefits that accrue to India from the successful joint ventures operating abroad are in the form of dividends and other entitlements of Indian promoters such as technical know-how fee, engineering services fee, management fee, consultancy fee and royalty. Besides this substantial foreign exchange is earned on additional exports made to the joint ventures, which is over and above exports towards equity contribution. Some of the operating joint ventures have also been declaring bonus shares from time to time and pro-rata allotment to the Indian companies has been exceeded significantly. Issuance of bonus shares has enhanced the equity capital of these units and this enables them to remit higher amounts by way of dividends as profitability increases.

Problems Faced by Indian Joint Ventures

Out of the many joint ventures approved by the government, about 40 per cent were abandoned, may of them halfway after considerable time and money were spent on them. Some of the reasons for failure of these projects were: inability to gauge the market prospects, failure to locate the right partners; subsequent backing out of the local partners and non-approval of the technology sought to be supplied by Indian partners. But the basic cause lies in the inability of the Indian companies to adjust them to a new marketing environment-absence of any sheltered market to which they are used in India. Many units found it difficult to survive in the face of relentless price competition. Most of the problems could have been avoided if the entrepreneurs had done their homework properly. Of course, there was an information gap and the Indian entrepreneurs did not have adequate information about many countries.

3.7 Franchising

Franchising refers to the method of practicing and using another person's philosophy of business. The "franchisor" authorizes the proven methods and trademarks of his business to the "franchisee" for a fee and a percentage of gross monthly sales. Various tangibles and intangibles such as national or international advertising, training, and other support services are commonly made available by the franchisor. Agreements typically last five to twenty years, with premature cancellations or terminations of most contracts bearing serious consequences for franchisees.

The term "franchising" is used to describe business systems which may or may not fall into the legal definition provided above. For example, a vending machine operator may receive a franchise for a particular kind of vending machine, including a trademark and a royalty, but no method of doing business. This is called "product franchising" or "trade name franchising".

Caution A franchise agreement will usually specify the given territory the franchisee retains exclusive control over, as well as the extent to which the franchisee will be supported by the franchisor (e.g. training and marketing campaigns).

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The franchisor typically earns royalties on the gross sales of the franchisee. In such cases, franchisees must pay royalties whether or not they are realizing profits from their franchised business.

Cancellations or terminations of franchise agreements before the completion of the contract have serious consequences for franchisees. Franchise agreement terms typically result in a loss of the sunk costs of the first-owner franchisees who build out the branded physical units and who lease the branded name, marks, and business plan from the franchisors if the franchise is cancelled or terminated for any reason before the expiration of the entire term of the contract.

Franchising dates back to at least the 1850s; Isaac Singer, who made improvements to an existing model of a sewing machine, wanted to increase the distribution of his sewing machines. His effort, though unsuccessful in the long run, was among the first franchising efforts in the United States. A later example of franchising was John S. Pemberton's successful franchising of Coca-Cola. Early American examples include the telegraph system, which was operated by various railroad companies but controlled by Western Union, and exclusive agreements between automobile manufacturers and operators of local dealerships. Earlier models of product franchising collected royalties or fees on a product basis and not on the gross sales of the business operations of the franchisees.

Modern franchising came to prominence with the rise of franchise-based food service establishments. This trend started before 1933 with quick service restaurants such as A&W Root Beer. In 1935, Howard Deering Johnson teamed up with Reginald Sprague to establish the first modern restaurant franchise. The idea was to let independent operators use the same name, food, supplies, logo and even building design in exchange for a fee.

The growth in franchises picked up steam in the 1930s when such chains as Howard Johnson's started franchising motels. The 1950s saw a boom of franchise chains in conjunction with the development of the U.S. interstate highway system. Fast food restaurants, diners and motel chains exploded. In regard to contemporary franchise chains, McDonald's is unarguably the most successful worldwide with more restaurant units than any other franchise network.

According to Franchising in the Economy, 1991-1993, a study done by the University of Louisville, franchising helped to lead America out of its economic downturn at the time. Franchising is a unique business model that has encouraged the growth of franchised chain formula units because the franchisors collect royalties on the gross sales of these units and not on the profits. Conversely, when good jobs are lost in the economy, franchising picks up because potential franchisees are looking to buy jobs and to earn profits from the purchase of franchise rights. The manager of the United States Small Business Administration's Franchise Registry concludes that franchising there is continuing to grow and that franchising is growing in the national economy.

Notes Franchising is a business model used in more than 70 industries and that generates more than $1 trillion in U.S. sales annually.

Appropriateness of Franchising with Business:

Businesses for which franchises are said to work should have the following characteristics:

- Businesses with a good track record of profitability.
- Businesses built around a unique or unusual concept.
- Businesses with broad geographic appeal.
- Businesses which are relatively easy to operate.

Notes

- Businesses which are relatively inexpensive to operate.
- Businesses which are easily duplicated.

Advantages

- ***Quick Start:*** As practiced in retailing, franchising offers franchisees the advantage of starting up a new business quickly based on a proven trademark and formula of doing business, as opposed to having to build a new business and brand from scratch (often in the face of aggressive competition from franchise operators). A well run franchise would offer a turnkey business: from site selection to lease negotiation, training, mentoring and ongoing support as well as statutory requirements and troubleshooting.
- ***Expansion:*** After their brand and formula are carefully designed and properly executed, franchisors are able to expand rapidly across countries and continents, and can earn profits commensurate with their contribution to those societies. Additionally, the franchisor may choose to leverage the franchisee to build a distribution network.

  Also with the help of the expertise provided by the franchisors, the franchisees are able to take their franchise business to that level which they wouldn't have had been able to without the expert guidance of their franchisors.
- ***Training:*** Franchisors often offer franchisees significant training, which is not available for free to individuals starting their own business. Although training is not free for franchisees, it is supported through the traditional franchise fee that the franchisor collects.

Disadvantages

- ***Control:*** For franchisees, the main disadvantage of franchising is a loss of control. While they gain the use of a system, trademarks, assistance, training, marketing, the franchisee is required to follow the system and get approval for changes from the franchisor. For these reasons, franchisees and entrepreneurs are very different. The United States Office of Advocacy of the SBA indicates that a franchisee "is merely a temporary business investment where he may be one of several investors during the lifetime of the franchise. In other words, he is "renting or leasing" the opportunity, not "buying a business for the purpose of true ownership." Additionally, "A franchise purchase consists of both intrinsic value and time value. A franchise is a wasting asset due to the finite term, unless the franchisor chooses to contractually obligate itself it is under no obligation to renew the franchise."
- ***Price:*** Starting and operating a franchise business carries expenses. In choosing to adopt the standards set by the franchisor, the franchisee often has no further choice as to signage, shop fitting, uniforms etc. The franchisee may not be allowed to source less expensive alternatives. Added to that is the franchise fee and ongoing royalties and advertising contributions. The contract may also bind the franchisee to such alterations as demanded by the franchisor from time to time. (As required to be disclosed in the state disclosure document and the franchise agreement under the FTC Franchise Rule)

Forms of Franchising

Social franchises: In recent years, the idea of franchising has been picked up by the social enterprise sector, which hopes to simplify and expedite the process of setting up new businesses. A number of business ideas, such as soap making, whole food retailing, aquarium maintenance, and hotel operation, have been identified as suitable for adoption by social firms employing disabled and disadvantaged people.

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The most successful example is probably the CAP Markets, a steadily growing chain of some 50 neighborhood supermarkets in Germany. Other examples are the St. Mary's Place Hotel in Edinburgh and the Hotel Tritone in Trieste.

Event franchising: Event franchising is the duplication of public events in other geographical areas, while retaining the original brand (logo), mission, concept and format of the event. As in classic franchising, event franchising is built on precisely copying successful events. Good example of event franchising is the World Economic Forum, or just Davos forum which has regional event franchisees in China, Latin America etc.

Acquisition

An acquisition, also known as a takeover, is the buying of one company (the 'target') by another. An acquisition may be friendly or hostile. In the former case, the companies cooperate in negotiations; in the latter case, the takeover target is unwilling to be bought or the target's board has no prior knowledge of the offer. Acquisition usually refers to a purchase of a smaller firm by a larger one. Sometimes, however, a smaller firm will acquire management control of a larger or longer established company and keep its name for the combined entity. This is known as a reverse takeover.

Types of Acquisition

The buyer buys the shares, and therefore control, of the target company being purchased. Ownership control of the company in turn conveys effective control over the assets of the company, but since the company is acquired intact as a going business, this form of transaction carries with it all of the liabilities accrued by that business over its past and all of the risks that company faces in its commercial environment.

The buyer buys the assets of the target company. The cash the target receives from the sell-off is paid back to its shareholders by dividend or through liquidation. This type of transaction leaves the target company as an empty shell, if the buyer buys out the entire assets. A buyer often structures the transaction as an asset purchase to "cherry-pick" the assets that it wants and leave out the assets and liabilities that it does not. This can be particularly important where foreseeable liabilities may include future, unquantified damage awards such as those that could arise from litigation over defective products, employee benefits or terminations, or environmental damage. A disadvantage of this structure is the tax that many jurisdictions, particularly outside the United States, impose on transfers of the individual assets, whereas stock transactions can frequently be structured as like-kind exchanges or other arrangements that are tax-free or tax-neutral, both to the buyer and to the seller's shareholders.

The terms "demerger", "spin-off" and "spin-out" are sometimes used to indicate a situation where one company splits into two, generating a second company separately listed on a stock exchange.

3.8 Culture

Notwithstanding the importance of economic variables like income and wealth that affect the consumption of a person, the anthropologists and marketers have drawn the attention to a factor which is not deeply explored as a determinant of retail business environment, though it is increasingly showing its implications and more often scholars and researchers have started paying attention to it – culture and cultural characteristics that effect the retail business environment.

Culture may be viewed as the sum total of man's knowledge, beliefs, arts, morals, loves, customs and any other capabilities and habits acquired by man as a member of society". It is the totality

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way of life for a man. The other definition by Hofstede (1980) cited by Jones, D. & McCarthy, J. (2004) states that "culture as the collective programming of the mind which distinguished the member of one human group from another". Culture can be different from one group to another and can distinguish the way of living of the human from such groups.

As different societies have different cultures as believes and values, these eventually shapes the people living and growing in that society (Kotler, P. & Armstrong, G. 2008).

A culture of a certain society for example can shape the way of clothing for that society. People growing and living in that society will have a belief and value on the certain type of clothing. Cultural environment shape the way people do things which in turn has an effect on the retail business environment.

There are numerous definitions of culture as a term, deriving back from end of 19th century. The scope of the term has broaden and the importance of culture as a factor for understanding the social, economic and political phenomenon have increased since then.

One of the most influential and most cited studies of national culture is the one developed by Geert Hofstede (Geisler & Wickramasinghe, 2009).

Hofstede's five-dimensional framework have proved as an useful tool of measuring culture and cross-cultural consumer behaviour comparisons (Mooij & Hofstede, 2002). It has been used as a basis for a number of studies on the cultural impact over consumer behaviour and consumption.

Here, we are focussing on the relationship between national culture and retail development. Culture is interpreted as an additional factor, by gaining understanding of which could help some countries, industries and businesses.

Recently Blagoev and Minkov (2009) proved a correlation between Hofstede's Individualism cultural dimension and retail trade and so set a good example on how the culture can affect retail consumption through affecting the consumer behavior.

These recent researches give ground for exploring whether consumption, respectively retail trade are affected by the cultural differences of the specific country.

Elements and Levels of Culture

Definitions of culture over time ascribe a lot of different meanings to the term and also expand the scope of the term's use. The researchers who have tried to define it are coming from different fields which makes it difficult to come up with single, universal definition. To study its effect requires to have knowledge on its nature, elements and scope (Rugman at al., 2006).

Difficult to be defined it also is difficult to explain what exactly culture consists of, however Groeshl and Doherty make a good attempt to explain it:

"Culture consists of several elements of which some are implicit and others are explicit. Most often these elements are explained by terms such as behaviour, values, norms, and basic assumptions. (Groeschl & Doherty, 2000, p. 14)"

Summarising, the four levels of culture Srnka (2004, p. 3) describes them as:

1. Supra-culture shared by nations with similar economic systems, development, ethnicity, etc.;
2. Macro-culture shared by people of the same nationality, country of residence or origin;
3. Meso-culture shared by groups or communities, e.g., group of professionals from an industry or gild, within a macro-culture;
4. Micro-culture shared by smallest social collectivities, e.g., family or clan or organisation.

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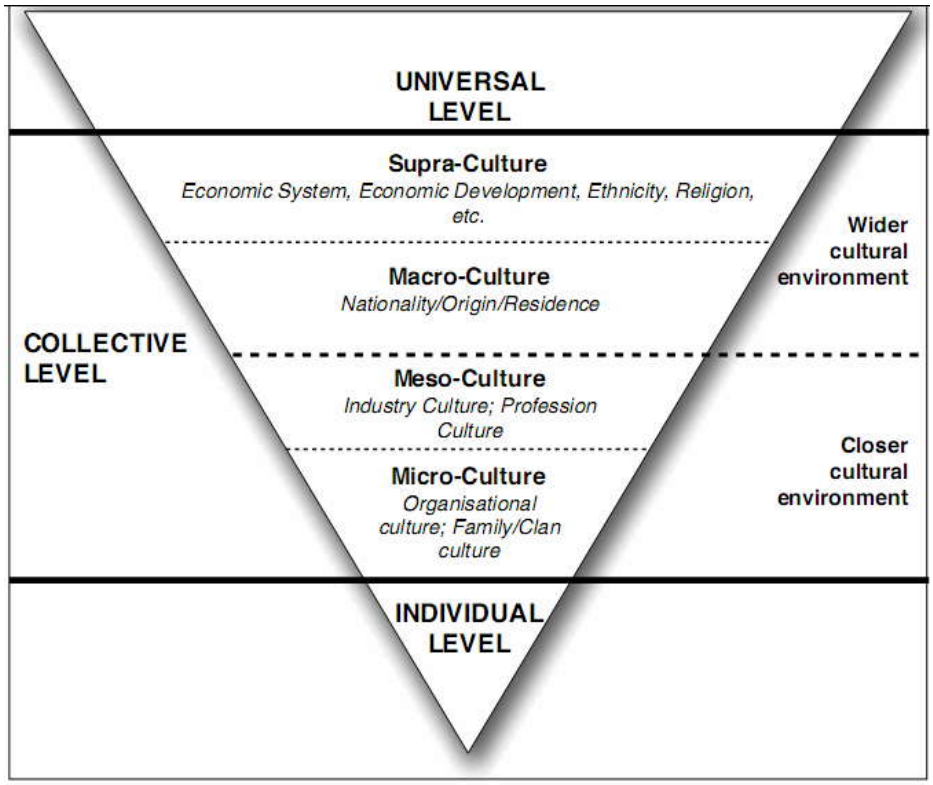
Srnka, also puts them in a convenient graphical form to back up the explanation and visualise the different levels and their scope (see Figure 3.3).

Figure 3.3: Levels of Culture: Marketing Perspective



Source: Srnka, 2004

Retailing and Culture

Being members of a particular national culture consumers' attitude and behaviour is influenced by its cultural values. Various studies of consumer behaviour itself focuses on the question how people make decisions to spend their available resources (disposable income, and expected disposable income) on consumption-related items.

Going through the international marketing literature two main debates on culture emerge: the first is about whether to use universal, standardised methods of retailing for the same products for penetrating consumers from different cultures, and the other - whether globalisation, unification of consumption items has affected the different cultures at such extent that they have converged.

Both proponents of standardisation and convergence disregard the effect of culture over retail industry and pay little attention to the cultural differences which would affect the marketing effectiveness.

Many social and economic factors are discussed from the proponents of standardisation, however they don't give any importance to the cultural differences as possible influence on consumer behaviour, although "culture is the fundamental determinant of a person's wants and behaviour"

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Number of studies and real-life cases have proven that localisation and adaptation to consumer culture and values increases the marketing effectiveness. Globalisation is bringing new products and services and experiences to customers and thus it makes the consumer needs and behaviour even more diverse.

There are many examples of companies that have introduced centralised global management and standardised marketing mix and as a result suffered financial and market losses. This proves that adopting standardised marketing strategy is inappropriate for countries with different economic development and cultural values. The success of standardisation is also dependant on the type of products or services offered.

Some retail products and especially food are deeply integrated into the culture, for example the spices for Indians, milk products for Bulgarians, or pastry for Italians, or sushi for Japanese, etc. Not taking into account the cultural differences, and relying on the idea of convergent cultures is risky when going international.

Self Assessment

Fill in the blanks:

6. Consumers prefer to shop …… to avoid the chaos of the high street.
7. …… is predominantly a domestic market activity.
8. International ……. can be achieved through the establishment of international buying groups and networks, which function to link manufacturers, wholesalers, agents and retailers across national boundaries.
9. Retail …… is the process of a retailer transferring its retail operations, concept, management expertise technology, and/or buying across national borders.
10. The process of globalization may introduce new retail …….. into markets.
11. An acquisition, also known as a……., is the buying of one company (the 'target') by another
12. …… is the duplication of public events in other geographical areas, while retaining the original brand (logo), mission, concept and format of the event.
13. Franchising refers to the method of practicing and using another person's ……. of business.
14. A ……. is an entity formed between two or more parties to undertake economic activity together.
15. …… is the opening new outlets using existing brand/fascia or creating a new brand.

Task Explore the web sites of retailers that are based in your local market or visit the branches of international retailers and domestic retailers that operate in your domestic market.

(a) Where do they say they source their products?

(b) Are international retailers more likely to source from international markets than retailers operating in their domestic market?

Notes

Case Study **Whole Foods Market**

Whole Foods Market is a US-based food retailer specializing in natural and organic food. As of 30 September 2007, the retailer operated 276 stores organized into 11 geographic operating regions; 263 stores in the US, 7 stores in Canada, and 6 stores in the UK (Whole Foods Market, 2007).

Whole Foods Market opened its first store in Austin, Texas, in 1980. Founded by John Mackey (now the CEO) and Renee Lawson Hardy, owners of Safer Way Natural Foods, and Craig Weller and Mark Stiles, owners of Clarksville Natural Grocery, these pioneers anticipated, well in advance of the competition, the consumer's growing appreciation and demand for organic and natural food. Whole Foods Market has brought organic food to the mass market, and its stores are destination shopping experiences (Rigby, 2007a). According to Rigby (2007a):

'Its aisles juxtapose South Pacific breadfruit, cockles and handmade crackers. Vegetables and fruits are piled into baskets as if just plucked from the field. Whole Foods has changed the way Americans view organic and natural foods, taking it into the mainstream. If the company succeeds in the UK, it could blow apart the dominance of the traditional supermarkets in the burgeoning organic food sector.'

Whole Foods Markets began its domestic US expansion into Louisiana in 1988 and California in 1989. The company's subsequent US growth was based on a range of mergers and acquisitions such as those with Well Spring Grocery, North Carolina, Bread and Circus, Massachusetts and Rhode Island, Bread of Life, Northern California, and, most recently, with Wild Oats, a major US competitor.

In terms of its international operations, Whole Foods Market is still a young company. As with many US retailers, Whole Foods Market's first foray into the international arena was a cross-border move into the Canadian market in 2002. Its Canadian operations are concentrated in two states: 2 stores in Ontario (Oakville and Toronto) and 4 stores in British Columbia (Vancouver, 3; West Vancouver, 1).

The year 2004 marked the company's first entry to the UK market, when it acquired the six 'Fresh and Wild' stores that operate in London (Camden, Soho, Notting Hill, Clapham Junction, Stoke Newington) and Bristol (Whole Foods Market, 2008). This acquisition paved the way for Whole Foods Market to study the UK consumer's growing desire for organic food that ultimately led to the June 2007 grand launch of the Whole Foods Market fascia in Europe (Sherrell, 2008). The retailer chose the upmarket area of Kensington in London as its first location, having acquired the 80,000 square foot Barker's department store building in 2005. This statement London flagship store is Whole Foods Market's equal largest store (along with its headquarters in Austin, Texas) and testament to its intention to conquer the European consumer with its natural and organic foods supermarket offering.

The three-storey flagship store, the UK's largest dedicated food store, also houses a wine shop, bakery, charcuterie, cheese shop, and a bar selling organic beer, as well as eleven restaurants and takeaways. The dining experience is the key differentiator between the London store and any of its North American stores, because the retailer has been able to acquire a licence to sell alcohol. According to David Lannon, the executive in charge of the European expansion: 'We simply could not do anything like this back home' (cited in

Contd...

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Lander, 2007: 5). Herein lies a key issue that retailers must take into consideration when moving into international markets: regulation. In this case the regulatory environment proved to be very favourable, allowing Whole Food Markets a competitive advantage in the market. Indeed, with its dining experience, certain commentators are comparing its offer, not to the UK domestic grocery rivals such as Tesco, but the premium end food halls belonging to London's exclusive department stores such as Fortnum and Masons, Harvey Nichols, and Harrods (Lander, 2007).

That said, the arrival of Whole Foods Market is creating competition in the UK grocery market for share of the growing organic food market. The large UK grocery retailers, Tesco, Asda, Sainsbury, and Morrisons, are all busy building market share in this lucrative and expanding area. According to the Institute of Grocery and Distribution, UK shoppers spent £1.6 billion on organic products in 2006 and this figure is predicted to rise to £2.4 billion by 2011 (Rigby, 2007b). Waitrose, which entered the organic market earlier than other retailers, currently has an 18 per cent market share, despite its modest 3.6 per cent of the overall grocery market. Marks & Spencer has a 7 per cent share of the organic market (Rigby, 2007b). While Waitrose has traditionally been seen to be an upmarket food retailer located predominantly but not exclusively in the south of England, its recent announcement to open 180 premium fresh food supermarkets is an acknowledgement of its determination to grow its market share and compete head-on with the newcomer Whole Foods. It would seem, from comments by David Lannon, that Whole Foods Market has major plans for expansion in the UK. According to him, the UK has the same demographic group as that of California in terms of population and wealth. Whole Foods Market operates forty-five stores in California alone. Given these statistics, it is interesting to note that Tesco chose California as a location to enter the US market with its fascia 'Fresh and Easy', where it now competes with Whole Foods Market on its home territory.

Whole Foods Market is still expanding in its domestic market, yet it is seeking opportunities to expand its niche offering to the international marketplace. Its motto, 'Whole Foods, Whole People, Whole Planet', has connotations of global domination.

Whole Foods Market's arrival in the UK would seem to have impacted competitors, consumers, and suppliers alike. This demonstrates the impact of international retailing—all this with the arrival of one new shop.

Questions:

1. What factors could be motivating Whole Foods Market to internationalize its operation?
2. Discuss the reasons for Whole Foods Market's international market selection location decisions.
3. How is the arrival of Whole Foods Market in the UK likely to impact on existing competition in the market?
4. Which companies would you consider Whole Foods Market's direct competitors in the UK? How have these companies responded to the entrance of Whole Foods Market?

3.9 Summary

- International retailing is an essential ingredient for the global economy. International retailing satisfies the increasingly complex and demanding needs of global consumers.

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- Retailers need to understand their shopping habits and cater for the needs of this cohort. In general, consumers are increasingly brand aware and want to have access to luxury products.
- Some factors which become motivation for international expansion can be seen as – Saturation of the home market or strong competition, National economic recession or limited growth in consumer spending, Inability to find any further competitive advantages in the home market Strong economic growth or rising standards of living, Population growth or rising standards of living, A geographical spread of trading risks, The opportunity to innovate, in new market conditions.

3.10 Keywords

Acquisition: It is also known as a takeover and is the buying of one company (the 'target') by another.

Culture: It is the sum total of learned beliefs, values and customs that serve to direct the consumer behavior of members of a particular society."

Demerger, Spin-off and Spin-out: These are sometimes used to indicate a situation where one company splits into two, generating a second company separately listed on a stock exchange

Event franchising: It is the duplication of public events in other geographical areas, while retaining the original brand (logo), mission, concept and format of the event.

Franchising: It refers to the method of practicing and using another person's philosophy of business.

Joint venture: Often abbreviated JV it is an entity formed between two or more parties to undertake economic activity together.

3.11 Review Questions

1. What is international retailing? What are the factors responsible for internationalisation of retailing?
2. What is global retail structure? How is the present structure different from the banging structure?
3. What are the retail globalization strategies? Explain with the suitable examples.
4. What is the need of measuring retail structures? How do you measure global retail structure?
5. What are the points to understand for International Retailing? What are the issues and challenges concerned with it?
6. What are the critical success factors for the growth of advanced retailing formats?
7. What is International Expansion? What are the motivational factors behind international expansion?
8. What do you mean by evolution of international retailing? Which countries have witnessed maximum growth in retail sector and why?
9. What is culture? How does it impact on international retailing?

Answers: Self Assessment

Notes

1.	Luxury	2.	Globally
3.	Consumers	4.	Loyalty
5.	lower	6.	Online
7.	Retailing	8.	Sourcing
9.	Globalization	10.	Formats
11.	Takeover	12.	Event franchising
13.	Philosophy	14.	joint venture
15.	Organic growth		

3.12 Further Readings

Books

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Notes

Unit 4: Retailing Structure

CONTENTS

Objectives

After studying this unit, you will be able to:

- Explain the concept of Environment and Competition
- Discuss Competitive Environment in different retail Sectors
- Discuss the Government policies of retail Sector
- Explain the Retail development and competition

Introduction

Retail firms have altered considerably over the last three decades in order to survive. The Impact of changes in the general retail environment and patterns of consumer shopping have been discussed earlier: Other factors have also affected the way in which retailers have been able to compete effectively. These factors relate to the modes of competition and the relative advantages of size and location. They have made formerly competitive businesses unable to continue competing and have brought new forms of retailing to the market.

4.1 Environment and Competition

In order to correctly identify opportunities and monitor threats, the company must begin with thorough understanding of the marketing environment in which the firm operates. The marketing environment consists of all the actors and forces outside marketing that affect the marketing management's ability to develop and maintain successful relationships with its target customers. Though these factors and forces may vary depending on the specific company and industrial group, they can generally be divided into broad micro environmental and macro environmental components. For most companies, the micro environmental components are: the company, suppliers, marketing channel firms (intermediaries), customer markets, competitors, and publics which combine to make up the company's value delivery system. The macro environmental components are thought to be: demographic, economic, natural, technological, political, and cultural forces. The wise marketing manager knows that he or she

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cannot always affect environmental forces. However, smart managers can take a proactive, rather than reactive, approach to the marketing environment. As marketing management collects and processes data on these environments, they must be ever vigilant in their efforts to apply what they learn to developing opportunities and dealing with threats. Studies have shown that excellent companies not only have a keen sense of customer but an appreciation of the environmental forces swirling around them. By constantly looking at the dynamic changes that are occurring in the aforementioned environments, companies are better prepared to adapt to change, prepare long-range strategy, meet the needs of today's and tomorrow's customers, and compete with the intense competition present in the global marketplace. All firms are encouraged to adopt an environmental management perspective in the new millennium.

Did u know? Being successful means (1) being able to adapt the marketing mix to trends and changes this environment. (2). Changes in the marketing environment are often quick and unpredictable. (3). The marketing environment offers both opportunities and threats. (4). The company must use its marketing research and marketing intelligence systems to monitor the changing environment. (5). Systematic environmental scanning helps marketers to revise and adapt marketing strategies to meet new challenges and opportunities in the market place.

The external environment of the Arm consists of those factors outside the retail firm that affect the success of the retail business. The external environment can be divided into the macroenvironment and the microenvironment. The macroenvironment comprises the wider political, economic, social, cultural and technical forces that affect the industry and the way people shop. These factors are summarized in the table given below:

The Greek Alphabet

Table 4.1: Macroenvironmental Influences

Factor	Includes
Political and legal	Consumer protection, equal rights, safety at work, working hours, the minimum wage
Economic	Disposable income, gross domestic product, unemployment, interest rates, inflation
Sociocultural	Social class, reference groups, culture, subculture
Technological	Products, processes, production, information handling, management
Demographic	Age, sex, marital status, household size education, geographic location
Physical	Product availability, air and water quality, visual clutter, noise pollution

The micro environment comprises those factors that originate outside the retail firm, but which the retailer can affect through its management processes. They include the actions of suppliers and other intermediaries and the location, accessibility and size of customer markets. These factors determine the number of customers in a gore, but a retailer such as Theo may attract more customers by offering a better level of service than its competitors. Table below summarizes these.

Notes

Table 4.2

Factor	Includes
Markets	Segments, size, behaviors, trends, locations, level of service demand
Suppliers and intermediaries	Supply channels, availability of goods, number of alternatives, locations, geographic concentration, volume concentration
Competitors	Concentration, volume concentration, Number, strategies, potential new entrants, rivalry

Caution In the last three decades these macro environmental and micro environmental influences have obliged most retail sectors to change their approach to selling goods and services. As a consequence, many firms have had to reshape their stores, change the range and type of merchandise, and alter the type and level of service they offer.

Adapting the Retail Offering

A retail offering is a bundle of benefits that the customer purchases when entering the store. The offering consists of products and services, the image and reputation of the store and other intangible benefits. A retail business can increase the value of the merchandise it sells by providing extra services as part of its overall retail offering. Customers come to view the service element, as an integral part of the retail offering and the element of service has become an important feature that distinguishes one retailer from the next.

In the 1970s, the retailers could simply provide an adequate range of goods for their customers, who were then enticed into stores with straight forward selling techniques. One popular method of attracting customers was to pile the goods up high and sell them as cheap as possible. In the 1980s, it become clear to many retail firms that cut-price approach was not nearly enough to encourage shoppers. Customers expectation has changed significantly and they require something more than just cheap merchandise and convenient located stores. This bought fresh challenges for retailers, who were forced to compete with each other on price, quality and standard of service for a better share of the market.

Self Assessment

State whether the following statements are true or false.

1. In order to correctly identify opportunities and monitor threats, the company must begin with thorough understanding of the marketing environment in which the competitors operates.
2. The marketing environment consists of all the actors and forces outside marketing that do not affect the marketing management's ability to develop and maintain successful relationships with its target customers.
3. The external environment of the Arm consists of those factors outside the retail firm that affect the success of the retail business.
4. The micro environment comprises those factors that originate outside the retail firm, but which the retailer can affect through its management processes.
5. A retail offering is a bundle of benefits that the customer purchases when entering the store.

Notes

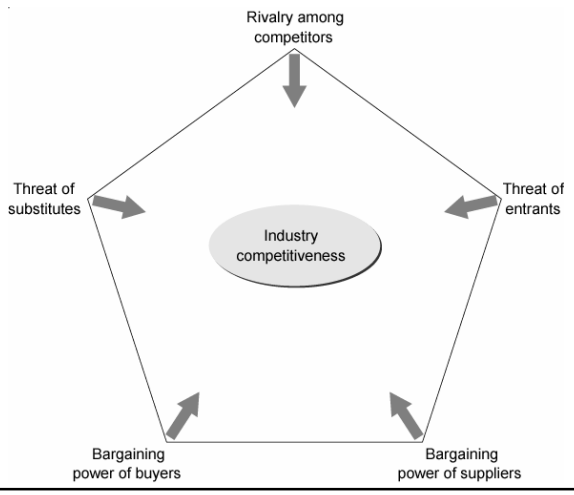
4.2 Competitive Environment in Different Retail Sectors

We operate in the highly competitive discount retail merchandise sector with numerous competitors, some of whom may have greater resources than the Company. We compete for customers, merchandise, real estate locations and employees. This competitive environment subjects us to various risks, including the ability to continue our store and sales growth and to provide attractive merchandise to our customers at competitive prices that allow us to maintain our profitability. Consolidation in our retail sector, changes in pricing of merchandise or offerings of other services by competitors could have a negative impact on the relative attractiveness of our stores to consumers. Our ability to provide convenience in a small box retail format while offering attractive, competitively-priced products could be impacted by various actions of our competitors that are beyond our control. The various factors affecting competition are:

1. Price
   (a) Best price for each sale
   (b) Tracking/Predicting Market Trends
2. Profit Margin
   (a) Flexibility
   (b) Reinvestment
3. Quality of Design (Knowing, communicating, and acting on customer's needs)
   (a) Stated Needs
   (b) Implied Needs
4. Quality of Manufacturing
5. On-time Delivery (calls, quotes, product, etc.)
6. Order Lead Time
7. Features and Services (non-product related)
8. Sales, Marketing, Brand Name, Reputation
9. Technology

The following is the Porter's five forces analysis of the Indian Retail Industry:

Figure 4.1



Notes

Table 4.3

Rivalry among competitors	Limited number of competing firms in organized retail
	Similar size of players
	High growth rate
Threat of entrants	International players looking to foray India
	FDI policy not favorable for international players
	Domestic conglomerates looking to start retail chains
Bargaining power of suppliers	Large number of suppliers
	Product differentiation is not high
	Suppliers like Godrej and HLL are willing to integrate forward.
Bargaining	Propensity to pay is low. Consumers are price sensitive.
Power of buyers	Rising income level enables large number of buyer.
Threat of substitutes	Unorganized retail.

Threat of New Entrants

One trend that started over a decade before has been a decreasing number of independent retailers. While the barriers to start up a new store are not impossible to overcome, the ability to establish favourable supply contracts, leases and be competitive is becoming virtually impossible. There vertical structure and centralized buying gives chain stores a competitive advantage over independent retailers. 95% of the market is made up of small, uncomputerised family run stores. Now there are finally signs that the Indian government dropping its traditional protectionist stance and opening up its retail market to greater overseas investment. It has already allowed 51% ownership in single-brand goods leading to entry of McDonalds, Marks & Spencer, Body Shop and Ikea and with proposal of raising the ownership to 100% will attract more foreign retailers. Also with allowing investment by foreign retailers in multi-brand retailing in a phased manner will lead to more inflow of foreign investors in Indian retail sector. On the whole threat from new entrants in retail industry is high.

Power of Suppliers

Historically, retailers have tried to exploit relationships with supplier. A great example was in the 1970s, when Sears sought to dominate the household appliance market. Sears set very high standards for quality; suppliers that did not meet these standards were dropped from the Sears line. This could also be seen in case of Walmart that places strict control on its suppliers. A contract with a big retailer like Walmart can make or break a small supplier. In retail industry suppliers tend to have very little power.

Power of Buyers

Individually, consumers have very little bargaining power with retail stores. It is very difficult to bargain with the clerk at Big Bazaar for better price on grapes. But as a whole if customers demand high-quality products at bargain prices, it helps keep retailers honest. Taking this from Porter's side of the coin we can say customers have comparatively high bargaining power in unorganized sector than in organized sector. As the customer will demand products from organized units he will be more focused towards quality aspect.

Notes

Availability of Substitutes

The tendency in retail is not to specialize in one good or service, but to deal in wide range of products and services. This means what one store offers is likely to be same as that offered by another store. Thus threat from substitutes is high.

Competitive Rivalry

Retailers always face stiff competition and must fight with each other for market share and also with unorganized sector. More recently, they have tried to reduce cut throat pricing competition by offering frequent flier points, memberships and other special services to try and gain the customer's loyalty. Thus retailers give each other stiff but healthy competition which is evident from their aggressive marketing strategies and segment policies.

The arguments offered by critics against the retail sector reforms focus on one or more of the following points:

- Independent stores will close, leading to massive job losses. Walmart employs very few people in the United States. If allowed to expand in India as much as Walmart has expanded in the United States, few thousand jobs may be created but millions will be lost.
- Walmart will lower prices to dump goods, get competition out of the way, become a monopoly, and then raise prices. We have seen this in the case of the soft drinks industry. Pepsi and Coke came in and wiped out all the domestic brands.
- India doesn't need foreign retailers, since home grown companies and traditional markets may be able to do the job.
- Work will be done by Indians, profits will go to foreigners.
- Remember East India Company. It entered India as a trader and then took over politically.
- There will be sterile homogeneity and Indian cities will look like cities anywhere else.
- The government hasn't built consensus

A business makes many decisions about the direction to go based on the success, or lack thereof, of its competitors. From the customers; standpoint, competition provides choice. Businesses must analyze competitors to find and exploit weaknesses to gain increased market share. Businesses often conduct analyses to help identify strengths and weaknesses of current competitors and threats which can come from future competitors in the marketplace.

Task Pick a retail company of your choice and study its competitive environment.

Self Assessment

Fill in the blanks:

6. In retail industry ……. tend to have very little power.
7. …… have comparatively high bargaining power in unorganized sector than in organized sector.
8. Retailers always face stiff competition and must fight with each other for …… and also with unorganized sector.
9. Businesses must analyze …… to find and exploit weaknesses to gain increased market share.

Notes

Caselet

Wal-Mart Competitive Environment

Industry

Wal-Mart's competitive environment is quite unique. Although Wal-Mart's primary competition comes from general merchandise retailers, warehouse clubs and supermarket retailers also present competitive pressure. The discount retail industry is substantial in size and is constantly experiencing growth and change. The top competitors compete both nationally and internationally. There is extensive competition on pricing, location, store size, layout and environment, merchandise mix, technology and innovation, and overall image. The market is definitely characterized by economies of scale. Top retailers vertically integrate many functions, such as purchasing, manufacturing, advertising, and shipping. Large scale functions such as these give the top competitors a significant cost advantage over small-scale competition.

In general merchandise retailing, Wal-Mart's primary competitors are Target and Kmart. Retail superstores such as Circuit City and Bed, Bath, and Beyond, also provide retail competition. A survey found that the majority of respondents favored Wal-Mart over stores like Target and Kmart. Respondents claimed Wal-Mart offered lower prices, better variety and selection, and good quality. The needs of consumers is an important economic feature in all competitive environments. What attributes (price, variety, quality, etc.) prompt buyers to choose one retailer over another is very important in the competitive landscape.

In the warehouse segment, Wal-Mart's Sam's Club competes harshly with Costco. Costco has fewer warehouses but greater sales and revenues. Costco customers also shop at Costco more frequently than Sam's Club customers and, on average, spend more each visit as well. Costco's dominance may be the result of better innovation. Costco offers luxury items and was the first to sell fresh meat and produce, and gasoline. This is important because innovation is a key factor in assessing competitors in an industry.

Last, Wal-Mart is also in direct competition with large supermarket retailers. Production capacity in the grocery industry is quite populated and Wal-Mart poses a serious threat to many supermarket retailers, both large and small. Kroger, Albertson's, and Safeway are all finding it very difficult to compete with Wal-Mart's low prices. Because the industry is so crowded, even the large supermarket retailers are seeking to differentiate themselves in order to stay afloat.

In reference to the Five Forces Model, being the largest retailer in the world, Wal-Mart's position is strong overall. Rivalry among competitors is fairly weak. The market is crowded but Wal-Mart has the lowest costs, prices, profits, and market share. The threat of substitute products is also weak. Wal-Mart exerts a great deal of effort in making sure they are innovative and meeting customer demands. The bargaining power of suppliers is weak as well. For most producers, Wal-Mart would be their largest account. Obviously, they would do what Wal-Mart wanted them to do if they hoped to do business. Likewise, the bargaining power of buyers is also weak. There is a very broad base of customers and a significant demand for low prices. Last, the threat of new entrants is weak. Wal-mart has a scale of operation that is so great, it would take years, maybe even decades, for a new company to be on the same level. Even prominent companies today would have an extremely difficult time matching the costs and prices Wal-Mart provides.

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Wal-Mart's Strategy

Offering products at everyday low prices is only one of Wal-Mart's many strategies. The company value chain helps identify activities associated with how Wal-Mart achieves their many strategies. First, Wal-Mart's supply chain management is extremely cost effective. For example, Wal-Mart has been known to imitate competition's successful merchandising concepts. Suggestions from all employees are expected and sometimes rewarded. Another cost-effective method in Wal-Mart's supply chain management is their ability to track the movement of products through the entire value chain. Whether the product is in shipment, in distribution center inventory, in-store inventory or on the shelf, or at the cash register, Wal-Mart can track it in real time. Their capability in streamlining supplies among stores and suppliers has helped them maintain appropriate inventory and track what sells and what doesn't.

Operations and distribution strategies have also helped Wal-Mart achieve low prices. Wal-Mart's strategy has been to plot stores outside of large cities and within 200 miles of existing stores. Clustering stores together in small areas, Wal-Mart relies on word-of-mouth advertising to win over consumers in larger cities. Because stores are close together, distribution costs are below average. Furthermore, Wal-Mart seeks to meet different customers' needs with four distinct retail options; these include discount stores, supercenters, Sam's Clubs, and neighborhood markets. Each store concept has a specific range of store size, total employment, and estimated sales.

Wal-Mart spends much less on advertising than does their competition. One way they accomplish this is through the clustering of stores in a relatively small area. Because their stores tend to be grouped together, they are able to spread advertising expenses across a single market, minimizing advertising costs. One of Wal-Mart's foremost strategies is to provide superior service to customers. Every store has a "greeter" near the entrance to welcome customers, offer them a shopping cart, and direct them toward where their items are located. Rule number eight in Sam Walton's 10 Rules for Building a Business is to "Exceed our customers' expectations. If you do, they'll come back over and over."

Supportive activities related to Wal-Mart's strategy are related to the above primary activities. Such activities and/or costs include the technology used in tracking product (operations and distribution), relationships with suppliers, employee training, and incentives and compensation policies. All of these activities have proven to be successful overall as Wal-Mart earned $256 billion in revenues and $9 billion in profits in 2004.

In the SWOT analysis above, I've listed the strengths, weaknesses, opportunities, and threats Wal-Mart faces. To elaborate on a few, Wal-Mart has a very powerful strategy but it is also one that is hardly measurable or easy to communicate. Wal-Mart has very strong brand recognition but somewhat of a negative reputation as of now. In many ways, Wal-Mart has great customer service. Still, as in the case of stocking questionable CDs and DVDs, there is room for improvement. As for opportunities, management argues there is plenty of room to expand Wal-Mart to two or three times its current size. This may be an opportunity but if there is that much of the market still available, Wal-Mart will face threats of new competitors. Exploiting new technologies is an opportunity Wal-Mart will likely take advantage of but new regulatory requirements is a definite threat to Wal-Mart's expansion goals.

The Unweighted Competitive Strength Assessment gives an approximate idea of each company's competitive advantage. In this assessment, Costco has the best advantage. Wal-Mart is a close second, beating Target, Kmart, and Safeway. All of these data are estimates to use in comparing and contrasting each company. Wal-Mart could use this

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assessment to see where their strong points are and, more importantly, where their weak points are. We can see from this data that Wal-Mart has a weaker reputation than all of the other companies. This may be an area Wal-Mart may want to work on in order to improve their overall standing.

Issues and Recommendations

I feel that Wal-Mart's most challenging issue involves the public's resentment. Wal-Mart has wiped out numerous retail establishments (too many to count) and will continue to do so unless stopped. So far, some "big box" opponents have stopped Wal-Mart from specific expansions but Wal-Mart is definitely fighting back. From Wal-Mart's point of view, I think more focus should be spent on global expansion. If specific areas are so against having a Wal-Mart that they pass laws to stop Wal-Mart from building in their area, I think Wal-Mart should stay away. For example, Wal-Mart would have a terrible time expanding into Oakland. I would assume that with the laws that were passed, a great deal of negative press also took place. The time and effort to get a Wal-Mart built in Oakland may not be worth the trouble. This is one of the reasons I feel Wal-Mart should focus on international expansion. There were 1,355 international Wal-Marts in 2004. I definitely feel that expanding this number sounds like it could be very lucrative.

Another issue facing Wal-Mart is the federal lawsuit regarding sex discrimination. From the numbers quoted in the case study, it sounds as though Wal-Mart is clearly discriminating against females. This is somewhat surprising but will hopefully be fixed. Wal-Mart is very thorough in their strategy, maybe they need to be more thorough and/or detailed in their compensation and incentive policies. Wal-Mart definitely needs to end the discrimination. In order to avoid future discrimination, monitoring of wages and salaries should be established. This is especially true for upper management employees, where females are paid significantly less than males in similar positions.

Last, I feel that the compensation and benefits offered to Wal-Mart employees are somewhat of an issue. If only about 60 percent of employees have health coverage (compared to 72 percent in the retail industry as a whole), I think their benefit package needs to be reevaluated. The case study claims that the reason many employees did not sign up for health coverage is because they obtained it through a member of their household. I'm sure that is the case for some, but not all. Furthermore, Wal-Mart does not pay any health care costs for retirees. I feel that both examples are methods Wal-Mart uses to cut costs and both need to be reconsidered.

Although there are a number of dilemmas in which Wal-Mart must take action, I feel that they are doing extremely well overall. They are the largest corporation in many countries as well as the world overall. They may need to improve their image and work out their legal battles but I don't think they should feel generally threatened. As Sam Walton said, "Recognize that the road to success includes failing, which is part of the learning process rather than a personal or corporate defect or failing. Always challenge the obvious."

4.3 Government Policies in Retail Sectors

It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

(a) FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.

(b) FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of Single Brand' products, subject to Press Note 3 (2006 Series)

Notes

(c) FDI is not permitted in Multi Brand Retailing in India.

Prospected Changes in FDI Policy for Retail Sector in India

The government (led by Dr. Manmohan Singh, announced following prospective reforms in Indian Retail Sector:

1. India will allow FDI of up to 51% in multi-brand sector.
2. Single brand retailers such as Apple and Ikea, can own 100% of their Indian stores, up from previous cap of 51%.
3. The retailers (both single and multi-brand) will have to source at least 30% of their goods from small and medium sized Indian suppliers.
4. All retail stores can open up their operations in population having over 1 million. Out of approximately 7935 towns and cities in India, 55 suffice such Criteria.
5. Multi-brand retailers must bring minimum investment of US$ 100 million. Half of this must be invested in back-end infrastructure facilities such as cold chains, refrigeration, transportation, packaging etc. to reduce post-harvest losses and provide remunerative prices to farmers.
6. The opening of retail competition (policy) will be within parameters of state laws and regulations.

Single and Multi-Brand Retailing

FDI in Single-Brand Retail

The Government has not categorically defined the meaning of Single Brand anywhere neither in any of its circulars nor any notifications.

In single-brand retail, FDI up to 51 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions mentioned in Press Note 3 that –

(a) only single brand products would be sold (i.e., retail of goods of multi-brand even if produced by the same manufacturer would not be allowed),

(b) products should be sold under the same brand internationally,

(c) single-brand product retail would only cover products which are branded during manufacturing, and

(d) any addition to product categories to be sold under ¯single-brand would require fresh approval from the government.

While the phrase 'single brand' has not been defined, it implies that foreign companies would be allowed to sell goods sold internationally under a 'single brand', viz., Reebok, Nokia, and Adidas. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer, would not be allowed. Going a step further, we examine the concept of single brand' and the associated conditions:

FDI in 'Single brand' retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets.

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FDI in Multi-Brand Retail

The government has also not defined the term Multi Brand. FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof.

In July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a discussion paper on allowing FDI in multi-brand retail.

The paper doesn't suggest any upper limit on FDI in multi-brand retail. If implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous 'kirana' store.

4.4 Retail Development and Competition

The retail industry business has been around for centuries in the United States. It all started with a community general shop where people of the community would shop for items of necessity. Single general stores by local residents were the most common because specialty stores were not really necessary due to limited population within the city and disconnectivity of people. As societies advanced with population increase leading to expanded cities, and new advanced technologies gave rise to interconnectivity as well easy communication between distanced cities or societies, opportunity for specialty stores was formed. But before the specialty stores formed into a business the function of the general store was most essential because they provided the varied needs of the local community.

Also the reason for the striving success of these general stores then was "necessity". People around had no other options but to go for the general store. In the current scenario, the US retail industry is thriving and booming. With the exponential growth of the retail business across the whole of the United States, it is more likely to predict that this industry will very soon come in to the category of the infrastructure industry.

Adaptation is the most essential aspect of a Retailer's business as trends of society as well as the taste for new product variety change and people demand more. If a business is unable to meet the demands of the market then they will very likely to be eliminated from the business they practice. Managing customer relations and attending their needs is a very important issue in business-to-business markets. Customer is the prime focus in retail business and only they matter because they are the ones who buy the retailer products. If my sole business function is to sell complete products and I want a loyal and squandering customer, then I must keep them happy and provide for them what they want, otherwise they would take their business somewhere else.

Just as people's preferences changed with time, just as business functions of a retailer adapted, just like that the informal markets evolved over time to formal and more permanent markets. As a result of this transformation and evolution of the market, travelers began travelling around to sell their goods and so they were known as "peddlers." Retailing is a term for collective selling from any of the retail sectors of business, either from regular market, a permanent market, or even peddling of goods.

Today, retail is one of the biggest employers in the world and a large portion of the world economy. The retail industry is a sector of the economy that is comprised of individuals and companies selling finished products to end user consumers. Retail chains in the U.S. are publicly traded on the stock exchange and privately owned. An estimated two-thirds of the U.S. gross domestic product (GDP) comes from retail consumption. Retail industry is a good indicator of the well-being of the U.S. economy. According to the latest annual report from the U.S. Census

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Bureau (2009), the total amount of sales for the U.S. Retail Industry (including food service and automotive) was $4.13 trillion. Of the world's 10 largest retail companies in the world, five of them are from the US and five are from Europe. The top ten global retailers had combined sales of $1.15 trillion in 2008, according to international consulting group, Deloitte. According to the U.S. Bureau of Labor Statistics, around 14.4 million people were employed in the U.S. Retail Industry as of April, 2010. Although retail employment was increasing every month at the beginning of 2010, due to the recent recession of the economy, the retail employment numbers were still the lowest they've been for the past decade. Due to the decline in retail jobs and the increase in overall unemployment, the retail job market in 2010 is extremely competitive at all levels.

Table 4.4: Economic Concentration of Top 10 Retailers

Top 250 Rank	Name of Company	Country of Origin	2010 Retail sales (US $mil)	2010 Retail sales growth	2010 net profit margin	2010 return assets	2010 asset turnover
1	Wal-Mart	U.S.	418,952	3.4%	4.0%	9.4%	2.3
2	Carrefour	France	119,642	4.8%	0.6%	1.1%	1.7
3	Tesco	U.K.	92,171*	6.7%	4.4%	5.7%	1.3
4	Metro	Germany	88,931	2.8%	1.4%	2.7%	1.9
5	Kroger	U.S.	82,189	7.1%	1.4%	4.8%	3.5
6	Schwarz	Germany	79,119*	9.4%	n/a	n/a	n/a
7	Costco	U.S.	76,255	9.1%	1.7%	5.6%	3.3
8	The Home Depot	U.S.	67,997	2.8%	4.9%	8.3%	1.7
9	Walgreen Co.	U.S.	67,420	6.4%	3.1%	8.0%	2.6
10	Aldi	Germany	67,112*	5.2%	n/a	n/a	n/a
Top 10*		$1,159.778	5.0%	3.0%	6.4%	2.1	
Top 250*		$3,940.747	5.3	3.8%	5.8%	1.5	
Top 10 share of total		29.4					

*Sales weighted, currency-adjusted composite growth rate

Source: Published company data and Planed Retail

Retail Industry Rebounds in 2010 as Global Economy Stages Fragile Comeback

2010 started off on a positive note, but as it progressed the global economy began to face headwinds. In the United States, the end of fiscal stimulus, combined with continuing problems in the housing and credit markets, caused a deceleration in growth that led to fears of a double-dip recession. Europe saw the start of the Eurozone crisis when Greece required a massive bailout to avoid default on its sovereign debts.

In emerging markets, on the other hand, growth in fiscal 2010 was unusually strong, resulting in accelerating inflation. Governments in such disparate places as China, India and Brazil responded by tightening monetary policy. Rising interest rates led to severe upward pressure on currency values. Consumer spending in emerging markets rose at a healthy rate, although the monetary tightening in some countries caused deceleration.

Nevertheless, the global retail industry rebounded in 2010. Sales-weighted, currency-adjusted retail sales rose a solid 5.3 percent for the world's Top 250 retailers, up from anemic 1.2 percent growth for 2009's Top 250. As consumers emerged from the doldrums, more than 80 percent of the Top 250 retailers (205 companies) saw their 2010 retail sales increase, compared with less than two-thirds (159 companies) in 2009.

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Profitability continued to improve as well. The Top 250 composite net profit margin rose to 3.8 percent in 2010, up from 3.1 percent in 2009 and 2.4 percent in 2008. Nearly all of the companies that disclosed their bottom-line results (183 of 195) operated at a profit in 2010, and more than two-thirds of the reporting companies saw an improvement in their net profit margin.

Stronger profitability also led to an improvement in return on assets. Composite ROA increased to 5.8 percent in 2010. While this is up from 4.9 percent in 2009, asset turnover declined slightly to 1.5 times from 1.6 times the prior year. This suggests that retailers may have increased their inventories and invested in new property and equipment in 2010 in anticipation of an economic recovery.

Walgreen Joins Top 10 Leader Board

The share of total Top 250 retail sales accounted for by the Top 10 retailers slipped again in 2010 to 29.4 percent, down from 30 percent in 2009 and a high of 30.2 percent in fiscal 2008. The Top 10's 5 percent composite year-over-year sales growth, while a significant improvement over 2009's meager 0.2 percent increase, lagged the 5.3 percent sales gain for the Top 250 as a whole.

The leader group's top-line performance in 2010 was dragged down by Wal-Mart's 3.4 percent sales increase. Despite strong growth in international sales, stagnant sales in the U.S. division, which accounted for more than 60 percent of Wal-Mart's total sales, led to overall inferior growth.

All 10 companies on the leader board saw an increase in retail sales in 2010, led by Schwarz and Costco. Tesco, Walgreen and Kroger also outpaced the Top 250's composite growth rate.

The makeup of the Top 10 changed slightly for the first time since 2007. Walgreen continued its steady climb up the Top 250 ranking to become one of the world's 10 largest retailers in 2010, displacing Target, which fell to 11th place. A weaker euro against the U.S. dollar had an impact on the European retailers, causing some to drop in the dollar-denominated rankings despite solid growth.

Profitability for the world's Top 10 retailers also underperformed the Top 250 group as a whole. The eight Top 10 companies that disclosed their bottom-line profits generated a composite net profit margin of 3 percent, compared with 3.8 percent for the Top 250. Although Top 10 sales growth and profitability lagged the larger group, the retail leaders were more productive than the group as a whole, as reflected by the Top 10's superior return on assets and asset turnover ratio.

In a competitive retail industry, the right IT and telecommunications infrastructure will be an immense difference and a huge competitive advantage over competitors in terms of cost savings, productivity and inventory management. In the age of modern technology, digital signage, customer relations, relative advertisement, marketing, and improved pricing strategy should be implemented to enhance customer experience immensely to distinguish your business from competitors. By offering store and loyalty cards to customers is an example of an advantageous implementation of current technology which enables vendors to not only enhance customer experience by rewarding shoppers with discounts but also tracking spending habits and buying trends of their customers. By knowing customer buying patterns and tailoring their promotional campaigns consistently, vendors will be able to anticipate customer preferences so they can staff and stock levels accordingly. Retail branding is an important and current trend of the retail industry to tailor the unique taste of every consumer. Although pricing seems to be an issue to almost every consumer but it is not the only consideration for them. Focusing only on price will make a vendor only one dimensional and diminish the customer experience, increase dissatisfaction, loss of reputation, and overall devaluation of brand in an important branding trend. This will all lead to what we have witnessed in 2009, a complete business failure. As I mentioned before, evolution of business practices and product variety is most crucial to success

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of a business and as economy shifts and consumers demands change, retailers must tailor to that change and refine strategy. "Brands should be continuously evaluated to better reflect the needs of ever-changing marketplace."

Figure 4.2: Brand Stagey – Retail

There are other examples of IT solutions that are implemented daily for improved business efficiencies. For example, there is IT solution to send alerts for out-of-place or out-of-stock merchandise. Magnetic strips or barcodes, RFID, are use to place merchandise in proper location on the floor or in the stock room. It provides vendors with a reference point to locate certain items. There are numerous benefits and advantages to implementing these technologies. For example, RFID or magnetic strip or barcodes can actually contribute countable financial benefits by properly placing items to locations where customers wonder the most and impulse shop. Or when customers place items at the wrong locations where they are not in an easy view or are blocking or items which causes disorganization. All these situations described, if properly managed, will bring monetary benefits to the vendor.

Figure 4.3: Retail Advantage

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"Technology has grown in leaps and bounds over the last decade and will continue to grow in a geometric progression. In the retail industry profits are not made through a single transaction but by establishing a rapport and a long term understanding with customers. It is all about building reputation and customer relationships to profile customer buying patterns. Technology has vast and major implications in virtual shopping, where a customer can shop anything he wants within a few clicks of a button. The best part of having an online shop is that it is accessible all the time. Most stores have an integrated online shopping option which enables customers sitting from their offices."

In concluding remarks, the retail industry has transformed from what it used to be single shops, to what is now a much complex chain stores with worldwide customer base. Globalization has expanded the market in which retailers operate so this transformation has led to advanced information technology necessity to connect all the shops to one central hub system to manage. As a result of advancement in technology and informed and price sensitive customers, information has developed to be the most vital asset of the successful retailers today. Information as an asset and information system technology is the most important tools available to retailers. Technology has had a huge impact on the retail industry transformation.

Self Assessment

State whether the following statements are true or false:

10. Information as an asset and information system technology is the most important tools available to retailers.
11. As a result of advancement in technology and informed and price sensitive customers, information has developed to be the most vital asset of the successful retailers today
12. The retail industry is a sector of the economy that is comprised of individuals and companies selling finished products to wholesalers.
13. As a result of this transformation and evolution of the market, travelers began travelling around to sell their goods and so they were known as "peddlers."
14. FDI in Multi brand retail implies that a retail store with foreign investment can only sell one brand.
15. FDI in Single Brand retail implies that a retail store with a foreign investment can sell multiple brands under one roof.

Case Study

An Aldi Case Study Competitive Advantage Through Efficiency

The food retail industry is a highly competitive market. More so than ever, organisations need to offer customers value for money. Customers want the best quality products at the lowest possible prices. With such tough competition it is vital for organisations to understand what their customers want. Aldi understands that its customers want value for money but do not want to compromise on quality. This case study will demonstrate how Aldi uses a lean approach to its business operations to offer its customers quality products at competitive prices.

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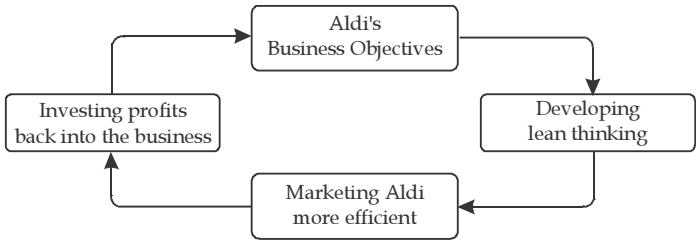
Since opening its first store in 1913, Aldi has established itself as a reputable retailer operating in international markets including Germany, Australia and the U.S. Aldi has over 7,000 stores worldwide. What distinguishes Aldi from its competitors is its competitive pricing strategy without reducing the quality of its products. In fact, in some cases Aldi's products are 30% cheaper than those offered by its competitors. Aldi can do this because the business operates so efficiently.



Efficiency

Efficiency is the relationship between inputs and corresponding outputs. For Aldi operating efficiently involves reducing costs in all areas of the business. Some of the key areas where Aldi is able to minimise costs are by saving time, space, effort and energy. Aldi's approach to doing this is to run its business around the principles of lean thinking.

Aldi has a no-nonsense approach to running its business. Whereas other food retailers have elaborate displays, additional services and promotions that draw customers into the business, Aldi's core purpose is to 'provide value and quality to our customers by being fair and efficient in all we do' . Everything Aldi does is focused around giving its customers value for money. Through being efficient and cutting costs Aldi can then invest profits back into the business. They can then be used to further meet its business objectives for growth.

Efficiency is not something that is achieved overnight. Lean thinking is a continuous process that constantly enables Aldi to improve the way in which it meets its business objectives. This enables Aldi to develop an ambitious investment programme to develop new properties and suppliers as well as to provide benefits for employees.

Lean Production

Lean production is quite simply about getting more from less. The aim of lean production is to reduce the quantity of resources used in providing goods and services for consumers. At the same time, it is about making the organisation more efficient. Lean production involves eliminating waste and therefore using less labour, materials, space and time. This in turn reduces costs.

However, for Aldi, lean production is not just about reducing costs for the business. It is also about passing these savings on to its customers to offer value for money. Lean production is based on a number of efficiency concepts, such as:

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Continuous improvement – a culture whereby all employees are constantly involved in making improvements to quality.

Just-in-time production – materials are received just as they are needed, eliminating the need to maintain large stock levels.

Time based management – an approach that aims to reduce the time wasted in business operations. This usually requires a multi-skilled and flexible workforce.

Total quality management (TQM) – a quality assurance ideal where all workers have a responsibility for getting it 'right first time'.

Principles of Lean Production

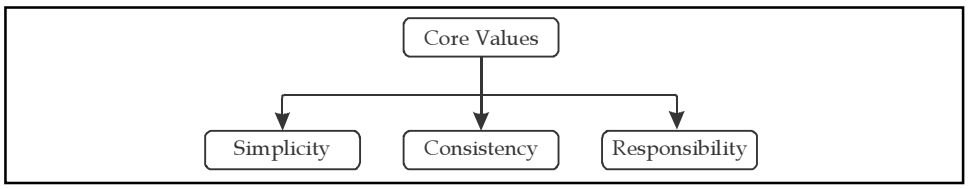
Although lean production is often considered in terms of manufacturing, these principles can equally be applied to service organisations. The principles of lean production are planned and built into everything that Aldi does. This starts within its supply chain. For example, up to 60% of Aldi's fruit and vegetables are sourced locally where possible, reducing the need for long and costly delivery journeys. This demonstrates a time based management approach.

The principles of time based management are also built into the training provided for Aldi's employees. Training enables Aldi to eliminate waste and cut costs. Through training staff to do a variety of tasks around store Aldi can minimise its staff requirements. This method results in staff gaining knowledge of the whole business, as such they are able to offer a much higher level of customer service. Staff costs can also be reduced as fewer staff are required if they can perform a variety of duties throughout the store.

Aldi also applies this time based management approach to its product range. For example, Aldi sells fewer variations of each product. In contrast competitors may sell a larger variety of different brands, sizes and packaging. By selling fewer varieties of each product Aldi can buy much larger quantities. This enables it to take advantage of economies of scale and source products more cost effectively. This in turn means that Aldi needs less space to display its products. As a result Aldi's stores can be smaller.

Core Values

The three core values of Aldi are simplicity, consistency and responsibility. Lean production ties in closely with these values. For example, Aldi stores are simple in design and all stores are very similar which creates consistency.



Responsibility is an important aspect of all areas of the business, from training and developing employees to drive the business forward as part of continuous improvement, to taking an active role in its supply chain to ensure continuous improvement. Such actions have helped it to develop an international influence in different markets.

Reducing Costs and Eliminating Waste

Lean principles involve minimising waste. Aldi have adopted a number of different time-based management approaches to ensure that waste is kept to a minimum. Minimising waste can help reduce costs. For example:

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Aldi's shopping trolleys have a £1 deposit system. This ensures that customers return them after use. This results in fewer trolleys being lost and needing replacing. It also means that Aldi do not have to employ someone to collect the trolleys as customers return their trolley to the front of the store.

Another time based management approach that Aldi has adopted to reduce waste is through its opening hours. Aldi trades from 8 a.m. until 8 p.m. from Monday to Saturday and from 10 a.m. until 4 p.m. on a Sunday. In contrast some of Aldi's competitors are open for 24 hours. This means Aldi's sales are spread over a shorter period. It also means that staffing costs are not incurred at times when there would be fewer customers. As a result Aldi is more productive during its trading hours. Consumption of utilities for power and heating can also be reduced through trading only during the busiest times of the day.

How Staff Support Waste Reduction

To underpin these principles Aldi requires competent staff. A combination of total quality management techniques and a time based management approach help to ensure employees take responsibility for their job roles whilst minimising the amount of time wasted. Employees are paid market-leading salaries within the grocery industry.

A comprehensive training programme enables them to become multi-skilled. This means that staff can undertake a number of different roles within each Aldi store, allowing staff to be flexible with the tasks they can do. It is therefore easy to produce a staff rota as employees can fulfil a variety of tasks. Employees can carry out whatever tasks are needed throughout the day, leading to time-based savings. Training, high wages and a diverse job role all help to motivate staff. This in turn leads to lower sickness levels and a more empowered team.

Efficient Processes

The process of buying and selling within Aldi stores also operates on time-based management principles and means that they require fewer tills and cashiers. For example:

Products display numerous bar codes. This means that cashiers do not have to search for them and they can be scanned more quickly.

Customers place products back in the trolley after scanning. They then pack their bags away from the till after paying. This helps throughput. It is also more efficient as another customer can have their shopping scanned as the previous customer packs. Again, these cost benefits can be passed on to customers.

These processes contribute to savings which help Aldi to operate more efficiently as an organisation. The savings are then passed on to its customers. This is in the form of quality products at prices that are lower than the competitors.

Just-in-time

Aldi uses a just-in-time (JIT) approach to store management by only holding the stock that it needs. Stock is expensive. The company therefore only buys the stock required at any given time. When stock levels are reduced an organisations working capital is improved.

In other words, Aldi is not tying up too much investment in stock that is then going to be held for a long period of time before it is sold to generate income. It also means Aldi does not pay for large warehouses to store stock or pay for additional staff to monitor warehouse stock.

From the moment stock arrives at an Aldi store everything is focused on reducing the cost of holding and managing the stock. For example, products are delivered in display ready cases. Once the top of the case is removed it can simply be lifted onto a shelf for display to customers. Units of 12, 24 or more can be handled easily and quickly merchandised.

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It means that individual units are not picked and lined up on shelves. In fact some products are sold in store from a pallet. This is a platform for large loads that can be brought mechanically into a store. This is an efficient way of getting a large volume of products into the shop very quickly.

Benefits of Lean Production

Aldi's 'no-nonsense' approach to retailing therefore leads to cost saving in numerous areas. These cost savings are passed on to customers in the form of lower prices, allowing the business to differentiate itself from its competitors in terms of price, as well as the quality of the products it has on offer.

Corporate Social Responsibility

Also, as money is not wasted on unnecessary expenses, Aldi is able to allocate spending to other important elements of its business. For example, Aldi is also focused on corporate social responsibility (CSR). These are Aldi's wider responsibilities to society, its employees and the community. Aldi also works with many different charities. For example, in 2011 Barnardo's was Aldi's charity of the year.

Working with Suppliers

Through using a total quality management approach, Aldi is able to create strong business relationships with its suppliers. These strong relationships help Aldi to continuously improve its product offering whilst also ensuring suppliers meet international standards. Aldi's international standards go beyond consumer legislation and nutritional information. Products are carefully labelled for consumers so they can make informed choices, this all supports Aldi's continuous improvement culture.

Conclusion

Aldi has a distinctive approach to retailing. Its operations focus on providing its customers with quality products that are value for money.

Aldi achieves this by ensuring that its operations are as efficient as possible whilst also adhering to its core values of simplicity, consistency and responsibility. Through adopting a variety of lean approaches Aldi is able to offer its customers the highest quality products at the lowest possible price.

Question:

How Aldi enjoyed competitive advantage through efficiency?

4.5 Summary

- In order to correctly identify opportunities and monitor threats, the company must begin with thorough understanding of the marketing environment in which the firm operates.
- For most companies, the micro environmental components are: the company, suppliers, marketing channel firms (intermediaries), customer markets, competitors, and publics which combine to make up the company's value delivery system.
- The macro environmental components are thought to be: demographic, economic, natural, technological, political, and cultural forces. The wise marketing manager knows that he or she cannot always affect environmental forces.
- A retail offering is a bundle of benefits that the customer purchases when entering the store. The offering consists of products and services, the image and reputation of the store and other intangible benefits.

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- A business makes many decisions about the direction to go based on the success, or lack thereof, of its competitors.
- From the customers; standpoint, competition provides choice. Businesses must analyze competitors to find and exploit weaknesses to gain increased market share.
- The retail industry business has been around for centuries in the United States. It all started with a community general shop where people of the community would shop for items of necessity.
- Today, retail is one of the biggest employers in the world and a large portion of the world economy. The retail industry is a sector of the economy that is comprised of individuals and companies selling finished products to end user consumers.

4.6 Keywords

Continuous improvement: It is a culture whereby all employees are constantly involved in making improvements to quality

Just-in-time production: Materials are received just as they are needed, eliminating the need to maintain large stock levels

Macro environmental components: These are demographic, economic, natural, technological, political, and cultural forces.

Micro environmental components: These include the company, suppliers, marketing channel firms (intermediaries), customer markets, competitors, and publics which combine to make up the company's value delivery system

Retail offering: It is a bundle of benefits that the customer purchases when entering the store.

Time-based management: It is an approach that aims to reduce the time wasted in business operations. This usually requires a multi-skilled and flexible workforce.

Total quality management (TQM): It is a quality assurance ideal where all workers have a responsibility for getting it 'right first time'

4.7 Review Questions

1. "The micro environment are the company, suppliers, marketing channel firms (intermediaries), customer markets, competitors, and publics which combine to make up the company's value delivery system". Discuss the importance of each of these components with respect to retail sector.
2. What do you mean by macro environment?
3. "Retail Competitive Environment." Discuss.
4. What are the policies of the government in relation to retail industry of India?
5. Discuss the developments in retail industry.
6. What do you mean by single and multi retail branding?
7. "FDI in Retail industry in India." Discuss.

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Answers: Self Assessment

1.	False	2.	False
3.	True	4.	True
5.	True	6.	Suppliers
7.	Customers	8.	market share
9.	competitors	10.	True
11.	True	12.	False
13.	True	14.	False
15.	False		

4.8 Further Readings

Books

Newman, A. & Cullen P., *Retailing: Environment and Operations*, 9th Indian Reprint 2011, Cengage Learning.

Ogden, J.R. and Ogden, D.T, *Integrated Retail Management*, 1st Edition 2008, Bizantra

Pradhan, S, *Retailing Management*, 2nd Edition 2007, Tata McGraw Hill

Online links

timesofindia.indiatimes.com › Business

http://businesscasestudies.co.uk/aldi/competitive-advantage-through-efficiency/introduction.html

Unit 5: Managing Retailing in Good Times and Bad

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CONTENTS

Objectives

After studying this unit, you will be able to:

- Discuss the Changes in Consumer Spending
- Explain the Macroeconomic policies in retail industry
- Describe the concept of Managing fluctuations in retail industry
- Discuss the concept of Dealing with recession in retail industry
- Explain Maintaining the balance in the economy

Introduction

This unit helps the readers to understand the complexities of the economy within the context of managing the retail business. It starts with those aspects of the macro economy that a retailer would come across in reports relating to the current retail environment. The more important factors effecting consumer spending, economic fluctuations, recession in retail industry are discussed. This will lead to the practical issues in maintaining profitability and liquidity due to change in economy.

5.1 Changes in Consumer Spending

Consumer spending patterns are shifting, and retailers must alter their strategies as past tactics may no longer be effective. Director of Retail and Consumer Products Advisory Services, former industry analyst Jeffrey B. Edelman, discusses that rather than relying on current pricing trends, it is important for retailers to continue to focus on the customer to succeed in today's marketplace.

Consumer spending habits are changing: A recent Women's Wear Daily article discussed the likelihood of reduced consumer expenditures on apparel and footwear through 2020, approximately 2 percent, while overall spending could increase approximately one-third. Data compiled by the U.S. Census Bureau note apparel and footwear expenditures have been trailing

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total spending for many years, even decades; thus, we do not see this as an unusual shift in consumer behavior. However, key factors behind the change in spending habits, are changing. Additionally, rising health and medical and transportation costs are capturing a larger portion of the consumer dollar.

The diminished China factor: The benefits of manufacturing goods in China were significant, as increased, lower-priced imports reduced the average cost of apparel and footwear over the past 20 years. Those benefits are now gone due to higher material and operating costs in China, as well as capacity restraints. Efforts to shift sourcing and increase supply chain efficiencies have attempted to provide an offset, but this is only a temporary solution.

Is an aging population to blame? Baby boomers and Generation Y are often cited as responsible for the shift in consumption patterns. Obviously, the need and reason to purchase apparel and footwear is changing as the population ages, reflecting a leveling in income and increased spending on other necessities. This, however, only tells part of the story, in our view.

Lower price points are an ongoing phenomenon: Increased promotional activity and greater accessibility to off price and alternative channels of distribution have had a marked impact on pricing and consumption. Increased private label merchandise has also been an important contributor to an enhanced value proposition for the consumer. These are likely to continue to be important going forward, but could have less of an impact.

The effectiveness of promotions and discounting: Retail pricing strategies could push prices lower, perhaps offset by reduced promotions. Importantly, the issue is whether promotions and discounting actually stimulated increased consumption, or were keys to retailers' quest for market share. Studies have been inconclusive. They probably did not impact the need to purchase overall, although likely created a higher demand to purchase.

It's all about market share: A rising tide will not lift all ships, nor will reduced consumption negatively impact all retailers and vendors. Rather than get caught up in some of the above-mentioned trends, it is important to focus on the consumer. Employment and income are still rising, and consumers will likely continue spending as they have been. Opportunity for growth lies in the ability to create the want to purchase rather than catering to the need to purchase. There are plenty of places to buy "stuff," and there, price is generally the determinant.

Consumer research is key for profitable growth: Knowing why your target customer buys or does not buy your product is instrumental in your ability to capture a larger share of their wallet. This can be a more profitable strategy than trying to force the consumer to buy something you think they want, and at possibly the lowest price in the market.

5.2 Government's Macroeconomic Policies in Retail Industry

The characteristics that describe a macroeconomy are usually referred to as the key macroeconomic variables. The following four variables are considered to be the most important in gauging the state or health of an economy: aggregate output or income, the unemployment rate, the inflation rate, and the interest rate. These will be briefly discussed shortly. It is, however, prudent to point out that numerous additional measures or variables are collected and used to understand the behavior of an economy. In the United States, for example, these additional measures include: the index of leading economic indicators (provides an idea where the economy is headed in the near future); retail sales (indicates the strength of consumer demand in the economy); factory orders, especially for big-ticket items (indicates the future growth in output, as orders are filled); housing starts (usually a robust increase in housing starts is taken as a sign of good growth in the future); the consumer confidence index (indicates how likely consumers are to make favorable decisions to buy durable and nondurable goods, services, and homes). Sometimes, the variables tracked are more innocuous than those included in the preceding list,

such as: aluminium production, steel production, paper and paperboard production, industrial production, hourly earnings, weekly earnings, factory shipments, orders for durable goods, new factory orders, new-home sales, existing-home sales, inventories, initial jobless claims, married and jobless, help-wanted advertising, purchasing managers survey, and the U.S. trade deficit.

As is apparent from the preceding list, economists and financial observers use observations on numerous variables to understand the behavior of an economy. Nevertheless, the four key macroeconomic variables summarize the most important characteristics of a macro economy.

Output–Income

An economy's overall economic activity is summarized by a measure of aggregate output. As the production or output of goods and services generates income, any aggregate output measure is closely associated with an aggregate income measure. The United States now uses an aggregate output concept known as the gross domestic product or GDP. The GDP is a measure of all currently produced goods and services valued at market prices. One should notice several features of the GDP measure. First, only currently produced goods (produced during the relevant year) are included. This implies that if you buy a 150-year old classic Tudor house, it does not count towards the GDP; but the service rendered by your real estate agent in the process of buying the house does. Secondly, only final goods and services are counted. In order to avoid double counting, intermediate goods—goods used in the production of other goods and services—do not enter the GDP. For example, steel used in the production of automobiles is not valued separately. Finally, all goods and services included in the GDP are evaluated at market prices. Thus, these prices reflect the prices consumers pay at the retail level, including indirect taxes such as local sales taxes.

A measure similar to GDP is the gross national product (GNP). Until recently, the government used the GNP as the main measure of the nation's economic activity. The difference between GNP and GDP is rather small. The GDP excludes income earned abroad by U.S. firms and residents and includes the earnings of foreign firms and residents in the United States. Several other measures of output and income are derived from the GNP. These include the net national product (NNP), which subtracts from the GNP an allowance for wear and tear on plants and equipment, known as depreciation; the national income, which mainly subtracts indirect taxes from the NNP; the personal income, which measures income received by persons from all sources and is arrived at by subtracting from the national income items such as corporate profit tax payments and social security contributions that individuals do not receive, and adding items such as transfer payments that they do receive but are not part of the national income; and the personal disposable income, which subtracts personal tax payments such as income taxes from the personal income measure. While all these measures move up and down in a generally similar fashion, it is the personal disposable income that is intimately tied to consumer demand for goods and services—the most dominant component of the aggregate demand—and the total demand for goods and services in the economy from all sources.

Notes It should be noted that the aggregate income/output measures discussed above are usually quoted both in current prices (in "nominal" terms) and in constant dollars (in "real" terms). The latter quotes are adjusted for inflation and are thus most widely used since they are not subject to distortions introduced by changes in prices.

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Unemployment

The level of employment is the next crucial macroeconomic variable. The employment level is often quoted in terms of the unemployment rate. The unemployment rate itself is defined as the fraction of labor force not working (but actively seeking employment). Contrary to what one may expect, the labor force does not consist of all able-bodied persons of working age. Instead, it is defined as consisting of those working and those not working but seeking work. Thus, it leaves out people who are not working but also not seeking work—termed by economists as being "voluntarily" unemployed. For purposes of government macroeconomic policies, only people who are "involuntarily" unemployed are of primary concern.

For different reasons, it is not possible to bring down the unemployment rate to zero in the best of circumstances. Realistically, economists normally expect a fraction of labor force to remain unemployed—this fraction for the U.S. labor market has been estimated to be 6 percent.

Did u know? The 6 percent unemployment rate is often referred to as the benchmark unemployment rate. In effect, if the unemployment level is at 6 percent, the economy is considered to be at full employment.

Inflation Rate

The inflation rate is defined as the rate of change in the price level. Most economies face positive rates of inflation year after year. The price level, in turn, is measured by a price index, which measures the level of prices of goods and services at given time.

Caution The number of items included in a price index varies depending on the objective of the index.

Usually three kinds of price indexes, having particular advantages and uses are periodically reported by government sources. The first index is called the consumer price index (CPI), which measures the average retail prices paid by consumers for goods and services bought by them. A couple of thousand items, typically bought by an average household, are included in this index.

A second price index used to measure the inflation rate is called the producer price index (PPI). It is a much broader measure than the consumer price index. The producer price index measures the wholesale prices of approximately 3,000 items. The items included in this index are those that are typically used by producers (manufacturers and businesses) and thus it contains many raw materials and semi-finished goods. The third and broadest measure of inflation is the called the implicit GDP price deflator. This index measures the prices of all goods and services included in the calculation of the current output of goods and services in the economy, the GDP.

The three measures of the inflation rate are most likely to move in the same direction, even though not to the same extent. Differences can arise due to the differing number of goods and services included for the purpose of compiling the three indexes. In general, if one hears about the inflation rate number in the popular media, it is most likely to be the number based on the CPI.

The Interest Rate

The concept of interest rates used by economists is the same as the one widely used by ordinary people. The interest rate is invariably quoted in nominal terms—that is, it is not adjusted for

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inflation. Thus, the commonly followed interest rate is actually the nominal interest rate. Nevertheless, there are literally hundreds of nominal interest rates. Examples include: savings account rate, six-month certificate of deposit rate, 15-year mortgage rate, variable mortgage rate, 30-year Treasury bond rate, 10-year General Motors bond rate, and commercial bank prime lending rate. One can see from these examples that the nominal interest rate has two key attributes—the duration of lending/borrowing involved and the identity of the borrower.

Fortunately, while the hundreds of interest rates that one encounters may appear baffling, they are closely linked to each other. Two characteristics that account for this linkage are the risk worthiness of the borrower and the maturity of the loan involved. So, for example, the interest rate on a 6-month Treasury bill is related to that on a 30-year Treasury bond, as bonds/loans of different maturity levels command different rates. Also, a 30-year General Motors bond will carry a higher interest rate than a 30-year Treasury bond, since a General Motors (GM) bond is riskier than a Treasury bond.

Finally, one should note that the nominal interest rate does not represent the real cost of borrowing or the real return on lending. To understand the real cost or return, one must consider the inflation-adjusted nominal rate, called the real interest rate.

Did u know? Tax and other considerations also influence the real cost or return. Nevertheless, the real interest rate is a very important concept in understanding the main incentives behind borrowing or lending.

5.3 Managing Fluctuations in Retail Industry

The best way to manage seasonal fluctuations, and maintain positive cash flows throughout the year, is to develop detailed sales and inventory plans before the season begins, use those plans to guide your merchandise purchases, and as benchmarks in-season to guide your progress, according to Ted Hurlbut, the principal of Hurlbut & Associates, a merchandising and inventory management consulting firm based in Foxboro, Massachusetts.

Did u know? "Planning takes time — time you may not think you have — but invariably those independent retailers that take the time to carefully plan their sales and inventory are far more profitable than those that don't," Hurlbut says.

Before you begin the planning process, you will need to know what you've sold in the past, and how much inventory you had on-hand to generate those sales. That means using your point-of-sale (POS) system as a resource. "While effective planning goes far beyond merely what you did last year, this information is an important reference point," Hurlbut says. "You will need to extract that data from your POS system, by category and month. Unfortunately, many POS systems do not maintain a history of monthly inventory levels, so all you may be able to extract is sales data."

Second, you will need to determine the unit of measure that you will plan with. The two primary options are to plan in units or in retail dollar value. "In almost all instances, I recommend planning in retail dollars," Hurlbut says. "If you are going to do your planning in units, be clear in your own mind why units are the way to go in your particular business, and planning in retail dollars is inappropriate."

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Managing Seasonal Sales: Building a Plan

To start, you need to develop a sales plan. For independent retailers, most sales plans are broken out by category and month. In some cases, especially highly seasonal businesses or categories, it may be more appropriate to plan sales by the week. "The question to ask is a very basic one: 'What is the most likely level of sales from stock (excluding special orders) by month (or week)?'" Hurlbut advises. Note that the question is what the most likely level of sales is, not what's the most you could possibly sell, he says. A business could easily get in trouble by planning on the latter.

The following are considerations in developing your seasonal sales plan:

Review the prior year's sales histories. Make allowances and adjustments for unusual events, such as weather, out of stocks, one-time promotions, etc., Hurlbut says.

Factor in the appropriate increase or decrease. Based on your current sales trend and your reading of the sales potential of the category for the upcoming season, you may forecast for higher or lower seasonal sales. For larger categories, it may make sense to break the sales plan down further, by sub-categories, styles or vendors.

Marketing plan. How are you going to reach potential customers? In addition to advertising and direct mail, the Internet has opened up a wealth of new ways to reach customers. Hopefully, all year long you have been collecting customer e-mails so that you have a manageable list of contacts. Some companies are also toying with location-based advertising to reach customers when they are near by a store and lure them in with promotions.

How to differentiate your business. One common issue for many independent retailers is how to remain competitive with national chains in your market and other retailers, particularly if they offer customers low prices. Butler suggests thinking along the lines of these questions: "What makes my store unique and different to customers? What makes me distinctive? What do I offer that they don't?"

Hours and staffing levels. Determine whether you need to add seasonal staff to help make this a banner year, or work with staff to stagger schedules so that your business can be open when people are available to shop — which may involve more nights and weekends.

Caution "Many retailers are adjusting their hours. Maybe they close on Mondays or are only open Monday afternoon," Butler says. "For many retailers, Sunday has becomes the second busiest day of the week."

Managing Seasonal Sales: Buying Inventory

For many independent retailers, the largest asset on the balance sheet is inventory. "Inventory is the 'active' asset, which generates the business's sales and profits," Hurlbut says. "But without careful planning, inventory can easily get out of line, resulting in heavy markdowns due to overstocks and, ultimately, serious cash flow problems."

For retailers whose businesses are subject to seasonal fluctuations, the challenge of managing inventory levels is magnified. Seasonal fluctuations in sales levels require that inventory levels anticipate both the seasonal peaks in sales as well as the seasonal ebbs.

Notes

Plan Inventories

Once a sales plan has been developed, the next step is to build an inventory plan. "The question to ask is this: 'How much inventory do I need at the end of each month to support the next month's sales, as well as maintain effective merchandise displays?'" Hurlbut says. In some cases, the ending inventory may need to support more than just one month of future sales.

It makes little sense to bring in more inventory at any given time than you need to set your displays, support your planned sales until the next vendor delivery, and provide a safety stock in the event of an unexpected sales spike or a late delivery, Hurlbut says. Committing to inventory too far in advance, and then bringing it in all in one shot is one of the surest ways to find yourself over-stocked down the road.

Plan Discounts Ahead of Time

There are two primary types of discounts a retailer might take:

- Promotional discounts during the season, and
- Clearance markdowns as the season winds down.

Planning these discounts goes hand in hand with planning sales and inventories if you are using retail value as your unit of measure. "A discount, just like a sale, decreases the retail value of your inventory on hand," Hurlbut says.

Keep in mind that any retailer needs to protect gross margins and cash flow when planning clearance markdowns. "If you plan the date of the first seasonal markdown before the season even begins," Hurlbut says, "you can plan the inventory you want to have on hand at that point in time, and thus your markdown percentage.

If you've planned sales by month, ending inventories by month, and discounts by month, it's easy to calculate how much inventory to bring in each month, by category. Hurlbut says retailers need to bring in enough to cover that month's planned sales, planned discounts, and planned ending inventory, less the prior month's planned ending inventory. "In this way, for example, a buyer can know before a season begins how much inventory to plan on bringing in each month of the season," he says.

Caution Once inventory receipts have been planned, the next step is to plan how to execute those receipt plans. Ask yourself: How much of my receipt plan do I want to commit to buying now, before the season begins?

"The pre-season commit percentage is the percentage of the season's receipt plan that you commit to before the season begins," Hurlbut says. "It's the bets you place before the season has even opened up." Every seasonal retailer has to place these bets. A seasonal retailer has to commit to enough inventory to set displays and cover early sales, sales which are a critical early indicator of the season to come. Similarly, a retailer frequently has to commit up front to merchandise scheduled for delivery later in the season to assure they'll have core stocks of key items and categories at that critical time.

Managing Seasonal Sales: Take Markdowns Expeditiously

The process doesn't end once the holidays are upon us. It's a continuous process. In-season planning is even more important. "As each week goes by, and sales trends begin to develop, adjust your sales plans accordingly, and adjust inventory plans for those updated sales plans," Hurlbut says.

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When sales start to fall behind plan, it's very tempting to think that you'll make up the sales later in the season. But when sales fall behind plan, inventories begin to back up as well. When inventories back up, pressure builds on prices, which, if not addressed, can lead to steep markdowns that decimate margins. The first thing to do is adjust future receipts to get inventories back in line, but it usually doesn't end there.

"When sales are soft, the weakest of your items or categories will usually suffer disproportionately," Hurlbut says. "They simply aren't as desirable at their full retail price." As soon as you identify these items, mark them down. A 25 percent markdown, for instance, taken immediately, will accelerate their rate of sale and get you out of that inventory, he adds. But if you wait until clearance time, when everything is marked down, it may take 50 percent to 75 percent to clear the inventory.

Look behind the sales to understand why you are taking markdowns. "You have to be aware and smart. Don't just say, 'It's not moving fast enough,'" Butler says. "Why is it not selling? Do customers not like it? Or are they not seeing it?" Make sure that you are pricing the items right to begin with, particularly in this economic climate. "You want to be very sensitive about how you price merchandise," Butler says. "The customer is not looking for everything to be marked down. They're looking for good values, and there is a balance between value and price."

Self Assessment

Fill in the blanks:

1. The pre-season commit percentage is the percentage of the season's receipt plan that you commit to before the ……begins."
2. A discount, just like a sale, ……the retail value of your inventory on hand."
3. "Inventory is the 'active' asset, which generates the business's……."
4. Without careful planning, ……can easily get out of line, resulting in heavy markdowns due to overstocks and, ultimately, serious cash flow problems."
5. Butler says, "For many retailers, ……. has becomes the second busiest day of the week."
6. Rather than relying on current ……trends, it is important for retailers to continue to focus on the customer to succeed in today's marketplace.
7. Baby boomers and Generation ……are often cited as responsible for the shift in consumption patterns.
8. Rising ……and ……..and transportation costs are capturing a larger portion of the consumer dollar.

5.4 Dealing with Recession in Retail Industry

The current slowdown in the Indian economy notwithstanding, the retail segment in the country seems to be in for a big time expansion led by most major Indian business majors and global players. Even though the CB Richard Ellis report released in April 2008, placed India at a dismal number 44 in the list of preferred destinations for global retailers looking to expand, fresh announcements in the media belie this fact. However, going through these years of learning nearly all stake holders in the industry are reconsidering their retail plans. A need for consolidation in retail business is evident and to give it effect many have hit the drawing boards again – not necessarily means that there is any down turn in the industry. In spite of the fast track growth of the retail industry, India is still undergoing through the initial development phase of modern retail.

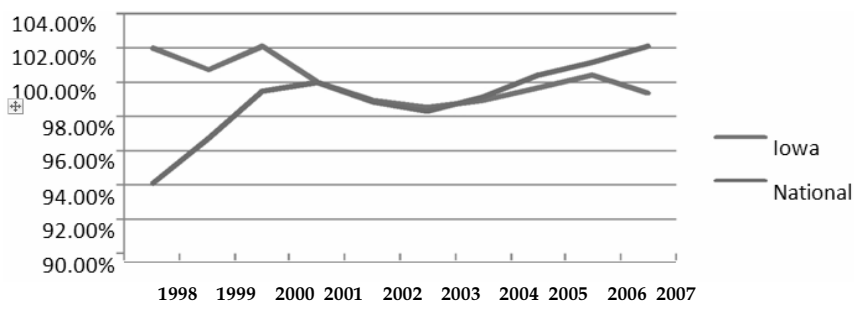
Notes

According to National Retail Federation research, retail and food and drinking places employ more workers than all other sectors of the U.S. economy. With one in five workers occupying a job in this sector, the impacts of a retail recession on employment will be significant. During the recent boom in consumer spending, the retail sector added hundreds of thousands of jobs. Data from the BEA and BLS from 1980-2003 illustrates that retail employment exhibited average annual growth of more than 1% despite two recessions and one downturn. The fastest year to year growth occurred in the 1980s following the recession lasting from 1980-1982 with average annual growth in retail employment gaining 4% between 1983-1985. During the recessions beginning in 1980, 1990 and the slowdown in 2001 the retail industry saw declines in employment. The average annual employment declined during these events at .8%.

BEA data indicates that Iowa's retail sector employment followed national trends over the long run but has deviated in the timing of adjustments. During the recession 2001-2003 retail employment declined nationally as well as in Iowa. Prior to 2001, Iowa employed a larger percentage of its 2001 retail labor force than the nation did and following the recession, Iowa reemployed its retail labor force at a lower rate than the nation did. Iowa's retail employment began declining in 2007 while the nation's retail employment was still increasing indicating Iowa's adjustment to the recession might be more gradual.

The data illustrates that retail employment responds quickly to economic conditions, and cautions that the individual retailer is currently facing difficult decisions with respect to levels of employment and overall labor costs. With input costs rising and structural rigidities affecting a retailer's ability to maximize revenue, labor becomes an avenue for retailers to reduce costs. Some options businesses use to avoid laying off employees is reducing hours from full to part time, using less employees per shift, and reducing store hours. None of these are desirable solutions as employees are often family in smaller retail establishments and reducing hours makes it more difficult to compete with discounters. Another option retail businesses often revert to is becoming a non-employee establishment to weather these downturns. Again, the decline in retail employment has ripple effects throughout the economy and forces the individual retailer to make tough decisions to survive.

Figure 5.1: Retail Employment Indexed to 2001 Levels



5.5 Maintaining the Balance in the Economy

Tips for Consumers and Retail Shoppers

1. Now is a good time to be a consumer. You might have less money to spend but retailers want your money more than any time in recent history. Take some time to shop around for the best prices, environment and service.
2. Your dollar is your vote. If you really enjoy shopping at a local retail store don't expect it will be waiting for you to come back if you switch your shopping habits. Choose where

Notes

you spend your dollars based on whom you would most like to continue doing business with.

3. Be reasonable about where you travel to shop. Driving an additional ten miles to save $1.00 probably isn't worthwhile, try and maximize your savings per trip.
4. Limit credit card use. Retailers may be running great specials but stocking up at 70% isn't saving you money if the balance stays on your credit card for multiple billing periods.

Tips for Retailers and Business Owners

1. Just like consumers shouldn't rely on debt to purchase items at a discount neither should you. Financing unnecessary inventory with debt because it is being offered at reduced prices won't make you money in the long run.
2. Offer consumers lower price substitutes in your store. Lower price point options may keep a consumer in your store from shopping at a discounter.
3. Don't be afraid to have sales or specials to move inventory. The downturn won't last forever and getting more people in your store or restaurant is the key to building long lasting customer relationships and repeat business. You might not make the same profit per item or entrée that you were prior to the downturn, but you are making sales and meeting customers.
4. Don't assume the raising prices will keep your revenue stream stable during a downturn. The price elasticity of the goods you sell will determine whether you can raise prices or not. Do not raise prices on highly elastic goods as this will reduce the quantity demanded dramatically.
5. Know your inventory. This might include keeping detailed records or journals of what you sell the most of and to whom. Pay attention to your competition and their prices. Being in touch with the nature of your inventory can limit lost revenue with respect to price changes and stocking of inventory.
6. Consider low to no cost options to revitalize your space. Changing the layout of your store can add instant appeal with little or no expense.
7. Be prepared to make some sacrifices and tough choices. Plan for the future and think strategically about where you want to be when the down time ends.
8. Listen to your customers, they are your greatest asset.

Low marketing and advertising budgets will work out

To rectify the things, right solutions are always excavated. Whether the market growth is slower or faster, its potential should not be left unused. Anyway, new and innovative solutions must be invented to answer the current market slump. Cutting down the marketing and advertising budgets will reduce the financial burden on retailing industry. Marketing and advertising are the supreme factors for the retail industry to penetrate more into retail market. Following innovative marketing and effective advertising at low prices will be a brilliant move for the present day market trends.

Challenge to get more customers at low cost

In this current meltdown, driving the customers to the retail stores seems high and dry. But, the markets always have the hidden potential despite the slump. Today, the changing market trends demand the retail industry to expand its reach to the more customer touch points so as to drive

them to the retail points. 'Low investments and high returns' is now made possible with the arrival of technology enabled marketing services. The retail industry should realize that it would be at a fair advantage of including technology enabled marketing services to unfold the immense retailing opportunities.

Self Assessment

Fill in the blanks:

9. …… down the marketing and advertising budgets will reduce the financial burden on retailing industry.
10. According to National Retail Federation research, retail and …….. places employ more workers than all other sectors of the U.S. economy.
11. Marketing and …….. are the supreme factors for the retail industry to penetrate more into retail market.
12. The retail industry should realize that it would be at a fair advantage of including …….....…… enabled marketing services to unfold the immense retailing opportunities.
13. Following innovative marketing and effective advertising at …….prices will be a brilliant move for the present day market trends

5.6 Summary

- Consumer spending patterns are shifting, and retailers must alter their strategies as past tactics may no longer be effective.
- The characteristics that describe a macro economy are usually referred to as the key macroeconomic variables. The following four variables are considered to be the most important in gauging the state or health of an economy: aggregate output or income, the unemployment rate, the inflation rate, and the interest rate.
- Macroeconomics essentially examines the factors that lead to changes in the main characteristics of the economy—output, employment, inflation, and the interest rate. A set of principles that describes how the key macroeconomic variables are determined is called a macroeconomic theory.
- The best way to manage seasonal fluctuations, and maintain positive cash flows throughout the year, is to develop detailed sales and inventory plans before the season begins, use those plans to guide your merchandise purchases.
- "But without careful planning, inventory can easily get out of line, resulting in heavy markdowns due to overstocks and, ultimately, serious cash flow problems."
- For many independent retailers, the largest asset on the balance sheet is inventory. Inventory is the 'active' asset, which generates the business's sales and profits.
- A seasonal retailer has to commit to enough inventory to set displays and cover early sales, sales which are a critical early indicator of the season to come.
- According to National Retail Federation research, retail and food and drinking places employ more workers than all other sectors of the U.S. economy.
- The current slowdown in the Indian economy notwithstanding, the retail segment in the country seems to be in for a big time expansion led by most major Indian business majors and global players.

Notes

- In this current meltdown, driving the customers to the retail stores seems high and dry. But, the markets always have the hidden potential despite the slump. Today, the changing market trends demand the retail industry to expand its reach to the more customer touch points so as to drive them to the retail points.

5.7 Keywords

Consumer price index (CPI): It measures the average retail prices paid by consumers for goods and services bought by them.

GDP: It is a measure of all currently produced goods and services valued at market prices.

GDP price deflator: This index measures the prices of all goods and services included in the calculation of the current output of goods and services in the economy, the GDP.

Inflation rate: It is defined as the rate of change in the price level.

***Macroeconomic variables*:** The characteristics that describe a macro economy.

Macroeconomics: It essentially examines the factors that lead to changes in the main characteristics of the economy-output, employment, inflation, and the interest rate.

Producer price index: It measures the wholesale prices of approximately 3,000 items.

Unemployment rate: It is defined as the fraction of labor force not working (but actively seeking employment).

Voluntarily unemployed: People who are not working but also not seeking work-termed by economists as being "voluntarily" unemployed.

5.8 Review Questions

1. "There is an increase change in the income of consumer spending". Comment.
2. What are the macroeconomic policies of retail industry of India?
3. Write a brief note on "Recession in retail Industry".
4. Write Short notes on:
   (a) Inflation rate
   (b) Unemployment rate
   (c) GDP price deflator
5. Differentiate between consumer price index and producer price index.

Answers: Self Assessment

1.	season	2.	decreases
3.	sales and profits	4.	inventory
5.	Sunday	6.	Pricing
7.	Y	8.	Health, medical
9.	Cutting	10.	food and drinking
11.	advertising	12.	technology
13.	low		

5.9 Further Readings

Notes

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Notes

Unit 6: Retail Planning and Environment

CONTENTS

Objectives

After studying this unit, you will be able to:

- Explain the concept of Strategic Planning Process
- Discuss the SWOT analysis of retail sector
- Discuss Integrated marketing system
- Explain the Role of retail formats
- Explain the concept of Merchandise

Introduction

'Strategy' means several things to several people at different points of time. It is fashionable nowadays to use the word 'strategy'. Hence, people talk about defense strategies, business strategies, strategies for games (be it cricket or chess), National Strategies, Global Strategies and many more strategies.

The retailing strategy outlines the mission and vision of a retail organization. It is a systematic plan that provides the retailers the overall framework for dealing with competitors as well as technological and global movements. In the past traditional retailers mainly reacted to changes in the business environment, but with increasing business complexities, this is no longer valid. The reason of this, competition in all the disciplines of retailing is increasing and changes in the consumer's tastes, need, wants, technological environment and other external environmental variables are taking place very fast. Long term strategies and continuous examination of strengths, weaknesses, opportunities and threats (SWOT analysis) is required to ensure that the growth

opportunities are not missed and action is taken at the right time to combat potential threats in the prevailing business environment.

6.1 Concept of Business World

Business is an economic activity, which is related with continuous and regular production and distribution of goods and services for satisfying human wants.

All of us need food, clothing and shelter. We also have many other household requirements to be satisfied in our daily lives. We met these requirements from the shopkeeper. The shopkeeper gets from wholesaler. The wholesaler gets from manufacturers. The shopkeeper, the wholesaler, the manufacturer are doing business and therefore they are called as Businessman.

Retailing is the latest buzzword among the business. It is evolving into a global, high-tech business and occupies a preeminent position in the economics of all modern societies. Retailing today is at an interesting cross road. Town with lower income and higher employment trends would give rise to fragmentation of the retail universe resulting in a large number of small outlets. The composition of the retail universe in India is also quite diverse. It is important to bear in mind that only those outlets that stock Fast Moving Consumer Goods (FMCG) brand have been considered and the total number of outlets dealing in all kinds of products may be much higher.

The growth of retailing in most countries the world over is synonymous with the growth of the information technology sector in that country, as no retailer can do justice to his business or to his customers unless he is able to collect and analyze the vast amount of data available to him. Retailers usually deal with very large volumes of data as thousands of suppliers, which are finally purchased by thousands of customers as well. By enabling the retailer to keep track of all this information and to analyze the reports that emergence from such data, IT plays an extremely critical role in the development of anywhere in the world.

The concept of retailing however, is still under- development in India, with emphasis only being laid on distribution. The Indian retail market is quite large but highly fragmented, comprising very few large retailers. It is estimated that there are approximately 1.8 million urban retail outlets in this unorganized sector, out of which only 7 percent achieve sales of over ₹. 8 lakh per annum. These traditional corner stores, at best, constitute nothing more than a cost and distribution overhead. At worst, they destroy the very concept of making shopping a pleasant experience. In fact it is estimated that till date less than 2 percent of the retailing business in India comes from organized retailing.

The Indian retailing Industry is becoming intensely competitive, as more and more players are vying for the same set of customers.

Did u know? According to A.T. Kearney, the windows of opportunity shows that Retailing in India was at opening stage in 1995 and not it is in peaking stage in 2006. India's retail market is expected to grow tremendously in next few years. To gain success and stabilize in the market retail management has to be developed within the context of marketing approach.

The position of retail store manager is one that holds vast duties and great responsibilities. There are a wide variety of retail stores which employ retail store managers to maintain the overall quality and day-to-day operations of the establishment. In order to learn more about the duties and responsibilities of a retail store manager, it is important to highlight what in fact these individuals do on a daily basis.

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Self Assessment

State whether the following statements are true or false:

1. The Indian retailing industry is increasingly becoming less competitive.
2. Business is a continuous process.

6.2 Strategy – The Retail Perspective

A company's strategy provides a central purpose and direction to the activities of the organization to the people who work in it, and often to the world outside.

Using suitable strategies and communicating them to all important groups inside and outside the corporate firm would gain cooperation from all corners.

Strategy if defined clearly by the top management and accomplished well, provides the purpose and focus for all other activities and starts the organization on the road to successful operation. 'Every long journey starts with taking the first step', says a proverb. Obviously, the formulation of a strategy is only the beginning but the beginning is the most significant point in any enterprise.

Levels of Strategy for Retail Organisations

An organization's strategy includes where it wants to go and how it intends to get there. This definition applies both to the overall strategy of an organization and to the strategies of its major sub-units. The implications of strategy at different levels can be distinguished. Analytically, there are three levels of strategy:

1. Corporate level strategy
2. Business unit strategy or Retail Format level
3. Functional level strategy

At the corporate level, strategic decisions relate to organization's wide policies and are most useful in the case of multidivisional companies or firms having wide ranging business interests. The nature of strategic decisions at the corporate level tend to be value oriented, conceptual and less concrete than decision at the business or functional level. There is also greater risk, cost and profit potential as well as greater need for flexibility associated with corporate level strategic activities. These are natural outcomes of the futuristic, innovative and pervasive character of corporate level strategy. Major financial policy decision involving acquisition, diversification and structural redesigning belong to the category of corporate strategy.

At business unit level (retail format level) decision-makers are primarily concerned with the immediate industry or product—market issue, and with policies bearing on the integration of the functional units. Retail business level strategic decisions translate the general statements of direction and intent generated at the corporate level into concrete functional objectives and strategies for divisions or strategic business units (operating division of a firm which serves a distinct product/market segment or a well defined set of customers or a geographical area). Strategic decisions at the business level should include policies involving new product development, marketing mix, research & development, personnel etc.

Functional strategic level strategy involves decision making at the operational level with respect to specific functional areas – production, marketing, personnel, finance etc. Decisions at the functional level are often described as 'tactical' decisions. These decisions are necessarily guided by overall strategic considerations and must be consistent with the framework of business strategy.

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Example: Marketing policy decisions should provide guidelines for marketing management in accordance with the chosen strategy, providing the overall direction of business.

While corporate and business level strategies are concerned with "doing the right thing", functional strategies stress on "doing things right".

6.3 Strategic Planning Process

This text developing and applying retail strategy, retailers are required to follow a step-by-step procedure or planning process. The planning process involves the present stage of business, the formulation, lists of available strategic options, and the implementation of the selected strategies. Considering the importance of strategic decisions for the future success of the business, a systematic approach is essential. The strategic planning process, after considering the HR potential and the unique selling proposition (USP) of a particular store takes proper shape.

Strategic retail planning process divided into the following steps:

(a) Deciding the store's mission and objectives

(b) Situation analysis

(c) Formulation of retail strategy

(d) Implementation and control of strategy

Deciding the Store's Mission and Objectives

The retail strategic planning process starts with the identification of a store's mission for its existence, and hence the scope of the retail store. The mission of a store is identifying the goods and services that will be offered to customers. It also deals with the issue of how the resources and capabilities of a store will be used to provide satisfaction to customers and how the store can compete in the target market vis-à-vis its competitors.

The mission also involves the way of the store's functioning. How a store will work and accomplish its day-to-day operations. What is the emergency planning? All these questions are answered in the store's mission statement.

Example: Big Bazaar, they have philosophy of customer satisfaction through 'manufacturing retailing'.

This reflect not only the way it tends to treat its customers but discuss secret of its competitive advantage, i.e. the profit saved from absence of intermediaries like agents and brokers, the profit saved is thus, distributed to the customers by way of low price items.

Once the organization mission has been determined, its objectives the desired future positions that it wishes to reach, should be identified. A store's objectives are defined as ends that the store seeks to achieve by its USP and operations.

The store's objectives may be classified into two parts:

(a) ***External store objectives*** are those objectives that define the impact of store on its environment.

Example: To develop high degree of customer confidence by providing quality goods at affordable price.

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(b) ***Internal store objectives*** are those objectives that define how much is expected to be achieved with the available resources.

Example: To raise the store turnover by 20% in the coming year.

Formulation of Retail Strategy

After analyzing the store's capabilities in terms of HR, finance, physical and intangible resources, a store manager formulates a retail strategy with regards to marketing retail positioning and retail mix.

Marketing is the way to achieve the set objectives, therefore, marketing strategy should be devised according to the store's primary and secondary objectives. Generally marketing strategy is developed on the basis of product and/or market segmentation instead of the market as a whole.

Retail positioning is a plan of the store's action for how the retailer will enter the target market and will compete with its main competitors. Retail positioning from a retail store's point of view, is a step-by-step plan to create and maintain a unique and everlasting image of the store in the consumers mind. This process reveals the fact that understanding 'what the customer wants' is the success key to retail positioning in the market. Under retail positioning, a retailer conveys the message that its products are totally different and as per customer's requirement. The reason is that its products are attracted towards items that are new for them with the perception that if it is new, it will have some extra/added features. Retail positioning is made possible under these circumstances:

- By differentiation of the store's merchandise from that its competitors.
- By offering a high level of service after sales at nominal cost
- By adopting low pricing policies.

6.4 SWOT Analysis of a Retail Sector

SWOT is a short form that stands for Strengths, Weaknesses, Opportunities and Threats. Firms often apply SWOT analysis in figuring out how to build up their place in the market and to discover new prospects for expansion and reputation management. Retail chains usually exercise SWOT analysis on customers to observe what slits can be filled and how to react to definite threats and opportunities.

Strengths

The first step in doing a SWOT analysis for retail entails identifying certain strengths. One possible strength may be the retailer's financial backing, meaning it has plenty of capital and access to bank loans. Another strength may be the retailer's cheaper wholesale prices. Additionally, the retail company may offer unique products compared to other retailers. For example, a clothing store may sell high quality but slightly defective clothing at a low price. Whatever the case, a retailer should make a list of all its strengths vs. key competitors.

Weaknesses

When reporting weaknesses, the retail store or company should start with its most palpable weaknesses. For example, through market research, the retailer may have discovered it has a weak brand image versus key competitors. The retailer may also lack an identity. For instance, the store may sell cheap and expensive brands. It may also be lacking in customer service.

Essentially, the store has no competitive advantage that sets it apart from other retailers. Retailers should list all weaknesses, then make improvements as needed.

Opportunities

Another step in a retail SWOT analysis is identifying key opportunities in the market. There are a myriad of opportunities a retailer may discover through both its sales force and market research. Opportunities can include an unfilled consumer need, according to quickmba.com, an online business reference site. For example, a small web design company may see an opportunity to add consulting services, if it has customers that desire it. Or a retail company may have the opportunity to purchase a smaller retailer to increase market share.

Threats

A retailer can identify certain threats through a SWOT analysis. Threats can include a decrease in consumer demand, a recession, price wars among key competitors, or even an increase in competition. Even a change in shopping habits can be a major threat to a retailer. For example, when people starting migrating to the suburbs in the 1950s and 1960s, downtown retailers, which represented the traditional way of shopping, were affected.

Using SWOT

Retailers should not just identify their strengths, weakness, opportunities and threats, they must also use their lists to develop various marketing strategies. This is best accomplished by matching an internal variable, like strengths, to an external variable, like opportunities. For example, the owner of a chain of gift shops may have a strong marketing team—a strength—so she may see the opportunity to increase sales and profits through the Internet.

Significance

The significance of this kind of analysis is that it assists a retailer recognize its retail market through an analysis of its consumer base. Principally, it looks to fill market gaps and predict various kinds of threats. Market gaps are those holes in a confined market where demand is stronger than supply.

Function

These sorts of analyses look to technically make out how to serve a client base more efficiently. It tries to recognize definite strengths (such as a good reputation) and build upon them. It also tries to make out certain weaknesses (such as a high rate of turnover among employees and staff) and execute policies that would eradicate these problems. For SWOT to work appropriately, it must be objective, base itself around customer surveys and act as an honest indicator of a firm's ability to arrive at its customers.

6.5 Retail Mix

The retail mix is the blend of various retail activities that in totally present the whole concept of retailing. The retail marketing and retail positioning strategies are put into effect by this retail mix, the set of controllable elements that a retailer can use to satisfy customer's needs and to influence their buying behaviour and compete effectively in the target market. Utmost care is required on the part of retail manager to select the various elements for a perfect retail mix.

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Caution The main elements of a retail store mix are:

- The store's location
- Merchandise assortment
- Pricing policy
- Customer service mechanism
- Visual merchandising
- Personal selling efforts
- Advertising efforts
- The store's internal and external environments.

Strategy Implementation and Control

It is concerned with the designing and management of retail system to achieve the best possible combination of human, financial, physical and service resources of a retail store; to achieve the formulated objectives, without timely and effective implementation also requires scheduling and coordination of various retail activities.

Further, the spirit of teamwork is an essential part for the success of strategy implementation. If the retail store's strategies are competitive, marketing efforts are as per demand, but the sales promotion employees are not taking it seriously or are ineffective, the result will not be up to the mark. The implementation of new retailing strategies sometimes require changes in the way of functioning and duties that can lead to resistance from employees. Therefore, stores should take positive steps to reduce this resistance to change and to convince the employees that it in the long term will be beneficial for both the store and the employees.

Strategy control deals in three basic concepts

- Inspection
- Detection
- Correction

It means after implementing the retail strategies, a retailer should assess how effectively the strategies are being implemented, how far the strategic objectives are being achieved and what has been left to be achieved in the store's objectives list. Therefore, retailers inspect the implemented strategies from time to time and detect any fault in the implementation of various retail elements. If any deficiency is found during the inspection process that has to be corrected with immediate effect without any further loss to the store.

Task Examine the retail strategy of Planet M and Levis in India.

Alternate Strategies

Given that the objectives are well articulated, resources are well managed but when it comes to implementation due to sudden change in internal or external environment, the old concepts or formulated policies become invalid. Now what should a retail manager do, this is not an

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uncommon phenomenon but can happen to any retailer. It has rightly been said that 'think positive but the prepared for the worst'. Considering retailers, who are sensitive to environmental changes, they always prepare a set of alternative strategies, in case change in technology or change in customer's preferences make the present schemes ineffective.

Caselet

Wal-Mart's Marketing Strategy

Wal-Mart is not particularly known for their impeccable customer service. Even further, Wal-Mart lacks in cleanliness and breadth of product lines. But what they lack in aesthetics, they make up for with an absolutely unparallel convenience and price competitiveness. Wal-Mart has redefined the art of online marketing, using techniques at grand and impressive scales to become one of the top company's in the wide history of corporate America.

Wal-Mart's online marketing campaign covers all facets of strategy, but through all the apparent strategies, it is their aggressiveness that has highlighted and broadened their need to succeed and remain at the top of the industry in retail. But an aggressive campaign inevitably garners controversy, and through the years, Wal-Mart has been involved with a fair amount of negative publicity directly involving their specific marketing strategies. Their bullying nature has caused many to deem them unreasonable and unfair- Wal-Mart still remains number one despite the negative attention.

Wal-Mart's marketing consists of flooding the market with their presence. This is alarming for individuals who find Wal-Mart's business practices alarming. But with such a massive quantity of stores, intensely competitive pricing, and such a large market share, their marketing strategy has entailed an overall takeover of all the appropriate markets.

They offer many types of products, with a relatively comfortable list of options. As well, Sam's Club offers an alternative for those who prefer bulk. And with such a strong base of customers, they are able to set the prices for what they pay for. If you want your product in Walmart, you are at the mercy of them setting the price they will pay. If it is below cost, then so it is. The truth is, Wal-Mart can offer a company a prime opportunity to get their product to the masses- even if they lose money doing so. Their online marketing has them being as transparent as possible in an attempt to dissuade the controversy to their name. You can purchase their entire collection of products through the web. You can read customer reviews, sign-up for a newsletter, and get options for special deals available only through the website. Despite this, such a business relies strongly on their physical location- exactly why a store finder is located right at the top in bright yellow.

This competitive nature has allowed controversy to flourish under their name. But their marketing has focused on quantity, and delivering variety in one location. Their extending hands to Subway and McDonalds for placement of restaurants in Walmart's, further validates this claim. As well, a typical customer can get glasses prescription, get their haircut, and oil changed under their building. You can purchase jewelry on one side, and draperies on the other. You can buy groceries and grab a new lawnmower (while waiting for an oil change). Their recent cooperation with SunTrust bank has allowed their presence in Southeast Walmart's. Their marketing has always relied on variety- how many single things can you do in one location.

Wal-Mart has garnered its fair share of controversy. Yet, the convenience is truly unrivalled. With such a wide breadth of options for a consumer, it seems almost silly to shop at

Contd...

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another location where these options are severely limited. Wal-Mart's online marketing is simply an extension of their physical stories, allowing individuals to purchase directly through the site.

Question:

Comment on the marketing strategy of the world biggest retailer.

Source: www.strategicminds.eu

Self Assessment

Fill in the blanks:

3. An organization's ..... defines where it wants to go and how it intends to get there.
4. At ..... level, decision-makers are primarily concerned with the immediate industry or product—market issue, and with policies bearing on the integration of the functional units.
5. Decisions at the functional level are often described as ..... decisions.
6. Big Baazar have a philosophy of customer satisfaction through 'manufacturing retailing'. This is their .....
7. The objective of studying the internal environment of its own store is to identify the store's .....
8. The ..... is the blend of various retail activities that in totally present the whole concept of retailing.
9. Retail ..... is a plan of the store's action for how the retailer will enter the target market and will compete with its main competitors.
10. The retail marketing and retail ..... strategies are put into effect by this retail mix
11. For ..... to work appropriately, it must be objective, base itself around customer surveys and act as an honest indicator of a firm's ability to arrive at its customers.
12. Retailers should not just identify their strengths, weakness, opportunities and threats, they must also use their lists to develop various ..... strategies.

6.6 The Retail Value Chain

To get a bird's eye view of an organisation's operations is the purpose of the value chain model of corporate activities, developed by Michael Porter. Competitive advantage, says Porter, arises out of the way in which firms organize and perform activities. One should keep in mind that in Porter's analysis, retail business activities are not the same as retail business functions.

- Functions are the familiar departments of a retail business and reflect the formal organizations structure and distribution of labour.
- Activities are what actually goes on, and the work that is done. A single activity can be performed by a number of functions in sequence.

Activities are the means by which a firm creates value in its products. Activities incur costs, and in combination with other activities, provide a product or service, which earns revenue. Firms create value for their buyers by performing these activities. The ultimate value a firm creates is

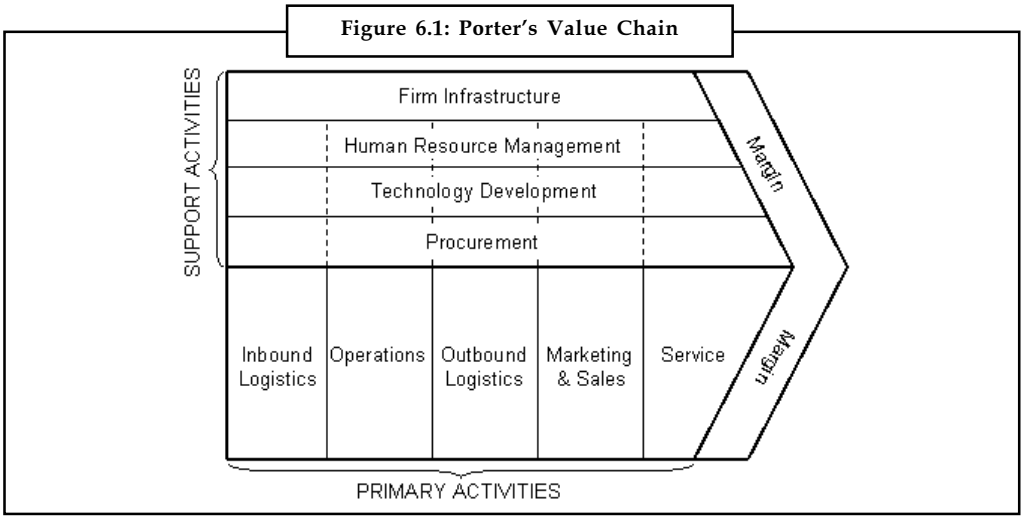
Notes

measured by the amount customers are willing to pay for its products or services above the cost of carrying out value activities. A firm is profitable if the realized value to customers exceeds the collective cost of performing the activities. There are two points to note here:

1. Customer's purchase value, which they measure by comparing a firm's products and services with similar offerings by competitors.
2. The retail business creates value by carrying its activities either more efficiently than other retail businesses, or combined in such a way as to provide a unique product or service.

Porter analysed the various activities of an organization into a value chain. Figure 6.1 depicts Porter's Value Chain model.

Figure 6.1: Porter's Value Chain



Source: www.12manage.com

This is a model of value activities and the relationships between them.

- Primary Activities are those directly related with production, sales, marketing, delivery and services. The diagram shows five primary activities.
- Inbound logistics are those activities involved with receiving, handling and storing inputs to the production system.
- Operations are those activities which convert resource inputs into a final product.
- Outbound logistics are those activities relating to storing the product and its distribution to customers.
- Marketing and sales are those activities that relate to informing customers about the product, persuading them to buy it, and enabling them to do so.
- ***After sales services:*** For many companies, there are activities such as installing, repairing products, providing spares etc.

Support activities are those which provide purchased inputs, human resources, technology and infrastructural functions to support primary activities. Support activities include.

- Procurement refers to those activities which acquire the resource inputs to the primary activities.
- ***Technology development:*** These activities are related to both product design and to improving process and/or resource utilization.

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- Human resource management is the activities of recruiting training and rewarding people.
- ***Firm infrastructure:*** The systems of planning, finance etc. are activities which Porter believes are crucially important to an organisation's strategic capability in all primary activities.
- Furthermore, in addition to the categories, described above, Porter identifies three other ways of categorizing activities.
- Direct activities are concerned with the adding value to inputs.
- Indirect activities enable direct activities to be performed e.g. maintenance.
- ***Quality assurance:*** This type of activity monitors the quality of other activities and includes inspection; review and audit.

Linkages connect the interdependent elements of the value chain together. They occur when one element of the value chain affects the cost or effectiveness of another.

The value chain contains an element of margin. This is the excess of the amount that the customer is prepared to pay over the costs of the resource inputs and value activities. Firms can gain competitive advantage by conceiving of new ways to conduct activities, employing new procedures, implementing new technologies, or using different inputs and by exploiting linkage effectively.

Caution A company's value chain is not bounded by a company's border. It is connected to what Porter describes as a value system.

As well as managing its own value chain, a firm can secure competitive advantage by managing the linkage with its suppliers and customers. A company can create competitive advantage by making best use of these links and this means considering the value chain of these suppliers and customers.

The value chain is also a useful model for analyzing a firm's competitive and also further on in the planning process for designing strategies. A firm's value chain is not always easy to identify nor are the linkages between the different elements. However, it is an important analytical tool because it helps people:

- To see the retail business as a whole
- To identify potential sources of competitive advantage.

Self Assessment

Fill in the blanks:

13. ..... are the means by which a firm creates value in its products.
14. ..... are those activities involved with receiving, handling and storing inputs to the production system.
15. ..... refers to those activities which acquire the resource inputs to the primary activities.
16. A company's value chain is connected to what Porter describes as a .....

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6.7 Integrated Marketing System Forgoing Relationships for Success in Retail

Multi-channel capability is currently in the forefront of retailers' minds as a "must have" for driving customer loyalty and sales. And though many retailers are selling through more than one channel, those channels are often not linked cohesively to create a competitive multi-channel advantage.

Customers have increasingly high expectations: They want to move among channels throughout the sales journey and have consistent customer service and product offerings as they do so. At the same time, retailers are beginning to realize that when channels are implemented in silos rather than as an integrated whole they fail to deliver on these expectations, with predictable consequences in terms of lost sales.

To capitalize on these growing customer expectations and the market share that can be gained as a result, retailers must rethink their approach: They need a customer-focused integrated multi-channel strategy covering all aspects of their operations and technology. This paper offers a framework within which to develop such a strategy for Integrated Multi-Channel Retailing.

Individual Channels are not Enough

An integrated multi-channel approach is essential for retail survival; individual channels are not enough. With online sales growth at 25% to 40% and predicted to keep growing at this pace, retailers that ignore the online channel will see their market share eroded. Yet simply offering an additional channel is not sufficient to realize the full advantages of multi-channel retailing.

Customers want more from retailers than they are currently getting

Consumers expect retailers to offer increasingly sophisticated multi-channel capabilities. For example, consumers want to be able to research a product in one channel before buying it through another; to order it online and then collect it from a store. They expect to see consistent product, range, promotions and customer service across channels and have their loyalty cards and vouchers recognized in all channels. Not only are they starting to expect the retailer to personalize their shopping experience for them, consumers also play an increasingly important role in the design and marketing of products and services through their growing use of Web 2.0 technologies.

Siloed channels mean the retailer will fail to meet customer expectations

If channels operate in isolation from one another they will lack linkage with regard to people, processes and technology, making it difficult for the business to sustain an overall strategic vision. When each channel has its own data silo, the retailer can take only a single-channel view of customers. New channels implemented in silos are often viewed internally as competitive to existing channels, with resulting anxieties about "cannibalization."

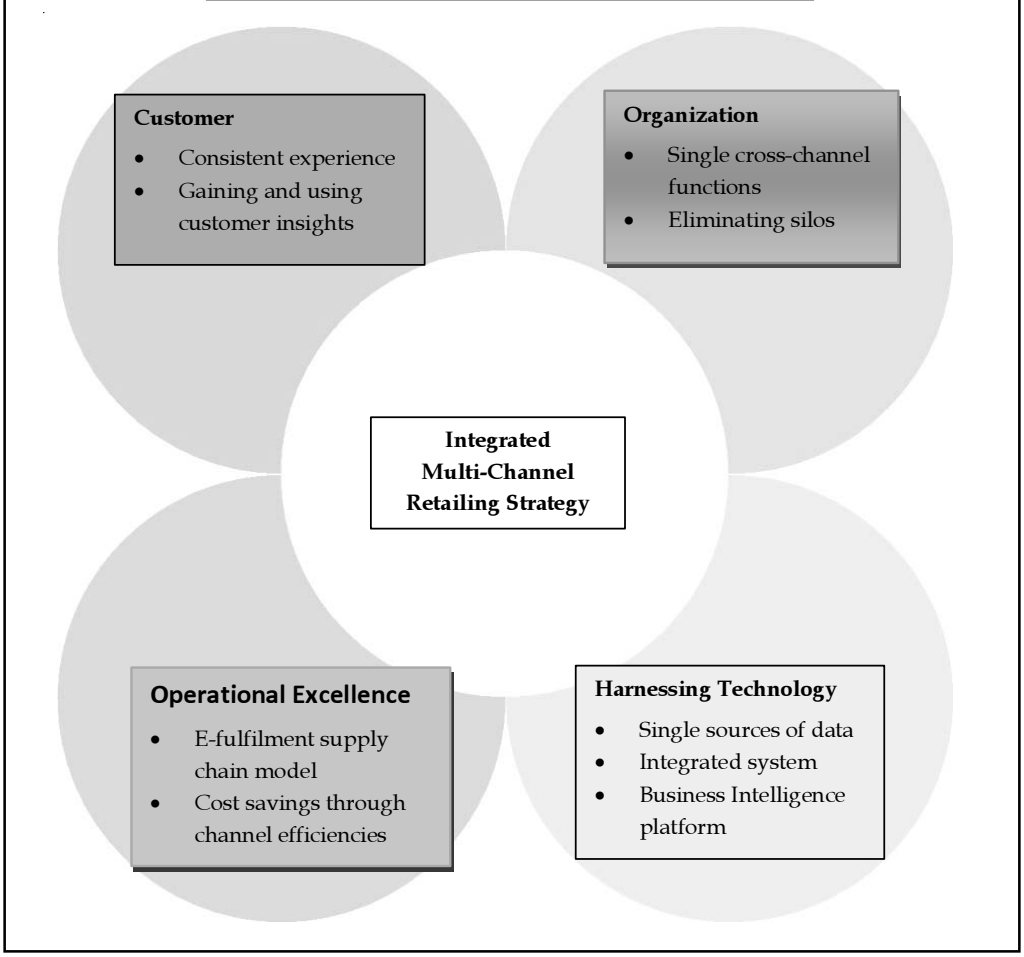
Handled incorrectly, additional channels can also increase an organization's complexity and decrease profit. As retailers expand to multiple channels, their organization needs to be set up with consideration for how processes should work together. Without this forethought an additional channel "tagged on the side" of the current operation significantly increases the complexity involved in supply chain, procurement, IT and marketing and will bring rising costs along with it. The future supply chain model will demand closer coordination with suppliers and third-party logistics providers.

Notes

The Solution: Integrated Multi-Channel Retailing

To deliver the needs of today's consumer and capitalize on the current and anticipated online growth, retailers need channel integration. What is integrated multi-channel retailing? An integrated multi-channel retail strategy should encompass four major areas: the customer relationship, the organizational strategy, retail operations and integration of systems and processes (see Figure 6.2).

Figure 6.2: Integrated Multi-Channel Retailing Strategy



Customer: Capgemini's "Future Consumer" study found that while 50% of customers are interested in just the product they buy, the remaining half are also heavily influenced by the overall service and emotional experience. Retailers therefore need to give a consistent experience across channels with regards to product, range and customer service. Additionally Web 2.0 technologies are changing the way customers interact as they move through the sales journey, and the retailer now has many more opportunities to gain customer insights. Successful multi-channel retailers are feeding these insights into their product development, range selection and customer experience.

Organization: An appropriate operating model considering the implications of multi-channel retailing needs to be implemented. This model should eliminate channel silos and create a cohesive organization that can deliver the benefits to be gained from an effective multi-channel strategy.

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Operational Excellence: The operation needs to be set up to support customers' needs for product, pricing, range, delivery and service. This may involve the use of new supply chain business models. The marketing department needs to develop competencies for engaging the customer into the sales journey using the rapidly developing Web 2.0. Excellence in the execution of delivering the customer needs sets integrated multi-channel retailers apart.

Integrated Technology and Data

A multi-channel retailer will have a single view of the customer, a single view of inventory and one source of product data. Retailers need to harness master data management and integrated systems to support this. Integration beyond the retailer to include suppliers and third-party logistics partners will further increase the competitive advantage.

A Business Intelligence (BI) platform is a springboard to effectively working with this data.

6.8 Retail Formats and Merchandise

Development of Retail Formats

It is difficult to fit a successful international format directly and expect a similar performance in India. The lessons from multinationals expanding to new geographies too point to this. For example, Wal-Mart is highly successful in USA but the story is different in Asian countries like China. Therefore, it is important for retailer to look at local conditions and insights into the local buying behavior before shaping the format choice. Considering the diversity in terms of taste and preferences existing in India the Leading Spanish fashion retail chain operates the eight store formats – Zara, Berschka, Massimo Dutti, Pull & Bear, Stradivarius, Kiddy's Class, Oysho and Zara Home. By the end of November 2005 it had a total of 2,643 stores in 60 countries. Gap Inc. is one of the world's largest specialty retailers, with more than 3,000 stores and fiscal 2005 revenues of $16 billion. The retailer offers clothing, accessories and personal care products for men, women, children and babies under the Gap, Banana Republic, Old Navy and Forth & Towne brand names. Gap brand includes Gap, Gap Kids, baby Gap and Gap Body. The company also operates Gap Outlet, Banana Republic Factory Outlet and Old Navy Outlet stores. Retailers may go for experimentation to identify the winning format suited to different geographies and segments. For example, the taste in south is different from that in north and this brings challenges to the retailers. Therefore, most of grocery retailers are region-centric at this point in time. Now a number of retailers are in a mode of experimentation and trying several formats which are essentially representation of retailing concepts to fit into the consumer mind space. Apart from geography even rural and urban divide poses different kind of challenge to the retailer. Pantaloon Retail India is experimenting with several retail formats to cater to a wide segment of consumers in the market. Some of the new formats are Fashion Station (popular fashion), Blue Sky (fashion accessories), aLL (fashion apparel for plus-size individuals), Collection i (home furnishings), Depot (books & music) and E-Zone (Consumer electronics). The retailer is trying to segment the market with the help of format. The retailer developed another new format in the form of Wholesale Club to sell a segment of consumer who purchase on bulk and look out for discounts and offers. The new format is going to be kind of wholesale club which is likely to be located close to Food Bazaar. Consumers who are interested to purchase on bulk can take benefit from this format. Similarly the Land mark group also operates multiple formats such as hypermarket (Max), departmental store (Lifestyle), Shoemart, Funcity, etc. Such experimentation and identification of an appropriate format for the local conditions would separate winners from losers in India, possibly implying multiple formats could be the reality in the long run.

Notes

Task Being an individual of visual merchandising, gather as many as information relating to buying department.

Case Study **A Case Study of 'Big Kmart' – A Scenario of Retail Formats in Operation**

Big Kmart signals a different kind of Kmart. These stores are bigger brighter and offer big savings big value, big selection, and big convenience. Big Kmart stores are designed to increase store sales by increasing the frequency of customer visits. The format focuses on three distinct businesses – home fashions, children's apparel and consumables and features an expanded food area known as the Pantry

The layouts make it easier for customers to shop by placing the departments their customers want to shop in near one another and closer to the front of the store. Few facts about Big Kmart are:

1. The average Big Kmart carries nearly 100,000 stock keeping units (SKUs).
2. Big Kmart stores average between 84,000 to 120,000 sq ft. in size.
3. The first Big Kmart opened in Chicago, Illinois on April 23, 1997.

Kmart Super Centers Kmart Super Centers are combination full service grocery and general merchandise stores. Most Kmart Super Centers (KSC) operate 24 hours a day and offer special services. Kmart Super Centers range in size from 140,000 to 190,000 sq ft. KSC feature in house bakeries, USDA fresh meats, and fresh seafood delivered daily of course a full delicatessen and a variety of specialty food kiosks.

Some facts:

1. The average KSC carries between 100,000 and 150,000 SKUs.
2. There are currently 59 KSC.
3. Traditional Kmart stores – The traditional Kmart store is the most people recognize.
4. Traditional Kmart stores average between 80,000 and 110,000 sq ft. in size.
5. Kmart stores carry a full selection of general merchandise and include a pharmacy.
6. The average Kmart store carries between 60,000 and 80,000 SKUs.
7. The first Kmart store opened in garden City, Michigan in March 1962.

Promotional pricing to blame: Promotional pricing had always been the forte at Kmart. In the year 1990, arch rival Wal-Mart over took Kmart in sales. When Mr Conaway arrived on the scene, he tried to wean the company away from the strategy. Rashly, Kmart reduced its aggressive newspaper advertising too rapidly and lost customers in drives as a result. At the same time, it cut prices on 38,000 items and promoted them with expensive television commercials, which failed to lure younger shoppers. Then Wal-Mart countered by using its greater efficiency and economies of scale to fight back in pricing The outcome was a 1% drop in Kmart's same store sale sin December and an 8% increase in those of Wal-Mart.

Contd...

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Restructuring the supply chain: On September 6, 2001, Kmart announced that it will restructure certain aspects of its overall operations. The focus of this restructuring program was on the supply chain infrastructure including the reconfiguration of Kmart's distribution center network and implementation of new operating software across is supply chain.

Reconfiguration of the distribution center network entailed the replacement of two aging distributions centers with two state of the art facilities, which was aimed at improving the productivity the flow of goods to nearly half of the stores .In addition the distribution of slower moving goods would be centralized to one newly designated center to improve efficiency across all other centers and facilitate the expansion of Applying Store Operation Across Retail Formats the Blue Light Always campaign. New operating software was implemented cross Kmart's supply chain and completion of the implementation was expected by the end of the second quarter of 2002.

In conjunction with these actions, Kmart expected to record special charges totaling approximately $195 million ($124 million, after taxes) over the next three quarters. Approximately $130 million of the charges related to the impairment of supply chain software and hardware that would no longer be utilized and to accelerated depreciation on assets that would continue to be used until their replacement. Approximately $65 million of the charges related to costs of exiting the outdated distribution centers. Cash outlays related the supply chain strategy were approximately $45 million.

Approximately $150 million of the charge would be recognized in the third quarter of 2001. As certain components of the Company's supply chain software would to be utilized until replaced, depreciation would be accelerated to reflect the revised useful lives and these assets would be fully amortized by mid 2002. The expected incremental depreciation aggregated $15 million in the fourth quarter of 2001 and $30 million in 2002.

Question:

Discuss the issue of promotional pricing of Big Kmart.

Source: http://www.citeman.com/10844-retail-formats-in-operation

6.9 Summary

- Retailing is the latest buzzword among the business. It is evolving into a global, high-tech business and occupies a pre-eminent position in the economics of all modern societies.
- The Indian retailing Industry is becoming intensely competitive, as more and more players are vying for the same set of customers.
- Strategy planning or formulation of strategy consists of a set of decisions that leads to the development of an effective strategy. We check all the activities related to the internal and external factor those affect directly or indirectly to the organization.
- Companies need to categorise segments according to their present and future attractiveness and their company's strengths and capabilities relative to different segments' needs and competitive situation.
- Porter suggests that there are five basic competitive forces, which influence the state of competition in an industry.
- Strategic retail planning process divided into the following steps: Deciding the store's mission and objectives, Situation analysis, Formulation of retail strategy, and Implementation and control of strategy.

Notes

- International retailing is an essential ingredient for the global economy. International retailing satisfies the increasingly complex and demanding needs of global consumers.
- Retailing is predominantly a domestic market activity. The total business of the vast majority of retailers is done within one particular country and in many cases, within one specific region or district.
- A company's value chain is not bounded by a company's border. It is connected to what Porter describes as a value system.

6.10 Keywords

Activities: They are the means by which a firm creates value in its products.

Intangible resources: Factors such as open space, beauty, serenity, wisdom, diversity, and satisfaction that cannot be grasped or contained.

International retailing: Worldwide tendency towards concentration in retailing, create huge buying power in the big international retail chains.

Retail mix: It is the blend of various retail activities that in totally present the whole concept of retailing.

Situational analysis: The process of seeking targeted information in a specified area, then providing feedback to the prospect or customer regarding critical information that you learned from them.

Store's objectives: It ends that the store seeks to achieve by its USP and operations.

Strategy: Strategy plan of action or policy designed to achieve a major or overall aim.

Value chain: It comprises all the activities an organisation needs to undertake in order to create or add value to its products or services.

6.11 Review Questions

1. "Retailing today is at an interesting cross road." Elaborate.
2. "The Indian retail market is quite large but highly fragmented." Do you agree? Justify your answer.
3. Explain the levels at which a retail organisation's strategy is developed.
4. Discuss the retail strategy planning process in detail.
5. Describe the growth strategy used by the retailers to expand.
6. Retailing is predominantly a domestic market activity. Do you agree with the statement? Why or why not?
7. State the purpose and concept of Porter's value chain.
8. Explain Porter's Value Chain in detail.
9. "A company's value chain is not bounded by a company's border. " What do you mean by the statement?

Notes

Answers: Self Assessment

1.	False	2.	True
3.	Strategy	4.	Business unit/retail format
5.	Tactical	6.	Mission
7.	Capabilities and weakness	8.	Retail mix
9.	Positioning	10.	Positioning
11.	SWOT	12.	marketing
13.	Activities	14.	Inbound logistics
15.	Procurement	16.	Value system

6.12 Further Readings

Books

Bajaj, Tuli and Srivastava, *Retail Management*, New Delhi: Oxford University Press

Berman and Evans, *Retail Management: A Strategic Approach*, New York: MacMillan Publishing Company

Lusch and Dunne, *Retail Management*, Cincinnati: South-Western Publishing Co.

Online links

http://www.managementstudyguide.com/international-retailing.htm

http://www.netmba.com/strategy/value-chain/

http://www.valuebasedmanagement.net/methods_porter_value_chain.html

Notes

Unit 7: The Customers and the Retail Business: Knowing Your Customers

CONTENTS

Objectives

After studying this unit, you will be able to:

- Explain the need for studying consumer behavior
- Discuss the concept of Focusing on Consumer – The Changing Consumer
- Explain Customer Decision-making Process
- Describe the Consumer Buying Process
- Discuss the concept of Mapping out Society

Introduction

One of the very few aspects common to all of us is that we are all consumers and the reason for a business firm to come into being is the presence of consumers who have unfulfilled, or partially fulfilled needs and wants. Buyer behaviour is an extremely important and complex subject for any marketer. At the same time, it is important to appreciate that there is no unified, tested, and universally established theory on this subject. Buyer remains an enigma and her/his mind is viewed as a black box. Before businesses can develop marketing strategies, they must understand what factors influence buyer behaviour and how they make purchase decisions to satisfy their needs and wants. Understanding buyer behaviour and "knowing buyers" are not that simple. It is almost impossible to predict with one hundred per cent accuracy how buyers will behave in a certain situation. Buyers are moved by a complex set of deep and subtle emotions. Their behaviour results from deeply held values and attitudes, their perceptions of the world and their place in it, from common sense, impulse, or just plain whimsy.

Consumer behaviour can be defined as, *"Consumer behaviour refers to the mental and emotional processes and the observable behaviour of consumers during searching, purchasing, and post consumption of a product or service."*

—Satish K. Batra and S. H. H. Kazmi, 'Consumer Behaviour', Excel Books, 2004

Notes

7.1 Need for Studying Consumer Behaviour

Retailers who are in touch with their customers and their needs and wants are more likely to find retail formulae that are relevant to consumers.

Example: In the late 1990s, the electrical retail group Dixons launched The Link, a new chain of stores that focused on personal communication products and services, in response to the growing market. Although there was a degree of overlap in this product category with the existing Dixons stores, the new stores allowed the retail group to respond positively to an opportunity presented by a change in consumer lifestyles.

A retailer's role in the arena of personal consumption is that of distributor and facilitator. A retailer provides a convenient point for a consumer to obtain goods and services, either by being in a location that is closer than that of the producer and by selling in quantities appropriate to the needs of the consumer, or by providing added value in the offer such as range assortment or additional services. In a developed society, retailers play a greater role than the distribution viewpoint would imply. They provide an information service, they provide an environment in which he products can be discovered, new fashions followed and lifestyle patterns endorsed. Retailers have the benefit of a direct interface with the final consumer, therefore they should have an advantage over producers when it comes to gathering information about customers in terms of who they are and how and what they buy. However, all too often retailers make too many assumptions about their customers and do not have a thorough and researched awareness of how their customers' needs, wants and preference can change over time.

Marketers need in-depth knowledge about the various dimensions which link retailing and consumer behaviour. There is research required to handle retail decisions in a competitive context.

Example: McDonald's found that a major chunk of its consumers decide to eat a few minutes before they make the purchase decisions and hence it is building small outlets in large supermarkets such as Wal-Mart and Home Depot. It is providing play areas to ensure a number of families visit its outlets with children. A few companies also operate through kiosks in airports, malls and high-traffic areas. Sunglass Hut is a brand which operates kiosks at various places which displays about 1,000 different models along with their prices. Consumers could place an order through these kiosks and the product is home-delivered.

7.2 Focusing on Consumer – The Changing Consumer

It is claimed that modern societies are increasingly organized around consumption (Abercrombie, Hill and Turner, 1994) and so the trends in the pattern' consumption that emerge over time are very important for retailers to observe and understand. Consumer trends describe how the body of consumer changes over time and make predictions about how those people will consume in the future. The retailer can therefore build up a 'customer profile' that gives an indication of who might 'typically' use their outlet. A retail customer profile is affected by the macro (general) business environment; for example the macroeconomic policies a government pursues in relation to personal taxation and interest rates affects the spending power of retail customers, and the extent to which we are familiar with technology will affect our propensity to use technologically based retail formats to undertake shopping activity.

A retailer's customer profile is also influenced by the microenvironment, the specific business arena in which the individual retailer operates.

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Example: The entry of Amazon.com into the book retailing market gave traditional retailers like Waters tones and Ottakars new competition, not only in the form of a new company, but also a whole new way of shopping.

Subsequently, store-based retailers have put more effort into creating a pleasant store environment, conducive to browsing and sampling a book over a cup of coffee, something that internet retailers are unable to offer. Book retailers might therefore be able to group their customers according to the ways they like to shop for books, and address their needs accordingly. Some of the most radical changes in consumers in developed economies like Europe and the USA are those that emanate from the changes in society itself; the changing nature of a population's age profile, the changes in the numbers and type of activity of the working population, and the way in which lifestyles themselves are changing. The resulting manifestations of alterations in shopping behaviour and product preference are of interest to the retailer, as they may require some adaptation to the retailer's business in order to maintain an adequate customer flow.

Caselet

The Large Retail

Is the average Indian consumer retail-ready or is retail readying the Indian consumer? Either way, changing shopping habits in the country are giving global retail giants the perfect setting for their Indian entries.

Take a look at this: the average ticket value (transaction value of goods sold) of the Indian consumer in large retail formats like Lifestyle, Shopper's Stop and even malls has doubled in the last two years.

Lifestyle International stores across the country clock an average of ₹ 1,500-1,600 ticket value per consumer, and during festive seasons such as Christmas and Diwali, spending goes up by 40 per cent averaging around ₹ 2,000 ticket value per consumer, says Mr Sankar Suryanarayan, Vice-President, Marketing, Lifestyle International. He is expecting a footfall of 1.5 million at 11 Lifestyle stores across the country during the next one month.

Mr Gibson G. Vedamani, CEO, Retailers Association of India, said that average spend in large formats hovered around ₹ 800-900 two years ago when the country was in the first stages of the retail boom.

"It has doubled now. Even supermarkets have doubled their ticket value. From ₹ 250-300 a couple of years ago, they are now seeing an average family billing worth ₹ 600," he said terming this "a good ticket size."

While demand and potential for more formats will grow, the country's supply chain is yet to match the requirement, according to Mr Govind Shrikhande, CEO, Shopper's Stop.

Lack of enough merchandise and variety is still restricting the Indian shopper, but there has also been an increase of cash memos by about 20 per cent.

This growth is also accompanied by a significant change in the billing value of non-apparel products such as cell phones, watches and personal care products.

Source: thehindubusinessline.com

Self Assessment

Notes

State whether the following statements are true or false:

1. A retailer's role in the field of personal consumption is that of distributor and facilitator.
2. Retailers do not come in direct interaction with the consumers.
3. A retail consumer is affected by both his macro and micro environment.
4. Retailers need to group their consumers into different segments and then offer them specific goods.

7.3 Factors Influencing Retail Shopper

Before studying what factors influence the retail shopper, let's see what factors influence consumers, in general.

Cultural Factors

Cultural factor divided into:

- ***Culture:*** The set of basic values perceptions, wants, and behaviours learned by a member of society from family and other important institutions. Culture is the most basic cause of a person's wants and behaviour. Every group or society has a culture, and cultural influences on buying behaviour may vary greatly from country to country.
- ***Sub Culture:*** A group of people with shared value systems based on common life experiences and situations. Each culture contains smaller sub cultures a group of people with shared value system based on common life experiences and situations. Sub culture includes nationalities, religions, racial group and geographic regions. Many sub culture make up important market segments and marketers often design products.
- ***Social Class:*** Almost every society has some form of social structure, social classes are society's relatively permanent and ordered divisions whose members share similar values, interests and behaviour.

Social Factors

A consumer's behaviour also is influenced by social factors, such as:

- ***Reference Groups:*** It can be two or more people who interact to accomplish individual or mutual goals. A person's behaviour is influenced by many small groups. Groups that have a direct influence and to which a person belongs are called membership groups. Some are primary groups includes family, friends, neighbours and coworkers. Some are secondary groups, which are more formal and have less regular interaction. These include organisations like religious groups, professional association and trade unions.
- ***Family:*** Family members can strongly influence buyer behaviour. The family is the most important consumer buying organisation society and it has been researched extensively. Marketers are interested in the roles, and influence of the husband, wife and children on the purchase of different products and services.
- ***Roles and Status:*** A person belongs to many groups, family, clubs, and organisations. The person's position in each group can be defined in terms of both role and status.

Notes

Example: M & "X" plays the role of father, in his family he plays the role of husband, in his company, he plays the role of manager, etc.

A role consists of the activities people are expected to perform according to the persons around them.

Personal Factors

It includes:

- ***Age and Life cycle Stage:*** People change the goods and services they buy over their lifetimes. Tastes in food, clothes, furniture, and recreation are often age related. Buying is also shaped by the stage of the family life cycle.
- ***Occupation:*** A person's occupation affects the goods and services bought. Blue collar workers tend to buy more rugged work clothes, whereas white-collar workers buy more business suits. A company can even specialize in making products needed by a given occupational group. Thus, computer software companies will design different products for brand managers, accountants, engineers, lawyers, and doctors.
- ***Economic situation:*** A person's economic situation will affect product choice.
- ***Life Style:*** Life Style is a person's pattern of living, understanding these forces involves measuring consumer's major AIO dimensions, i.e. activities (Work, hobbies, shopping, support, etc.) interest (Food, fashion, family recreation) and opinions (about themselves, Business, Products)
- ***Personality and Self concept:*** Each person's distinct personality influences his or her buying behaviour. Personality refers to the unique psychological characteristics that lead to relatively consistent and lasting responses to one's own environment.

Psychological Factors

It includes these Factors

- ***Motivation:*** Motive (drive) a need that is sufficiently pressing to direct the person to seek satisfaction of the need.
- ***Perception:*** The process by which people select, organize, and interpret information to form a meaningful picture of the world.
- ***Learning:*** Changes in an individual's behaviour arising from experience.
- ***Beliefs and attitudes:*** Belief is a descriptive thought that a person holds about something. Attitude, a person's consistently favourable or unfavourable evaluations, feelings, and tendencies towards an object or idea.

Task Review the different motivations for shopping. Give an example of a shopping incident that would illustrate each one.

Notes

Now Let's Look at the Factors that Influence Retail Shoppers

Low Price

Most of the Indian consumers are price conscious. In present scenario the consumer look for value or value for money. Bundle of benefits with affordable price. Price reductions; cost savings, promotional offers like buy one get one free can persuade an unintended purchase. Before step into the shop consumer decides his budget to spend on purchases. If he gets more products within the budgets, he feels very happy. Present day unorganized market is playing a vital role. Due to the private labeled brands the customer can get it with low price. In most cases the attitude of the consumer remains towards the price and not towards the quality.

Mass Distribution

The product can be available as convenient to the customer, thus the easy accessibility to the consumer is preferred by the marketer. It refers to making the item availability in as many locations as possible.

Example: Shampoo, Hair oils, babul gums.

Self-service

Self-service leads to impulse purchases in traditional stores. It facilitates consumer to gather, evaluate and take decision. In self-service, the consumer has the opportunity to pick the items as per his intentions. He could not depend on the clerk or counter salesman. In this process, consumer can shop more quickly with more freedom to look at. Language can be a problem to some of the non-regional people. Self-service is beneficial to such type of people.

Prominent Store Display

The store display must be prominent and eye-catching. So the consumer notices the product.

Low-marginal Need for an Item

It refers to the degree that the consumer requires or needs the item.

Example: Milk, Eggs, and Corn flakes as morning break fast.

Small Size and Light-weight

Smaller or lighter items that can be easily added to existing purchases are more appropriate impulse items.

Ease of Storage

If the consumer does not have the space for the item, the potential impulse purchase could be eliminated. If the storage efforts outweigh the benefit or advantage of the item, the impulse to purchase the item will be discarded.

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Self Assessment

Fill in the blanks:

5. Groups that have a direct influence and to which a person belongs are called ..... groups.
6. A ..... consists of the activities people are expected to perform according to the persons around them.
7. An individual's pattern of living is referred to as his .....
8. ..... is the process by which people select, organize, and interpret information to form a meaningful picture of the world.
9. ..... is a descriptive thought that a person holds about something.
10. ..... refers to changes in one's behaviour arising from experience.

7.4 Customer Decision-making Process

There are three fundamental patterns which a consumer can follow and they could be:

(i) Brand first, retail outlet second

(ii) Retail outlet first, brand second

(iii) Brand and retail outlet simultaneously.

A consumer wanting to buy a car may collect information on brands and purchase it from a retail outlet based on his perception of price offered or after-sales service provided by the outlet (typically, search for information on brands is followed by retail outlet selection in durables). In certain product categories, especially where 'category killers' exist, consumers may think of the retail outlet initially and then the brands.

Example: Television, refrigerator and audio products retailed through outlets like Vivek and Co. in the South.

One more dimension may be to compare brands in the evoked set at retail outlets which also exist in an evoked set of their own. This is highly possible, especially in the Indian context where dealers develop a social relationship with consumers, especially in semi-urban and rural areas. Primary research could be used to discover the specific sequence involved in a situation of this kind. A 'brand first' dimension may need feature-based advertising and a 'retail outlet first' dimension may require a set of point-of-purchase (POP) materials and special training to sales personnel to recognise the needs of consumers.

Caution Further, if it is known that a number of consumers may be oriented to visit their favourite retailer (before obtaining information on brands) in a geographical area, there would have to be more emphasis on regional/local advertising which highlights the retail shop rather than regular brand-based national advertising.

Retail Outlet First and Brand Second

When a number of consumers follow this sequence of decision-making, display of point-of-purchase material and building the image of the outlet becomes important. The manufacturer of

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the brand may have to ensure that the brand (and the variants demanded) will be available at the key outlets in a locality. Point-of-purchase materials which are to be used at the retail outlet may require primary research - should visuals be used, should product features be used, should the POP material be in the regional language. There may also be a need to monitor competition from other retail outlets to ensure that consumers are kept satisfied in terms of service, price, promotional deals and ambience. This is especially applicable to durables retailing in India (in cities). Retailers attempt to increase consumer traffic by providing a number of 'add-ons'.

Brand First and Outlet Second

The brand was probably thought of by the consumers because (i) the consumers may not have developed a relationship with any retailer which is strong enough to get into the 'evoked retail set' or (ii) the brand has got into the evoked set because of advertising or positive word of mouth. Local advertising with the mention of brand names which have already got into the evoked set would enable consumers to be 'pulled' to the outlet.

Primary research may be required to identify the brands in the evoked set. This feedback may have to be provided by the manufacturers of a brand to retailers in various regions (especially if it is a brand with a major chunk of the market and one which is nationally advertised). Even multinational outlets could make use of this approach and mention the brands in the evoked set (in a given geographical area). This is likely to improve traffic to the outlet. Besides, the evoked set could also change from time to time depending on the strategies of brands.

About two decades ago, brands like Solidaire, Dyanora and Crown may have been top-of-the-mind (in a specific geographical area) but slowly gave way to other brands - these changes should be captured (how often this happens, why, and the differences between markets) to formulate retail strategies. The local advertising could be different from the national advertising for the brand. A brand may be advertised on features nationally but the retail outlet in may prefer to highlight the effective after-sales service associated with the brand as this may be a priority of consumers. The combination of 'push-pull' strategy is shown in the table.

The interest generated in the brand would have to be backed by good pre-sale services at the outlet.

Brand and Retail Outlet Simultaneously

When consumers think of the brand and retail outlet together, it means that they have a certain preference for the outlet and would like to check the evoked set of brands there. The marketer would have to carry out primary research to find out specific markets where consumers have a very positive relationship with retailers. This is important because of the influence of retailers over the purchase behaviour of consumers in the Indian context.

It may also be worthwhile to check if the evoked brands are carried by the retailers who have a positive relationship with the target segments. This is to ensure that the retailers who have a favourable perception among the target segment carry the desired brands. Failing this, consumers may turn to a different retailer, which would be to the disadvantage of a retailer who has already won the confidence of consumers. Retail sales personnel also become important in this situation. The prospective consumers are "carried over" to the purchase stage by the store personnel and hence there should be incentive programmes for the store personnel.

If a company such as Samsung or Sony is dealing with a number of brands/sub-brands, it has to ensure the availability of specific brands which may interest the consumers. If the retail outlet is a large one dealing with a number of brands (like Vivek or Croma), a shop-in-shop arrangement may be preferable. This model puts the brand in focus and reinforces the positive association a consumer may have about it. A considerable amount of pre-sale service would have to back up the shop-in-shop concept.

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The shop-in-shop concept creates an aura of exclusivity. Consumers tend to have higher expectations about the pre-sale service and the attention given to them. A large store also is likely to stock several brands and hence all brands in the evoked set would have to compete with each other to progress from the evoked set to choice set. Large outlets may also have a built-in provision for a lower price (because of volumes) and hence may be in a better position to clinch the deal with consumers who may simultaneously consider both the brand and the retail outlet.

Task Interview 10 people and ask them about their brand or store preferences. Ask whether they purchase from specific retail stores or they choose brands over stores. Prepare a short report based on their answers.

7.5 Consumer Buying Process

As well as understanding the retail consumer from the point of view of the masses, or total potential market viewpoint, the study of consumer behaviour is also very much concerned with how we consume as individuals. Established theory suggests that each time we purchase something we go through a process composed of a number of key stages. A retailer needs to be aware of the extent to which they can contribute to the purchase decision-making process.

Needs Recognition

To begin with, the retail environment itself can be used to draw attention to products and stimulate impulse purchases. In this case the need is generated during the shopping process rather than prior to it. In other instances, the recognition of need may be closely associated with the retail outlet that has become strongly connected to particular items.

Example: An empty refrigerator is more likely to prompt the thought 'I must visit the supermarket', than the specific product-related thought 'I must buy a box of eggs'.

Information Search

In the second stage, consumers use retail outlets extensively for information about goods and services. Retailers provide information in many forms, including point-of-sale information, leaflets and catalogues, websites, interactive product trials such as food tasting, trying on garments or listening to music, and in the one-to-one advice given to customers about their intended purchase by sales personnel. In particular, a sales person can help to move a customer from the stage where they are searching for information about products, to the point at which they start to evaluate the alternatives on offer and make a choice.

Evaluation

During the search and evaluation stage the retailer itself rather than simply the product may become the focus of a consumer's evaluation. Customer loyalty and the value of the retailer's corporate brand may encourage a consumer to restrict their search and evaluation activity. It is in the retailer's interest to progress a consumer to the purchasing stage efficiently in order to prevent them taking their custom to a competitor's outlet.

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In a saturated retail market, ensuring that customers keep returning to your store or website is a vital ingredient of a retailer's strategy, and as European markets have matured, increasing focus has been placed on customer loyalty. Defining loyalty in retailing is not straightforward because it can be measured in more than one way; frequency of visit, extent of switching and expenditure levels all contribute to the extent to which a customer can be considered to be loyal (Knox and Denison, 2000). Irrespective of the way loyalty is measured, loyal customers are more profitable to retailers than other types of customers, and therefore every effort should be made to maximize their satisfaction. This is a growing challenge; as consumers face increasing choice through their own mobility and gain experience as shoppers, their loyalty levels are likely to fall.

Select and Purchase

The extent to which a retailer can influence this stage of the process is closely linked to the type of product being purchased. In low-involvement products, the consumer may be influenced by some in-store promotional activity, whereas in medium involvement products, such as beauty products, the matching of product benefits to customer needs by sales associates will play an important role. In high involvement purchase decisions, such as a carpet, the shopper may revisit alternative retailers a number of times to gather information on product attributes such as price, quality, colour, payment methods and delivery before making a final decision.

Post-purchase Evaluation

Again, the extent to which the product or the retailer is judged after the sale will depend on the type of purchase. For high involvement purchases, high levels of post-purchase customer service can help to alleviate any worries about installation and use, whilst clear and generous return and exchange policies can help to reassure the customer in the purchase of all types of product.

7.6 Mapping out Society

Companies are aware at some level that a minority of their customers account for the highest proportion of sales or profit.

Figure 7.1: Types of Customers

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Following factors are involved while mapping out the society for retail business:

Psychographics

Consumer psychographics has so far remained an interesting and integral part of retail management. How can we explain this term in most simplistic terms. It is the "pick me up" appeal in the product. Products vie among themselves with their designed or created appeals. It is just a misunderstanding that by publicity, promotions and ads, products reach millions of homes of the consumers. Moreover products carry cogent appeals to motivate buyers unto buying.

"The motive is to drive the impulse to the heart of the buyer to buy, without leaving it just in his ears because heart is near to pocket, not the ears"- Remarked an experienced marketing manager in Indian industries. It is said that like the humans products are young today, old tomorrow and dead day-after-tomorrow. So the focus has to be on designing a product having a strong "pick me up" appeal. Like a human this appeal just remains for a limited period. As new innovations are born, products grow in age; the appeal gets lost and fades gradually. Creating a strong appeal to buy the product requires market knowledge- an in-depth analysis of situations in the market.

What do you understand from the term "psychographics"? By psychographics we come to terms with the psychological profiles of the buyers. The American Heritage Dictionary defines it as means to study and measure attitudes, values, lifestyles and opinions of consumers for marketing purposes. In plural it implies the data obtained from such studies.

By Psychographics, we mean a quantitative investigation about buyer's personal characteristics and lifestyles.

It describes the "Psychological make-up" of the buyers by knowing their following characteristics:

- Attitudes
- Values
- Interests and activities
- Demographics
- Media patterns
- Usage pattern

Attitudes: How attitudes form parts of consumer psychographics? Research has always shown that people learn from belief and attitudes. Beliefs are descriptive thoughts about something. Those may be based on knowledge, opinion and faith. For instance you have faith in Astrology and therefore you believe in planets and their good and bad power. Gradually those beliefs harden into attitudes and influence your behavior.

Now you take the same instance of your belief in Astrology. You have learnt from your belief that eating non-vegetarian food on Saturday could produce evil effects. The same belief has educated you that visiting a temple on Saturday produces good results.

You visit a temple with fruits and sweets as offering to God. Gradually those form your attitudes and bring attitudinal changes within you. You will always tend to buy vegetarian food on Saturday and avoid purchasing any kind of non-vegetarian stuff. This is how you learn things, form beliefs and attitudes, which influence your purchase behavior tremendously.

Values: What role value plays in your purchase behavior? It is sure that you have lived within a culture, which has got different values. Culture is defined as the sum total of learned beliefs,

values and customs, which serve to regulate the consumer behavior of members of a particular society. The important thing is values are deeply embedded in your psyche and living. Your purchase behavior is invariably influenced by your faith in those values.

Again culture consists of material and non-material components. While material components are the physical or tangible substances which people have been changed and used over a period of time. It describes your behavior in various aspects of consumption in purchasing every article necessary for your living. It can be your choice in automobiles, perfumes, dress and anything.

Non-material components include are the words you use, the ideas, customs and value you share and the habits you follow. For all these you have nurtured fixed and variable images in your mind. You may stick to your fixed ideas about purchase of shirts of a particular brand and for pants, you may not have fixed ideas and therefore you keep on searching different styles and brands in the market. If you have faith in the values of buying indigenously manufactured goods, you will of course go for buying every article with a "made in your country" print on it. Non -material components in culture mean beliefs and values that refer to accumulated feelings and priorities which you have assigned to things.

Interests and activities: While you buy anything, unknowingly your behavior goes through five stages:

1. Awareness
2. Interest
3. Evaluation
4. Trial
5. Adoption

At first you become aware of a specific product and related services. But in the first part of your purchase behavior your interest is not sufficiently aroused. You are simply aware of the product. But fresh stimuli keep on coming to motivate your interest. Those keep on coming in the shape of advertisement or sales calls by the particular company. You just can not help your interest levels because with stimuli from outside, your interest simply keeps on growing. As your interest is sufficiently aroused, you would not go straight for a purchase rather you delve into further information about the product. Then based on the information you receive, you begin evaluating about the prevailing brands, their features, prices, service, and warranty of the specific product. In the next stage you may not go for straight-forward buy of the product.

You may accept it with a condition for your use of three to six months. Many products drop out of usage in the last part of purchase behavior because those fail to satisfy your ultimate satisfaction level. You might discard it because in comparison to the earlier product, the present one may cut a sorry figure. Then at length based on your satisfaction from the use, it becomes a part and parcel of your daily life. The last stage is called adoption.

The companies seek relevant information to influence your purchase decision all through the five stages. The information is collected through surveys and research.

Demographics: Demographics is again a study by dividing the population as per sex, age, income and other related characteristics. The data about the above mentioned five factors may not be same for the entire population. There we need to utilize information for every group of individuals. Knowing their tastes and usage patterns is vital because it helps the manufactures design products as per the information.

Media Patterns: For knowing about the new products, consumers have always trusted media as a trustworthy source of information. Manufacturers and marketers always innovate or design a product as per the choices of a particular class of consumers. They judge your age, social status, group and other related characteristics and manufacture a product. Again they prepare a message

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to market it and send it through the right media to reach your group, which is their intended audience. Media means the right medium. It is simply because mentally you are attached to that particular medium in the media. It might be your favorite magazine, newspaper, TV channels, which are parts of media.

Usage patterns: Usage patterns are descriptive about behavior of consumers. Suppose you like to have cornflakes every morning on week days. This gives important information about consumption habits of individuals belonging to your age group. Suppose you belong to the group of females who hate to use face cream containing chemicals. Here the marketers may try to change your usage patterns by introducing certain "peel off" skin cream without any content of chemicals. From the usage pattern of any product, the manufacturers and marketers get thorough ideas about "brand loyalty" of consumers. Brand loyalty gives complete information about psychology of consumers.

Post-modern Consumers

Post-modernism is concerned with consumer choice, continuous change relating to consumption patterns and product availability, along with marketing practices that challenge the status quo. Postmodern consumers buy and use commodities and fashions that allow them adopt multiple, temporary self-images.

The practice recognises a mischievous type of consumer who prides oneself on resisting traditional marketing courtship and brand boasts. Instead, the consumer tends to favour brands that appear to lack a unique selling proposition (USP).

Postmodern consumers tend to have contradictions. At one level, they will show irony and irritation at the status quo, such as the long-running tradition of soap operas and the phenomenon of reality shows. But at another level, witness the strong viewing patterns of these genres of entertainment.

Another characteristic of postmodern consumerism is the attraction to hyper-reality, in other words a simulated reality.

Eating healthily is a topic of conversation but look at the growth in smoothie consumption in Ireland. Market leader Innocent has about a 64 per cent share of the Irish market and enjoyed 100 per cent in annual growth in the UK. While many consumers will pay for such a product, would it not be much cheaper and more satisfying - albeit less convenient - to make one's own smoothie? Therein, lays the contradiction of the post-modern consumer. We want a reality - namely health - but are happy to buy the hyper-reality offered by the creative marketer.

Self Assessment

State whether the following statements are true or false:

11. If an individual is loyal to a particular store, he would probably follow 'brand first and outlet second' type of decision-making.
12. It is very important for a marketer to identify the brands in the evoked set of the consumers.
13. The shop-in-shop concept creates an aura of exclusivity.
14. Salesperson can be a good source of brand information for the consumers.
15. In high-involvement products, the consumer may be influenced by some in-store promotional activity.

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Case Study

Cadbury-Kraft Focuses on Consumer Behaviour Inside Shops

Shelves full of Oreo biscuits at a local Mumbai store are described as a "blue wall" by visiting Cadbury-Kraft executives. The food giant has attempted to replicate the metaphoric "blue-wall" in many stores in Mumbai and other cities in a bid to drive sales in the last one year.

The results have been encouraging. Since its launch, Oreo has garnered an over six percent market share in the lucrative and intensely fought ₹ 4,000 crore premuim biscuit market, where it competes with Britannia's Treat-O and Bourbon, Parle Products' Kreams and Hide & Seek, and ITC's Sunfeast, among others.

What Cadbury-Kraft is doing with Oreo is part of a game that includes other brands and categories as well. In the last year, the firm has aggressively pushed a marketing & sales programme that has targeted shoppers in the top metros and cities of the country.

Branded visicoolers, a range of dispensers developed by local and international design experts, are part of the company's efforts to make the overall shopping experience exciting for consumers. The firm has refurbished packaging of its brands such as chewing gum brand Bubbaloo and pushed promotions to drive sales.

Taking a leaf out of rival Hindustan Unilever's retail strategy in Perfect Stores, which focuses on in-store display and placement of products after studying shopper behaviour and preferences, Cadbury-Kraft will follow a similar path at the top 50,000 high-end groceries, food stores and chemists within its retail universe of over 700,000 stores in India.

Studying consumers

Sunil Taldar, director, sales and international business, Cadbury-Kraft Foods, said the focus on behaviour of consumers in shops is important because they make the final purchase decision there.

"How your product is positioned, its packaging, pricing, etc. goes a long way in determining whether they will buy the product," said Taldar, who has worked with Cadbury for more than a decade in different markets, including China, and moved to India last year to head sales for the combined Cadbury-Kraft business.

Cadbury-Kraft Foods, an unlisted unit of US food major Kraft Foods, which in 2010 bought Cadbury, has been able to drive incremental sales growth of over 10 per cent in the last one year, helping it achieve a 40 per cent growth in sales during the first nine months of 2011, said Taldar. The company worked furiously last year to integrate Kraft brands such as Oreo and Tang into the strong Cadbury distribution system in India. For calendar year 2010, Cadbury reported net sales of ₹ 2,652 crore - a growth of close to 30 per cent over the previous year.

The 50,000 outlets Cadbury-Kraft is focused on in India stock one or more of these products: chocolates which include Cadbury Dairy Milk, Celebrations, Bournville, 5 Star, Perk, and Gems; confectionary such as Bubbaloo, Eclairs, and Halls; biscuits such as Oreo and powdered

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Taldar said the company has put in place consumer promotions within stores in key categories such as chocolates and biscuits to help drive sales at these outlets.

While the combined Cadbury-Kraft business remains smaller than other strategic markets within Kraft Foods, which recently announced that it was splitting into two - a $32-billion snacking powerhouse and a $16-billion grocery business - India is still key. Irene Rosenfeld, chairperson and chief executive of Kraft Foods, who visited India in November 2011, said that she is keen to see the Indian business emerge as one of the top five food companies in the country.

Cadbury-Kraft's main rivals include key food companies in India, such as Nestle, which own Maggi and Kit Kat; Britannia; HUL, makers of Knorr, owners of Kissan and Bru; Parle Products, ITC and GlaxoSmithKline with its Horlicks, Viva, and Maltova brands.

Like most of its rivals, the bulk of Cadbury-Kraft's sales come from traditional retail stores. Modern trade or organised retail constitutes only one per cent of its universe, but the company is keen to push this number up, given that packaged foods as a category show greater traction in such retail outlets.

Cadbury-Kraft is banking on technology, much like HUL, to help it replenish stock quickly at stores, both traditional and modern. "We have upgraded the frontline sales force with handhelds to capture store orders, which are linked to the distributor billing software," said Taldar. "Distributors are linked to company portals to manage auto replenishment of inventory."

The Mumbai-based company is looking to increase its retail footprint beyond the over 700,000 stores in 5,200 towns that it now reaches. This number will be ramped up this year, especially in rural areas, said Taldar.

Question:

Why do you think Cadbury-Kraft want to study consumer behaviour inside stores?

Source: Business Standard

7.7 Summary

- Customers exist within a society, and are subject to a whole host of influencing factors that shape the way they shop.
- Customers are complex human beings, they may act differently according to the type of shopping trip they are on, seeking value during one shopping mission, and then indulging themselves on another.
- This gives rise to the notion of a hybrid customer, within a market of customers who seem to be increasingly less predictable as groups.
- At the same time, international retailing activity reflects an acceptance of global brands in a worldwide market which needs and tastes converge.
- Social, psychological, and personal factors influence consumer purchase decisions. Social factors are forces exerted by other people and include culture and Sub-culture, roles and family, social class, and reference groups.
- Psychological forces are internal to individuals that affect purchase behaviour and include motivation perception, learning, attitudes, and personality.
- Personal factors are forces unique to an individual consumer and include demographic factors, lifestyle, situational factors, and an individual's involvement in purchase.

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- There are three fundamental patterns which a consumer can follow and they could be: (i) Brand first, retail outlet second, (ii) Retail outlet first, brand second, and (iii) Brand and retail outlet simultaneously.

7.8 Keywords

Attitude: It is a favorable or unfavorable predisposition that consumers hold towards products and services.

Beliefs: These are the descriptive thoughts that people hold towards products and services.

Consumer: An individual or organisation unit that uses or consumes a product service.

Culture: It is the wholesome way of consumers and explains his mosaic of living. It is a way of living that distinguishes a group of people from others. Culture is learned and transmitted from one generation to another.

Evoked set: A group of relevant brands that a prospective consumer is favorably familiar with when they are thinking about making a purchase.

Family: A group of two or more people related by blood, marriage or adoption, living together in a household.

Impulse Buying: A type of low involvement decision making where purchases are made with little or no advance planning

Perception: It is the process by which people select, organize, and interpret information to form a meaningful picture of the world.

Reference group: People whose attitudes, behavior, beliefs, opinions, preferences, and values are used by an individual as the basis for his or her judgment.

7.9 Review Questions

1. Examine the role of studying consumer behaviour in success of retail brands like Big Bazaar and Shoppers Stop.
2. Discuss two situations, with examples, that show the influence of culture/Sub- culture on consumer purchase behaviour.
3. Describe how reference groups can influence consumers' buying behaviour. Give two examples.
4. Discuss the impact of psychological variables on consumer behaviour, with examples.
5. Discuss the consumer decision making process in brief.
6. What characterizes consumers' shopping behaviour? How can the retailers ensure that consumers' choose their outlet to shop?
7. For a retailer of your choice, discuss how elements in the product/service offer reflect the lifestyle of their customers.
8. Discuss the cultural changes that are taking place within your country. Identify retailers who stand to gain and those who may lose out because of these changes.
9. Review the buying process that you went through when you last purchased a high involvement product. To what extent did the retail outlet (rather than the product itself) influence your choice of product and store? Can you think of anything further retailers

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could have done to get you to purchase within their outlet? What would definitely put you off buying this product in a particular retail outlet?

10. Compare and contrast the concept of a shopping attitude and a shopping motivation.

Answers: Self Assessment

1.	True	2.	False
3.	True	4.	True
5.	Membership	6.	Role
7.	Lifestyle	8.	Perception
9.	Belief	10.	Learning
11.	False	12.	True
13.	True	14.	True
15.	False		

7.10 Further Readings

Books

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http://warhol.wiwi.hu-berlin.de/~teltzrow/MCBehavior.pdf

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Unit 8: Learning and Attitude

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Objectives

After studying this unit, you will be able to:

- Explain the concept of Behaviour and Learning
- Describe the Cognitive Learning Theory
- Explain the concept of Attitude
- Discuss Multi-attribute Attitude Models
- Describe concept of Learning Attitudes

Introduction

How does learning take place? There is no single, universally accepted theory of learning and for this reason it is difficult to define learning precisely. Learning can be viewed as 'a relatively permanent change in behaviour occurring as a result of experience'.

Schiffman and Kanuk have defined learning, from a marketing perspective, as 'the process by which individuals acquire the purchase and consumption knowledge and experience that they apply to future related behaviour'.

8.1 Behaviour and Learning

Studies of customer behaviour in retail stores usually deal with (1) identification of customers and (2) their buying behaviour patterns. The aim of such studies is to ascertain who buys where,

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what, when and how. In addition, such studies endeavour to learn about customer response to sales promotion devices. The results of these studies are useful in the solution of an array of marketing problems.

These studies are gaining importance in marketing research. It is safe to predict that interest in them will increase greatly in the next decade. This paper summarizes the writer's experience with such studies in grocery stores. However, the principles and techniques discussed here are also applicable to other types of retail stores.

The "why" of customer behaviour is a separate and very difficult subject; it is not treated here. A knowledge of customer behaviour must precede any consideration of the reasons for the behaviour.

Four components seem to be fundamental to almost all the learning situations, motivation, cues, response and reinforcement.

1. ***Motivation:*** Motivation is the driving force that impels individuals to action and is the result of unfulfilled need(s). If an individual has strong motivation to learn something, there is increased likelihood that learning will take place.
2. ***Cues:*** Cues are relatively weak stimuli, not strong enough to arouse consumers but have the potential of providing direction to motivated activity. For example, an ad about a computer course is a cue that suggests a way to satisfy the motive of learning computer application. Consumers are exposed to various cues almost every day such as advertising, displays, packaging and prices, etc. These cues serve to help consumers satisfy their needs by purchasing certain brands.
3. ***Response:*** The way an individual reacts to a cue or stimulus is the response and could be physical or mental in nature, leading to learning. For example, a computer marketer keeps on providing cues to a student through promotional activities and may not be successful in eliciting the final purchase behaviour for a variety of reasons, though the student is motivated to buy. It is also possible that the student forms a favourable image about a particular model, has enough resources and buys the computer.
4. ***Reinforcement:*** Most scholars agree that reinforcement of a specific response increases the likelihood for the response to reoccur. Reinforcement can be anything that both increases the strength of response and tends to induce repetitions of the behaviour that preceded the reinforcement.

Notes Since reinforced behaviour increases the likelihood of repetition, consumers often learn to develop behaviours appropriate to respond to their needs.

Behavioural Learning Theories

Behavioural learning theories are sometimes also referred to as connectionist or stimulus – response theories. Behaviourist psychologists believe in observing changes in an individual's responses that result due to exposure to specific external, environmental stimuli. Behavioural theories are based on Stimulus-response (S–R) orientation and the belief is that learning occurs through the connection between the stimulus and a response. When an individual responds in a predictable manner to a known stimulus, the person is said to have "learned." Two important behavioural theories, classical conditioning (also called respondent conditioning) and instrumental conditioning (also called operant conditioning) are of great relevance to marketing.

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Classical Conditioning

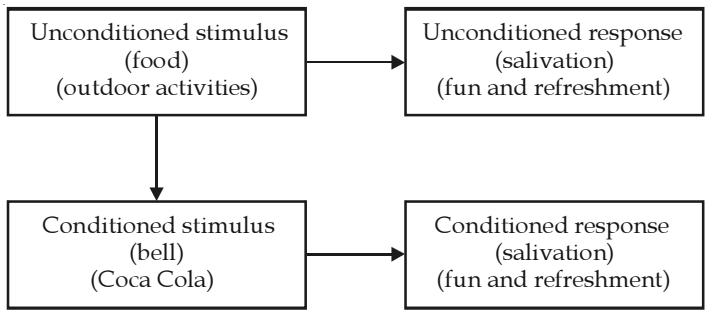
In everyday life, we think of conditioning as a kind of automatic response to something as a result of repeated exposure to it.

Example: If a child gets excited every time she/he thinks of going to McDonald's, the reaction may be conditioned from many pleasant visits to the restaurant.

Classical conditioning pairs one stimulus with another that already elicits a given response and over a period of repeated trials, the new stimulus will also start causing the same or quite similar response.

The Russian psychologist, Ivan Pavlov, was the first who pioneered the study of classical conditioning. He noticed that since his hungry dogs salivated (unconditioned response) at the sight of food (unconditioned stimulus), the connection between food and salivation is not taught and is just a reflex reaction. Pavlov reasoned that a neutral stimulus such as the sound of a ringing bell could also cause the dogs to salivate if it was closely associated with the unconditioned stimulus (food). To test this reasoning, Pavlov rang a bell while giving food to the dogs. After a sufficient number of repetitions, the dogs learned the connection between bell and food (Figure 8.1). When they heard the bell (conditioned stimulus) even in the absence of food, they salivated (conditioned response).

Figure 8.1: Classical Conditioning



Two factors are important for learning to occur through the associative process. The first is contiguity (conditioned stimulus and unconditioned stimulus must be close in time and space). The second factor is the repetition (the frequency of association). The more the frequency of unconditioned and conditioned stimuli occurring together, the stronger the association between them will develop. Consumers can be conditioned to develop positive impressions and images of brands through the associative process.

From classical conditioning emerge three basic concepts important for understanding consumer behaviour: repetition, stimulus generalisation and stimulus discrimination.

Repetition

People have a tendency to forget and one proven method of increasing retention of learning is repetition. Repetition is believed to work by strengthening the bond of association and thus slowing the process of forgetting. Learning follows a pattern, which is known as learning curve. In the figure 8.2, 'x' axis shows the number of repetitions and 'y' axis represents the amount of learning. In a typical case, the rate of learning is quite rapid in the early stages. In later stages, as the amount learned accumulates, the rate of learning per repetition decreases.

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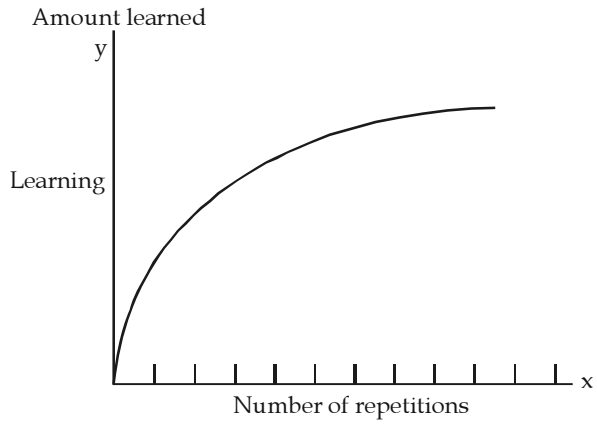
This shows that there is a limit to the amount of repetition that will aid learning and beyond a limit, the attention and, the rate of learning will decline.

Example: Different Pepsi commercials continue showing different settings and endorsers but the punch line "yeh dil mange more" continues. The commercials of Fevi Kwik continue with the theme "chutki mein chipkae" in different humorous settings.

In this type of advertising variation approach, there is no real change in message content of different advertisements and for this reason some researchers have called it as cosmetic variation. When the advertising content is changed in different versions of the same ad without any changes in cosmetic features, this approach is called substantive variation.

Figure 8.2: A Typical Learning Curve



If a message is not repeated, consumers tend to forget most of it rapidly and repetition becomes necessary just to maintain consumers' level of learning. Advertisers are convinced about the importance of the principle of repetition. However, there is disagreement about how many repetitions are really enough for the desired effect. A number of researchers consider three ad exposures as the optimum number, known as three-hit theory.

Stimulus Generalisation

In his experiments, Pavlov also demonstrated that the dogs could learn to salivate on hearing somewhat similar sound produced by jingling keys. This was the case of stimulus generalisation in dogs. Stimulus generalisation occurs when two stimuli are seen as similar and the effects of one, therefore, can be substituted for the effects of the other. This principle states that a new but similar stimulus or stimulus situation will produce a response that is the same or similar as that produced by the original stimulus. The more the new stimulus is like the conditioned stimulus, the more probable it is that the new stimulus will produce the same conditioned response.

As an increasing numbers of new products are introduced in the market, consumers use stimulus generalisation from past experience to put them in categories. Some local or regional marketers make use of this principle generalisation by using nearly look-alike packaging for their products so that they resemble some well-known brands in appearance. This practice can also be seen, for example, in case of various brands of cooking oils prepared from sunflower or soybean, or different brands of iodised table salt. Some companies follow a policy of stimulus generalisation and some others avoid it.

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Example: Bajaj, Philips, Sony, Lakme, Pepsi, Coke, etc. follow a policy of generalisation and use family branding. On the other hand, Hindustan Lever Ltd., Procter & Gamble and ITC avoid it and employ stimulus discrimination.

Product line extension is the strategy of introducing variations of the same product. This variation may be simply of colour, packaging, size, or flavour, etc., but the core product value remains the same. For example, Palmolive soap is available in pink, white and light bluish pack. Maggi noodles are available in different flavours.

Product form extension means that the same product is available in different physical forms such as Dettol soap cake and Dettol liquid soap. Many drugs are available as tablet, syrup, injections, or as inhalers.

Product category extension is diversifying into producing products in different categories and using the same established brand name. For example, Maggi noodles and Maggi tomato chilli sauce. Similarly, there is Lux toilet soap and Lux shampoo, Ponds talcum powder and Ponds soap, etc.

The success of product category extension strategy depends on the quality image of the parent brand because only then consumers are more likely to bring positive associations to the new category extensions. Milkmaid has successfully extended its product category on the strength of Milkmaid condensed milk and introduced Milkmaid Gulabjamun, Kesar Kulfi, Shahi Rabri and Milkmaid pudding.

Family branding refers to the practice of marketing the entire product mix of a company under the same family brand name. The aim of the company is to take advantage of consumers' tendency to generalise favourable brand associations from one successful product to the next.

Example: Lakme, Ponds, PepsiCo, Coca Cola, Tata, Sony, Nikon, Canon, Epson, Microtek and Hewlett Packard, etc., produce different products under the same family brand name.

Stimulus Discrimination

Stimulus discrimination is just opposite to stimulus generalisation. Unlike reaction to similarity of stimuli, discrimination is a reaction to differences among similar stimuli. The ability of humans to discriminate among stimuli is learned. For example, frequent users of a brand are better able to notice relatively small differences among brands in the same product category. Not taking any chances, marketers use advertising to communicate brand differences that looking at physical characteristics alone would not convey. The concept of "product or brand positioning" is based on stimulus discrimination, which strives to create a brand's unique image in the consumers' minds. Marketers who offer me-too type of products attempt to encourage among consumers stimulus generalisation, while innovators and market leaders strive to convince consumers to discriminate and consider their brands as different from generic-type of products and other brands in the same product category. For example, the entire ad campaign of Maggi Hot and Sweet Tomato Chilli Sauce focused on convincing consumers that "it is different" and thereby position the brand. In this case, the company encouraged the consumers for stimulus discrimination.

Did u know? The key to achieve stimulus discrimination is effective product or brand positioning.

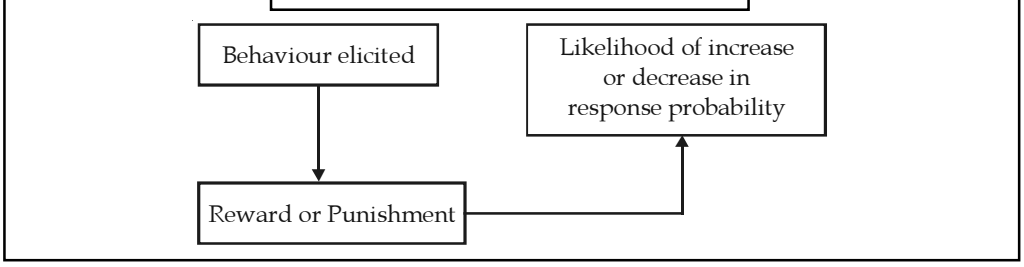
Notes

8.2 Instrumental Conditioning (Operant Conditioning)

Instrumental conditioning also involves developing association between stimulus and response but requires the subject to discover a correct response that will be reinforced. Any response elicited is within the conscious control of the subject. For instance, let us assume that in a Pavlov-like experiment, dogs or rats are provided with two levers instead of just one. Pushing one lever will produce food (reward) and the other an electrical shock (punishment).

When hungry, the animals would quickly learn to press the lever that produced food and avoid the lever that produced an electrical shock. Learning occurs because the consequence of a repeated behaviour is rewarding.

Figure 8.3: Instrumental Conditioning



The foremost proponent of instrumental conditioning was B. F. Skinner. In his experiments, the subjects were free to respond in several ways. Skinner worked with small animals in his experiments, such as rates and pigeons. He developed a box, called after his name as "Skinner box", in which he placed experimental animals. Whenever the animals made suitable movements such as pressed a lever or pecked keys, they received food (reward). Classical conditioning depends on an already established stimulus-response connection, however the learner in instrumental conditioning is required to discover a "correct" or appropriate behaviour through trial-and-error that will be reinforced. Over a number of reinforced trials, the experimental animal learns a connection between the lever or key (unconditioned stimulus) and pushing it (response). According to instrumental conditioning learning theory, behaviour is a function of its consequences.

With regard to consumer behaviour, instrumental conditioning suggests that most learning takes place by means of a trial-and-error process and consumers experience more satisfying results (outcomes or rewards) in case of some purchases than others. Favourable consequences reinforce the behaviour and increase the likelihood of its repetition, that is, the consumer will purchase the product again; unfavourable outcomes will decrease that likelihood. For example, almost everyday we see commercials of one or the other detergent depicting the agony of a mother or housewife washing clothes, dissatisfied or embarrassed and ultimately finding the rewarding experience with a particular (advertised) brand of detergent. The message for the target audience is loud and clear that to avoid unfavourable outcomes with other detergents, they should use the advertised brand.

Reinforcement

Reinforcement is anything that increases the strength of response and tends to induce repetitions of the behaviour that preceded it. Reinforcement or repeated positive outcome influences the likelihood that a response will be repeated. Reinforcement can be of two types: positive reinforcement and negative reinforcement. Positive reinforcement consists of events that strengthen and increase the likelihood of specific behaviour by the presentation of a desirable

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consequence. For example, using a cold remedy that relieves the painful symptoms is likely to result in repeat purchase in future, if there is need. The negative reinforcement is an undesirable or unpleasant outcome that strengthens and encourages the likelihood of a specific behaviour by the termination or withdrawal of an undesirable consequence. For example, Colgate toothpaste commercial shows the consequence of bad breath and encourages consumers to buy Colgate toothpaste. Punishment and negative reinforcement are not the same. Punishment is applied to discourage behaviour.

Example: Fines for driving under the effect of alcohol are a form of punishment to discourage motorists from driving after consuming liquor.

Table 8.1: Important Distinctions between Conditioning Methods

Sl. No.	Classical conditioning	Instrumental conditioning
1.	Classical conditioning involves an already established response to another stimulus	No previous stimulus- response necessary. Learner must discover "correct" response.
2.	The outcome is independent of learner's actions.	The outcome is dependent on learner's actions.
3.	Effects development and changes in opinions, tastes and goals.	Influences changes in goal- oriented behaviour.

(Based on David Krech et al. Psychology: A Basic Course, Knopf, 1976.)

Advertisers of toothpastes, anti-wrinkle creams, headache and cold remedies, mouthwash, deodorants, burglar alarms, life insurance and many other products and services make use of fear appeals relying on negative reinforcement. In all these ads the consumer is suggested a solution to avoid negative consequences by buying the advertised product or service.

To buy a product for the first time, the consumer undergoes a decision process (high or low-involvement). Repeated reinforcement (favourable outcomes) resulting from product usage increases the likelihood that the consumer will continue buying the same brand until the consumer forms a habit. The habit formation will result only if there is reinforcement of the past purchase behaviour.

Theories of instrumental conditioning help us understand that when a learned behaviour is no longer reinforced, it diminishes to the point of extinction and the consumer ceases buying by habit. Extinction is the elimination of the link between stimulus and the expected favourable outcome and there is rapid decrease in the probability that the consumer will repurchase the same brand. For instance, effective anti-smoking, or discouraging gutka (A tobacco chewing mixture) ads will cause extinction by eliminating the link between smoking, gutka and the pleasure of their use.

8.3 Cognitive Learning Theory

Where choices are made deliberately, such as consumers' purchase of a product or service, the consequences could result in positive or negative reinforcement. Rewarding experiences will cause positive reinforcement of a particular behaviour (in this case, purchase of the product) and increase the likelihood of repurchase of the same product. Negative reinforcement would result from bad experiences with the product and the consumer would most likely avoid purchasing the same product. Premiums, discounts and showing satisfied customers are attempts to reinforce consumers' purchase behaviour of particular products.

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Behavioural learning theories have been criticised for adopting a mechanistic view of consumers, putting too much emphasis on external stimuli and ignoring important internal psychological processes. Cognitive learning approach has dominated the field of consumer behaviour in recent years. Learning that takes place as a result of mental activity is termed as cognitive learning. Cognitive theorists do not endorse the view that learning is based on repetitive trials leading to the development of links between stimuli and responses because consumer behaviour typically involves choices and decision-making. According to their view, learning is an intellectual activity based on complex mental processes involving motivation, perception, formation of brand beliefs, attitude development and change, problem solving and insight. Even sudden learning may also result when someone is faced with a problem. Typically, though, we are most likely to look for reliable information, indulge in analysis, evaluate what we learn and try to make a balanced decision. As we acquire more experience and familiarity with different products and services, our cognitive ability and learning increases to compare various product attributes.

Rom J. Markin, Jr. compares the cognitive and the behaviourist orientation:

"The behaviourist is inclined to ask, "What has the subject learned to do?" The cognitivist, on the other hand, would be inclined to ask, "How has the subject learned to perceive the situation?" The cognitivist is interested in examining a learning situation in terms of such factors as motivation, the perceived goals, the overall nature of the situation and the beliefs, values and personality of the subject – in short, the range of the subject's psychological field. The cognitivist opposed to the behaviourist, contends that consumers do not respond simply to the stimuli but instead act on beliefs, express attitudes and strive towards goals."

In case of cognitive learning theory, the concept of closure (the reader may refer to the topic 'Perception') is important and is considered as the reinforcing factor. When faced with a problem, most individuals do not give up and are motivated to solve it. The feeling of incompleteness causes tension and solving the problem leads to closure and the reduction of tension, which causes reinforcement. Reinforcement is an acknowledged component of cognitive learning as there must be awareness of goal accomplishment for learning to occur. In case of instrumental conditioning, the respondent becomes aware of the reward only after eliciting the behaviour.

Behavioural learning theories suitably explain how consumers acquire tastes and motives

Advertisers frequently use the concept of classical conditioning by presenting their product or service in exciting, pleasant, or emotionally rewarding surroundings. For example, the commercials of Pepsi and Coca Cola use playful and exciting settings, McDonald's ads show pleasant surroundings where children can play and parents can relax. Based on classical conditioning concept, these ads repeatedly associate a brand with positive surroundings to encourage brand preference among consumers. Chris T. Allen and Thomas J. Madden suggest that more research is needed to fully investigate the usefulness of classical conditioning in advertising.

One may conclude that the behaviourist approach might be more relevant when consumers' cognitive activity is minimal, as happens in low involvement purchase situations.

For instance, a consumer may be inclined to buying the same product she/he purchased earlier, as long as the results were reasonably satisfactory.

Cognitive learning theory is quite relevant in understanding the consumer decision process in situations of high-involvement purchases. In case of complex buying behaviour (extensive problem solving), the consumer becomes aware of a need, indulges in information search and evaluates available alternatives to satisfy the need (motivated or goal oriented purposive behaviour), buys a product or service that she/he believes will most likely result in satisfying the need (insight) and makes post-purchase evaluation to ascertain the degree of satisfaction (goal achievement).

Self Assessment

Notes

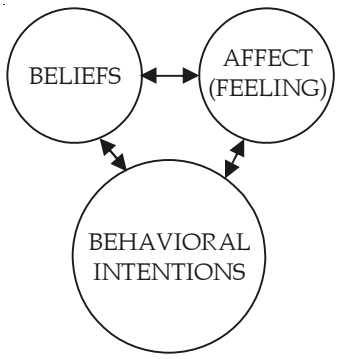
Fill in the blanks:

1. ……. is anything that increases the strength of response and tends to induce repetitions of the behaviour that preceded it.
2. …….. branding refers to the practice of marketing the entire product mix of a company under the same family brand name.
3. ……. is the strategy of introducing variations of the same product.
4. ……. learning theories are sometimes also referred to as connectionist or stimulus–response theories.
5. ……. learning theory is quite relevant in understanding the consumer decision process in situations of high-involvement purchases.
6. …… is the driving force that impels individuals to action and is the result of unfulfilled need(s).
7. ……. are relatively weak stimuli, not strong enough to arouse consumers but have the potential of providing direction to motivated activity.
8. When an attempt is made to mould individuals by gradually guiding their learning, it is called ……..

8.4 Attitude

Consumer attitudes are a composite of a consumer's (1) beliefs about, (2) feelings about, (3) and behavioral intentions toward some object–within the context of marketing, usually a brand or retail store. These components are viewed together since they are highly interdependent and together represent forces that influence how the consumer will react to the object.

Figure 8.4: Consumer Attitudes



1. ***Beliefs:*** The first component is beliefs. A consumer may hold both positive beliefs toward an object (e.g., coffee tastes good) as well as negative beliefs (e.g., coffee is easily spilled and stains papers). In addition, some beliefs may be neutral (coffee is black), and some may be differ in valance depending on the person or the situation (e.g., coffee is hot and stimulates–good on a cold morning, but not good on a hot summer evening when one wants to sleep). Note also that the beliefs that consumers hold need not be accurate (e.g., that pork contains little fat), and some beliefs may, upon closer examination, be contradictory (e.g., that a historical figure was a good person but also owned slaves).

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Since a consumer holds many beliefs, it may often be difficult to get down to a "bottom line" overall belief about whether an object such as McDonald's is overall good or bad.

2. ***Affect:*** Consumers also hold certain feelings toward brands or other objects. Sometimes these feelings are based on the beliefs (e.g., a person feels nauseated when thinking about a hamburger because of the tremendous amount of fat it contains), but there may also be feelings which are relatively independent of beliefs. For example, an extreme environmentalist may believe that cutting down trees is morally wrong, but may have positive affect toward Christmas trees because he or she unconsciously associates these trees with the experience that he or she had at Christmas as a child.

3. ***Behavioral Intention:*** The behavioral intention is what the consumer plans to do with respect to the object (e.g., buy or not buy the brand). As with affect, this is sometimes a logical consequence of beliefs (or affect), but may sometimes reflect other circumstances–e.g., although a consumer does not really like a restaurant, he or she will go there because it is a hangout for his or her friends.

   (a) *Attitude-Behavior Consistency:* Consumers often do not behave consistently with their attitudes for several reasons:

      1. *Ability:* He or she may be unable to do so. Although junior high school student likes pick-up trucks and would like to buy one, she may lack a driver's license.

      2. *Competing demands for resources:* Although the above student would like to buy a pickup truck on her sixteenth birthday, she would rather have a computer, and has money for only one of the two.

      3. *Social influence:* A student thinks that smoking is really cool, but since his friends think it's disgusting, he does not smoke.

      4. *Measurement problems:* Measuring attitudes is difficult. In many situations, consumers do not consciously set out to enumerate how positively or negatively they feel about mopeds, and when a market researcher asks them about their beliefs about mopeds, how important these beliefs are, and their evaluation of the performance of mopeds with respect to these beliefs, consumers often do not give very reliable answers. Thus, the consumers may act consistently with their true attitudes, which were never uncovered because an erroneous measurement was made.

   (b) *Attitude Change Strategies:* Changing attitudes is generally very difficult, particularly when consumers suspect that the marketer has a self-serving agenda in bringing about this change (e.g., to get the consumer to buy more or to switch brands).

      1. *Changing affect:* One approach is to try to change affect, which may or may not involve getting consumers to change their beliefs. One strategy uses the approach of classical conditioning try to "pair" the product with a liked stimulus. For example, we "pair" a car with a beautiful woman. Alternatively, we can try to get people to like the advertisement and hope that this liking will "spill over" into the purchase of a product. For example, the Pillsbury Doughboy does not really emphasize the conveyance of much information to the consumer; instead, it attempts to create a warm, fuzzy image. Although Energizer Bunny ads try to get people to believe that their batteries last longer, the main emphasis is on the likeable bunny. Finally, products which are better known, through the mere exposure effect, tend to be better liked–that is, the more a product is advertised and seen in stores, the more it will generally be liked, even if consumers to do not develop any specific beliefs about the product.

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2. *Changing behavior*: People like to believe that their behavior is rational; thus, once they use our products, chances are that they will continue unless someone is able to get them to switch. One way to get people to switch to our brand is to use temporary price discounts and coupons; however, when consumers buy a product on deal, they may justify the purchase based on that deal (i.e., the low price) and may then switch to other brands on deal later. A better way to get people to switch to our brand is to at least temporarily obtain better shelf space so that the product is more convenient. Consumers are less likely to use this availability as a rationale for their purchase and may continue to buy the product even when the product is less conveniently located. (Notice, by the way, that this represents a case of shaping).

3. *Changing beliefs*: Although attempting to change beliefs is the obvious way to attempt attitude change, particularly when consumers hold unfavorable or inaccurate ones, this is often difficult to achieve because consumers tend to resist. Several approaches to belief change exist:

   - **Change currently held beliefs:** It is generally very difficult to attempt to change beliefs that people hold, particularly those that are strongly held, even if they are inaccurate. For example, the petroleum industry advertised for a long time that its profits were lower than were commonly believed, and provided extensive factual evidence in its advertising to support this reality. Consumers were suspicious and rejected this information, however.

   - **Change the importance of beliefs:** Although the sugar manufacturers would undoubtedly like to decrease the importance of healthy teeth, it is usually not feasible to make beliefs less important–consumers are likely to reason, why, then, would you bother bringing them up in the first place? However, it may be possible to strengthen beliefs that favor us e.g., a vitamin supplement manufacturer may advertise that it is extremely important for women to replace iron lost through menstruation. Most consumers already agree with this, but the belief can be made stronger.

   - **Add beliefs:** Consumers are less likely to resist the addition of beliefs so long as they do not conflict with existing beliefs. Thus, the beef industry has added beliefs that beef (1) is convenient and (2) can be used to make a number of creative dishes. Vitamin manufacturers attempt to add the belief that stress causes vitamin depletion, which sounds quite plausible to most people.

   - **Change ideal:** It usually difficult, and very risky, to attempt to change ideals, and only few firms succeed. For example, Hard Candy may have attempted to change the ideal away from traditional beauty toward more unique self expression.

(c) *One-sided vs. two-sided appeals.* Attitude research has shown that consumers often tend to react more favorably to advertisements which either (1) admit something negative about the sponsoring brand (e.g., the Volvo is a clumsy car, but very safe) or (2) admits something positive about a competing brand (e.g., a competing supermarket has slightly lower prices, but offers less service and selection). Two-sided appeals must, contain overriding arguments why the sponsoring brand is ultimately superior–that is, in the above examples, the "but" part must be emphasized.

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(d) *Appeal Approaches:* Several approaches to appeal may be used. The use of affect to induce empathy with advertising characters may increase attraction to a product, but may backfire if consumers believe that people's feelings are being exploited. Fear appeals appear to work only if (1) an optimal level of fear is evoked–not so much that people tune it out, but enough to scare people into action and (2) a way to avoid the feared stimulus is explicitly indicated–e.g., gingivitis and tooth loss can be avoided by using this mouth wash. Humor appears to be effective in gaining attention, but does not appear to increase persuasion in practice. In addition, a more favorable attitude toward the advertisement may be created by humorous advertising, which may in turn result in increased sales. Comparative advertising, which is illegal in many countries, often increases sales for the sponsoring brand, but may backfire in certain cultures.

8.5 Multi-attribute Models and Attitude Change

On the basis of Fishbein's multi-attribute model, four strategies can be considered to change attitudes:

1. By changing the values consumers place on product attributes (ei component in the model)
2. By changing consumers' brand beliefs (bi component in the model)
3. By changing brand evaluations (Attitude component)
4. By changing behavioural intentions (Attitude (beh))

1. ***Changing Values Placed on Product Attributes:*** Most consumers consider some product attribute to be more important than others. Marketers often try to convince consumers about the superiority or importance of those attributes on which their brands are relatively strong. This requires attempting to convince consumers to reassess the value associated with a certain attribute. For example, Apple computers do not have a floppy drive and convince consumers that floppies are not reliable for storing data. Epson attempts to convince consumers that its inkjet printers need no change of printing head every time the ink cartridge is changed. A marketer may convince consumers that bad taste is good quality in a mouthwash.
2. ***Changing Consumers' Beliefs:*** A common and effective approach adopted by most marketers to changing attitudes is to focus on the cognitive component. The strategy of changing beliefs focuses on shifting beliefs about the performance of brand on one or more attributes. Alternatively, marketers attempt to shift the importance consumers place on certain attributes to those attributes on which their brand is stronger. This can be done by introducing new attributes in the brands and emphasizing the importance of existing ones. Epson printers emphasize the importance of Micro Peizo technology leading to superior colour reproduction in prints. Apple convinces consumers that its computers use the power processor. This makes these computers technologically different and superior. Nizoral shampoo ads convince consumers that Ketoconazole ingredient gives better protection against dandruff.
3. ***Changing Brand Evaluations:*** This strategy focuses on influencing consumers' overall brand attitudes without any reference to specific attributes. This can be accomplished by associating a positive feeling with product usage. Nescafe commercial "ho shuru har din aise" is one such attempt. "When you care enough to send the very best" ads of Hallmark cards is another example of associating feelings with the brand. Some brands make a claim that it is the largest selling brand, or the others are trying to imitate.

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4. *Changing behaviour:* Consumers' purchase or use behaviour may precede the development of cognition and affect. According to D. S. Kempf, behaviour can lead directly to affect, to cognitions, or to both at the same time. Consumers frequently try inexpensive new brands in the absence of any prior knowledge or affect. For example, a consumer feels thirsty and notices a new brand of cold drink with a vendor and uses it. Such purchases are often as much for knowledge as for satisfaction of some need such as thirst. Sometimes marketers induce consumers to buy a brand that is not preferred by offering some concession. The assumption is that once consumers try the brand there may be a change in their attitudes. For example, a detergent is offered at a discount price and the consumer, after using it, realises that there is hardly any difference in the performance of the new brand and the regular brand. The consumer decides to continue using the new brand and stays with it even when the price returns to normal list price.

Post-purchase Attitude Change

So far we have looked at some of the popular strategies to influence attitudes, which can be used before the purchase. However, marketers may also seek to influence attitudes after the purchase as well.

Two theories are more relevant to post-purchase attitude change:

1. Cognitive dissonance theory
2. Attribution theory

Cognitive Dissonance Theory

Leon Festinger suggested that consumers experience a feeling of doubt, discomfort or anxiety after making a relatively high-involvement purchase decision. These feelings have been referred to as cognitive dissonance. Purchase decisions, particularly of expensive items, require some amount of compromise and due to this reason feelings of dissonance are quite normal; nevertheless, they are likely to cause uneasiness about the choice made.

The probability that consumers will experience dissonance and the intensity of this dissonance, depends on:

1. The degree of commitment. If it is easier to alter the decision, the consumer is less likely to experience dissonance.
2. The importance of the decision. If the purchase decision is more important, it is more likely that the consumer will experience dissonance.
3. The difficulty of choosing among alternatives. Decision difficulty depends on the number of alternatives considered, the number of relevant attributes linked with each alternative and the extent to which each alternative possesses the attributes not present in the other alternatives. If it is difficult to choose from among the alternatives, it is more likely that the consumer will experience dissonance.
4. The individual's personality characteristics. Some individuals have a greater tendency of experiencing anxiety than others. If the individual happens to be of nervous type, it is more likely that she/he would experience dissonance.

Marketers can relieve consumer dissonance by adopting several strategies. Kenneth B Runyon has suggested five strategies to reduce dissonance and favourably influence consumer attitudes towards the product.

1. Provide additional product information and suggestions for product care and maintenance through brochures or advertising.

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2. Provide warranties and guarantees to reduce post-purchase doubt.
3. Ensure good service and immediate follow-up on complaints to provide post-purchase support.
4. Advertise reliable product quality and performance to reassure recent purchasers of product satisfaction.
5. Follow up after the purchase with direct contacts to make sure the customer understands how to use the product and to ensure satisfaction.

Attribution Theory

According to attribution theory (D. J. Bem), consumers seek to determine causes (attributions) for events, often after the fact. The theory suggests that consumer attitude formation and change is the result of consumers' looking at their own behaviour and making judgments about it. For example, if a consumer regularly uses Colgate toothpaste, looking at own behaviour she/he may conclude that she/he likes the toothpaste (she/he has a positive attitude towards the brand). Consumers are also likely to take all the credit themselves for any success (internal attribution) and attribute failures to others or external causes (external attribution).

Caution To influence attitudes favorably, marketers should give consumers positive reasons for their purchases after the act. This requires that marketers offer high-quality products and allow consumers to perceive themselves as the reason for choosing the right brand.

Self Assessment

Fill in the blanks:

9. …….. component is the likelihood or tendency of an individual to respond in a certain manner towards an attitude object.
10. An …….. is an enduring organisation of motivational, emotional, perceptual and cognitive processes with respect to some aspect of our environment.
11. …… refer to subjective judgments about the relationship between two or more things.
12. Consumers' feelings and emotional reactions to an object represent the …… component of an attitude.
13. According to …….. theory consumer attitude formation and change is the result of consumers' looking at their own behaviour and making judgments about it.
14. …….. function facilitates the information-processing task.
15. Changing ……. evaluations is the strategy that focuses on influencing consumers' overall brand attitudes without any reference to specific attributes.

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Case Study

Developing a Learning Strategy

Wellread is a high street retailer established in 1993 as a single bookshop but which has since grown rapidly and is now present on many of the UK's high streets and in many shopping centres. Until 2005, Wellread served only the book market – particularly, specializing in children's books – but following the appointment of a new chief executive the company increasingly diversified into a number of 'related' areas such as music, DVDs and stationery. These areas have grown to represent a substantial part of each store. Furthermore, larger Wellread stores now have cafes where customers are encouraged to browse books before they buy.

Until 2008, Wellread experienced strong growth and increasing market share in the book retailing sector. Since then, however, growth has slowed considerably even when accounting for a decrease in consumer spending during the recent economic downturn. More worryingly, market share has begun to recede and Wellread is losing out to its high street competitors, larger retailers who sell bestsellers at marked-down prices and online book sellers. To understand the deeper reasons for this decline, Wellread commissioned market research to explore consumer's perceptions of the store and what shoppers wanted from a book retailer. The results were mixed. The research found that Wellread rated highly on the following criteria: friendly staff and welcoming atmosphere. Moreover, the annual customer surveys show that customer service was rated highly among regular shoppers at Wellread, many reporting that they know staff by name and often drop by for coffee and to browse the books. The market research also found, however, that Wellread was rated worse than its competitors on staff knowledge (particularly in the areas of music and film), the range of titles held and speed of service. Of particular concern to the company is the fact that the high levels of 'footfall' at Wellread stores appears to translate into comparatively low sales volumes.

The company also recently conducted its first ever employee attitude survey which asked employee's opinions about a wide range of issues, including the company itself, their jobs, why they chose to work for Wellread and what they felt they bring to the company. The survey showed that a core of workers in each store had been with Wellread for a number of years, albeit alongside a quite substantial transient workforce. These long-term employees appear to be knowledgeable and passionate about books, committed and often highly-qualified. Many were concerned, however, about developmental opportunities within the company. Morale among staff appears to be high, although this was largely explained by an apparent loyalty to their colleagues and to their store manager. One respondent commented that 'I don't really see myself as a Wellread employee, just an employee of this particular store'.

In keeping with the relaxed atmosphere that the company seeks to develop within its stores, it advocates a paternalist approach to employee management. Commensurately, the company allows a fair degree of autonomy to store managers in how staff are managed at a local level and whilst it promotes regular performance appraisals it is aware that some managers take this process less seriously than others. Where they are conducted they are generally informal meetings used for employees to raise concerns or to make suggestions. Typically, no formal records are kept regarding appraisals. Wellread has always recognised that business success relies on good customer service and the focus of employee induction has been to instil in employees the importance of creating an accessible shopping environment which runs counter to the popular perception of bookshops as

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'stuffy' places and booksellers as 'snobby and condescending'. New employee induction is, however, typically brief and conducted by the store manager, often involving little more than a chat as they 'walk the shop'. The only demarcation of staff on the shopfloor is between café and store workers. Store workers typically work wherever needed in response to demand. Following induction, training activity for customer service advisors is limited. All shop staff are trained in the use of the point-of-sale technology and given a brief tutorial in the shelving system. Staff are trained as and when necessary if new technology is introduced into the store (for example, there is talk of introducing an Espresso book machine into some stores which can create bound copies of out of print books to order). Café staff are given training in using the coffee machine and in basic health and safety.

Drawing on all the information gathered in the review process, Wellread has devised a five-year growth strategy focused on increasing sales and efficiency, improving customer perception and awareness of the brand and differentiating itself in the marketplace.

Question:

Discuss the outcome of employee attitude survey as discussed in the case study.

Source: www.sagepub.com/.../Extended%20Cases/Case%20study%20Nine.do...

8.6 Summary

- Learning is a concept and no one has ever "seen" learning. It is a continuous process and gets modified or changed as a result of exposure to new information and personal experiences and often becomes the basis for future observable behaviour. We infer that learning has taken place if an individual behaves, reacts, or responds as a result of experience in a manner different from the way this person formerly behaved.
- Behavioural learning theories are sometimes also referred to as connectionist or stimulus – response theories. Behaviourist psychologists believe in observing changes in an individual's responses that result due to exposure to specific external, environmental stimuli.
- Instrumental conditioning also involves developing association between stimulus and response but requires the subject to discover a correct response that will be reinforced.
- Classical conditioning theory helps explain how consumers accomplish learning of relatively simple behaviours and instrumental conditioning is quite helpful in explaining relatively complex, goal-oriented behaviours.
- An attitude is an enduring organisation of motivational, emotional, perceptual and cognitive processes with respect to some aspect of our environment.
- Understanding functions of attitudes helps in learning how they serve consumers. Using this approach, marketers attempt to influence affective responses by using messages that appeal to consumers on the basis of one or more of these four types of functions.
- Consumers sometime purchase new products without any prior experience with the category based on their favorable attitude towards a brand name.
- Personal experience with a product or service is an important factor in the formation of attitudes. Attitudes thus developed tend to be more enduring and resistant to change, compared to indirect experience that consumers develop as a result of exposure to ads.

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8.7 Keywords

Attitude: It is an enduring organisation of motivational, emotional, perceptual and cognitive processes with respect to some aspect of our environment.

Behavioural (conative) component: It is the likelihood or tendency of an individual to respond in a certain manner towards an attitude object.

Beliefs: These refer to subjective judgments about the relationship between two or more things.

Cues: These are relatively weak stimuli, not strong enough to arouse consumers but have the potential of providing direction to motivated activity.

Family branding: It refers to the practice of marketing the entire product mix of a company under the same family brand name.

Learning: It is the process by which individuals acquire the purchase and consumption knowledge and experience that they apply to future related behaviour.

Product category extension: It is diversifying into producing products in different categories and using the same established brand name.

Product line extension: It is the strategy of introducing variations of the same product.

Reinforcement: It can be anything that both increases the strength of response and tends to induce repetitions of the behaviour that preceded the reinforcement.

Response: The way an individual reacts to a cue or stimulus is the response and could be physical or mental in nature, leading to learning.

Stimulus generalisation: It occurs when two stimuli are seen as similar and the effects of one, therefore, can be substituted for the effects of the other.

8.8 Review Questions

1. What do you mean by Stimulus generalisation?
2. Discuss in brief Instrumental conditioning.
3. Explain Cognitive Learning Theory.
4. What do you understand by attitude? What are the various functions of Attitude, discuss them briefly?
5. What are Attitude Models?
6. "Consumers sometime purchase new products without any prior experience with the category based on their favorable attitude towards a brand name." Discuss.
7. "Under conditions of high-involvement, changing consumers' beliefs should be easier than changing their brand attitudes". Explain.
8. What are the theories relevant to post-purchase attitude change? Discuss them briefly.

Notes

Answers: Self Assessment

1. Reinforcement
2. Family
3. Product line extension
4. Behavioural
5. Cognitive
6. Motivation
7. Cues
8. shaping
9. Behavioral (conative)
10. Attitude
11. Beliefs
12. Affective
13. Attribution
14. Knowledge
15. Brand

8.9 Further Readings

Books

Newman, A. & Cullen, P., *Environment and Operations*, 9th Indian Reprint 2011, Cengage Learning

Ogden, J.R. and Ogden, D.T, *Integrated Retail Management*, 1st Edition 2008, Bizantra.

Pradhan, S, *Retailing Management*, 2nd Edition 2007, Tata McGraw Hill.

Online links

www.emeraldinsight.com/journals.htm?articleid=855478

www.consumerpsychologist.com/cb_Attitudes.html

Unit 9: Motivation and Perception

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Objectives

After studying this unit, you will be able to:

- Explain the concept of Needs
- Discuss Motivational Conflict
- Explain the Theory of Motivation
- Discuss the concept of Perception
- Describe about Perceived Product and service Quality

Introduction

Motivation and perception influence consumer behaviour in many ways. That is why companies spend such a lot of money in creating the right message for their products.

Motivation can be anything from being one up on the neighbours, being the first with the latest technology, quality and being part of an elite group of people who can obtain a certain product. It can also be wanting to be like someone, which is why companies use celebrities to market products. Celebrities who have contact with a particular group or age bracket can do a great deal to influence sales of goods. People like David Beckham appeal to the youth market whilst people like Stephen Fry appeal to the more learned and discerning people.

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Perception is another key tool for influencing consumer behaviour. People want to be perceived as being part of a particular group, they want to be perceived as having a certain taste, a flair or making good choices.

Two identical products can be marketed differently and, depending on the consumer's perception and motivation, they will be received in very different ways.

Different consumer groups are motivated by different things but consumer behaviour is dictated by the group people want to be perceived as belonging to, their motivation by being targeted by clever marketing companies and their desire to fit in.

In a super market, who doesn't eye someone else's trolley to see what brands they buy - and how embarrassed are you at filling your trolley with all supermarket brand products or basic range goods only to meet your friend who always buys the most expensive goods? Most of us add a few branded products just to feel better.

Motivation can also be from an eco or green perspective and people want to be seen to be doing their bit by buying brands which are best known for low carbon foot prints and replanting trees used for their toilet tissue so motivation is not always about money. Your motivation can affect how you are perceived (or how you would like to be perceived).

Whichever way you look at it, consumer behaviour is very heavily influenced by motivation and perception.

9.1 Motivation

Motivation is an important factor in understanding behaviour. The importance of motivation is reflected in the following definitions:

- Motivation can be described as the driving force within individuals that impels them to action.
- Motivation refers to the process that cause people to behave as they do.
- Motivation is the energizing force that activates behaviour and provides purpose and direction to that behaviour .
- Motive is a construct representing an unobservable inner force that stimulates and compels a behavioral response and provides specific direction to that response.
- Motive is an inner state that mobilizes bodily energy and directs it in selective fashion toward goals usually located in the external environment.

Motivation, then, influences people's behaviour in the way it stimulates and directs behaviour.

People's goals are directed to the fulfilment of needs and wants. "Need" refers to human requirements, generally physiological needs such as food, water or clothing. Since the 1920s, researchers have tried to classify human needs. Maslow's Hierarchy of Motivation, which is probably the best known classification, identified five distinct needs.

Likewise, the "need" for a particular product is often difficult to classify. For example, people buy a pizza because they feel hungry. But why would they prefer to purchase a pizza rather than something else? Needs may develop as acquired needs and wants. Acquired needs are a result of what we experience in our daily lives, such as the need for esteem, prestige, affection, power or learning. Wants are "the expression of needs in actual situations. These needs and wants can become goals which influence behaviour. People may go to the store to achieve some of their goals.

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Needs and Goals are Dynamic

The nature of needs and goals is not static; they keep on recurring, changing and growing as a result of an individual's changing physical condition, environment, experiences, learning and social interactions. Once existing goals are attained, new ones are formed. If, for any reason, the goals are not attained, the individuals either continue striving for them, or may develop substitute goals. Some important reasons why motivated behaviour never comes to an end include the following:

1. ***Needs are never satisfied completely or permanently:*** At nearly regular intervals we become hungry and need food to satisfy this recurring need. Similarly, most people experience the social need and regularly seek company of others, their affection and approval. Even in the case of more complex and abstract psychological needs such as need for power, no one ever seems to be completely and permanently satisfied with whatever one has and keeps on striving for more.
2. ***New needs emerge:*** At any given time a need may be predominantly active but as soon as it is satisfied another need emerges. According to Maslow, a hierarchy of needs exists. As lower-order needs are fulfilled, new higher-order needs become active.
3. ***Success and failure influence goals:*** Research has shown that individuals who are successful in achieving their goals usually aspire to achieve higher goals. This probably happens because success gives them more confidence in their ability. On the other hand, those who meet with failure, sometimes lower their levels of aspiration.
4. ***Substitute goals are formed:*** This may happen when someone is unable to achieve a specific goal to satisfy certain needs and settles for some other goal. It may however not be as satisfactory as the original goal but would be sufficient to just satisfy and relieve tension.

9.2 Motivational Conflict

There is a popular saying, "Variety is the spice of life." Hardly anybody is likely to disagree with this saying. For most of us, too much of the same thing over and over again turns out to be unexciting, tasteless, or even boring. We are aware that consumers sometimes display 'variety seeking' behaviour out of sheer boredom or a desire for variety.

A motivational goal has ***valence*** (strength). This valence can be positive or negative. Consumers are motivated to approach the goal with positive valance. However, some behaviour is directed at avoiding a negative outcome. For example, many consumers work hard to avoid rejection and will stay away from products they perceive to be associated with social disapproval. Some products, such as deodorants, toothpaste, mouthwash, and antidandruff shampoo, etc. use negative motivation by showing embarrassing consequences.

A product or service that a person might buy to satisfy some need(s) often comes at the expense of depriving another need as the person may be short on resources. These compromises in our ability to satisfy various needs cause ***motivational conflict*** (Kurt Lewin, *A Dynamic Theory of Personality,* McGraw-Hill). Motivational conflicts can take one of the three principal forms.

Approach-Approach Conflict

This type of conflict occurs when a consumer is faced with two desirable alternatives such as either to buy a good music system or a computer. The person must decide between the attractive alternatives and may face a situation of periodic indecision temporarily and swing between the alternatives. Since both alternatives are attractive, the consumer may experience some ***dissonance***

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(Tension). Approach–approach conflict is believed to be unstable and due to this reason a slight tendency to accept one alternative can solve the conflict quickly. For example, a timely advertisement favouring one or the other action such as some incentive for buying now could resolve such a conflict.

Approach-Avoidance Conflict

This type of conflict occurs when a consumer is facing a purchase choice that has both positive and negative consequences. Such a situation may arise when the consumer is making a purchase or consumption decision on a single product in which both positive and negative aspects are involved. This type of conflict tends to be stable. The theory of ***cognitive dissonance*** is based on the premise that people have a need for order and consistency in their lives and they experience a state of tension when their beliefs or behaviours conflict with one another. For example, a consumer may be fond of soft drinks but may also be concerned about not consuming extra calories. The person concerned wants the taste and emotional satisfaction associated with consuming the soft drink (approach) but does not want the intake of extra calories (avoidance). Pepsi and Coke spotted this opportunity and have introduced diet drinks.

Avoidance-Avoidance Conflict

This involves deciding between two or more alternatives which are perceived as undesirable. Such situations are somewhat stable and consumers tend to vacillate between the undesirable choices. For example, if the car is badly damaged in an accident, the alternatives may be a hefty repair bill or a substantial expense of buying a new one. Comprehensive insurance cover and also the availability of low-interest auto finance schemes are ways of reducing this motivational conflict.

9.3 Motivational Intensity

Motivational intensity represents how strongly individuals are motivated to satisfy a particular need. Sometimes the need to satisfy a particular motive may be very strong and at other times the intensity may be only modest. As the felt deprivation of need increases, need recognition becomes more acute and motivational intensity becomes stronger. Motivational intensity also depends on the felt need's importance and needs perceived as most important by an individual are pursued more vigorously. For instance, if a person is kept awake for three or four days at a stretch, she/he will experience greater sense of urgency to get sleep. Motivational intensity will also depend on an individual's involvement in some object or behaviour of great personal relevance that is perceived to satisfy important needs. For example, individuals motivated to be attractive to opposite sex, will be more involved with products and services perceived as satisfying this need compared to those who are not much motivated about being attractive to the opposite sex.

Consumer involvement and motivational intensity are important factors because they determine the extent of effort consumers are likely to undertake in satisfying their needs. As the degree of involvement and motivational intensity increase, individuals put in more efforts to satisfy their needs. They become more attentive to relevant information from different sources, allocate more cognitive resources, search activity is greater, and more alternatives are likely to be evaluated to accomplish the need satisfaction.

Frustration and Defence Mechanisms

Failure to achieve a goal often gives rise to feelings of frustration. Probably there is nobody who has not experienced frustration that comes from the inability to achieve some goal.

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Individuals react differently to frustration. Some more common forms of Individual reaction to frustration can be of the following type:

- ***Aggression:*** As a result of experiencing frustration, some individuals exhibit aggressive behaviour in an attempt to keep their self-esteem intact. Frustrated consumers write letters to editors, or take the help of consumer forums.
- ***Rationalisation:*** A person who rationalises is not really telling lies because the individual is not consciously aware of the cognitive distortion as a result of experiencing frustration. The individual convinces herself/himself that the goal is not really worth the effort. Another defensive approach adopted by individuals is to redefine a frustrating situation by coming up with explanations as to why they could not attain their goals.
- ***Regression:*** In reaction to frustration people sometimes exhibit immature or child-like behaviour by throwing the merchandise or fighting with shopkeeper rather than settling the matter amicably.
- ***Withdrawal:*** People often resolve their frustration by withdrawing from the situation. For example, a person who feels difficulty in driving a car may stop doing so and may decide that it is cheaper and convenient to use a three-wheeler auto or a taxi.
- ***Projection:*** Sometimes an individual redefines a frustrating situation by blaming other persons or objects as the reason for her/his failures. It is common to see auto drivers blaming the other person after an accident. After failing in an examination, students often blame the prevailing conditions in the institution.
- ***Autism:*** The thinking, which is almost completely dominated by needs and emotions (day-dreaming) without relating to reality, is called autism. This is a way to achieve imaginary fulfilment of one's needs. For example, some consumers may daydream that by using a certain product they would become very attractive.
- ***Identification:*** Sometimes subconsciously people identify with other persons or situations to resolve their feelings of frustration. From the marketers' point of view this is an important defence mechanism that consumers use. We often see commercials and ads using ***slice-of-life*** format in which an individual experiences a frustrating situation and then overcomes the problem by using the advertised product or service. If the consumer identifies with the frustrating situation, it is likely that she/he would adopt the suggested solution and purchase the advertised product or service. A number of commercials are seen everyday for antidandruff shampoos, skincare products, deodorants, mosquito repellents, detergent, and so on.
- ***Repression:*** Some people resolve frustration by forcing the need out of their conscious mind. The suppressed needs sometimes emerge in an indirect manner. For example, a couple not having children may have many pets to fulfil their need. Socially acceptable form of repressed behaviour is termed as sublimation.

Motive Arousal

The concept of motive arousal concerns what actually energises consumers' behaviour. Many of the needs of an individual remain dormant for long periods. The arousal of any particular set of needs at any given point of time gets triggered by an individual's physiological condition, emotional or thinking processes or due to situational stimuli:

- ***Physiological Arousal:*** Deprivation of any bodily need such as food, water and other life sustaining necessities activates the need. Most of the physiological cues are involuntary and often arouse some related needs. For example, a person may heat up water to take a bath and may also make a note to buy a geyser.

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- ***Emotional Arousal:*** Sometimes latent needs are stimulated because a person gets involved in thinking or daydreaming about them. This occurs when consumers deliberate about unfulfilled needs. For example, a young man who wants to become a cricket player may identify with Sachin Tendulkar and use products endorsed by him commercially.
- ***Cognitive Arousal:*** Sometimes just random thoughts may stimulate arousal of needs. An ad "home away from home" may remind a person of home and he may suddenly become aware of his need to call his wife or children.
- ***Situational Arousal:*** A certain situation confronting a consumer may also trigger arousal. This can occur when the situation attracts attention to an existing bodily condition. For example, seeing an ad of Coca Cola or a display suddenly makes one aware of being thirsty. The need would have been present but was not strong enough to trigger arousal. Similarly, seeing an ad or a kitchen gadget in use may activate the need to buy that gadget.

9.4 Motivation Research

Consumers just do not buy products or services. Instead, they actually buy motive satisfaction or problem solutions. It has been noted that motives influence consumers' purchase behaviour and in many cases some motives may not reach the consumer's consciousness. Motives are hypothetical constructs and no one has ever tangibly observed them. Due to this reason any method of motive measurement cannot be considered as completely reliable.

Did u know? Dr. Ernest Ditcher and James Vicary were among the first to use motivation research by adopting psychoanalytic techniques such as depth interview and projective techniques.

Marketers were fascinated by explanations offered for consumer behaviour and before long almost every advertising agency on Madison Avenue had a psychologist to conduct motivational studies.

The term motivation research refers to a type of marketing research (qualitative research) employed to uncover subconscious motivations of consumers that influence their behaviour. It seeks to discover and comprehend what consumers do not fully understand about them. It also attempts to identify forces and influences that consumers may not be aware of such as cultural factors and sociological forces that influence their behaviour. Typically, these below-awareness or unconsciousness motives are interlinked and complicated by conscious motives, cultural biases, economic variables, and fashion trends.

Motivation research is particularly useful when it is suspected that underlying motives are exerting upon consumer behaviour. Products or services that relate or might relate to attraction of opposite sex, to become more beautiful and attractive, to status or self-esteem, to power, to fears, or to social taboos are apparently good reasons for motivational research. Even low-involvement product categories can often benefit from the insights gained by motivational research. Typically, in low involvement product categories, perception variables and cultural influences are most important. For example, how we squeeze a tube of toothpaste, open packages, and who does what work, etc. Most of us are relatively unaware of these cultural rules. Understanding how these cultural rules influence a particular product can be extremely useful information for the marketer.

The methods used (three major motivation research techniques include observation, focus group, and depth interviews) involve disguised and indirect techniques to probe consumer's feelings, attitudes, and emotions concerning a product, or service, without triggering defence mechanisms that can lead to misleading results.

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Observation

Observation of consumers can help in developing hypotheses about human motives. It is easier to observe consumers in buying situations than in their homes and can be accomplished in-person or by using video cameras. Video cameras are less intrusive than a person as an observer. However, observation by human eye or video cameras cannot answer every question. Generally, observation needs to be supplemented by focus group or depth interviews to fully understand why consumers are behaving the way they do.

Focus Group

In the hands of a skilled moderator, focus group can be quite a valuable research technique. The group interview is largely non-directive in style and the group must develop spontaneous interaction. It is the group excitement and spontaneity that exhibit the behaviours that reveal underlying motives.

Depth Interview

The heart and soul of motivational research is the depth interview. It is a lengthy, one-on-one personal interview conducted by a professionally trained motivational researcher. The researcher relies heavily upon non-directive interviewing techniques. The goal of the researcher is to get the respondent to talk, and keep talking. The researcher starts the interview by introducing general topics, rather than asking direct questions. She/he probes by raising eyebrows, by giving a questioning look, by paraphrasing what the respondent has said, or by repeating the respondent's own words in a questioning manner. These techniques are non-threatening to the respondent.

During the interview, the researcher watches for clues that might indicate that a "sensitive nerve" has been touched. Some of the clues that the researcher watches for include long pauses by the respondent, slips of tongue, fidgeting, strong emotions, variations in voice pitch, facial expressions, eye movements, avoidance of question, fixation on an issue, and other body language indicators. These "sensitive" topics and issues are then the focus of additional probing and exploration later in the interview.

Each respondent interview is tape-recorded and transcribed. During the interview, the researcher makes notes about respondent's behaviour, mannerisms, physical appearance, personality characteristics, and non-verbal communication. These notes help the researcher to understand and interpret the verbatim transcript of the interview. The researcher can also use ***projective techniques*** to evoke additional feelings, imagery, and comment from the respondent later in the interview. She/he asks the respondent to tell a story, play a role, draw a picture, complete a sentence, or associate words with a stimulus. The researcher can also use photographs, product samples, packages, and advertisements as stimuli.

The next step is the exploration of the unique motivations that relate to the product category. What psychological needs the product or service does fulfil? Does the product have any social relevance or implication? Does the product relate to one's status aspirations, to competitive drives, to feelings of self-esteem, to security needs? Does the product have deep symbolic significance, etc.? Some of these motives must be inferred since respondents are often unaware of why they do what they do or do not wish to disclose.

The last important dimension that needs to be understood is the business environment, including competitive forces, brand perceptions and images, relative market shares, the role of advertising in the category, and trends in the market place. The respondent is most likely to know only part

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of this business environment, but understanding the business context is critical to the interpretation of consumer motives in a way that will lead to useful results.

Marketers have realised that motivation research has some shortcomings. Sample sizes of consumers are small and hardly representative of the total market and the findings are based on subjective analysis. Based on the same data, two different analysts can possibly produce different reports offering subjective explanation for consumer behaviour under consideration.

Despite these drawbacks, to have a better understanding of many aspects of consumer behaviour which conventional marketing research is unable to accomplish, marketers use motivation research.

Self Assessment

Fill in the blanks:

1. Physiological motives are concerned with satisfying …… needs of the individual such as hunger, thirst and safety, etc.
2. …… motives focus on satisfying psychological needs such as achievement, affection, or status, etc.
3. …….. Conflict occurs when a consumer is faced with two desirable alternatives such as either to buy a good music system or a computer.
4. …….. needs include reputation, prestige, status, self-esteem, success and independence, etc.
5. The term …….. is related to ego needs.
6. Motivation researchers conduct "……..." interviews with a few dozen consumers to explore unconscious motives.
7. The thinking, which is almost completely dominated by needs and emotions (day-dreaming) without relating to reality, is called ……...
8. Physiological needs are ***primary needs*** or motives because they are essential to ……...
9. …….. is said to be the driving force within individuals produced by a state of tension caused by unfulfilled needs, and wants.

9.5 Perception

Information processing involves a series of activities by which stimuli are recognised, perceived, transformed into meaningful information and stored in memory (short-term or long-term).

Reality to an individual is that individual's perception, a personal phenomenon, on the basis of which the individual acts or reacts and not on the basis of objective reality. For this reason, marketers are particularly interested in consumers' perceptions than their knowledge of objective reality. Simply put, perception is "how we see the world around us." Different individuals may be exposed to the same stimuli under the same conditions but how each individual recognises the stimuli, selects them, organises them and interprets them is unique in case of each person and depends on his needs, wants, values, beliefs, personal experiences, moods and expectations. Perception is also influenced by the characteristics of the stimuli, such as size, colour and intensity, etc., and the context in which it is seen or heard. Some of the basic concepts associated with perception are as follows:

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Sensation – Exposure to Stimuli

Sensation is the immediate and direct response of sense organs to simple stimuli such as an advertisement, a brand name, or a package, etc. Exposure only requires presence of a stimulus within an individual's relevant environment. For example, a person is exposed to a commercial (stimulus) if she/he were in the room when the commercial was shown, even when the person paid no attention to it or noticed it. Sensory receptors are human sense organs (eyes, ears, nose, mouth and skin) involved in receiving sensory inputs. Though there are numerous stimuli present in our environment, we are exposed to only an extremely small fraction of them. We are exposed to a large number of stimuli on a more or less random basis every day, but most of us deliberately seek exposure to selected stimuli in a "self-selected" manner and ignore or avoid others (zapping and muting of TV commercials, or zipping of pre-recorded videotapes are good examples of this stimuli avoidance). Obviously, we look for information that we consider will help us in some way to accomplish our desired goals.

Sensitivity to stimuli varies among individuals and depends on the quality of sensory receptors. For example, some people have more acute hearing or sharper eyesight than some others.

Absolute Threshold

Absolute threshold refers to the lowest level at which an individual can experience a sensation. At this point, an individual can detect a difference between "something" and "nothing" and this point would be that individual's absolute threshold for that stimulus. For instance, one individual may sense the sound pitch at 20 cycles per second and the second individual may sense the sound pitch at 30 cycles per second. Absolute threshold for sound in case of these two individuals would be different. Many individuals' ability to discriminate sensory characteristics such as taste, smell, hearing, or feel is small.

Differential Threshold

Differential threshold is the smallest detectable difference between two values of the same stimulus. This is also referred as **j.n.d** (just noticeable difference). A German scientist of nineteenth-century, Ernst Weber discovered that *the* ***just noticeable difference between two stimuli was an amount relative to the intensity of the initial stimulus.*** To measure the differential threshold for a stimulus, one commonly changes its intensity in very small amounts. An individual's threshold exists when she/he first notices that the stimulus has changed. The difference between this value and the starting value is the just noticeable difference. Weber's Law (after the name of the scientist) states that stronger the initial stimulus, greater the additional intensity needed for the second stimulus to be perceived as different.

Subliminal Perception

People can also perceive stimuli, which are below their level of conscious awareness. In this situation, the stimuli which are otherwise too weak or brief to be consciously seen or heard prove strong enough to be perceived. When the stimulus is below the threshold of awareness and is perceived, the process is called subliminal perception. This shows that the threshold of conscious awareness is higher than the absolute threshold for effective perception.

Subliminal research studies are inconclusive as far as impact of advertising is concerned. Research on subliminal perception seems to be based on two theoretical approaches: (1) the affect of constant repetition of very weak stimuli adds up to produce response strength and (2) subliminal stimuli of a sexual nature arouse unconscious sexual motivations. Research studies have so far failed to indicate that any of these theoretical approaches can be put to effective use in advertising to increase sales.

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Attention

Attention occurs when one or more stimuli activate one or more sensory receptor nerves and the resulting sensations reach the brain for further processing. Human beings are constantly exposed to numerous stimuli every minute of the day. This heavy intensity of stimulation to which we are exposed should serve to confuse us totally but it does not. The reason is that perception is not a function of sensory input alone. An important principle of perception is that raw sensory input alone does not elicit or explain the coherent picture of the world that most adults possess. Perception is the outcome of interaction of physical stimuli from external environment and an individual's expectations, motives and learning based on earlier experiences. The interaction of these two types of very different stimuli creates, for an individual, a very private and personal picture of the world. Since every individual is unique because of needs, wants, desires, expectations and experiences, no two people perceive the world precisely the same way.

Perceptual Selection

Human beings, subconsciously, are quite selective in their perception. Everyday we look at so many things, ignore others and do not even notice many others. We really perceive only a very small fraction of stimuli to which we are exposed. In a market place a consumer is exposed to numerous marketing related stimuli besides numerous others. Even then, on a regular basis, consumers visit the market and make desired purchases without any disorientation or losing sanity. The reason is that we all unconsciously exercise selectivity in perception. The selectivity of stimuli depends on consumer's previous experience and motives, besides the nature of stimulus itself. One or more factors related to experience and motives affect consumer's 'selective exposure' and 'selective attention' at a given time and can increase or decrease the probability that a certain stimulus will be perceived.

Stimulus Factors

There are numerous marketing related stimuli that affect consumer's perception, such as type of product, physical characteristics, packaging, colour, brand name, advertisement, claims, endorser, size of ad, position of ad or time of commercial, etc. The product and its components such as package, contents and physical properties, etc., are primary or intrinsic stimuli while marketing communications developed to influence consumer behaviour are secondary or extrinsic stimuli.

Expectations

People generally see what they expect to see and this expectation is based on familiarity and previous experience. Consumers often perceive products and product attributes as per their expectations. If a consumer has been expecting a new soft drink to have bitter aftertaste because the friends said so, probably it would taste bitter. It is also true that in many instances stimuli that are in sharp contrast to expectations attract more attention than those that meet our expectation. For instance, an ad showing a man wearing a hat, tie and an underwear but no shirt and pants is more likely to attract attention than a properly dressed man.

Motives

Consumers tend to perceive those things that are top most in their need or want list. They are highly perceptive of stimuli that are relevant to their needs and interests. Thus, stronger the felt need, greater is the tendency to notice motive-related things and ignore unrelated stimuli in the environment. For example, a person who is contemplating buying a computer is more likely to notice ads of computers and ignore other ads irrelevant to felt needs or interests.

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Selective Exposure

Exposure occurs when consumers' senses are activated by stimulus. Consumers are attentive to stimuli which are relevant, pleasant, or towards which they may be sympathetic and ignore unpleasant and painful ones.

Selective Attention

Attention is the momentary focusing of a consumer's cognitive capacity on a particular stimulus. Consumers have increased awareness of stimuli that are relevant to their felt needs or interests and decreased awareness of irrelevant stimuli. They would readily notice ads of products that they need or want. Some consumers are price sensitive, for some quality is more important and accordingly they pay attention to such ad messages. Consumers use considerable selectivity in terms of attention they pay to different stimuli.

Adaptation

Adaptation refers to gradual adjustment to stimuli to which consumers are exposed for prolonged periods. Because of adaptation, consumers do not notice the stimuli to which they have become adjusted. For instance, an air-conditioned picture theatre feels quite cool in the beginning but a short time later we adapt to temperature and become less aware of it. Consumers become adapted to advertising messages over time due to boredom or familiarity. They reduce their attention level to frequently repeated advertisements and eventually fail to notice them. Because of this reason marketers introduce attention-getting features in their ad campaigns and change their advertising. The level of adaptation varies among consumers and some get adapted more quickly than others.

Perceptual Vigilance and Defence

Even when consumers are exposed to stimuli they do not want to see or hear, they unconsciously ignore such undesirable stimuli. Perceptual defence is more likely in anxiety-producing situations. Because of this reason, unpleasant, damaging, or threatening stimuli have less of a chance to be perceived compared to neutral stimuli at the same level of exposure. Consumers are also likely to modify or distort any information that is not consistent with their needs, wants, values, or beliefs.

Perceptual Blocking

Consumers are exposed to innumerable stimuli in a typical day. They protect themselves from being overwhelmed and overburdened by blocking such numerous stimuli from their conscious awareness. For instance, consumers screen out enormous amounts of TV advertising by 'tuning out'.

9.6 Interpretation of Stimuli

Perceptual interpretation refers to assigning of meaning to sensations. Individuals, in their own unique manner, interpret the stimuli. As the old saying goes, "a person sees what he/she expects to see," Interpretation of stimuli by individuals is based on their earlier experiences, plausible explanations they can assign, their motives, beliefs and interests at the time of perception.

A number of factors influence individuals that may distort their perceptions, such as physical appearances, stereotyping stimuli, irrelevant stimuli, first impressions, jumping to conclusions and halo effect, etc.

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- ***Physical Appearance:*** People may or may not consciously recognise that they tend to attribute the qualities, which in their opinion are associated with certain individuals, to others who may resemble those persons. According to Kathleen Debevec and Jerome B Kernan, research indicates that attractive looking men are perceived as more successful in business than average looking men. Attractive models in ads and commercials prove more persuasive and have a more positive impact on consumer attitudes and behaviour than average looking models. This has important implications in selecting the models for ads or commercials, as it may be the key factor in their ability to be persuasive.
- ***Stereotyping Stimuli:*** People tend to form "pictures" in their minds of the meanings of different types of stimuli. This stereotyping the stimuli helps them develop expectations about how specific events, people, or situations will turn out to be. For example, many people carry the "picture" of politicians or police behaviour in their minds.
- ***Irrelevant Stimuli:*** In certain situations consumers are faced with difficult perceptual judgements. In such circumstances they often respond to somewhat irrelevant stimuli. For instance, they may consider the colour of washing machine in making the final purchase decision. In case of expensive cars, consumers often give importance to the shape of headlamps, or leather upholstery rather than technical features.
- ***First Impression:*** First impressions are often lasting even when the perceiver is not exposed to sufficient relevant or predictive information.

  For instance, just a few years ago, the word "imported" was enough for a large number of consumers to form favourable impressions about many products such as wristwatches, shoes, clothes and many other different products.
- ***Jumping to Conclusions:*** Some people seem to have a strong tendency to draw conclusions based on insufficient information. They seem to be impatient about examining all the relevant evidence, which may be necessary to draw a balanced conclusion. This is often the reason that strong arguments about a product or service are presented first in ads.
- ***Halo Effect:*** This refers to a tendency to evaluate one attribute or aspect of stimulus to distort reactions to its other attributes or properties. This is frequently seen in case of brand or line extensions where the marketer takes advantage of a brand's reputation.

Example: Dettol soap, Lux shampoo and Ponds soap, etc.

9.7 Perceived Product and Service Quality

Consumers often tend to assess the quality of a product or service on the basis of different types of information they relate with the product or service. *Intrinsic cues* (cues are stimuli that direct motives) relate to the physical attributes of the product such as the size, colour, or smell etc., which are sometimes used to judge the quality of a product. For example, quality of perfumes is often judged on the basis of fragrance, physical appearance of the container, packaging and its colour. Many detergent powders and cakes are traditionally coloured blue to influence the perceived quality because consumers associate "bluing" with brightening and whitening their laundry. Consumers like to be thought of as objective or rational in their assessment of products and believe that their product choices are based on intrinsic cues. It is a different matter that quite often the physical attributes considered to judge the quality have no intrinsic relationship with product quality. For example, consumers who claim that one brand of soft drink is tastier than the other often fail in blind taste tests. According to Michael J. McCarthy, consumers often fail to differentiate among different cola drinks and actually base their preference on extrinsic cues such as advertising, pricing, packaging or even group pressure.

Consumers lacking actual experience with the product tend to judge the quality on the basis of extrinsic cues such as brand image, price, or even the country of origin, etc. Lacking previous purchase experiences may lead to an awareness that higher-quality products tend to cost more and high-price may become an indicator of higher quality and suspect the quality of low-priced products. In India a little over a decade ago "foreign" make meant superior quality. This tendency is still prevalent among a large number of middle and lower middle class consumers..

Kent B. Monroe and Susan B. Petroshius have summarised research findings to show how consumers react to price variable:

1. Consumers seemingly use price as an indicator of product quality as well as an indicator of purchase cost.
2. Consumers appear to develop reference prices as standards for evaluating prices they see in the marketplace.
3. Consumers' reference prices are not constant and get modified by shopping experiences. Their exposure to price higher or lower than reference price is likely to result in upward or downward movement of the reference price.
4. Consumers tend to develop a range of acceptable prices around the reference or standard price. Prices above or below the reference price are likely to be judged as unsuitable and may lead to decreased willingness to purchase the product.
5. Factors, such as brand image or store image, can soften the strength of the perceived price-quality relationship.
6. If the prices for different alternatives are perceived as similar, then price is unlikely to influence the choice between these alternatives.

Consumers' Risk Perception

Whenever consumers make decisions to purchase any new brands, there is an element of uncertainty about the consequences and a perception of risk is involved in most such purchases. Risk perception can be defined as 'the consumers' perceptions of uncertainty that they face when they are unable to foresee various consequences of their purchase decisions'. The relevant risk dimensions are the uncertainty and the consequences. It is worth noting that the influence of risk depends on individual's perception. This means that the risk actually may or may not exist and even if a real risk exists but is not perceived, it will not influence consumer behaviour.

Several situations may influence the consumer's perception of uncertainty or consequences. For example, there may be uncertainty regarding buying goals, uncertainty about alternatives, or uncertainty about perceived possible undesirable consequences.

Consumers may face several different types of risks in making purchase decisions. The major ones are:

- ***Financial or monetary risk*** is the risk that the product will not be worth its cost. Expensive products and services are most subject to this risk.
- ***Performance risk***, which is associated with the possibility that the product will not perform as anticipated or may even fail. The consumer wastes time in getting it repaired, or replaced. The risk is greatest when the product is technically complex. For example, an expensive computer.
- ***Physical risk*** refers to bodily harm to self and others due to product usage. For example, food and beverages, electrical or mechanical appliances, or medical services, etc., can

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sometimes prove risky. When cooking gas (LPG) was first introduced in India, consumers' physical risk perception about it was high. Similarly, some consumers consider the use of pressure cooker as risky.

- ***Social risk***, which means that a poor product purchase may not meet the standards of an important reference group and may result in social embarrassment. For example, clothes, jewellery, carpet, or car, etc.
- ***Psychological risk*** relates to loss of self-esteem or self-image as a result of poor choice and making her/him feel stupid. For example, high-involvement category products or services.

The degree of risk perception among consumers varies and depends upon the person, product, situation and the culture. Some consumers who are high-risk perceivers or risk avoiders, limit their product choices to a limited number of safe alternatives to avoid risking a poor selection. More often than not, they stay brand loyal to avoid risk. Consumers who are low-risk perceivers or risk takers tend to consider their choices from a wider range of available product alternatives. They are prepared to risk poor selection instead of not considering several alternatives from which they can make a selection. They are more likely to buy new products before they are well established. Risk takers are often higher-income consumers, having upward social mobility and show personality traits such as need for achievement, dominance and change.

How Consumers Deal with Risk?

Consumers use various strategies to deal with perceived risk. This helps them to act with more confidence in making purchase decisions. The strategies are designed either to increase certainty associated with product purchase or to minimise negative purchase consequences. Some of the strategies that consumers adopt to deal with risk are:

- Consumers acquire additional information. This allows them to better assess the risk.
- Consumers remain brand loyal. They stay loyal to a brand which has delivered satisfaction instead of buying an untried brand.
- Consumers buy most popular brand because they usually believe that well-known and popular brands can be trusted.
- Consumers buy the most expensive model or brand as they often associate price with quality.
- Consumers rely on store image. They trust reputable retail outlets and depend on them regarding their choice of merchandise for resale.
- Consumers seek money-back guarantees, warranties and pre-purchase trial. For example, a marketer offers free trial and "no questions asked" refund of money, or there are guarantees/warranties.
- Buy the smallest pack size, or lowest-priced item. In an attempt to reduce the consequences, consumers buy the smallest size or the lowest priced item.
- Reduce level of expectations to reduce psychological consequences before making the purchase.

Consumers' risk perception has some important implications for marketers. Risk avoiders are less likely to purchase new or innovative products compared to risk takers. Advertising should not only be informative, it must attempt to build brand image and be persuasive to develop brand loyalty among consumers. Guarantees, warranties, impartial test results, free samples and pre-purchase trials can also help consumers to minimise risk.

9.8 Modelling Consumer Behaviour: Objectives

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The objectives of modelling have mainly confined to the following:

1. ***Description of buying behaviour:*** Models with this objective focus upon the various constructs which play key roles in the buying process and behaviour. These constructs are highlighted through their locations in the schematic diagrams representing overall consumer behaviour. These models are like snapshots of the consumer behaviour. Thus, they are strong in representing the values that different variables of the model take. But, they are weak in explaining causality.

   One of the major use of such models is to communicate marketers visualization of his consumers to his audiences. Models prepared with this objective are also found to be convenient starting points for building more complex and higher objective models. Various market definition or consumer profile surveys provide the data sources for achieving these objectives. Through such surveys the demographic, socio-economic, psychographic and other buying stages related data can be provided. These data can portray the consumers in terms of their key dimensions as well as on overall basis. Thus, for example, one microwave oven marketing company can describe its consumers as aware but not yet sure about the utility of these ovens in their type of cooking. The company can also profile such customers along their other salient characteristics for marketing programmes. The company can, therefore, hypothesise about the likely causes of the poor sales among the target customers by identifying certain patterns in the data obtained through such descriptions of consumers. For becoming more sure or establishing causalities, the marketer shall have to approach modelling in alternative ways, as well.

2. ***Describing the consumer processes:*** This objective focuses upon the processes which take place in influencing the consumer behaviour rather than the state of consumers. Nicosia model (see later) is one of the examples which is built with such an objective. The objectives take the marketer one step closer to the causality models. They also help in linking various constructs and provide directions to these linkages within the models of consumer behaviour. Whenever these linkages are quantified the marketer gets even stronger handles to design the input mix for achieving the resultant consumer states.

3. ***Predictability and Control of Consumer behaviour:*** This is the ultimate objective of consumer behaviour modelling. It presupposes the data to describe the states of consumer behaviour as well as the relationships among them. Understandably, it is the hardest to achieve. For one reason, the knowledge base for achieving this objective depends upon the entire knowledge base in marketing and rest of other disciplines connected with the prediction of human behaviour. The state of knowledge in all such disciplines have not yet reached to a stage where they can attempt this task. In the marketing contexts, the variables involved are of micro nature like brand choice of a consumer, perception about a product or learned associations about a product category or brand or consumption occasions etc. While predicting such micro-level phenomena with the help of usual variables the accuracy suffers acutely.

Task Hailing from a middle class family you wish to buy a 100 c.c motorcycle. List out all the activities which precede before deciding on the specific Brand. Also, comment on the criteria for choosing the said brand in view of your economic status.

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9.9 Support of Basic Disciplines

The current model developments in the consumer behaviour can also be seen through the utilisation of the basic academic disciplines on which such models are mainly built. Economics, which gave the earliest conceptualisation of consumer behaviour, assumed consumer to be a rational economic entity. His choices were the focus of attention in' economics at micro as well as macro levels. The restrictive assumptions made in the discipline and the multitude of human factors encountered in the practice of marketing reduces the utility of this discipline somewhat in modelling consumer behaviour.

Psychology, with its focus on the why of human behaviour, has also contributed significantly to the knowledge and modelling attempts of consumer behaviour. Almost every consumer behaviour model uses; some psychological constructs. The understanding of these constructs and their relationships with other constructs are often borrowed from the mother discipline of psychology. The main problem with the psychological constructs had mainly been in the areas of their operationalisability in the context of marketing, weaker relationships encountered and exclusion of non-psychological variables. Sociology, similarly has also been used significantly in understanding the group phenomena of consumers (such as market segmentation) and different social processes among consumers (such as diffusion of innovations).

There are some disciplines whose roles are increasingly felt to be important by consumer behaviour modelers. We are discussing the roles of some such disciplines next:

1. ***Decision Sciences:*** Consumer choice or decision is one- of the most important areas of marketers interests. While economics and psychology (through cognitive psychology) have developed in this area, the emerging discipline of Decision Sciences focuses upon it, most directly. The advantages of this discipline in the area of consumer behaviour are many. (i) This helps in tracking the flow of consumer decision making process; (ii) it helps in sorting out the important attributes or features contributing to the decision; (iii) it helps in understanding tradeoffs among these key attributes and their levels employed in the minds of consumers. Another by product of utilising decision sciences paradigm in consumer behaviour is the availability of decision sciences methodologies to consumer behaviour.

2. ***Anthropology:*** The unique focus, which differentiates anthropology from rest of the disciplines, is "man-to-physical-world-interaction". Marketing, which is preoccupied with consumer-product interfaces should be a natural strong borrower from this discipline. Unfortunately, this has not happened, in the past. There are several reasons for this. Anthropology itself had been preoccupied with, much broader issues like impact of wheel on society or distribution of blood groups across population etc. For the reasons of making its studies more scientific- and isolating the extraneous variables from the main variable of interest, they had often set up their laboratories among the isolated tribals located in remote areas. Such things gave to anthropology an esoteric aura. However, there is a growing realisation, both among anthropologists and marketers, to cone closer and gain from the mutual interactions. Anthropologists, on their part, have started studying the phenomena which are commonplace in marketing and no longer overlook them as mundane or difficult to scientifically capture through their established methodologies. They are modifying their methodologies, searching for more managerially meaningful contexts to- collect the data and-work with their disciplines. Systems Dynamics and Simulation: System dynamics and simulation have been developed basically to model complex situations. The tools of these techniques are specially honed to handle large number of variable and their relationships. Consumer behaviour situations very closely

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fit these requirements. As a result, there is a growing appreciations and utilisation of system dynamics and simulation in consumer behaviour models. These disciplines are used for formulating, testing and refining the models.

Support of Analytic Techniques

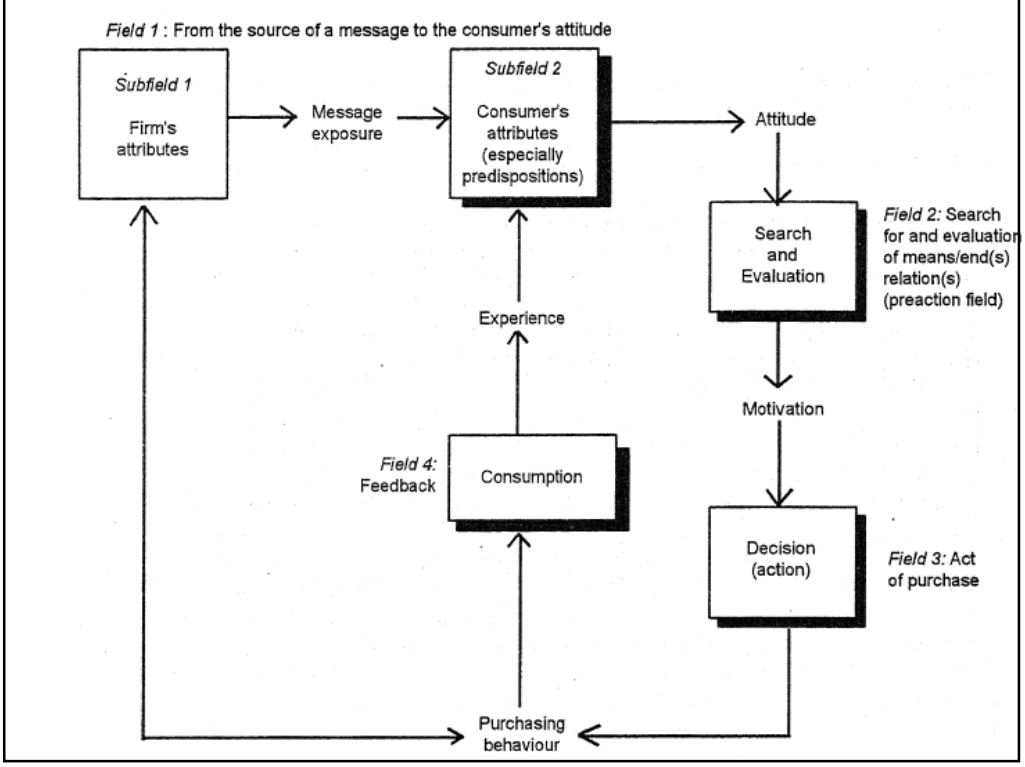
Consumer behaviour models – invariably – deal with a multiplicity of variables. For coping with this situation; current consumer behaviour models are using diverse analytical techniques. Most of these techniques were available in the literatures of mathematics, statistics and operations research. But, with the easy availability of sophisticated computing power, these techniques have started playing much greater roles recently. Thus, for example, stepwise regression analysis, correspondence analysis are very often used for identifying the salient variables and their relationships out of the observed data: Factor analysis and multidimensional scaling techniques are used for reducing data and drawing the essence from a large set of data. Very often consumers evaluation of different attributes and their relative trade-offs are important. Conjoint analysis has come as a handy tool for such purposes.

9.10 Some Recent Models

We shall now consider two of the recent models to illustrate the developments in consumer behaviour modelling.

Nicosia's Model of Consumer Decision Process

Figure 9.1: Abridged version of Nicosia Model of Consumer Decision Process



This model elaborates the decision making steps that the consumers adopt before buying goods or services. It is written in the format of a detailed computer flow chart. For ease of understanding

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the model can be simplified by grouping together its various elements into fields and subfields. (Figure 9.1). Various components of the model are connected through direct as well as feed back loops. Thus, the marketing organisation affects the target customers. The customers, in turn, through the effects of marketers action affect the next decisions of the marketer himself. This process goes on. The main fields and subfields of the model are as following:

(i) ***Marketer's Communication affecting consumers attitude:*** Here the marketing communications include not only mass media and personal communications but products, price and even distribution aspects, too. The exposure of these attributes affect consumer's attitudes as well as perceptions. These effects on consumers depend upon his personal characteristics (like values, personality and cumulative experiences). After processing the inputs from marketer, the consumer forms his attitudes as the inputs for the next field.

(ii) ***Consumer's search and evaluation:*** In this step consumer seeks more information and evaluates the relative merits of competing products' attributes.

(iii) ***Purchase action:*** This is the field 3 of the Nicosia model. Here, after getting motivated to buy the brand, the customer actually shops for the product. The choice of actual retailer does also take place here.

(iv) ***Consumption experience and feedback:*** After purchasing the product, the experience with its consumption can affect the consumers in many ways. The negative experience may block his future purchase and lower his attitude and evaluations of the product. The positive experience may motivate him further to be loyal to the product. In any case, the field provides significant feedback to the marketer. With this feedback, the marketer can suitably modify the next cycle's marketing inputs.

Nicosia's model may appear to be simple and obvious at the first glance. But its value lies in the integration of the body of knowledge in the area of consumer behaviour existing till its time of formulation.

Task In a social gathering you had a chance to taste liquor for the first time in your life and enjoyed it to the maximum. Describe the impact of the experience and the attitude Rewards liquor.

9.11 Bettman's Information Processing Model of Consumer Choice

In this model the consumer is seen in the center of a host of information processing activities. The consumer is the recipient of a large amount of information from the marketer, competitors and rest of the environment. He has his own database built over time from his experiences, personality and set of values. The model believes that the consumers use certain simplifying strategies.

This model is also built around several flowcharts. (Figure 9.2). These flowcharts describe the components and interconnections among themselves that are involved in the decision process. The main components of the model are:

(i) ***Processing Capacity:*** Each individual has a limited capacity to process information. This capacity can vary across individuals to some extent. But, its limits across all individuals are severally restrictive. Consumers try to bypass these limits by ignoring certain information, priortising information in use or using rules of thumb.

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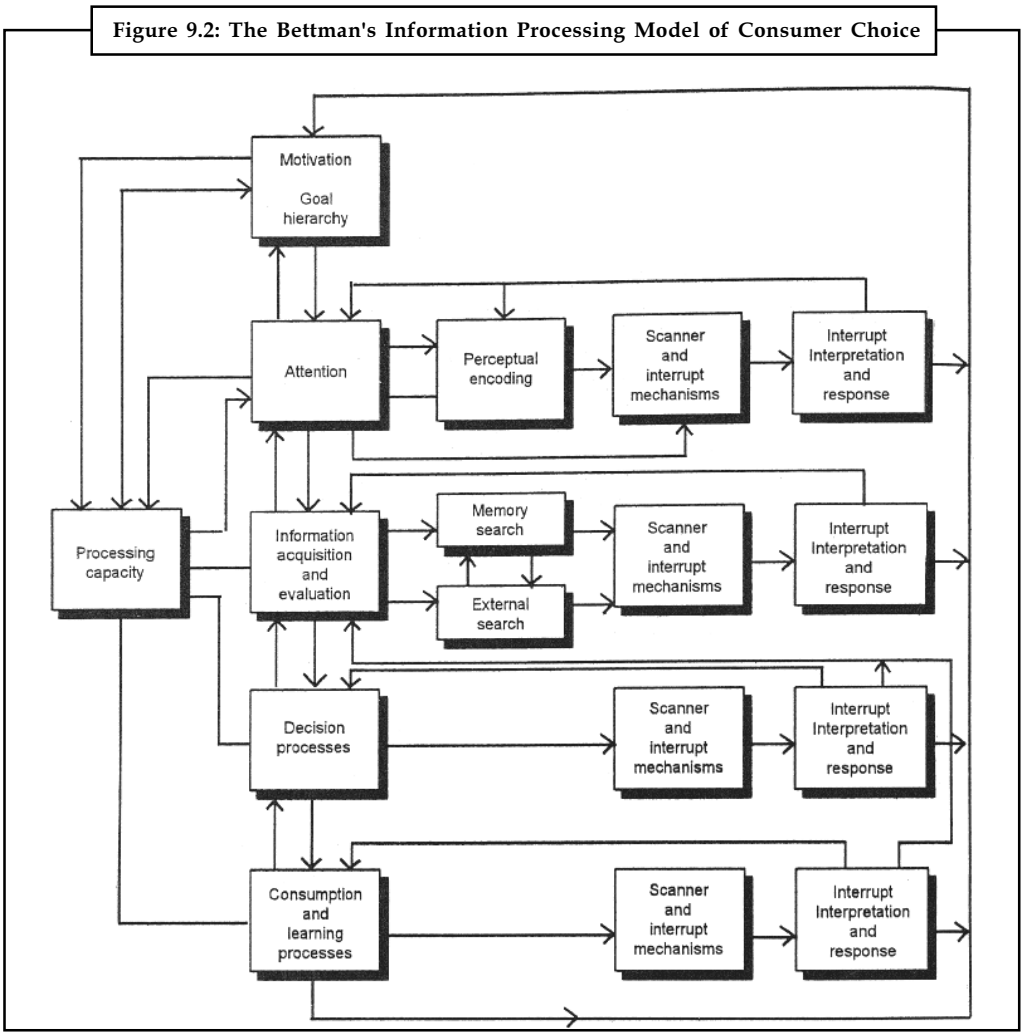
(ii) ***Motivation:*** Motivation provides the intensity and direction for the choice process to the consumer in this model. This acts as the superiding component and controls the continuation and suspension of various processes in the model like attention and scanning etc.

(iii) ***Attention and Perceptual Encoding:*** This model divides attention into voluntary and involuntary ion. The voluntary attention is the conscious attention seeking to achieve hierarchy of goals set by consumer for himself. The involuntary attention is triggered when the consumers have to resolve between the conflicting information received for processing before deciding whether to process information through voluntary attention.

Figure 9.2: The Bettman's Information Processing Model of Consumer Choice



The perceptual encoding helps the consumer in integrating the acquired information to his perceptual network. It also helps the consumer in deciding how and how much to process the information received from the marketer.

(iv) ***Information Acquisition and Evaluation:*** Within the scope of heuristics, the consumer also decides about the nature and amount of information that would be necessary and sufficient for decision making. If the available information is found to be insufficient but necessary, he goes for acquiring further information through external search. This new information is again evaluated in the light of decision at hand. This process continues till the consumer is satisfied with the balance achieved between the utility of information and the sacrifices required to acquire them.

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(v) ***Memory:*** Consumer memory comprises of short term memory and long term memory. In the short term memory the acquired information is stored for less than two minutes. The consumer evaluates the impinging stimuli and decides whether the information is worth transferring to long term memory or may be forgotten. If it goes to long term memory, it is stored for ever.

Memory is the resource for the internal search for information. Only when it is found to be insufficient the external search is carried on.

(vi) ***Decision Process:*** The ultimate decision of the brand is preceded by various sub-decisions about various aspects using rules of thumb or other methods of decision making. These decision processes work on the acquired and evaluated information as well as the perceptions of the consumer. The situational factors (like time pressure, moods and company of other individuals etc.) do also influence these decision processes.

(vii) ***Consumption and Learning Processes:*** The experience gained through the consumption of products as well as the process of decision making are stored by the consumers. These learnings affect not only the memory for the next cycle of decision making but also affects the future heuristics for consumer decision making.

(viii) ***Scanner and Interrupt Mechanisms:*** These are like the information switches of the consumers. Whenever the consumer decides that he does not have sufficient information for decision making internally, he scans the environment for acquiring the necessary information. On the other hand, whenever he finds that he has sufficient information or acquiring more information is not worth the decision at stake, he shall interrupt the information search process.

The Bettman's consumer behaviour model focusses entirely on the information processing. The research attempts to validate it are also focussing upon the information handling by consumers. Consumers are encouraged to share the protocol that they mentally go through, while taking decisions. These methods are rich in providing consumer insights but difficult to administer practically.

Task You are planning to buy your first car though you have been using the official vehicle for a long time. How does your search of information get affected by (a) Memory (b) Motivation (c) Attention (d) Processing capacity.

Self Assessment

Fill in the blanks:

10. The degree of ……. perception among consumers varies and depends upon the person, product, situation and the culture.

11. …….. risk, is associated with the possibility that the product will not perform as anticipated or may even fail.

12. Consumers lacking actual experience with the product tend to judge the quality on the basis of extrinsic ……. such as brand image, price, or even the country of origin, etc.

13. …….. interpretation refers to assigning of meaning to sensations. Individuals, in their own unique manner, interpret the stimuli.

Notes

14. A consumer's selection of stimuli from the environment depends on the outcome of interaction between ……, motives and stimulus factors.

15. …….. refers to the lowest level at which an individual can experience a sensation.

9.12 Summary

- Scholars and researchers have identified four major psychological factors – motivation, perception, learning and, beliefs and attitudes that influence consumers' buying behaviour.
- Motivation is said to be the driving force within individuals produced by a state of tension caused by unfulfilled needs, and wants.
- Need has been defined as a ***felt state of deprivation of some basic satisfaction.*** The point is that this deprivation has to be felt to drive the individual to seek satisfaction.
- Some of these needs are basic to sustaining life and are born with individuals. These basic needs are also called ***physiological needs*** or ***biogenic needs*** and include the needs for air, water, food, shelter, sleep, clothing, and sex. Physiological needs are ***primary needs*** or motives because they are essential to survival.
- Human behaviour is goal oriented. Marketers are particularly interested in consumers' goal-oriented behaviour that concerns product, service or brand choice.
- Motivational intensity represents how strongly individuals are motivated to satisfy a particular need. Sometimes the need to satisfy a particular motive may be very strong and at other times the intensity may be only modest. Failure to achieve a goal often gives rise to feelings of frustration. Probably there is nobody who has not experienced frustration that comes from the inability to achieve some goal. Individuals react differently to frustration. Some are adaptive and find a way to circumvent the barrier while some others choose a substitute goal if modified efforts fail.
- For many years, psychologists and others have attempted to develop a comprehensive list of motives. Most authorities agree about specific physiological needs but there is marked disagreement about specific psychogenic or secondary needs. Information processing involves a series of activities by which stimuli are recognised, perceived, transformed into meaningful information and stored in memory (short-term or long-term).
- Reality to an individual is that individual's perception**,** a personal phenomenon, on the basis of which the individual acts or reacts and not on the basis of objective reality. For this reason, marketers are particularly interested in consumers' perceptions than their knowledge of objective reality.
- Different individuals may be exposed to the same stimuli under the same conditions but how each individual recognises the stimuli, selects them, organises them and interprets them is unique in case of each person and depends on his needs, wants, values, beliefs, personal experiences, moods and expectations. Perception is also influenced by the characteristics of the stimuli, such as size, colour and intensity, etc., and the context in which it is seen or heard.
- All the selected stimuli from the environment are not experienced as separate and discrete sensations. Individuals tend to organise these sensations into a coherent pattern and perceive them as unified wholes. The specific principles underlying perceptual organisation are sometimes referred as Gestalt psychology.

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9.13 Keywords

Absolute threshold: It refers to the lowest level at which an individual can experience a sensation.

Acquired needs: These are learnt needs that we acquire as a result of being brought up in a culture and society.

Hedonic needs: These relate to achieving pleasure from the consumption of a product or service and are often associated with emotions or fantasies.

Motivational intensity: It represents how strongly individuals are motivated to satisfy a particular need.

Need: It has been defined as a felt state of deprivation of some basic satisfaction.

Perception: The process by which an individual selects, organises and interprets stimuli into a meaningful and coherent picture of the world.

Physiological needs: These are primary needs or motives because they are essential to survival.

Utilitarian needs: These focus on some practical benefits and are identified with product attributes that define product performance such as economy or durability.

9.14 Review Questions

1. What is the utility of consumer behaviour models to a marketer? Explain with reference to marketing application in case of:
   (a) An entertainment service
   (b) A marketer of office equipment
   (c) A marketer of luxury cars.
2. Comment upon the uses of consumer models.
3. How have the basic disciplines of psychology and anthropology helped in developing consumer models? Take examples from your own decisions to explain the aspects which are explained by psychological variables.
4. Briefly describe the scanner and interrupt mechanisms in the Bettman model. How would these operate if you are planning to:
   (a) Replenish your supply of toothpaste
   (b) Buy a new carpet for your living room.

Answers: Self Assessment

1.	Biological	2.	Psychogenic
3.	Approach-Approach	4.	Ego
5.	conspicuous consumption	6.	in-depth
7.	autism	8.	survival
9.	Motivation	10.	Risk
11.	Performance	12.	Cues

13. Perceptual
14. Expectations
15. Absolute threshold

Notes

9.15 Further Readings

Books

Ernest R. Cadotte, Robert B. Woodruff and Roger L. Jenkins, *Expectation and Norms in the Models of Consumer Satisfaction*. Journal of Marketing Research, Aug. 1987.

Rohit Deshpande and ayne D. Hoyer, *Consumer Decision Making : Strategies, Cognitive Effort and Perceived Risk* in ANA Educators Proceedings, 1983.

Online links

http://smallbusiness.chron.com/perception-motivation-organizational-behavior-13609.html \

http://anzmac.info/conference/2010/pdf/anzmac10Final00463.pdf

Notes

Unit 10: Logistics and Distribution

CONTENTS

Objectives

After studying this unit, you will be able to:

- Discuss the Concept of Logistics Management
- Explain the Distribution Process
- Discuss the Stages of Distribution
- Describe the Trends in Supply Chain Management

Introduction

Logistics has always been a central and essential feature of all economic activities. The concept of logistics as an integrative activity in business has developed within the last twenty years. Logistics management is a process of strategically managing the movement and storage of materials, parts and finished inventory from supplier through the firm and on to customers.

Logistics is thus concerned with the management of physical distribution of material. It begins from sources of supply and ends at the point of consumption. It is, therefore, much wider in its reach than simply a concern with the movement of finished goods – a commonly held view of physical distribution. Logistics deals with all activities that facilitate product flow from the point of raw material acquisition to the point of final consumption as well as the information flow that set the production in motion for the purpose of providing adequate levels of customer service at a reasonable cost. Logistics management involves two issues namely, movement of raw materials to the plant known as physical supply or material management and second, flow of finished products from the plant to the customers, known as physical distribution. Logistics management activities can be grouped as primary and secondary activities. We present a list in the following Table 10.1.

Notes

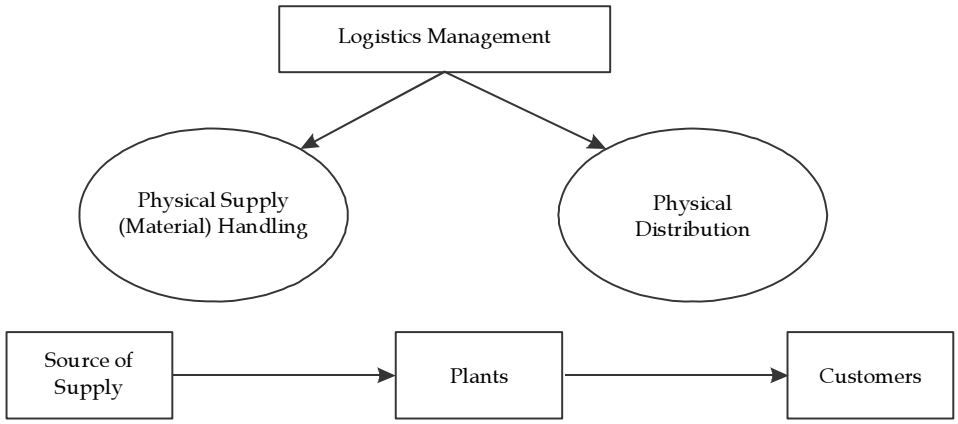
Table 10.1: List of Activities

Primary Activities	Secondary Activities
1. Transportation	5. Product Packaging
2. Warehousing	6. Product Handling
3. Order Processing	7. Acquisition
4. Inventory Maintenance	8. Product Scheduling
	9. Information Maintenance

Physical distribution is the process of making the end product reach the customers and it encompasses all the activities in the physical flow of products from producer to customer. The output of the logistics system is customer service, and how efficiently it is delivered is the standard against which physical distribution systems are measured. To provide the appropriate level of customer service, physical distribution managers must make decisions concerning warehousing, inventory management and control and transportation system.

Did u know? Management of logistics involves planning, implementing and controlling the physical flow of materials and final (finished) goods from point of origin to the point of use, to meet customer requirements at a profit.

Figure 10.1: Components of Logistics Management



10.1 The Concept of Logistics Management

The logistics concept is based on a total system view of the material and goods flow activity from the source of supply to the final point of consumption. It recognizes the interconnections and interrelationships between the multitude of functions involved in this movement from source to final users and in doing so forces management to think in terms of an integrated system rather than managing by parts. The logistics management task is concerned with the integration and coordination of marketing activities in a way that end customers are served in the most effective way and with a profit for the organization. Although managers have used logistics in the military to fine-tune the process of delivery that is time and location specific, there is a lag in the incorporation of military logistics requirements in the business sector.

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Notes Traditionally, when the term logistics is used, the purpose is to reduce the transportation cost by adding warehousing information system.

Role of Logistics in Production and Sales

Logistics management system plays a significant role in the production and sales process of an organization. It also serves as a profit center. It helps in collecting customer information, developing transportation schedules and helps in making a shift from mass production to batch production to take care of demands of different segments. Logistics is the management function that controls all departments, but is not a sub-system that connects every department. The manufacturer can supply or distribute any kind of goods in any place under a good logistics system. There is a growing importance of logistics management due to increase in competition, entry of newer methods of distribution and storage and increasing cost of distribution.

Caution Emergence of customer service as an important factor for customer satisfaction has made companies spend millions of rupees in upgrading their logistics and distribution management system, by adopting newer methods and technologies.

Types of Logistics

There are different kinds of logistics systems or subsystems used in organizations. They can be classified as supplier logistics, organizational or corporate logistics and customer logistics. The supplier logistics takes care of the flow of supplies and raw materials from vendor to the company; the corporate logistics takes care of the flow of goods to the customer point whereas customer logistics takes care of how customers handle the product from company's source to his consumption point.

Supplier Logistics

As explained above, the key issue in supplier logistics is to buy the right things. This needs to address two critical issues i.e. supplier evaluation and ordering of the final product. The manager should be able to evaluate the quality of the supplier, prior to issuing purchase orders and he should be able to clearly describe the products to be ordered in order to make sure that the supplier knows exactly what the firm wants. For physical distribution management, the product transportation and delivery services have to be evaluated. The company may procure transportation and product storage services from the supplier. The suppliers should be evaluated on their capability to provide required services of acceptable quality level. The marketing manager should ask the following questions while evaluating the supplier logistics system:

- Do they have sufficient and reliable equipment?
- Do they have enough resources including manpower, storage space, etc.?
- Are their resources and equipment well managed?
- Do they have the system to allocate their resources?

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While placing an order with the supplier, one should make sure that he has included desired date, time and routing of the required transportation service and has mentioned about required storage conditions of the merchandise.

Production/Corporate Logistics

To cater to growing market needs, the company needs to establish a new production system for logistics as well as modified production systems to accomplish the true 'real time sales' system. For this, a new revolutionary production project team should be formed whose sole purpose is to establish a 'production, sales and logistics total linkage system' that will eventually eliminate overstock and shortage problems. This kind of a production system is called Market Linkage Production System (MLPS). The benefits of using the MLPS are illustrated in the following figure.

Figure 10.2: Benefits of using the MLPS

Current Scenario	Modified Scenario After MLPS Application
1. The time period spend on establishing sales and production plans is too long. The longer it gets, the accuracy of such plans is reduced. In a constantly changing market, it is inevitable to adjust or modify plans. 2. Too many departments are involved in approving a 'production/supply plan'. These departments are the sales, the product marketing, the product management and purchasing departments. Such successive operations from one department to another require a long period of time and also there is no consistency in transferring of all information. 3. There is a low level of utilization of information systems in formulating all plans. All the necessary data from production and purchase plans are not generated by the information systems but are maintained manually. Real time sale system cannot be achieved under current system, due to rapid changes of various production plans within a company as well as within other companies such as suppliers or vendors.	1. In order to produce and supply the actual market demand, it is very crucial to establish a logistic system closely linked with the market trends. It is imperative to develop the information that will enable the production/supply system to cope with market variations. MLPS consists of 'Replenishment Production System'. This supports the production and the 'Purchase Support System', which aids the ordering of parts and materials as sub-system. 2. The task force team should execute all project operations. The corporate logistics management department supports directing each phase of operation and developing and designing of the system. The task force team should be led by the Logistics Management Department's Logistics Information System (LIS) team leader and should consist of members from various departments, such as production, logistics, purchasing, corporate logistics management and information systems. 3. All team members should follow their role in executing their top responsibilities.

Customer Logistics

Customer logistic involves a seven 'R' framework namely, it should be a process of *right quantity* of the *right product* or service to the *right place* in the *right conditions* at the *right cost* and at the *right time* with the *right impression*. If these seven aspects are taken care of, customer logistics process will be able to create higher levels of customer satisfaction. It will also show that the company is concerned about the customers and their logistics requirements. The focus of customer logistics should be on speedy and timely delivery, shorter lead time, safety of goods and users and lowering of distribution costs. The objective of this process should be to achieve on time delivery and realize higher customer satisfaction by implementing a flexible and swift customer logistics system.

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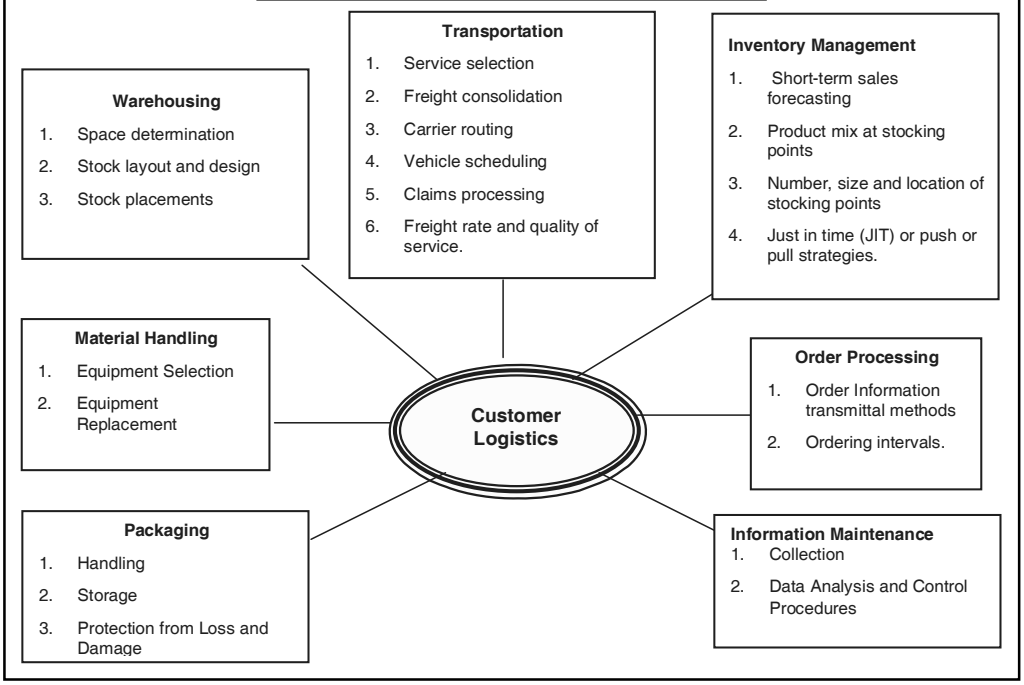
The following Figure 10.3 shows components of customer logistics system.

Figure 10.3: Customer Logistics



Self Assessment

Fill in the blanks:

1. Customer logistic involves a seven ….....……. framework.
2. Final inspection and testing are usually performed before ……. the product to the customer.
3. …… system consists of a single resource plan, ordering and payment system that makes it possible to work successfully.
4. ……. analyses the trends of all outgoing shipments from distribution centers to all dealers and of inventory movements at factory warehouse.
5. The …… concept is based on a total system view of the material and goods flow activity from the source of supply to the final point of consumption.

10.2 Distribution Process

Physical distribution activities have recently received increasing attention from business managers, including small business owners. This is due in large part to the fact that these functions often represent almost half of the total marketing costs of a product. In fact, research studies indicate that physical distribution costs nationally amount to approximately 20 percent of the country's total Gross National Product (GNP). These findings have led many small businesses to expand their cost-cutting efforts beyond their historical focus on production to encompass physical distribution activities. The importance of physical distribution is also based

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on its relevance to customer satisfaction. By storing goods in convenient locations for shipment to wholesalers and retailers, and by creating fast, reliable means of moving the goods, small business owners can help assure continued success in a rapidly changing, competitive global market.

Today firms are giving greater emphasis on logistics for a number of reasons. *First,* efficient distribution through effective logistics contributes in earning customer service and satisfaction which is the prime goal of many firms. Better distribution attracts new customers; poor distribution brings in the opposite results. *Second,* logistics is a major cost element for most firms. So, they always try to keep it at a minimum level through .sound distribution system. Raising the level of physical distribution efficiency can result in cost savings for both the firm and its customers. *Third* tremendous expansion in product variety has increased the need and importance of improved logistics management. Ordering, shipping, stocking, and controlling a wide variety of products offers a big logistics challenge.

Finally, advancement in information technology is being utilized for gaining distribution efficiency. The increased use of computers, point-of-sale scanners, uniform product codes, satellite tracking, electronic data interchange, and electronic funds transfer has enabled firms to build more efficient systems for order processing, inventory control and handling, and transportation routing and scheduling.

10.3 The Stages of Distribution

A typical channel of distribution consist of

1. Manufacturer
   ↓
2. Wholesaler
   ↓
3. Retailer
   ↓
4. Final Consumer

A channel of distribution or trade channel is defined as the path or route along which goods move from producers or manufacturers to ultimate consumers or industrial users. In other words, it is a distribution network through which producer puts his products in the market and passes it to the actual users. This channel consists of: producers, consumers or users and the various middlemen like wholesalers, selling agents and retailers(dealers) who intervene between the producers and consumers. Therefore, the channel serves to bridge the gap between the point of production and the point of consumption thereby creating time, place and possession utilities.

A channel of distribution consists of three types of flows:

- Downward flow of goods from producers to consumers
- Upward flow of cash payments for goods from consumers to producers
- Flow of marketing information in both downward and upward direction i.e. Flow of information on new products, new uses of existing products, etc. from producers to consumers. And flow of information in the form of feedback on the wants, suggestions, complaints, etc. from consumers/users to producers.

An entrepreneur has a number of alternative channels available to him for distributing his products. These channels vary in the number and types of middlemen involved. Some channels are short and directly link producers with customers. Whereas other channels are long and

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indirectly link the two through one or more middlemen. These channels of distribution are broadly divided into four types:

- ***Producer-Customer:*** This is the simplest and shortest channel in which no middlemen is involved and producers directly sell their products to the consumers. It is fast and economical channel of distribution. Under it, the producer or entrepreneur performs all the marketing activities himself and has full control over distribution. A producer may sell directly to consumers through door-to-door salesmen, direct mail or through his own retail stores. Big firms adopt this channel to cut distribution costs and to sell industrial products of high value. Small producers and producers of perishable commodities also sell directly to local consumers.
- ***Producer-Retailer-Customer:*** This channel of distribution involves only one middlemen called 'retailer'. Under it, the producer sells his product to big retailers (or retailers who buy goods in large quantities) who in turn sell to the ultimate consumers. This channel relieves the manufacturer from burden of selling the goods himself and at the same time gives him control over the process of distribution. This is often suited for distribution of consumer durables and products of high value.
- ***Producer-Wholesaler-Retailer-Customer:*** This is the most common and traditional channel of distribution. Under it, two middlemen i.e. wholesalers and retailers are involved. Here, the producer sells his product to wholesalers, who in turn sell it to retailers. And retailers finally sell the product to the ultimate consumers. This channel is suitable for the producers having limited finance, narrow product line and who needed expert services and promotional support of wholesalers. This is mostly used for the products with widely scattered market.
- ***Producer-Agent-Wholesaler-Retailer-Customer:*** This is the longest channel of distribution in which three middlemen are involved. This is used when the producer wants to be fully relieved of the problem of distribution and thus hands over his entire output to the selling agents. The agents distribute the product among a few wholesalers. Each wholesaler distribute the product among a number of retailers who finally sell it to the ultimate consumers. This channel is suitable for wider distribution of various industrial products.

An entrepreneur has to choose a suitable channel of distribution for his product such that the channel chosen is flexible, effective and consistent with the declared marketing policies and programmes of the firm. While selecting a distribution channel, the entrepreneur should compare the costs, sales volume and profits expected from alternative channels of distribution and take into account the following factors:

- ***Product Consideration:*** The type and the nature of products manufactured is one of the important elements in choosing the distribution channel. The major product related factors are:
  - Products of low unit value and of common use are generally sold through middlemen whereas, expensive consumer goods and industrial products are sold directly by the producer himself.
  - Perishable products; products subjected to frequent changes in fashion or style as well as heavy and bulky products follow relatively shorter routes and are generally distributed directly to minimise costs.
  - Industrial products requiring demonstration, installation and aftersale service are often sold directly to the consumers; while the consumer products of technical nature are generally sold through retailers.

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- An entrepreneur producing a wide range of products may find it economical to set up his own retail outlets and sell directly to the consumers. On the other hand, firms producing a narrow range of products may their products distribute through wholesalers and retailers.
- A new product needs greater promotional efforts in the initial stages and hence few middlemen may be required.

- ***Market Consideration:*** Another important factor influencing the choice of distribution channel is the nature of the target market. Some of the important features in this respect are:
  - If the market for the product is meant for industrial users, the channel of distribution will not need any middlemen because they buy the product in large quantities. While in the case of the goods meant for domestic consumers, middlemen may have to be involved.
  - If the number of prospective customers is small or the market for the product is geographically located in a limited area, direct selling is more suitable. While in case of a large number of potential customers, use of middlemen becomes necessary.
  - If the customers place order for the product in big lots, direct selling is preferred. But if the product is sold in small quantities, middlemen are used to distribute such products.
- ***Other Considerations:*** There are several other factors that an entrepreneur must take into account while choosing a distribution channel. Some of these are as follows:
  - A new business firm may need to involve one or more middlemen in order to promote its product, while a well established firm with a good market standing may sell its product directly to the consumers.
  - A small firm which cannot invest in setting up its own distribution network has to depend on middlemen for selling its product. On the other hand, a large firm can establish its own retail outlets.
  - The distribution costs of each channel is also an important factor because it affects the price of the final product. Generally, a less expensive channel is preferred. But sometimes, a channel which is more convenient to the customers is preferred even if it is more expensive.
  - If the demand for the product is high, more number of channels may be used to profitably distribute the product to maximum number of customers. But, if the demand is low only a few channels would be sufficient.
  - The nature and the type of the middlemen required by the firm and its availability also affects the choice of the distribution channel. A company prefers a middlemen who can maximise the volume of sales of their product and also offers other services like storage, promotion as well as aftersale services. When the desired type of middlemen are not available, the manufacturer will have to establish his own distribution network.

All these factors or considerations affecting the choice of a distribution channel are interrelated and interdependent.

Caution An entrepreneur must choose the most efficient and cost effective channel of distribution by taking into account all these factors as a whole in the light of the prevailing economic conditions. Such a decision is very important for a business to sustain long term profitability.

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Retailing Functions in distribution

- Manufacturers, wholesalers and others are informed about sales forecast, delivery delays, customer complaints, defective items, inventory turnover, etc. by the retailer
- Retailers also complete transaction with customers.
- Retailers also provide customer services gift wraping, delivery and installation.
- For these reasons goods and services are sold via retail firms not owned by manufactures. This let the manufacturer (wholesale) reach more customers, reduce cost, increase sales more rapidly.

Benefits of Intermediaries in Channels of Distribution

If selling from the manufacturer to the consumer were always the most efficient way, there would be no need for channels of distribution. Intermediaries, however, provide several benefits to both manufacturers and consumers: improved efficiency, a better assortment of products, routinization of transactions, and easier searching for goods as well as customers.

The improved efficiency that results from adding intermediaries in the channels of distribution can easily be grasped with the help of a few examples. In the first example there are 5 manufacturers and 20 retailers. If each manufacturer sells directly to each retailer, there are 100 contact lines—one line from each manufacturer to each retailer. The complexity of this distribution arrangement can be reduced by adding wholesalers as intermediaries between manufacturers and retailers. If a single wholesaler serves as the intermediary, the number of contacts is reduced from 100 to 25—5 contact lines between the manufacturers and the wholesaler, and 20 contact lines between the wholesaler and the retailers. Reducing the number of necessary contacts brings more efficiency into the distribution system by eliminating duplicate efforts in ordering, processing, shipping, etc.

In terms of efficiency there is an effect of diminishing returns as more intermediaries are added to the channels of distribution. If, in the example above, there were 3 wholesalers instead of only 1, the number of essential contacts increases to 75: 15 contacts between 5 manufacturers and three wholesalers, plus 60 contacts between 3 wholesalers and 20 retailers. Of course this example assumes that each retailer would order from each wholesaler and that each manufacturer would supply each wholesaler. In fact geographic and other constraints might eliminate some lines of contact, making the channels of distribution more efficient.

Intermediaries provide a second benefit by bridging the gap between the assortment of goods and services generated by producers and those in demand from consumers. Manufacturers typically produce many similar products, while consumers want small quantities of many different products. In order to smooth the flow of goods and services, intermediaries perform such functions as sorting, accumulation, allocation, and creating assortments. In sorting, intermediaries take a supply of different items and sort them into similar groupings, as exemplified by graded agricultural products. Accumulation means that intermediaries bring together items from a number of different sources to create a larger supply for their customers. Intermediaries allocate products by breaking down a homogeneous supply into smaller units for resale. Finally, they build up an assortment of products to give their customers a wider selection.

A third benefit provided by intermediaries is that they help reduce the cost of distribution by making transactions routine. Exchange relationships can be standardized in terms of lot size, frequency of delivery and payment, and communications. Seller and buyer no longer have to bargain over every transaction. As transactions become more routine, the costs associated with those transactions are reduced.

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The use of intermediaries also aids the search processes of both buyers and sellers. Producers are searching to determine their customers' needs, while customers are searching for certain products and services. A degree of uncertainty in both search processes can be reduced by using channels of distribution. For example, consumers are more likely to find what they are looking for when they shop at wholesale or retail institutions organized by separate lines of trade, such as grocery, hardware, and clothing stores. In addition producers can make some of their commonly used products more widely available by placing them in many different retail outlets, so that consumers are more likely to find them at the right time.

What Flows Through the Channels of Distribution

Members of channels of distribution typically buy, sell, and transfer title to goods. There are, however, many other flows between channel members in addition to physical possession and ownership of goods. These include promotion flows, negotiation flows, financing, assuming risk, ordering, and payment. In some cases the flow is in one direction, from the manufacturer to the consumer. Physical possession, ownership, and promotion flow in one direction through the channels of distribution from the manufacturer to the consumer. In other cases there is a two-way flow. Negotiations, financing, and the assumption of risk flow in both directions between the manufacturer and the consumer. Ordering and payment are channel flows that go in one direction, from the consumer to the manufacturer.

There are also a number of support functions that help channel members perform their distribution tasks. Transportation, storage, insurance, financing, and advertising are tasks that can be performed by facilitating agencies that may or may not be considered part of the marketing channel. From a channel management point of view, it may be more effective to consider only those institutions and agencies that are involved in the transfer of title as channel members. The other agencies involved in supporting tasks can then be described as an ancillary or support structure. The rationale for separating these two types of organizations is that they each require different types of management decisions and have different levels of involvement in channel membership.

Effective management of the channels of distribution involves forging better relationships among channel members. With respect to the task of distribution, all of the channel members are interdependent. Relationships between channel members can be influenced by how the channels are structured. Improved performance of the overall distribution system is achieved through managing such variables as channel structure and channel flows.

10.4 Benefits of Supply Chain Management

Supply chain management is concerned with managing the flow of physical goods and associated information from initial sourcing to consumption. One benchmarking study showed that best-practice supply chain management companies enjoyed a 45 percent total supply chain cost advantage over their median competitors. Bottom-line benefits included: (1) reduced costs relating to inventory management, transportation, and warehousing; (2) improved service using techniques such as time-based delivery; and (3) enhanced revenues through greater product availability and more customized products.

Some companies contract out the task of supply chain management to a specialized service firm. The supply chain management firm typically provides vertical market expertise, transaction processing capabilities, and business consulting services, allowing the company to focus on its core competencies. In addition to reducing costs, effective supply chain management can result in enhanced supplier relations and greater customer satisfaction through timely deliveries and accurate responses to customer inquiries.

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Self Assessment

Fill in the blanks:

6. A channel of …… is defined as the path or route along which goods move from producers or manufacturers to ultimate consumers or industrial users.
7. …….. is fast and economical channel of distribution. Under it, the producer or entrepreneur performs all the marketing activities himself and has full control over distribution.
8. …….. is the longest channel of distribution in which three middlemen are involved.
9. If the customers place order for the product in big lots, …… selling is preferred.
10. Effective …… can result in enhanced supplier relations and greater customer satisfaction through timely deliveries and accurate responses to customer inquiries.
11. …… between channel members can be influenced by how the channels are structured.
12. Improved performance of the overall distribution system is achieved through managing variables as channel structure and channel ……..

10.5 Trend towards Consolidation of Distribution Channels

In some industries there has been a noticeable trend toward consolidation of distribution channels. Through mergers and acquisitions some companies have achieved ownership of two or more channels of distribution, as when a distributor or wholesaler acquires a retailer. As a result of this type of consolidation, channel members who are closest to the consumer, such as retailers, have acquired more control. Historically, it was the manufacturer who invented and controlled the channels of distribution. Now, end-user dominated channels are replacing those invented and controlled by the manufacturer. One example has been the explosion of discount outlet malls, which obtain high-image products directly from manufacturers and sell them at a discount.

Manufacturers have countered that trend by opening historically closed channels of distribution. That has made the lines of distinction between manufacturers, retailers, and direct-to-consumer sellers less clear. Manufacturers such as Apple Computer and Nike have opened their own retail outlets, thus blurring the line that once separated manufacturers from retailers. The distinction between retailers and direct-to-consumer sellers, or catalogers, has also become blurred as companies such as Eddie Bauer, Spiegel, and Victoria's Secret build one brand across both channels. In addition, some catalog companies such as J. Crew and Lands' End have opened retail outlets. The overall result is that there are new channel options for marketers to consider.

10.6 Trends in Supply Chain Management

There are six key trends causing significant impact and change to supply chain design and performance:

Trend 1 – Demand Planning Sets the Tone: As sources and capacities for manufacturing have increased, more companies have moved away from focusing efforts on plant-level production planning and are adopting more of a demand-driven focus of trying to influence and manage demand more efficiently. Rationalizing what you are best at selling, making and delivering, and aligning the sales force with that mindset, is critical to adopting a demand-driven model.

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The demand-driven approach can help a company create a more customer-focused mindset, without sacrificing operational efficiency. Ultimately a demand-focused approach to planning can significantly improve demand planning and management efforts and help overall costs and customer service efforts.

Notes Advanced demand planning systems and proper strategies can also help uncover data and identify trends buried in a company's information systems.

Trend 2 – Globalization: The business landscape is rapidly becoming more global. Largely due to improvements in communications, globalization is dramatically impacting the way business is managed and transacted, even on the most local levels. No area of a business is affected more by the trend to a global business environment than the supply chain. Manufacturing, distribution, sourcing of materials, invoicing and returns have all been significantly impacted by the increased integration of a global customer and supplier base, and many companies find that existing processes and technology are not flexible enough for this new business environment. For example, historically, many companies have brought in container shipments from Asia Pacific through the ports in southern California. As the volume of container shipments has increased, all of these ports have experienced capacity issues relating to customs clearance and transshipping. As a result, some companies are contemplating rerouting these inbound shipments to alternate ports. This change may seem subtle, but a shift in logistics of this magnitude has far-reaching effects on the overall cost and efficiency of the supply chain network. Dynamically repositioning the point of entry for inbound container shipments can have a positive impact on customs clearance times and access to increased transportation capacity, however there can be a negative impact as well. Better understanding the total landed cost and service implications of alternate ports of entry can help improve supply chain costs and performance.

The right Supply Chain Design is critical to managing the changes brought about by rapid globalization. A well thought-out Supply Chain Network Design can optimize the network and the flow of materials through the network. In doing so, network design captures the costs of the supply chain with a "total landed cost" perspective, and applies advanced mathematical technology to determine optimal answers to both strategic and tactical questions.

Trend 3 – Increased Competition and Price Pressures: Historically, price, product features and brand recognition were enough to differentiate many products in the marketplace. With the continued commoditization of many products, companies need better ways to distinguish themselves. In one case, a large global consumer goods manufacturer saw prices around some of its commodity products drop as much as 60-80 percent. Product innovation and brand equity no longer were allowing them to command a higher price in the market. In order to continue to compete with that commoditized product they made significant cost improvements with supply chain redesign and technology.

Did u know? Companies are looking to their supply chains in two ways to help offset this trend. First, they are looking at ways to reduce cost and are creating a more efficient value chain to remain cost competitive. Second, companies are looking at ways they can provide value-added services to meet the demands of more sophisticated customers.

Cost improvements around inventory management, logistics operations, material management and manufacturing costs, including raw material and component acquisition can be found with:

- Sales and operations planning
- Transportation/distribution management

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- Improved product lifecycle management
- Improved strategic sourcing and procurement Suppliers can differentiate themselves in a number of ways as well as provide value, additional services and capabilities to their customers.

The differentiating factors include:

- Vendor Managed Inventory (VMI)
- RFID
- Labeling and packaging
- Drop shipping
- Collaboration Companies should not only look to their supply chain to drive cost improvement, but should increase capabilities as a means for staying competitive. Streamlining processes with better design, better collaboration across networks and new services will help your company stay competitive and strengthen relationships with your customers.

Trend 4 – Outsourcing: As many companies step back and examine their core competencies, some realize that outsourcing parts or all of a supply chain can be advantageous. With market-place improvements around (1) information media and systems (2) cost and quality of global manufacturing and distribution, and (3) product design capabilities, companies are gaining additional synergies by outsourcing all or parts of their supply chain. There can be significant economic benefits from outsourcing all or part of your supply chain operation, but without the right systems, processes, or organizational management structure the risk to success can increase to frightening levels. In an outsource-heavy environment companies need to put more controls and systems in place to compensate for the fact that their supply chain capabilities no longer reside onsite. In an outsourced supply chain environment the need for information, controls and excellence from the "information worker" becomes a high priority. The optimally outsourced supply chain, either in its entirety or just a component, relies heavily on:

(1) Superior supply chain network design

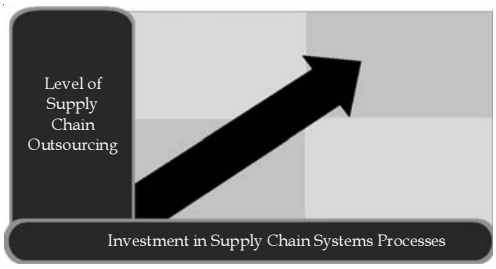
(2) Inclusion of that outsource partner in the information chain

(3) Establishment of control mechanisms to proactively monitor the various components of the supply chain, and

(4) Information systems to connect and coordinate the supply chain as seamlessly as possible.

A failure to excel at any one of these components can result in breakdowns affecting the entire supply chain.

Figure 10.4: Supply Chain



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Trend 5 – Shortened and More Complex Product Life Cycles: Today many of our clients are under pressure to develop innovative products and bring them to market more rapidly, while minimizing cannibalization of existing products, which are still in high demand. In order to meet the needs of both customers and consumers, companies need more efficient product lifecycle management processes. This includes heavy emphasis on managing new product introduction, product discontinuation, design for manufacturability and leveraging across their entire product and infrastructure characteristics. One chief benefit of PLM processes and technology is helping companies design products that can share common operations, components or materials with other products, thereby reducing risks of obsolescence write-offs, increasing cost leverage on the purchasing of key materials and ensuring that infrastructure investments are optimally utilized. Additionally, getting this right will help to improve your time to market. By focusing product lifecycle management efforts in these areas, a company can buffer itself against the risk of an unplanned cost increase, a poor new product launch, an unplanned obsolescence write-off and can enhance the overall customer perception of the company as an effective innovator. Typically when companies begin the process of introducing new products to market, they coordinate marketing, engineering, sales and procurement and develop sales forecasts to plan products in the pipeline. Without a formalized product lifecycle process the end result isn't always predictable. Recently, a US-based major appliance manufacturer, struggling with sky-rocketing product development costs and a cumbersome, manual development process, was looking to implement a PLM initiative to help reduce the cycle time between development and entry to market. While implementing a new PLM environment the company designed innovative, common product development processes and selected a PLM solution to control engineering document management, online mark-up and web-based collaboration with suppliers and contract manufacturers. As a result, the company increased parts re-use, improved document retrieval time, reduced design cycle time, and ultimately reduced new product development cost by 15 percent. These improvements helped the company grow revenue by 25 percent, mainly from an increased rate of product introductions. As the economy becomes more global, labeling and compliance to packaging requirements and regulations have become critical to success. Without adherence to local packaging and labeling regulations a product may violate local requirements, preventing it from being distributed and sold in that market. Product lifecycle management technology and processes can help ensure that products being produced and targeted for specific markets are well-managed and are compliant. Product lifecycle management tools and processes have helped consumer goods companies with their efforts to try to continually drive demand through packaging and labeling innovation and design. Implementation of an optimal PLM process and technology can allow a consumer goods company to effectively produce and distribute products that are only targeted for regional promotions or consumer preferences.

Trend 6 – Collaboration Between Stakeholders in the Extended Supply Chain: As supply chains continue to develop and mature, a move toward more intense collaboration between customers and suppliers has occurred. The level of collaboration goes beyond linking information systems to fully integrating business processes and organization structures across companies that comprise the full value chain. The ultimate goal of collaboration is to increase visibility throughout the value chain in an effort to make better management decisions and to ultimately decrease value chain costs. With the right tools, processes and organizational structure in place, collaboration provides key people throughout the value chain with the information needed to make business-critical decisions with the best available information. Recent examples of collaboration have emerged in the expansion of Sales and Operations Planning (S&OP) processes that include upstream and downstream value chain partners as regular participants. S&OP processes help maintain a well-coordinated and valid, current operating plan in support of customer demand, a business plan and a strategy. The improved resulting operating plan provides the management of each partner with a complete picture of forecasted demand, supply capacity, corresponding financial information with financial implications and allows them to make informed, critical decisions. Companies that expand the usage of Sales and Operations Planning

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have greater visibility across their owner enterprise and respective value chain, gain the agility necessary to improve the Product Lifecycle Management (PLM) process, improve promotional planning, minimize unnecessary buildups of inventory, increase revenue predictability and execute customer service expectations. The S&OP activity enables information systems to connect the value chain participants around key demand information, such as customer forecasts, and around key supply information, such as supplier inventories and capacities. Another recent example of collaboration is seen in the increased focus around RFID (Radio Frequency Identification). Value chain leaders are looking at functional areas to better integrate the supply chains of their partners with themselves. RFID can serve as a means to quickly and efficiently ensure that critical product information is communicated as products flow through the value chain and ultimately to the consumer. Recent estimates show that major retailers can lose 3-4 percent of revenue per year due to shelf stock outs, while inventory is available somewhere in the value chain. Better coordination of store-level product availability would have a significant impact to the entire value chain for these retailers. Additionally, better visibility of retailer product availability can reduce overall logistics costs as products move through the value chain to fulfill safe stock levels and ultimately consumer demand.

Self Assessment

Fill in the blanks:

13. The ultimate goal of …….is to increase visibility throughout the value chain in an effort to make better management decisions and to ultimately decrease value chain costs.
14. The right Supply Chain …….is critical to managing the changes brought about by rapid globalization.
15. VMI stands for ……..

10.7 Summary

The process of strategically managing the movement and storage of materials, parts and finished goods inventory from supplier to producer to the end customer is called logistics management. Logistics management involves physical supply or material handling and physical distribution. Physical supply covers the material handling and management process. Physical distribution of goods and services is an important element of distribution strategy of any firm. Logistics management plays a strategic role in the form of collecting customer information, arranging transportation and warehousing and shifting mass production processes to batch production processes. Logistics can be classified as supplier logistics, corporate logistics and customer logistics. Managers can set up real time production systems by using Market Linkage Production Systems (MLPS). This system consists of replenishment production system and purchase support system.

10.8 Keywords

Logistics: The process of strategically managing the movement and storage of materials, parts and finished inventory from supplier through the firm and on to customers.

Physical Distribution: It refers to the movement of goods from producers to customers encompassing order processing, inventory management, warehousing and transportation.

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10.9 Review Questions

1. What is Logistics Management? What are the various components of logistics management system?
2. What role does the logistics management system play in production and sales? Explain different types of logistics.
3. Discuss the distribution process in detail.
4. What are the various stages of distribution system?
5. What do you mean by SWOT analysis? Discuss by giving a suitable example.
6. Discuss the importance and need of integrated marketing system.

Answers: Self Assessment

1. 'R'
2. Dispatching
3. Purchase Support
4. Replenishment Production System
5. logistics
6. Distribution
7. Producer-Customer
8. Producer-Agent-Wholesaler-Retailer-Customer
9. Direct
10. supply chain management
11. Relationships
12. flows
13. collaboration
14. Design
15. Vendor Managed Inventory

10.10 Further Readings

Books

Bajaj, Tuli and Srivastava, *Retail Management*, New Delhi: Oxford University Press

Gibson G. Vedamani, *Retail Management*, Mumbai: Jaico Publishing House

Lewison, D. M. and Delozier, W. M., *Retailing*, Columbus: Merrill Publishing Co.

Online links

http://www.infosys.com/industries/logistics-distribution/Pages/index.aspx

http://about.hm.com/content/hm/AboutSection/en/About/Facts-About-HM/Idea-to-Store/Logistics-and-Distribution.html

http://www.ed2go.com/online-courses/distribution-and-logistics-management.html

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Unit 11: Physical Distribution and Inventory Management

CONTENTS

Objectives

After studying this unit, you will be able to:

- Explain the concept of Physical distribution
- Discuss Inventory metrics
- Describe Inventory models
- Explain the Types of inventory
- Elucidate the Inventory and customer service

Introduction

Inventory management plays a very vital role in the entire logistic function. The higher inventory we need to keep, higher will be the carrying cost on the average idle inventory kept in the warehouse. But, if we purchase inventory in smaller lots and avoid huge piling of inventory, the cost or ordering and transportation will be higher. This is because as we order smaller and smaller quantities in each order, we will have to place more number or order to meet the given annual demand. Thus, more number of orders means higher ordering cost. Thus, inventory management focus to manage the level of inventory and minimize the total cost of inventory, after taking in to consideration the stockout costs, the carrying cost, order cost and the cost of acquisition inventory.

11.1 Physical Distribution

Physical distribution does not mean only movement and storage of goods. Now a days, physical distribution or marketing logistics encompasses planning, implementing and controlling the

physical flow of materials, final goods and related information from points of origin to points of consumption to meet customer requirements for earning profit. Traditionally, physical distribution aimed at directing the flow of goods from the producer to consumer at a minimum cost. But modern marketers have reversed the idea and adopted market logistics thinking. It starts with the buyers and works backwards to the producer. Logistics seek solution to the problems of both outbound distribution (moving products from producer to consumers) and inbound distribution (moving products and materials from suppliers to the producer). Thus, the logistics management coordinates the whole-channel physical distribution system which involves the activities of suppliers, purchasing agents, marketers, channel members, and customers. This is accomplish through forecasting information systems, purchasing, production planning, order processing, inventory, warehousing, and transportation planning.

Today firms are giving greater emphasis on logistics for a number of reasons. First, efficient distribution through effective logistics contributes in earning customer service and satisfaction which is the prime goal of many firms. Better distribution attracts new customers; poor distribution brings in the opposite results. Second, logistics is a major cost element for most firms. So, they always try to keep it at a minimum level through .sound distribution system. Raising the level of physical distribution efficiency can result in cost savings for both the firm and its customers. Third tremendous expansion in product variety has increased the need and importance of improved logistics management. Ordering, shipping, stocking, and controlling a wide variety of products offers a big logistics challenge.

Finally, advancement in information technology is being utilized for gaining distribution efficiency. The increased use of computers, point-of-sale scanners, uniform product codes, satellite tracking, electronic data interchange, and electronic funds transfer has enabled firms to build more efficient systems for order processing, inventory control and handling, and transportation routing and scheduling.

11.2 Inventory Management

Inventory refers to the goods stocked for future use. Every retail chain has its own warehouse to stock the merchandise to be used when the existing stock replenishes. The retailer keeps a track of the stocked goods and makes sure there is surplus inventory to avoid being "out of stock". Such a process is called as inventory management.

Why Inventory Management?

Gone are the days when customers had limited options for shopping. In the current scenario, if a customer does not find the desired merchandise at one retail shop, he has a second brand to rely on. A retailer can't afford to loose even a single customer. It is really important for the retailer to retain his existing customers as well as attract potential buyers. The retailer must ensure that every customer leaves his store with a smile. Unavailability of merchandise, empty shelves leave a negative impression on the customers and they are reluctant to visit the store in near future. Inventory management prevents such a situation.

One must understand that the products need some time to reach the store from the supplier's unit. The retailer must have sufficient stock to offer to the customers during the "lead time".

Managing inventory also helps the retailer during situations beyond control like transport strikes, curfews etc. The retailer has ample stock as a result of judicious inventory management even at the time of crisis.

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Important Terminologies used in Inventory management

1. ***SKU (Stock Keeping Unit):*** Every product available at the store has a unique code. This code which helps in the identification and tracking of the products at the retail store is called as stock keeping unit or SKU.

   The retailer feeds each and every SKU in the master computer and can easily track the product in the stock just by entering the SKU Number.

   Assigning a unique code to the products avoids unnecessary searching.

Example: Let us take the example of "Numero Uno" which stocks denims, shirts, T Shirts and targets both men as well as women.

SKU for Shirts

NU - M-40-FL-W

NU - M-38-FL-B

Where:

NU stands for Numero Uno

M - Men

40 - Collar Size

FL - Full Sleeves

W - White (Colour of the shirt)

In the same way B in the second example would stand for Blue.

Simply typing NU - M-40-FL-W would let the retailer know whether the particular merchandise is available with him or not.

2. ***New Old Stock (Abbreviated as NOS):*** The stock which is never been sold by the retailer and now not even being manufactured comprises the new old stock. Such products do not have takers and may not be produced anymore.
3. ***Stock out:*** Stock out refers to a situation when the retailer fails to fulfil the customer's requirement due to lack of merchandise. The merchandise is not available in the current inventory and thus the customer has to return home empty handed.

Preventing Loss of Inventory

Employees working at the store might get tempted to steal the merchandise. Let us go through some tips which help to prevent loss of inventory:

- Check the bags of the employees before they leave the store.
- Raise an alarm whenever you find someone stealing something. Supporting a wrong deed is also a crime.
- Make sure that all the employees leave from one common door.
- Avoid multiple exits.
- Check garbage before dumping.
- Keep proper record of the inventory (Stock coming in and going out)

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Average Inventory

Average inventory is defined as half the batch size plus safety stock.

Average inventory = (Order quantity + Safety stock)/2

The assumption made is that at any point in time, the cycle stock (stock planned to be used excluding safety stock) is on an average half the recipient quantity, i.e. it is halfway in between the receipt quantity and zero left. The practical implication of this is that it reduces order quantity and the average cycle stock by half. If a part is manufactured in smaller batches the inventory goes down.

Safety stock is determined from such factors as customer service level required, demand variability and replenishment lead-time. Once the customer service level required is agreed upon, safety stock is calculated.

Holding (or Carrying) Costs

The very fact that an item is held in stock accrues cost. These are the real costs to hold inventory. Such costs are called inventory holding costs or carrying costs. This broad category includes the costs for:

- ***Storage and Handling:*** This includes the total warehousing facility. This is typically 6 percent. It is estimated that the total cost to the company is 35 percent per annum of the value of inventory held, or 3 percent a month.
- ***Insurance:*** Insurance accounts for a portion of the inventory costs. Since it is better to be safe than sorry, companies generally get the material insured. It generally works out to 1 percent.
- ***Pilferage and spoilage:*** This accounts for anything from 2 percent upwards, depending on the industry and the type of inventory that is being carried.
- ***Obsolescence and Deterioration:*** This is inventory which is classified as being unfit to sell, or lying in the storage waiting for the appropriate use. It is typically estimated to be about 1 percent of the Inventory carrying cost.
- ***The opportunity cost of capital:*** This is the cost to set up the warehousing facility. This is charged at the "Lost opportunity cost" and not the interest rate. Typically rated at 25 percent, this "Lost opportunity cost" is the return that could have been obtained if the capital had been invested in anything other than inventory.

Ordering Costs

What is the real cost of placing and processing a purchase order? The total cost includes the cost of purchasing, receiving, incoming inspection and the accounts payable. Each of these departments exists to satisfy continuous demand for material. We arrive at a simple equation to calculate the Average cost per order as:

Average Cost per Order = Total Budget/Number of Orders placed per year

Although it costs money to hold inventory, it also, unfortunately, costs money to replenish inventory, either through the purchase cycle or through the manufacturing cycle.

Inventory Ordering Costs are those costs that are incurred in the purchase cycle are called procurement costs or inventory ordering costs. Ordering costs have two components:

(a) One component that is relatively fixed, and

(b) Another component that will vary.

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Table 11.1: Fixed and Variable Ordering Costs

Fixed costs	Variable costs
Staffing costs (payroll, benefits, etc)	Shipping costs
Fixed costs on IT systems	Cost of placing and order (phone, postage, order forms)
Office rental and equipment costs	Running costs of IT systems
Fixed costs of vendor development	Receiving and inspection costs
	Variable costs of vendor development

The fixed and variable components of the ordering or procurement costs are shown in Table 11.1. Inventory ordering costs decrease increasingly with the increase in inventory. This can be explained if we are able to clearly differentiate between those ordering costs that do not change much and those that are incurred each time an order is placed.

One major component of cost associated with inventory is the cost of replenishing it. If a part or raw material is ordered form outside suppliers, and places orders for a given part with its supplier three times per year instead of six times per year, the costs to the organization that would change are the variable costs, and which would probably not are the fixed costs.

There are costs incurred in maintaining and updating the information system, developing vendors, evaluating capabilities of vendors. Ordering costs also include all the details, such as counting items and calculating order quantities. The costs associated with maintaining the system needed to track orders are also included in ordering costs. This includes phone calls, typing, postage, and so on.

Shortage or Stock-out Costs

No manufacturing facility can afford to keep sufficient stock to meet every demand. Stock-outs occur at some point. Stock-outs result in either a lost sale, or if the customer is prepared to wait, a back order. Lost sale reflects the risk of losing the business to competition. In addition, back orders cause additional costs, viz. extra paperwork, the time spent handling this extra paperwork, a system to handle the back orders, extra delivery notes, and invoices, extra packing and delivery costs.

When the stock of an item is depleted, an order for that item must either wait until the stock is replenished or be canceled. There is a trade-off between carrying stock to satisfy demand and the costs resulting from stock out. The costs that are incurred as result of running out of stock are known as stock out or shortage costs.

Understanding the cost of a stock out is critical to the implementation of any inventory model. Unless these costs are known, the organization cannot balance the costs (and risk) of holding inventory with the loss of profits when an item is out of stock. For a retailer, the costs include both the lost profits from the immediate order because of cancellations, and the long-run costs if stock outs reduce the likelihood of future orders. For a manufacturer, these include the loss of production as well as capacity. In addition, the ultimate consequence is that sales of goods may be lost, and finally customers can be lost.

If the unfulfilled demand for the items can be satisfied at a later date (back order case), in this case cost of back orders are assumed to vary directly with the shortage quantity (in rupee value) and the cost involved in the additional time required to fulfil the backorder (₹/₹/year).

However, if the unfulfilled demand is lost, the cost of shortages is assumed to vary directly with the shortage quantity (₹/unit shortage). When this is related to the total cost of inventory, the

cost decreases increasingly with the increase in inventory, as this cost is relatively fixed with respect to the value of the inventory.

Frequently, the assumed shortage cost is little more than a guess, although it is usually possible to specify a range of such costs.

11.3 Inventory Metrics

Managing inventory at manufacturing and service companies is critically important. In manufacturing, material accounts up between 60–85 percent of the revenue from sales, depending upon the industry. In the electronics sector, it would is about 85 percent, with overheads of about 12 percent, and direct labour of around 3 percent. All these figures point in the direction of Inventory.

Inventory is by far the single greatest cost that needs to be examined. Too much or too little, or the wrong inventory, all have detrimental impacts on operational and financial results as inventory represents a large capital investment. It also is an idle resource. Companies that can operate with lesser inventory are considered to operate more efficiently.

Though there are many factors that determine the level of inventory in an organization. A cursory study reveals the main factors that contribute to these huge expenses. The most common factors on which the levels of inventory depend are the following:

Production Rate: The production rate can be defined as number of units manufactured over a period of time.

Production Rate = No. of Units Manufactured/time.

The time can be measured in days, weeks, or on an annual basis. Production rate is also influenced by the demand for the product, which could be either periodic (seasonal/cyclic) or a constant.

Lead-time: Lead-time is defined as time period from initiating of an activity to its completion. For inventory management we need following lead times: Purchase lead-time, Manufacturing lead-time, Delivery lead-time.

Rework/Scrap Rate: This rate is dictated by the efficiency of the manufacturing process. It involves knowing the number of defective units that are produced by a manufacturing unit. This is a highly empirical rate and very much depends upon the skill of the labour operating the machine and the accuracy offered by the machine.

Excess inventory is the quantity of material in stock or on order that is greater than the anticipated demand for an agreed time period.

Obsolete inventory on the other hand is the inventory that results from an unanticipated demand. This inventory typically occurs due to model run outs, engineering change notes, or supplier minimum/multiple order quantities. Companies tend to be reluctant to write off this value as it is a loss in the books of accounting, and so affects the profit.

Inventory Measures

Inventory measures reflect, in part, the success in structuring systems to optimize the production rate, the lead time and the scrap rate. Several aggregate performance measures can be used to judge how well a company is able to control these factors and utilizing its inventory resources.

Average Inventory Investment: The rupee value of a company's average level of inventory is one of the most common measures of inventory. The information is easily available and it is easy to interpret. It represents the average investment of the company. However, it does not take into account the differences between companies. For example, a larger company will generally have more inventory than a smaller company, though it could be using its inventory

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more efficiently. This makes it difficult for the company to make comparisons with other companies.

Inventory Turnover Ratio: In order to overcome this problem, inventory turnover ratio is used. This measure allows for better comparison among companies. This is calculated as a ratio of company's sales to its average inventory investment:

Inventory turnover = annual cost of goods sold/average inventory investment

This is a measure of how many times during a year the inventory turns around. It is the ratio of the cost of annual sales to the average inventory level. The higher the inventory turns, the better the firm uses its inventory assets. Another common measure is days of supply. A firm's days of supply is found by dividing the average inventory level by the cost of one day's sales.

Example: As an example of these measures, assume a firm has an annual cost of sales of ₹180 million and an average inventory level for the year of ₹ 20 million, then:

Inventory Turns = Cost of Sales/Average Inventory Level = ₹ 180/₹ 20 = 9 turns

The cost of sales for a day is ₹ 180 million/360 days = ₹ 0.5 million.

Because it is a relative measure, companies of different sizes can be more easily compared. A higher turnover ratio reflects there is less idle resources in the company and therefore the company is using its inventory more efficiently.

This ratio can only be used in this manner to compare companies that are similar. For example, even in the same industry depending on the distribution channels, a retailer would have a much lower inventory turnover ratio than the wholesaler or distributor.

Days of Inventory: A measure that tries to overcome the disadvantage, to a limited degree, and is closely related to inventory turnover is 'days of inventory'. This measure is an indication of approximately how many days of sales can be supplied solely from inventory. The lower this value, the more efficiently inventory is being used if customer demands are being met in full. There are two ways of calculating 'days of inventory', it can be directly calculated or inventory turnover can be converted to days of inventory. Both procedures are shown below:

Days of inventory = avg. inventory investment/annual cost of goods sold/days per year

Days of inventory = days per year/inventory turnover rate

As an example of these measures, assume a firm has an annual cost of sales of ₹ 18 crore and an average inventory level for the year of ₹ 2 crore, then:

Inventory Turnover Ratio = annual cost of goods sold/average inventory investment

= ₹ 18 crore/₹ 2 crores = 9 turns

The cost of sales for a day is ₹ 18 crore /360 days = ₹ 5 lacs

Days of Inventory = avg. inventory investment/annual cost of goods sold/days per year

= ₹ 2 crore/₹ 5 lacs = 40 days inventory

Customer Perspective

From a customer's perspective there are a number of ratios that are very important. The fill rates are extremely important and reflect the responsiveness of the organization to customer needs.

The line item fill rate measures the percentage of line items on the order shipped in their entirety.

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The order fill rate is a measure of the percentage of orders shipped completely.

Finally, the item fill rate is the ratio of the total number of items shipped divided by the total number of items ordered. This measure is probably the strictest of the three measures of customer service fill rates discussed above.

To illustrate these fill rate measures, consider the order where 10 lines of items are ordered, and of these 10 line items, only 5 of them were filled in their entirety, thus the line item fill rate is:

Line Item Fill Rate = 5/10 = 50 percent

Since, the order fill rate is the percentage of orders filled completely. Clearly, this order counts in the unfilled category.

Other customer based metrics are On-Time Delivery Percentage and Order-Entry Lead Time.

On-Time Delivery Percentage is generally analyzed over a year. Higher the value, the better is the customer satisfaction. Generally it has a value between 96-100 percent as a benchmark.

Order-Entry Lead Time measures the time taken to take customer order. Manual systems can be quite time consuming but with the implementation of the online ordering systems Order-Entry lead times can be quite short. The benchmark could be set to be less than a day.

In addition to the metrics described above, there are many other measures of success in satisfying both the customers as well as the organizational objectives. Some of the more common measures are shown in the table 11.2 below:

Table 11.2: Additional Inventory Metrics

Inventory Metrics	Customer Perspective
Order Quantity Order processing/Setup cost, Inventory Carrying cost, Back order cost, Excess and obsolete stock cost	Reliability Stockout percentage, delays, loss and paperwork involved.
Critical Inventory Average Inventory, EOQ	Stock out percentage, Percentage of orders fulfilled
Industry Ratio Comparison with others	Part Count Accuracy Percentage Quality-Percentage Defects Price of Non-Conformance (PONC)

Implementing Decisions

Detailed measures of inventory accuracy and availability are very important in order to maximize manufacturing and non-manufacturing efficiency and financial results. In addition to the measures described above, inventory obsolescence measures can be very important for items with short shelf lives, due to aging or technological changes.

Finally, collecting accurate data on which to construct inventory measures can be challenging. Processes have to be in place to ensure that inventory is counted accurately and on a timely basis.

In general, supply chain inventories have been declining significantly in all parts of the world. In 1970, U.S. manufacturers held more than 50 percent of aggregate inventory stocks, but this share has fallen to about 35 percent in 2000. By sector, the manufacturing share of durable goods

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inventories has declined from 60 percent in the late 1960s to about 40 percent by the end of 2000; for nondurable goods, the manufacturing share has decreased from 40 percent to about 25 percent over the same period.

This trend is true for all inventory types, be it retail or manufacturing. Companies today must be fast and nimble enough to react quickly to changes in customer demand and do it with little inventory to remain competitive in the market.

The challenge for retailers, in reducing inventories, is due to the high value added content of the inventory because they hold finished products. A significant cost to retail organizations is the inventory carried to support customers and sales. Companies have to reduce these costs to maintain competitive advantage and bottom-line benefits.

The challenge of manufacturers is due to the diversity of their inventory holdings which cumulatively add up to a very high capital commitment for the organization.

Notes Effectively managing and minimizing investments in inventory can certainly help the organization to manage its manufacturing processes and reduce its costs to stay ahead of competition.

11.4 Inventory Models

Economic Order Quantity (EOQ)

EOQ is the quantity that needs to be ordered in each order which will minimize the total ordering and carrying cost of inventory. Thus, the EOQ determines the optimum order quantity that a company should hold in its inventory given an ordering cost, annual demand and other the cost of carrying the inventory, so as to minimize the inventory cost. This is modelled as follows:

$$EOQ = \sqrt{\frac{2SD}{PI}}$$

Where

S = Ordering Cost

D = Annual Demand

PI = Cost of carrying one unit of inventory for one year.

The EOQ formula can be modified to determine production levels or order interval lengths, and is used by large corporations around the world, especially those with large supply chains and high variable costs per unit of production. However the assumption of uniform demand and instantaneous supply make the adoption of EOQ model with out modification difficult in real practice.

Inventory Management System

When stocks are depleted, it is usually too late to place a new order. In inventory management, a company must pay special attention to two things: the optimal time when an item must be reordered and the necessary quantity. This is the only way to prevent a shortage in advance. A company has a number of options for conducting its inventory policies. There are two basic approaches that are used as to when the order should be placed.

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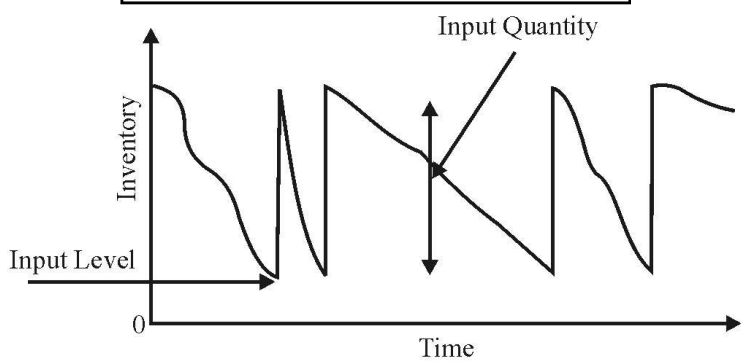
Fixed Quantity Replenishment System

Here, the order is placed when the inventory has fallen below a definite level. The quantity to be ordered is predetermined. The reorder point is specified in such a way that demand can be met from the existing inventory during the replenishment period.

The order cycle system with constant order quantities is used when the costs of increased safety stocks turn out to be lower than the costs of permanent control.

Figure 11.1: Ordering a Fixed Amount when a Reorder Level is Reached



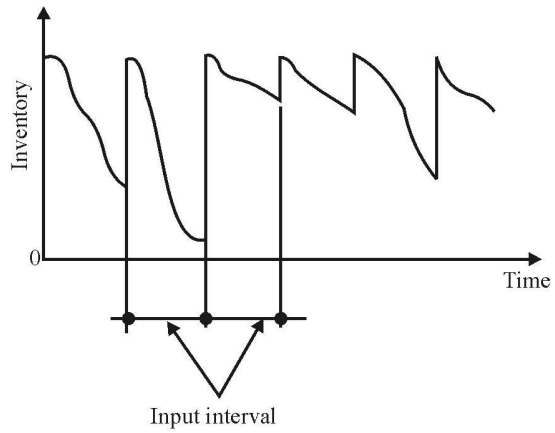
Advantages

- Less buffer stock required for protection against stockouts
- Fewer stockouts when demand is unusually high
- No need to determine the order quantity for each replenishment
- Lower inventory carrying cost as compared to fixed period replenishment system.

Fixed Period Replenishment System

In this case, the order is placed on a predefined period "t". The replenishment quantity in such situations is often determined such as to replenish inventory to a given maximum level.

Figure 11.2: Ordering at a Fixed Time



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Advantages

- Less cost to operate system
- Administratively easier in multi-item situations i.e. easier to place order for each item at same time.

Though, most of the times the cost of running a Fixed Quantity Replenishment System will be higher than the than in Fixed Period Replenishment System, the carrying cost will be lesser in case of Fixed Quantity System. The Fixed Quantity System will be more suitable when:

- The number of transactions is low compared with the annual usage
- The processing cost of transactions is low compared with the ordering cost
- The unit price of items is high
- The required service level is high
- Sales fluctuations are high
- Inventory carrying cost are high

Constraints to Inventory Planning

Following are the factors which may act as constraints to effective inventory planning:

- Requires accurate and coordinated forecasts for each distribution centre.
- Requires forecasts for each distribution centre and SKU as well as adequate lead-time to allow product movement.
- The errors in forecast may exist because of prediction of demand at wrong location, or prediction at wrong time.
- Requires consistent and reliable performance cycles for movement between distribution facilities.
- Production breakdowns or delivery delays can adversely affect the planning system.

Self Assessment

State whether the following statements are true or false:

1. Raising the level of physical distribution efficiency can result in cost savings for both the firm and its customers.
2. Ordering costs are incurred in the manufacturing cycle, while setup costs are incurred in the purchase cycle.
3. Obsolete inventory on the other hand is the inventory that results from an unanticipated demand.
4. EOQ is the quantity that needs to be ordered in each order which will minimize the total ordering and carrying cost of inventory.
5. Transit inventories result from the need to transport items or material from one location to another.
6. A significant cost to retail organizations is the inventory carried to support customers and sales.

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7. Order-Entry Lead Time measures the time taken to take customer order.
8. Days of inventory = days per year* inventory turnover rate
9. The lower the inventory turns, the better the firm uses its inventory assets. Another common measure is days of supply.
10. Transit-time is defined as time period from initiating of an activity to its completion.

11.5 Types of Inventory

Inventory is defined as a stock or store of goods. These goods are maintained on hand at or near a business's location so that the firm may meet demand and fulfil its reason for existence. If the firm is a retail establishment, a customer may look elsewhere to have his or her needs satisfied if the firm does not have the required item in stock when the customer arrives. If the firm is a manufacturer, it must maintain some inventory of raw materials and work-in-process in order to keep the factory running. In addition, it must maintain some supply of finished goods in order to meet demand.

Generally, inventory types can be grouped into four classifications: raw material, work-in-process, finished goods, and MRO goods.

Raw Materials

Raw materials are inventory items that are used in the manufacturer's conversion process to produce components, subassemblies, or finished products. These inventory items may be commodities or extracted materials that the firm or its subsidiary has produced or extracted. They also may be objects or elements that the firm has purchased from outside the organization. Even if the item is partially assembled or is considered a finished good to the supplier, the purchaser may classify it as a raw material if his or her firm had no input into its production.

Work-in-process

Work-in-process (WIP) is made up of all the materials, parts (components), assemblies, and subassemblies that are being processed or are waiting to be processed within the system. This generally includes all material—from raw material that has been released for initial processing up to material that has been completely processed and is awaiting final inspection and acceptance before inclusion in finished goods.

Finished Goods

A finished good is a completed part that is ready for a customer order. Therefore, finished goods inventory is the stock of completed products. These goods have been inspected and have passed final inspection requirements so that they can be transferred out of work-in-process and into finished goods inventory. From this point, finished goods can be sold directly to their final user, sold to retailers, sold to wholesalers, sent to distribution centers, or held in anticipation of a customer order.

Any item that does not have a parent can be classified as a finished good. By looking at the rolling cart product structure tree example one can determine that the finished good in this case is a cart.

Inventories can be further classified according to the purpose they serve. These types include transit inventory, buffer inventory, anticipation inventory, decoupling inventory, cycle

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inventory, and MRO goods inventory. Some of these also are know by other names, such as speculative inventory, safety inventory, and seasonal inventory. We already have briefly discussed some of the implications of a few of these inventory types, but will now discuss each in more detail.

Transit Inventory

Transit inventories result from the need to transport items or material from one location to another, and from the fact that there is some transportation time involved in getting from one location to another. Sometimes this is referred to as pipeline inventory. Merchandise shipped by truck or rail can sometimes take days or even weeks to go from a regional warehouse to a retail facility. Some large firms, such as automobile manufacturers, employ freight consolidators to pool their transit inventories coming from various locations into one shipping source in order to take advantage of economies of scale. Of course, this can greatly increase the transit time for these inventories, hence an increase in the size of the inventory in transit.

Buffer Inventory

As previously stated, inventory is sometimes used to protect against the uncertainties of supply and demand, as well as unpredictable events such as poor delivery reliability or poor quality of a supplier's products. These inventory cushions are often referred to as safety stock. Safety stock or buffer inventory is any amount held on hand that is over and above that currently needed to meet demand. Generally, the higher the level of buffer inventory, the better the firm's customer service. This occurs because the firm suffers fewer "stock-outs" (when a customer's order cannot be immediately filled from existing inventory) and has less need to backorder the item, make the customer wait until the next order cycle, or even worse, cause the customer to leave empty-handed to find another supplier. Obviously, the better the customer service the greater the likelihood of customer satisfaction.

Anticipation Inventory

Oftentimes, firms will purchase and hold inventory that is in excess of their current need in anticipation of a possible future event. Such events may include a price increase, a seasonal increase in demand, or even an impending labor strike. This tactic is commonly used by retailers, who routinely build up inventory months before the demand for their products will be unusually high (i.e., at Halloween, Christmas, or the back-to-school season). For manufacturers, anticipation inventory allows them to build up inventory when demand is low (also keeping workers busy during slack times) so that when demand picks up the increased inventory will be slowly depleted and the firm does not have to react by increasing production time (along with the subsequent increase in hiring, training, and other associated labor costs). Therefore, the firm has avoided both excessive overtime due to increased demand and hiring costs due to increased demand. It also has avoided layoff costs associated with production cut-backs, or worse, the idling or shutting down of facilities. This process is sometimes called "smoothing" because it smoothens the peaks and valleys in demand, allowing the firm to maintain a constant level of output and a stable workforce.

Decoupling Inventory

Very rarely, if ever, will one see a production facility where every machine in the process produces at exactly the same rate. In fact, one machine may process parts several times faster

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than the machines in front of or behind it. Yet, if one walks through the plant it may seem that all machines are running smoothly at the same time. It also could be possible that while passing through the plant, one notices several machines are under repair or are undergoing some form of preventive maintenance. Even so, this does not seem to interrupt the flow of work-in-process through the system. The reason for this is the existence of an inventory of parts between machines, a decoupling inventory that serves as a shock absorber, cushioning the system against production irregularities. As such it "decouples" or disengages the plant's dependence upon the sequential requirements of the system (i.e., one machine feeds parts to the next machine).

Cycle Inventory

Those who are familiar with the concept of Economic Order Quantity (EOQ) know that the EOQ is an attempt to balance inventory holding or carrying costs with the costs incurred from ordering or setting up machinery. When large quantities are ordered or produced, inventory holding costs are increased, but ordering/setup costs decrease. Conversely, when lot sizes decrease, inventory holding/carrying costs decrease, but the cost of ordering/setup increases since more orders/setups are required to meet demand. When the two costs are equal (holding/carrying costs and ordering/setup costs) the total cost (the sum of the two costs) is minimized. Cycle inventories, sometimes called lot-size inventories, result from this process. Usually, excess material is ordered and, consequently, held in inventory in an effort to reach this minimization point. Hence, cycle inventory results from ordering in batches or lot sizes rather than ordering material strictly as needed.

MRO Goods Inventory

Maintenance, repair, and operating supplies, or MRO goods, are items that are used to support and maintain the production process and its infrastructure. These goods are usually consumed as a result of the production process but are not directly a part of the finished product. Examples of MRO goods include oils, lubricants, coolants, janitorial supplies, uniforms, gloves, packing material, tools, nuts, bolts, screws, shim stock, and key stock.

Did u know? Even office supplies such as staples, pens and pencils, copier paper, and toner are considered part of MRO goods inventory.

11.6 Inventory and Customer Service

Besides providing the customer with the required product, customer satisfaction demands the delivery to be at the right place and right time. The challenge is to provide the time and place utility at a competitive cost. This problem boils down to maintaining the right level of inventory in the warehouse.

Inventory management is influenced by the nature of demand, including whether demand is derived or independent. A derived demand arises from the production of another product. Independent demand arises from demand for an end product. End products are found throughout a supply chain. By definition, an independent demand is uncertain, meaning that extra units or safety stock must be carried to guard against stock outs. Managing this uncertainty is the key to reducing inventory levels and meeting customer expectations. Supply chain coordination can decrease the uncertainty of intermediate product demand, thereby reducing inventory costs.

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The availability of inventory provides customer service. The Item Fill Rate (IFR) measures how often a particular product is available. A common metric of customer service, IFR is expressed as the percentage of time that a customer can obtain the item they seek.

However, there can be exceptions. A customer might not obtain what they seek for several reasons. The seller may have run out of a product due to an inaccurate forecast. Or the supplier may have shipped an incorrect package size or flavor. Products in inventory may be unfit for sale because of damage or an expired shelf life. Finally, a seller may not have the capability to accurately track inventory in their stores or distribution centers.

To avoid shortfalls or stockouts, firms carry extra inventory known as safety stock. As more customer service is provided, a firm can expect sales to increase. However, as a firm tries to provide perfect customer service, logistical costs increase simultaneously.

The level of inventory which should be maintained also depends on the stage of the product life cycle. During introduction; logistics must support the business plan for product launch, while preparing to handle potential rapid growth by quickly expanding distribution. At market maturity, the logistical emphasis shifts to become cost driven. Over-abundance of products in the late maturity or decline stage will eventually result in obsolete products. The obvious difficulty is predicting how long each stage will last and how abruptly sales will fall in the decline stage.

Understanding this life cycle can help managers select logistical tactics, inventory levels and supply chain designs. The ultimate goal for companies should be to have just enough inventories to satisfy consumer demand.

Caution Customer satisfaction is affected by the level of inventory maintained. For products with relatively certain demand and a long product life, it should be relatively easy to maintain desirable customer service standards even as inventories are reduced. However, for products characterized by erratic demand, a short life cycle, or product proliferation, a more responsive supply chain and larger buffer inventories may be needed to meet a desired customer service level.

Self Assessment

Fill in the blanks:

11. To avoid shortfalls or stock outs, firms carry extra inventory known as …… stock.
12. The …… measures how often a particular product is available.
13. A …… demand arises from the production of another product. Independent demand arises from demand for an end product.
14. …… inventory is any amount held on hand that is over and above that currently needed to meet demand.
15. Any item that has a parent but is not a raw material is considered to be ……
16. Maintenance, repair, and …… supplies, or MRO goods, are items that are used to support and maintain the production process and its infrastructure.

Notes

Case Study

More Effective Inventory Management through Total Cost Modelling

While the client was doing an excellent job of tracking acquisition and warehouse-related costs, they had no effective way of tracking other product costs before and after that limited segment of the inventory management cycle. From merchandising and administration to managing the product on the store shelves, a more holistic–and realistic-approach to understanding costs was necessary. Without understanding these costs, they were relying on ineffective procurement practices, such as buying larger volumes to achieve per unit savings. Guidon's modeling experts used careful Profit and Loss (P&L) analysis and process mapping to create a total cost model which explores every touch point in the product's life cycle. Through collaboration and communication, the Guidon team was able to overcome the silo-related challenges the client faced and gather end-to-end process information about each SKU, including costs related to merchandising, marketing, replenishment, delivery and distribution centers, and retail stores. They identified three key areas of the life cycle to model: Corporate: Planning, procurement, merchandising, marketing, administration, etc. Distribution Center (DC): Warehousing, transportation, distribution, etc.

Store functions: Monitoring and maintaining stock, in-store merchandising, managing returns, etc. By abandoning the company's previously compartmentalized approach–where only a few individual silos had a clear understanding of their own SKU-related costs– the model gave company managers a clear look at costs and opportunities. Redundant tasks and other inefficiencies became evident in the end-to-end process review, since the model facilitated transparency between business units. For example, when 100 SKUs were created for a product line that only needed 25, the superfluous 75 wasted downstream resources. Reducing those 100 SKUs to 25 reduced the downstream management work created by each SKU. In addition, costs for such "invisible" expenses as staff time related to a product's visual merchandising had to be considered as part of the true cost of the product.

Once the model was completed, the client could immediately see that the actual costs related to managing inventory include much more than per-unit and warehouse management costs. Users could easily see whether the total life-cycle costs of buying in greater quantities would offset or outweigh any savings.

In addition to this enhanced decision-making ability, the client is now able to test a variety of "what-if" scenarios related to those products being considered as inventory additions. This helps them determine the true cost of procurement, management, and distribution before making a commitment to purchase the product. It also shows where costs expand and shrink throughout the product's life cycle within the retailer's inventory management process. The overall effect is better communication between business units involved in the product life cycle, further breaking down silos.

Question:

What helps to determine the true cost of procurement, management and distribution before making a commitment to purchase the produced?

Source: http://www.guidonps.com/default/assets/File/Total_Cost_Modeling_Case_Study.pdf

Notes

11.7 Summary

- Distribution resource planning is important in cost cutting and having the right decisions regarding the inventory.
- Inventory management is a vital part of Logistics Management. The two basic approaches that are used to determine when an order needs to be placed are Fixed Quantity Replenishment System and Fixed Interval Replenishment system.
- The higher inventory we need to keep, higher will be the carrying cost on the average idle inventory kept in the warehouse. But, if we purchase inventory in smaller lots and avoid huge piling of inventory, the cost or ordering and transportation will be higher.
- The heart of inventory decisions lies in the identification of inventory costs and optimizing the costs relative to the operations of the organization: When items should be ordered, how large the order should be, and "when" and "how many to deliver."
- The following costs are generally associated with inventories: Holding (or carrying) costs, Cost of ordering, Setup (or production change) costs, and Shortage or Stock-out Costs.
- Holding costs increase proportionately with the increase in the inventory level. Obviously, if the holding costs are high, the organization should try to carry lower inventory and frequently replenish the stock.
- Setup or ordering costs are involved in placing an order or setting up the equipment to make the product. The ordering cost includes the cost of purchasing, receiving, incoming inspection and the accounts payable. The costs associated with changing over equipment from producing one item to producing another are usually referred to as setup costs.
- Lost sale reflects the risk of losing the business to competition. There is a trade-off between carrying stock to satisfy demand and the costs resulting from stock out. The costs that are incurred as result of running out of stock are known as stock out or shortage costs.
- Inventory is by far the single greatest cost that needs to be examined. Material accounts up between 60–85 percent of the revenue from sales, depending upon the industry.
- The most common factors on which the levels of inventory depend are the (a) Production Rate, (b) Lead-time, (c) Rework/ Scrap Rate, (d) Excess inventory and (e) Obsolete inventory.

11.8 Keywords

Economic Order Quantity (EOQ): EOQ is the quantity that needs to be ordered in each order which will minimize the total ordering and carrying cost of inventory.

Finished Goods Inventory: A finished good is a completed part that is ready for a customer order.

MRO Goods Inventory: Maintenance, repair, and operating supplies, or MRO goods, are items that are used to support and maintain the production process and its infrastructure.

Transit Inventories: They result from the need to transport items or material from one location to another, and from the fact that there is some transportation time involved in getting from one location to another.

Notes

11.9 Review Questions

1. What do you mean by Physical distribution?
2. What do you know about Economic Order Quantity?
3. Write a note on different inventory management techniques.
4. Explain about the concept of Inventory.
5. Describe about different types of Inventory.

Answers: Self Assessment

1.	True	2.	False
3.	True	4.	True
5.	True	6.	True
7.	True	8.	False
9.	False	10.	False
11.	Safety	12.	Item Fill Rate (IFR)
13.	Derived	14.	Safety stock or buffer
15.	work-in-process	16.	operating

11.10 Further Readings

Books

Artman Les. Clancy, David, *Distribution Follows Consumer Movement, Transportation and Distribution*. June 1990

Bowersox, Donald, et al., *How Supply Chain Competency Leads to Business Success*, Supply Chain Management, September 2000

Sunil Chopra, Peter Meindl, D.V. Kalra, *Supply Chain Management*

Supply Chain, Distribution, and Fulfilment, International Journal of Retail and Distribution Management, October 2000

Upendra Kachru, *Exploring the Supply Chain*, Excel Books, Delhi

Online links

http://www.krannert.purdue.edu/faculty/lee/Papers/Physical%20Distibution%20the%20Analysis%20of%20inventory%20and%20Location.pdf

http://www.slideshare.net/WelingkarDLP/physical-distribtnmgmto-verview

Notes

Unit 12: Warehouse Management

CONTENTS

Objectives

After studying this unit, you will be able to:

- Explain the concept of warehousing
- Discuss the different warehousing options
- Describe that how do you design warehouses
- Discuss the procedures to operate a store or warehouse
- Explain the methods used for stock verification

Introduction

A store or warehouse is typically viewed as a place to store inventory. However, in modern logistical system designs, the role of the warehouse is more properly viewed as a switching facility as contrasted to a storage facility. Warehousing, in fact, are the nodes of the supply chain network that extend the operational reach of the firm and provide a strategic thrust to its objectives.

There have been stupendous developments in stores and warehousing technology. In this unit we look at warehousing from a number of different perspectives. It focuses on storage functionality. It describes storage or warehouse principles in terms of both economic and service benefits. It addresses the operational aspects of warehousing, its infrastructure and risk mitigation. The unit finally describes the concepts used in the design of a modern warehouse.

Notes

12.1 Functions of Warehouse

The Basic function of a warehouse are movement of goods storage of goods, and information management.

1. ***Storage of Goods:*** One of the traditional requirements of a warehouse has been for storing goods. The warehouse provides the space required for such storage and it is one of the important functions of a warehouse.

   Warehouse performs two types of storage: planned and extended.

   (a) *Planned Storage:* Storage required as planned to meet the regular customer demand is called panned storage, Every inventory in received in the warehouse requires storage for a certain period of time. The duration of storage many vary.

   (b) *Extended Storage:* Extended storage is an inventory in excess of normal warehouse operation. Some of the reasons for extended storage requirements are seasonality in demand, erratic demand, product conditioning, speculative purchases, discounts, etc.

   To meet the erratic or seasonality in demand an additional storage of goods in terms of safety stocks could be required.

   Some products such as food items may be stored for conditioning purposes e.g. ripening of fruits.

   Sometimes a firm may buy bulk quantities to avail of the discounts that are available or to purchase when the price is low. This is speculative purchases as the goods are bought at a higher quantity due to lower price or due to expectation of higher price in the future.

   Sometimes due to promotional campaigns such as sales promotion, additional stock may be required to be kept to meet the expected higher demand for the product.

2. ***Movement of Goods:*** Movement of goods consist of inbound activity (unloading of goods brought to warehouse), transfer to storage (transferring the goods from the inbound area to the storage area), order selecting (selecting the good in the storage as per order to be shipped and transferring it to shipment area) and outbound activity (checking and loading the gods for shipment).

3. ***Information Management:*** Keeping a track of information regarding goods that have come into the warehouse, stored and that are shipped out of the warehouse. Also any other information pertaining to the warehouse is stored. The data captured by the information system in the warehouse is then passed on to the higher management in order to take better decisions.

Secondary Functions of a Warehouse

4. ***Protection of goods:*** A warehouse provides protection to goods from loss or damage due to heat, dust, wind and moisture, etc. It makes special arrangements for different products according to their nature. It cuts down losses due to spoilage and wastage during storage.

5. ***Risk bearing:*** Warehouses take over the risks incidental to storage of goods. Once goods are handed over to the warehouse-keeper for storage, the responsibility of, these goods passes on to the warehouse-keeper. Thus, the risk of loss or damage to goods in storage is borne by the warehouse keeper. Since it is bound to return the goods in good condition, the warehouse becomes responsible for any loss, theft or damage etc., thus, it takes all precautions to prevent any mishap.

Notes

6. ***Financing:*** When goods are deposited in any Warehouse, the depositor gets a receipt, which acts as a proof about the deposit of goods. The Warehouses can also issue a document in favour of the owner of the goods, which is called warehouse-keeper's warrant. This warrant is a document of title and can be transferred by simple endorsement and delivery. So while the goods are in custody of the warehouse-keeper, the businessmen can obtain loans from banks and other financial institutions keeping this warrant as security. In some cases, warehouses also give advances of money to the depositors for a short period keeping their goods as security.

7. ***Processing:*** Certain Commodities are not consumed in the form they are produced. Processing is required to make them consumable. For example, paddy is polished, timber is seasoned, and fruits are ripened, etc. Sometimes warehouses also undertake these activities on behalf of the owners.

8. ***Grading and branding:*** On request warehouses also perform the functions of grading and branding of goods on behalf of the manufacturer, wholesaler or the importer of goods. It also provides facilities for mixing, blending and packaging of goods for the convenience of handling and sale.

Example: **Haryana Warehousing Corporation: Panipat**

Haryana Warehousing Corporation was set up on November 1, 1967 under the Warehousing Corporation Act, 1962. It carries out the following functions at large:

(a) Acquire and build godowns and warehouses at such places within the State as it may, with the previous approval of the Central Warehousing Corporation.

(b) Run Warehouse's in the State for storage of agricultural products, seeds, manures, fertilizer, agriculture implements and other notified commodities.

(c) Arrange facilities for the transport of agricultural produce, seeds, manures, fertilizers agricultural implements and notified commodities to and from warehouses.

(d) Act as an agent of the Central Warehousing or of the Govt. for the purpose of purchase, sale, storage and distribution of agricultural produce, seeds, manures, fertilizers, agricultural implements and notified commodities.

12.2 Warehousing Planning and Cost Reduction

Strategic Warehousing Logistics planning has become a means to competitive advantage. It permits the organization to align the operations with overall business objectives. Such a network has various objectives such as, speeding the supply of the products and thereby, speeding the cash flow.

Warehousing enhances the time and place capability of the overall logistical system. Nonetheless, it has to be fully justified on a cost-benefit basis. This justification can be quantified by the return on investment reflected in the direct cost-to-cost trade-off. For example, if adding a warehouse to a logistical system reduces overall transportation cost by an amount exceeding the fixed and variable cost of the warehouse, the warehouse is economically justified. This means that total costs have been reduced.

From the service point of view, logistics planning in warehousing helps to ensure a high level of growth in the revenue for all the companies involved in the chain. It enhances customer loyalty through commitment and competence. It provides options to keep costs as low as possible, while maintaining excellent customer service. The five basic benefits achieved through warehousing from a service point of view:

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- Spot stock,
- Assortment,
- Mixing,
- Product support, and
- Market presence.

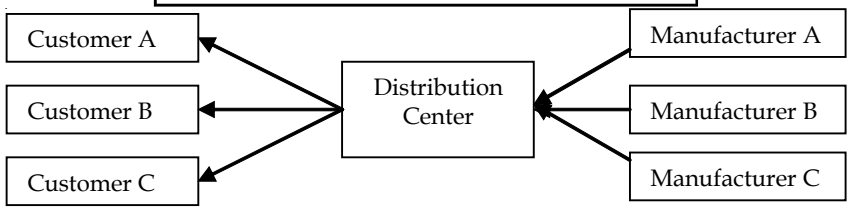
Spot Stock: Utilizing warehouse facilities for stock spotting takes place when a selected amount of a firm's product line is placed or "spot stocked" in a warehouse to fill customer orders during a critical marketing period in a variety of markets, allows manufacturers with limited or highly seasonal product lines substantially reduce delivery times to strategic markets. For example, stock spotting is commonly used in physical distribution for agricultural products to farmers during the growing season. At the end of the season, the remaining inventory is withdrawn to a central warehouse.

Distribution Assortment: A distribution warehouse is used to stock product combinations in anticipation of customer orders. It may represent multiple products from the manufacturer or special assortments of products as specified by customers.

Example: A manufacturer supplying JIT components would stock products so that it could be offered to the customer as and when required.

Distribution warehouses improve service by have inventory at hand to supply the principal and also allow larger shipment quantities, which in turn reduce transportation cost.

Figure 12.1: Distribution Assortment Warehouse



Mixing: Warehouse mixing is similar to the consolidation process. In mixing, full truckloads of products are shipped from manufacturing plants to warehouses. Upon arrival at the mixing warehouse, the shipments are unloaded and the desired combination of each product for each customer or market is selected. In-transit mixing brings economies when plants are geographically separated, reducing overall transportation charges and warehouse requirements. From the service point of view, warehouses that provide in-transit mixing have the net effect of reducing overall product storage and customer service is improved as the inventory is sorted to precise customer specifications.

Production Support: Production support warehousing meets actual requirements of raw material, part, sub-assemblies and assemblies required for production in an efficient manner. It provides for safety stocks on items purchased from outside vendors protecting against long lead times or significant variations in usage. The different types of warehousing could be Raw Materials Stores, Processed or Semi-Finishing Materials Store, Finished Goods Store, Yard Store and so on. The economics is reflected in the ability of providing the most economical total-cost solution by supplying or 'feeding' processed materials, components, and subassemblies into the assembly plant in an efficient and timely manner.

Notes

Market Presence: The major advantage of local warehouses is that local warehouses can be more responsive to customer needs and offer quicker delivery than more distant warehouse. As a result, a local warehouse increases the speed of delivery. In many cases, especially for FMCG products, this can result in increased market share and potentially increases profitability.

Cost Benefits through Operational Techniques

Some of the commonly used operational logistic techniques for cost reductions are, (a) consolidation, (b) break bulk, (c) processing/postponement, (d) stockpiling, and (e) cross docking. These basic techniques are described below. Cross docking has had a great impact on logistics costs and therefore will be described in greater detail.

- Consolidation,
- Break bulk,
- Processing/postponement,
- Stockpiling, and
- Cross dock.

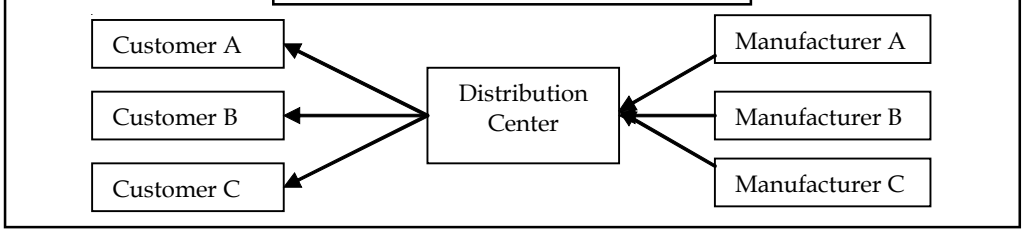
Consolidation

Warehousing is a concept for supply chain simplification and cost reduction. In this concept, manufacturers move away from multiple warehouses for downstream storage and combine their inventories with that of other manufacturers in huge warehouses that take the place of internal distribution centers or third party logistics providers.

It is called consolidation warehousing, because these warehouses perform functions otherwise found in manufacturers' distribution centres or at wholesale grocery warehouses. Shipment consolidation is when a warehouse receives and consolidates materials from a number of manufacturing plants destined to a specific customer on a single transportation shipment. The consolidation warehouse is a third party storage and consolidation point for the manufacturers and a storage and order selection facility for wholesale grocers and retail supermarket chains.

The concept calls for multiple manufacturers to combine their output into just a few consolidation warehouses instead of placing product in distribution centers or individual private warehouses. In turn, the consolidation warehouses serve multiple wholesale grocers and supermarket chains much like private warehouses now provide load consolidation.

Figure 12.2: A Consolidation Warehouse



The difference is the scale of the operation. With the consolidation warehouse serving multiple wholesalers and chains, manufacturers could ship full truckloads, often truckloads of a single product to the warehouse. On the other side of the equation, the consolidation warehouse, pulling product from a wide array of manufacturers, could build full truckloads for shipment to wholesaler and chain distribution centers.

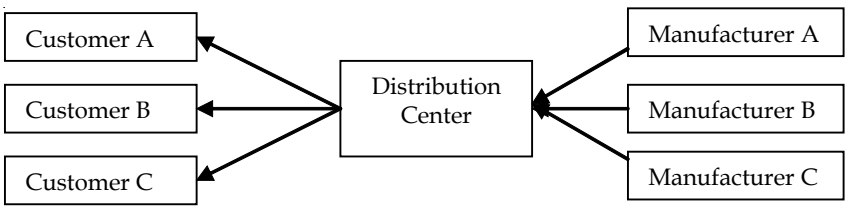
Notes

The primary benefit of consolidation is that it combines the logistical flow of several small shipments to a specific market area. They realize the lowest possible transportation rate. In order to provide effective consolidation, each manufacturing plant must use the warehouse as a forward stock location or as a sorting and assembly facility. Through the use of such a program the manufacturer can optimize total distribution cost.

Break Bulk

In break bulk warehouse operations no storage is involved. A break-bulk facility is for the consolidation of long-distance transportation movement for less-than-truckload freight to lower transport costs. It is meant for cargoes that are not in bulk. A break bulk operation receives combined customer orders from manufacturers, sorts or splits individual orders and delivers them to individual customers. Break bulk as used in this text should not be confused with the maritime term. In shipping terminology, break bulk cargo is typically loose material stacked on wooden pallets in contrast to material that is containerized.

Figure 12.3: Break Bulk Operation



The philosophy behind the "break bulk approach" is that by consolidating a large amount of freight from different locations, a larger and more diverse pool of freight is available to choose from so as to achieve better freight mix for the long haul. For example, the freight coming from one customer or terminal location may be relatively light and bulky, whereas the freight from another customer or terminal location may tend to be much denser. Some freight may be irregular in shape. By consolidating the freight originating from the different customers or terminals in one location, there is a wider range of freight to choose from, so as to efficiently use each truck for the longer journey.

Normally many 3PL operators create a terminal-break bulk network. In this system, a typical shipment would first be picked-up from a customer location and dropped off at the local terminal. It would then be moved a relatively short distance to the terminal's associated break bulk facility. From there, the shipment would be trucked a relatively long distance to the break bulk facility associated with the destination terminal. From this break bulk facility it would finally trucked to the destination terminal, to be delivered to the customer. The continual goal in this network is, however, to minimize transfers of freight. Ideally, only one break bulk should be involved in the process.

Processing/Postponement

Stores can also be used to postpone, or delay production. For example, a warehouse with packaging or labeling capability allows postponement of final production until actual demand is known. Once a specific customer order is received, the warehouse can complete final processing and finalizing the packaging.

Processing and postponement provide two economic benefits. First, risk is minimized because final packaging is not completed until an order has been received. Second, the required level of total inventory can be reduced by using the basic product for a variety of labeling and packaging configurations.

Notes

Stockpiling

In the case of seasonal products, like agricultural commodities which are harvested at specific times but consumed throughout the year, or products like sarees which are manufactured throughout the year but sold mainly during festival seasons, such products require warehouse stockpiling. Stockpiling provides an inventory buffer, which allows production efficiencies within the constraints imposed by material sources and consumer behavior while at the same time supporting marketing requirements.

Cross Docking

A cross-docking is a practice in logistics of unloading materials from an incoming truck or rail car and loading these materials in outbound trucks or railway wagons, with little or no storage in between. The idea is to transfer incoming shipments directly to outgoing trailers without storing them in between. Shipments typically spend less than 24 hours at the facility, sometimes less than an hour.

Cross-docking may be done to change type of conveyance, or to sort material intended for different destinations, or to combine material from different origins. Simply, stated cross-docking, means receiving goods at one door and shipping out through the other door almost immediately without putting them in storage. Typical applications of cross docking are as follows:

- Hub and spoke arrangements, where materials are brought in to one central location and then sorted for delivery to a variety of destinations.
- Consolidation arrangements, where a variety of smaller shipments are combined into one larger shipment for economy of transport.
- Deconsolidation arrangements, where large shipments (e.g. railcar lots) are broken down into smaller lots for ease of delivery.

Cross-docking may also involve offloading pre-assembled products for integration with other core orders before onward delivery to retail outlets. The process takes place without stock going into storage. Product categories considered suitable for cross-docking include slower-moving lines, fast-moving bulk products, chilled and frozen food, and product lines where sales are skewed geographically.

12.3 Warehousing Options

It is not necessary for the firm to own and operate its warehousing requirements. The different options include owner operated, private, and public warehousing:

- An owner operated warehouse is owned or/and managed by the same enterprise that owns the merchandise handled and stored at the facility.
- A private warehouse facility is warehousing on a contractual basis by Third Party Logistics Providers (3PL), who provide unique and specially tailored warehousing and logistics services to clients.
- A public warehouse, in India, is a warehouse operated by the Central Warehousing Corporation of India or by State Warehousing Corporations.

These definitions are often confusing; especially as terminology of 'private' and 'public' in many US learned papers are differently used. Therefore, this clarity is important.

Notes

Owner-operated Warehouses

An owner-operated warehouse is operated by the firm owning the product. The actual facility, however, may be owned or leased. The decision to own or lease the facility is essentially a financial decision. The major benefits of owner operated warehousing are that there is better control and flexibility. Control, especially, facilitates the ability to integrate warehouse operations with the rest of the firm's internal logistics processes. Where there is need for flexibility, owner-operated facilities provide the freedom to adjust operating policies and procedures to meet unique requirements of the firm. In many cases, owner operated warehouse could be less costly than private warehousing because the profit markup is eliminated. This benefit may be misleading since private warehouses often are more efficient as they utilize their resources more effectively.

There could also be a number of other intangible benefits particularly with respect to market presence. A private warehouse with a firm's name on it may produce customer perceptions of responsiveness and stability. This perception can provide a marketing advantage over other enterprises.

Private Warehouses

Private warehouses charge clients a basic fee for handling and storage. The handling charge is based on the number of cases or weight handled. For storage, the charge is assessed on the number of cases or weight in storage during the month. When economies of scale are not possible in a private facility, public warehousing is a low-cost alternative.

A classification of private warehouses, on the basis of the range of specialized operations performed, is as follows:

(1) General merchandise,

(2) Refrigerated,

(3) Special commodity, and

(4) Bonded warehouse.

Each warehouse type differs in its material handling and storage technology as a result of the product and environmental characteristics.

General merchandise warehouses: This is a warehouse that is used to store goods that are readily handled, are packaged, and do not require a controlled environment, such as paper, small appliances, and household supplies.

Traditional general warehousing companies receive and ship goods on behalf of their customers, serving as middlemen in the transportation process and a vital part of the logistics business. The carrier is chosen either by the customer or by the warehouse operator who then acts as the customer's agent.

General warehouses use EDI and other electronic devices such as bar coding and radio frequency monitoring to enhance the productivity and efficiency of warehouse operations and simplified inventory tracking. As customer expectations have become more stringent and competition in the general warehouse industry has increased, more warehouses are investing in technology to remain contenders in the market.

Private warehouses owned by 3PL operators are extensively used in logistical systems. Almost any combination of services is offered by such operators, either for a short term or over a long duration.

Refrigerated warehouses (either frozen or chilled): These are specialist warehouses designed to handle and maintain products that are perishable such as food, medical items, and chemical

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products with special temperature requirements. For example, onions are available year round because they are stored in such warehouses and released to the market based on demand. Onions must be cured and stored at an optimum temperature of 0°C with 65-70 percent relative humidity.

Beyond consistently meeting high standards for product quality and safety, these warehouses must also possess the efficiency and reliability. Energy is a major contributor to the cost of business, and the prospect of power price hikes can heighten the pressure on the profit margin. There are also issues of environmental regulation, equipment flexibility, and logistics management to deal with. Even a minor change in consumer's eating habits such as the advent of in-store take-out and heat-and-serve products can create a ripple affecting the refrigerated food supply chain.

Unfortunately, the nature of refrigeration systems makes it difficult to implement wholesale changes. The standard operating procedures and process hazard analyses need to be undertaken regularly. Planning on a long term basis and partnerships with equipment manufacturers is increasing in importance. Many such warehouses work with professional service providers for solutions with regard to preventive maintenance, special lubrication systems and filtration, consistent chemical water treatment, etc.

Commodity warehouses: These are designed to handle bulk material such as wheat, rice, sugar, lentils, cotton, edible beans, and milk etc. Non-food commodities include jute, fertilizers, tires wood pulp, tobacco, etc. Some commodities can also be in liquid form, this includes most petroleum products as well as many chemicals.

Due to the diverse nature of commodities, many commodity items require special handling or storage considerations, such as grain storage warehouses may require elevators, liquid commodities may require tank farms, and a commodity like tobacco requires a barn.

Did u know? In India most agricultural commodities are handled by the Central and State Warehousing Corporations?

Bonded warehouses: These warehouses are licensed by the government to store goods prior to payment of taxes or duties. The facility of warehousing of imported goods in Customs Bonded Warehouses, without payment of Customs duty otherwise leviable on import, is permitted under the Customs Act, 1962. Basically, goods after landing are permitted to be removed to a warehouse without payment of duty and duty is collected at the time of clearance from the warehouse. The law lays down the time period up to which the goods may remain in a warehouse, without incurring any interest liability and with interest liability.

Public Warehousing

The Central Warehousing Corporation (CWC) was set up in 1957 under the Agricultural Produce Development and Warehousing Corporations Act, 1956. Functions of CWC under the provisions of the Act are:

(a) Acquire and build godowns and warehouses at such suitable places in India as it thinks fit;

(b) Run warehouses for the storage of agricultural produce, seeds, manures, fertilizers, agricultural implements and notified commodities offered by individuals, cooperative societies and other institutions;

(c) Arrange facilities for the transport of agricultural produce, seeds, manures, fertilizers, agricultural implements and notified commodities to and from warehouses;

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(d) Subscribe to the share capital of a State Warehousing Corporation;

(e) Act as agent of the government for the purposes of the purchase, sale, storage and distribution of agricultural produce, seeds, manures, fertilizers, agricultural implements and notified commodities; and

(f) Carry out such other functions as may be prescribed.

The Central Warehousing Corporations Act of 1962 had twin objectives, that is, to provide scientific storage for agricultural produce and also to provide market finances. CWC plays an important role in the chain of marketing for agricultural produce. It serves not only as a time and space value but also adds place value to the goods.

There are three agencies in the public sector which are engaged in building large scale storage/ warehousing capacity namely, Food Corporation of India (FCI), Central Warehousing Corporation (CWC) and State Warehousing Corporations (SWCs). The total capacity of public warehousing as of October, 2006 was 56.50 million tonnes.

12.4 Warehouse Design Principles

The basic warehouse design principles, whether the warehouse is a small manual operation or a large automated facility, are based on incorporating in the design the four principles described below.

These are:

- Product movement,
- Handling technology,
- Storage plan, and
- Future expansion.

Product Movement

Physical facility characteristics and product movement are the main criteria for determining the warehouse design. The factors that need to be considered in the design process are:

- Number of stories in the facility,
- Height utilization, and
- Product flow.

The ideal warehouse design is limited to a single story so that the product does not have to be moved up and down. The use of elevators or stairs to move product from one floor to the next requires time and energy. Furthermore, stairs and elevators normally become bottlenecks in the warehouse operations since many material handlers will be using the facility at the same time. The number of stairs or elevators is normally limited due to both space requirements as well as cost.

Regardless of facility size, the design should maximize the usage of the available cubic space by allowing for the greatest use of height on each floor. Through the use of racking or other hardware, it should be possible to store products up to the building's ceiling. Maximum effective warehouse height is limited by the safe lifting capabilities of material-handling equipment, such as forklifts, and fire safety regulations imposed by overhead sprinkler systems.

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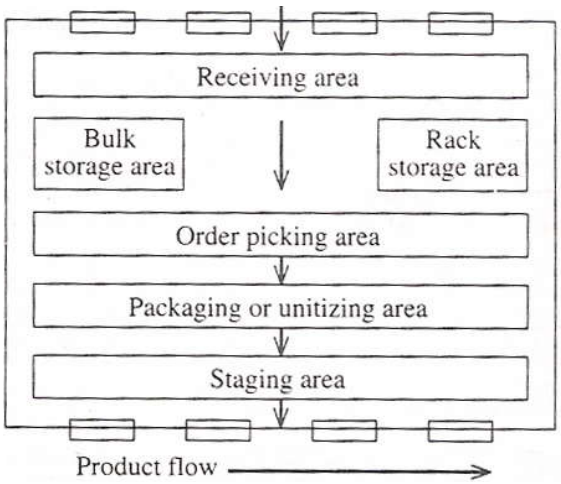
Figure 12.4: Typical Product Flow



Warehouse design should also allow for straight product flow through the facility whether items are stored or not. In general, this means that product should be received at one end of the building, stored in the middle, and then shipped from the other end. Straight-line product flow minimizes congestion and confusion.

Handling Technology

The second principle focuses on the effectiveness and efficiency of material-handling technology. The elements of this principle concern movement continuity and movement scale economies.

Movement continuity means that it is better for a material handler or piece of handling equipment to make a longer move than to have a number of handlers make numerous, individual, short segments of the same move. Exchanging the product between handlers or moving it from one piece of equipment to another wastes time and increases the potential for damage. Thus, as a general rule, fewer longer movements in the warehouse are preferred.

Storage Plan

According to the third principle, a warehouse design should consider The integrated storage plan must consider and address the specific characteristics of each product characteristics, particularly those pertaining to volume, weight and storage.

Stores is a very broad word that indicates a wide variety of materials stored such as chemical, metals, liquids, gases, spare parts, equipment, or finished goods, ranging from engineering components to drugs and pharmaceuticals. Each of these items will require a specific type of storage and their handling and preservation methods will vary accordingly. There is a high degree of specialization required to store and handle these products and in many cases special storage licenses need to be obtained from the government, e.g., the storage of petroleum products or explosive products. It is hence mandatory for stores personnel to understand thoroughly all of these requirements and implications.

Product volume is the major concern when defining a warehouse storage plan. High-volume throughput should be stored in a location that minimizes the distance it is moved, such as near primary aisles and in low storage racks. Such a location minimizes travel distance and the need for extended lifting.

Similarly, the plan should include a specific strategy for products depending on ¬weight and storage characteristics. Relatively heavy items should be assigned locations low to the ground to minimize the effort and risk of heavy lifting. Low-density products which require extensive storage volume should be put on open floor space or high-level racks. On the other hand, smaller items may require storage shelves or drawers.

Future Expansion

A warehouse forms a fundamental element in the infrastructure of the firm. While planning the facility, sufficient attention has to be given for future requirements. In case of expansion the material handling facilities and the storage plan should be expandable in a manner that the integrated design of the warehouse maintains its desired characteristics and there is maximum efficiency of product flow.

Task Illustrate the relationship between the size and shape of a distribution warehouse and the material-handling system. What would be the warehouse design you would suggest for a bulk commodity like rice?

12.5 Material Handling

Material handling is an important part of managing materials. How will the material be moved? Physically moving material requires equipment of various kinds, depending on the type and amount of material to be moved. Handling technology has developed to such an extent that it has dramatically changed the traditional concept of a warehouse. Material handling equipment can be generally classified as:

- Transport equipment,
- Positioning equipment and
- Unit load formation equipment.

Transport equipment is used to move materials from one location to another. It includes cranes and industrial trucks.

Positioning equipment is used to handle material at a single location, so that it is in the correct position for subsequent handling, machining, transport, or storage. It includes hoists and lifts. Unlike transport equipment, positioning equipment is usually used at a single workplace.

Unit load formation equipment is used to maintain integrity when handling a single load during transport and for storage. It includes pallets, bags and skids.

Though the above classification is based on application, the Material Handling Equipment Industry classifies itself on the basis of equipment category into four different sectors, namely:

- Cranes and hoists,
- Conveying equipment which includes specialist bulk handling equipment such as stackers and reclaimers,
- General equipment such as elevators, industrial trucks etc., and
- Forklift trucks.

Listed below are a few material-handling devices and when they might be used.

Notes

Overhead Cranes and Hoists

A hoist is a device used for lifting or lowering a load by means of a drum or lift-wheel around which rope or chain wraps. It may be manually operated, electrically or pneumatically driven and may use chain, fiber or wire rope as its lifting medium. The load is attached to the hoist by means of a lifting hook.

Common small portable hoists are of two main types, the chain hoist or chain block and the wire rope or cable type. Chain hoists may have a lever to actuate the hoist or have a loop of operating chain that one pulls through the block which then activates the block to take up the main lifting chain.

The basic hoist has two important characteristics to define it: Lifting medium and power type. The lifting medium is either wire rope, wrapped around a drum, or load-chain, raised by a pulley with a special profile to engage the chain. The power type can be either electric motor or air motor. Both the wire rope hoist and chain hoist have been in common use since the 1800s.

Gantry Cranes are used for overhead materials handling where existing columns do not have overhead brackets to support gantry and rails or in open areas where columns cannot be accommodated. The top main girder is mounted on two A shape columns which are further resting on wheel mounted end carriages.

Main Girder: The girder is designed considering the class, the frequency of operation and the duty cycle. The girder could be RSJ type, plate box type or truss type for single girder with its bottom flange as path for trolley of hoist.

The girder could also have a double girder design for heavy duty applications, where a suitable track is provided on top of the girders for travel of crab wheels.

Overhead cranes and hoists are used to move heavy objects through a plant. They are used for the movement of material in a fixed route and fixed area of operation. They come in a variety of sizes, and many are able to lift twenty-five tons or more. Moving steel slabs is an example of an overhead crane application. Overhead cranes are efficient at moving small parts only if the parts can be put together in a large batch and moved in one trip.

Conveying Equipment

Conveyors are used to transport material form one fixed point to another fixed point. Some conveyors have belts that can move parts or granular material; others have a series of hooks that can move parts through a paint system. Some use gravity or a powered device to carry material. Some of the conveyor systems are portable which may be moved from time to time, but generally these are fixed. These are used for the following applications:

- Moving homogeneous material
- Fixed route of movement
- Constant rate of material movement
- Mass production units

A belt conveyor consists of two or more pulleys, with a continuous loop of material — the conveyor belt — that rotates about them. One or both of the pulleys are powered, moving the belt and the material on the belt forward. The powered pulley is called the drive pulley while the unpowered pulley is called the idler.

Notes

General Equipment

Elevators and Lifts: These are used to raise or lower material in the vertical direction. They are just like lifts of a multi-storied building, but carry material.

A freight elevator (or goods lift) is an elevator designed to carry goods, rather than passengers. Freight elevators are often exempt from some code requirements and from some of the requirements for fire service. However, new installations would likely be required to comply with these requirements. Freight elevators are generally required to display a written notice in the car that the use by passengers is prohibited, though certain freight elevators allow dual use through the use of an inconspicuous riser. Freight elevators are typically larger and capable of carrying heavier loads than a passenger elevator, generally from 2,300 to 4,500 kg. Freight elevators may have manually operated doors, and often have rugged interior finishes to prevent damage while loading and unloading. Although hydraulic freight elevators exist, electric elevators are more energy efficient for the work of freight lifting.

A special type of elevator is the paternoster, a constantly moving chain of boxes. A similar concept moves only a small platform, which the rider mounts while using a handhold and was once seen in multi-story industrial plants.

A different kind of elevator is used to transport material. It generally consists of an inclined plane on which a conveyor belt runs. The conveyor often includes partitions to prevent the material from sliding backwards. These elevators are often used in industrial and agricultural applications. When such mechanisms (or spiral screws or pneumatic transport) are used to elevate grain for storage in large vertical silos, the entire structure is called a grain elevator.

Hydraulic elevator systems lift a car using a hydraulic ram, a fluid-driven piston mounted inside a cylinder. They are quite common for low and medium rise buildings (2-8 floors) like warehouses, attain speeds of up to 200 feet/minute (1.0 m/s), and use a hydraulically powered plunger to push the elevator upwards. Modern freight elevators have elaborate systems with advanced mechanical systems to handle the substantial weight of the elevator car and its cargo.

Industrial Trucks: These are manual or external powered vehicles, which can move on a variety of paths. These are particularly useful for the following situations:

1. Uneven (intermittent) supply of material
2. Varying paths of movement
3. Job-shop production units

Industrial carts and industrial trucks are used to transport equipment or materials. There are many different types of products. Cabinet carts have compartments with doors or drawers. Container carts or utility carts are suitable for general-purpose applications. Drum carts or drum trucks are designed to lift and move drums. Hand trucks, appliance trucks, and instrument carts are used to move equipment. Janitorial carts, cleaning carts, linen carts and laundry carts are often used in hotels or restaurants. Office carts or mail carts contain shelves or racks for office materials such as mail and files.

Forklifts

Forklifts are used to move parts through varying paths. Because they have drivers, these vehicles are very flexible. Forklift trucks are available in many variations and load capacities. In a typical

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warehouse setting most forklifts used have load capacities between one to five tons. However, machines of over 50 tonnes of lift capacity have been built.

In addition to a control to raise and lower the forks (also known as blades or tines), the operator can tilt the mast to compensate for a load's tendency to angle the blades toward the ground and risk slipping off the forks. Tilt also provides a limited ability to operate on non-level ground.

The following is a list of the more common lift truck types. It is arranged from the smallest type of lift to largest:

- Hand pallet truck
- Low lift truck (powered pallet truck, usually electrically powered)
- Towing tractor
- Stacker
- Reach truck (small forklift, designed for small aisles, usually electrically powered)
- Sideloader
- Telescopic handler
- Order picking truck
- Articulated very narrow aisle counterbalanced trucks (commonly called "Flexi Truck")

Forklifts generally do not move large volumes of parts along the same path. Bulk material handling techniques are used, where large volumes are involved.

Efficient planning and control of the material handling system can add to efficiency. For example, standard size of material should be transported to reduce time. Part orientation principle should be employed so that, while unloading, the material position should be as per the need of the destination point.

By using the concept of unit size load many companies aggregate material into a longer unit/container or pallet of standard size thereby saving on transportation costs. Backtracking of parts movement should be avoided as it only adds to cost and time.

Caution Cost-efficient material handling is beneficial to both the organization as well as the work force. There are a large range of materials handling equipment options available. However, when deciding options the criteria should be to choose simple and safe equipment that has operator safety and functionality as the prime objectives.

12.6 Warehousing and Stores Operations

Stores range from ordinary ones with shelves and bins to cold or dehumidified storages, huge silos for storage of food grains or bonded stores for keeping goods on which customs and excise duties have not been paid. The number of different storage devices is almost as large as the number of different materials. A schematic diagram of production support store's activities is given in Figure 12.5.

Stores functions focus on the physical movement and storage of goods and materials. This involves managing the physical flow of materials into and out of the organization and developing and managing networks of warehouses when needed.

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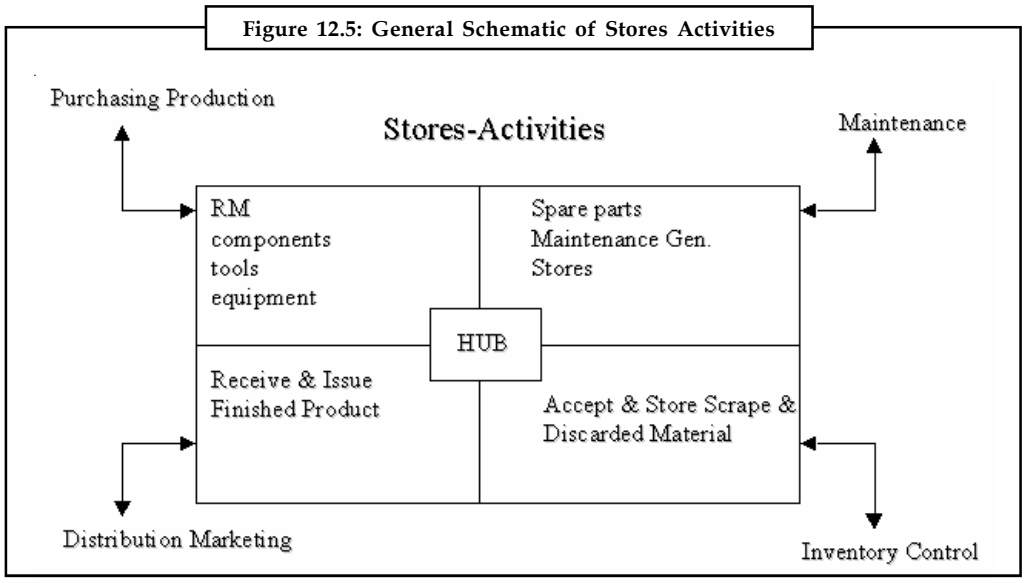
Figure 12.5: General Schematic of Stores Activities



The stores department should be under the control of a stores manager. He is responsible for receipt, storage and issue of materials. The functions shown in Figure 12.5 can be divided into a number of duties and responsibilities. These are as follows:

(a) To receive materials, arrange for inspection and accept them after proper verification of documents.

(b) To prepare stores received note promptly and circulate the copies to other departments.

(c) To store the accepted materials of right quantities against authorized stores requisitions.

(d) To issue correct materials of right quantities against authorized stores requisitions.

(e) To enter receipt, issues and return of materials in the bin cards, and to maintain other stores records.

(f) To issue purchase requisition when reordering level is reached.

(g) To check bin card balances with the physical quantities in the bins periodically.

(h) To follow rotation of stocks to avoid holding old stocks.

(i) To report on waste, scrap, slow-moving, non-moving and obsolete items.

(j) To maintain stores in a tidy manner for easy access to bin at any time.

(k) To receive and issue finished products for despatch to the distribution chain.

The procedures for receipt start even before the time the material reaches the plant: when a purchase order is placed, a copy is sent to the stores. Once a Purchase Order has been issued the information sits in the system until the goods/service is received. Inbound deliveries which include stock transport orders, production orders, and Advanced Shipping Notification (vendor document) contain the exact materials, quantities, and the delivery date with reference to a purchase order. This becomes the basis for the receipt process.

Notes

Goods Receipt

The goods received are entered into the Inward Consignment Register shown as Figure 12.6. This document keeps the record of all the P.O. No., date of receipt, incoming Railway Receipt, Lorry Receipt, Consignment Note, Airway Bills etc.

Figure 12.6: Inward Consignment Register

Sl. No.	PO. No.	Date of receipt of R/R, L/R in Stores	R/R L/R No. & Date	No. of Packages	Mode of Transport	Consignor	Consignment cleared on	Expenses Incurred with details

The receipt of stores is a follow-on activity to a purchase order. It forms the basis for updating the financials and inventory records and can trigger warehouse management and the quality management processes. Traditionally, receiving and inspection share facilities. As soon as material is received, it is documented and passed on to quality control for inspection and then moved to stores for inward distribution to manufacturing.

The materials that arrive from the supplier come with a challan. From the original copy of challan, the receipt is entered in Daily Receipts Register which is maintained in the receipt section. This is done after verification with the specifications given in the purchase order and physical counting.

The storekeeper then prepares a Goods Receipt Note (GRN). A computerized GRN is shown in Figure 12.7. It could also be a manual document, as shown in Figure 12.8 The storekeeper then sends two copies of the GRN to quality control department along with sample material for inspection an approval of quality.

Figure 12.7: Daily Receipts Register

Date: .....

Sl. No.	GRN No. & Date	Nomen-clature	Supplier	Challan No. & Date	Qty. as per Challan	Qty. actually received	Remarks	Received by (Stores Assistant)

The GRN specifies the circulation, supplier's name, codes, date, purchase order no., challan no. and date, description code number, unit quantity, bin card and received/rejected/accepted reference. It also has information relating to what has been received, how much and when.

Notes

Figure 12.8: Manual GNR

Supplier's Name & Address_____ Supplier's Invoice No. _____Date _____ RR No./ PP No./____
Air Consignment No. & Date _____

Challan No. _____ Date _____ Case No. _____
Gross Weight _____
size _____
Purchase Order No._____ Date _____ Type of Stores_____

Sl. No.	Description	Unit of Measurement	Quantity						Rate & Amount	Reasons for Rejection
			Ordered	Received	Short	Excess	Rejected	Accepted		

Entered in Bin Card by _____
Entered in Stock Register at Page No. _____
Entered in Stock Register by _____
Signature of Receiver _____

Stores & Purchase Manager
Inspecting Officer

The goods received note is a temporary document to ensure that the financial stock and physical products in stock are accurate from the moment when the products are received until the moment the purchase invoice is issued. It will:

- Debit the stock asset account with the quantity and cost of the products net of VAT
- Credit pending goods received notes account for the net amount on the goods received note

Even though the goods received note contains VAT amounts, no VAT postings are made. It is not permitted to deduct VAT until a proper VAT invoice is received from the supplier. The function of the pending goods received notes account is to capture the liability incurred by the receipt of the products.

Supplier Payment

When the materials are accepted by the quality control department, one copy of the GRN is sent to stores for recording in the bin card, while the first copy is sent to accounts department as a record of acceptance of materials ordered and supplied by the vendor. Once this has happened and you have an invoice, it is time to complete a GRN. The GRN copy is matched with the invoice, for payment. After it is checked and priced out by accounts department with reference to purchase order, it is cleared for issue of pay order.

Notes

When materials are rejected by the quality control department, the purchase department informs the supplier for replacement free of cost. The storekeeper shall keep the rejected material separately for return to supplier. If payment has already been made, the accounts department shall raise a debit note on the supplier, when rejected store is not replenished.

Recordkeeping

Figure 12.9: Bin Card

(To be Printed on Obverse)

Bin Card No.....
From.....
.....
From.....

Article .....
Code No.....
Unit.....
Issue Rate.....

Maximum Stock.....
Minimum Stock .....
Ordering Level.....

Signature of Issuing Officer

Date	GRS/ Indent No.	Quantity		Balance	Initials of Stores Keeper/ Sectional Officer	Remarks
		In	Out			
1	2	3A	3B	4	5	6

(To be Printed on Reverse)

Date	GRS/ Indent No.	Quantity		Balance	Initials of Stores Keeper/ Sectional Officer	Remarks
		In	Out			
1	2	3A	3B	4	5	6

For planning and controlling operations, accurate information regarding materials must be available to all the related departments. Information regarding description of all the materials, quantity received and their locations is entered into the organization's information system in receiving. This is done by entering the data in a bin card. Each bin or location in the store has a bin card which provides all the information on the material.

A bin card is shown in Figure 12.9. It is a quantitative record of receipt, issue and closing balance of each item of stores. Separate bin cards are maintained for each item. Each card is filled up with physical movement of goods i.e. on receipt and issue. Whenever you take out or put in your goods it records the movement. This makes it easy to work out the consumption for each article. Without a bin card, you would have to go back to your issue orders to determine the status of each item, which could be quite laborious. Therefore, bin cards are an essential measure of internal control, as well as a very helpful tool for position/consumption reports.

Normally an account will be maintained for each item carried in stores, which will be debited for the quantity and value of stores purchased and credited for the quantity and value of stores issued. This account is called the stores ledger shown in Figure12.10. Stores Ledger is a quantitative and value record of receipt, issue and closing balance of each item of stores. It is filled with the help of goods received note and material issue requisitions.

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Figure 12.10: Stores Ledger

STORES LEDGER

Sub-Division.....
Section .....

Article .....
Maximum.....
Minimum .....
Ordering level.....
Code No.....
Unit.....
Issue Rate.....from.....

Sl.No.	Date	From whom received/To whom issued	GRS/Indent No.	Receipts					Issues	
				Quantity A	Rate B	Value C	Incidentals D	Total E	Quantity A	Value B
1	2	3	4	5					6	
				Rs.	Rs.	Rs.	Rs.	Rs.		

Balance		Reference to payment or adjustment of debit			Initials of Poster	Initials of Divisional Acctt.	Remarks including reference to Serial No. of item to which excess/short amount paid, if any, relates
Quantity	Value	Voucher	TEO No.	Date			
A	B	A		B			
7		8			9	10	11
Rs.							

All transactions are entered into the Stores Ledger from copies of vouchers received from the different sections. Stores ledger, for both quantity and value, should be closed at the end of each month and reconciled with the summaries of purchase and indents.

In managing a warehouse, you can control the goods receipt and goods issue processes at a physical level. Store has as its objective the rapid flow of material into a facility. Ideally, the material would move directly to the production line without making an intermediate stop in a warehouse or other storage area. However, if the material cannot be used immediately, it is placed in storage.

Issue of Materials

Issue of materials from storage is controlled through Material Requisition Note and Material Transfer Note.

The data required for goods issue posting is copied from the Material Requisition Note into the Material Transfer Note so that:

- Warehouse stock is reduced by the delivery quantity.
- Value changes are posted to the balance sheet account in inventory accounting.
- Requirements are reduced by the delivery quantity.
- The serial number status is updated.
- The goods issue posting is automatically recorded in the document flow.
- Stock determination is executed for the vendor's consignment stock.
- A work list for the proof of delivery is generated.

After goods issue is posted for an outbound delivery, the delivery might be shipped to the customer directly from the fulfilling locations (more than one delivery), or consolidation may occur at one location before one complete shipment is transported to the end customer.

Notes

When the materials are despatched for an outbound delivery, The purpose is to identify the items packed at the receiver's end. In case of any discrepancies, it facilitates the consignee to check the contents and inform the consignor if there are any discrepancies.

Figure 12.11: Summary of Stores Procedures for Receipts and Issues

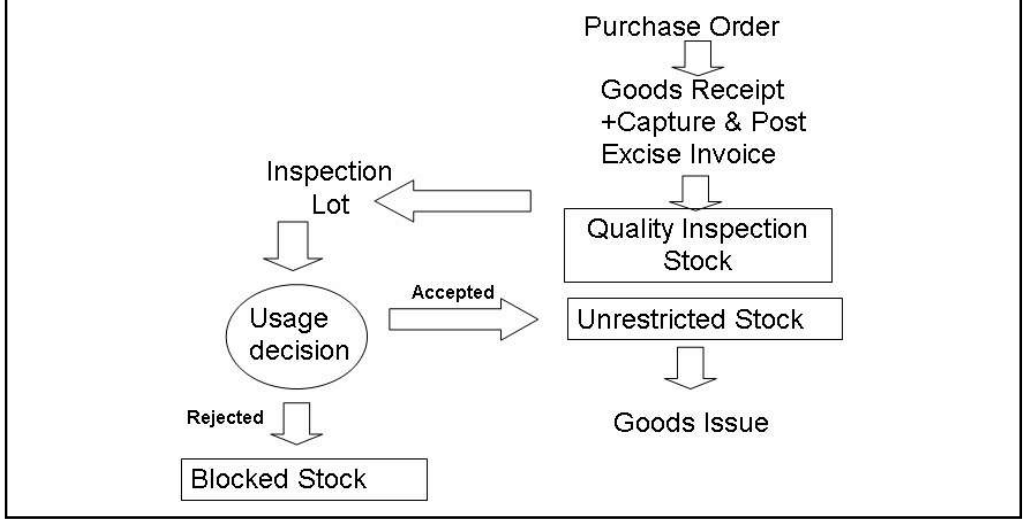

Figure 12.11 summarizes the procedures for receipts and issues in Stores. It provides a flow chart from the time the purchase order is issued to the time that goods are issued. In brief, the basic requirements of documentation related to receipt and issues in store should be as follows:

Receipt of Stores has to put in place adequate physical safeguards in the goods receipt procedure; properly document and account for each goods receipt voucher; establish policies and procedures for handling exceptional matters of goods receipt; and establish written procedures for lodging claims for supply and delivery problems

Issue of Stores has to properly document and account for all delivery vouchers; issue store items on a consistent basis; and properly controls the issue of goods e.g. check the voucher authorizations against a record of specimen authorized signatures.

Notes The ultimate requirement of stores documentation is to ensure that goods are received, checked, stored, delivered and returned in a consistent manner.

12.7 Material Verification and Control

Checking of stock by physical verification is an essential feature of stock control. Such checking may be periodic or continuous. Under periodic stock verification system, all the items of stocks are to be verified once a year, while in a continuous system checks are always ongoing.

Continuous Stock Verification

Continuous stock verification is generally used for perpetual inventory systems. Stock verification starts when all records are complete. It rests with the Stores Officer to get the records completed before the Stock Verifier starts to verify the stock. Under continuous stock verification plan, the stock verifier counts or weighs or measures the physical quantity of a particular item, and records his results in the 'stock verification sheet'. Stock verification sheet is a preprinted

form having columns for 'quantity as per bin card', 'quantity as per physical count', 'difference' and 'remarks'.

An alternative method is to check the stocks and the results are recorded on the bin card. The stock-verifier records the bin card balance, the result of physical count and difference, if any, and puts his remarks regarding reasons for difference and obtains the signature of the storekeeper. Where result of stock verification is recorded on the bin card itself, the stock verifier puts his initial and date against the balance quantity, if the latter agrees with the physical count.

Periodic Stock Verification

In case of periodic stock verification, normally inventory tags are used. Inventory tags are serially numbered and contain stores description and code no., location, unit code, quantity, signature of stock verifier and date of verification, and have two identical portions with perforation in between, so that after verification, the lower part can be taken by stock verifier while the upper part remains attached to the bins.

Inventory tags are used for every material at each of the bins, racks in the stores, sub-stores and in the shop-floor for unused stores and work-in-process. Tags are sent to raw material, packing material and engineering stores and production departments well in advance.

When tags are tied up with all items, the stock verifier starts picking up the tags from one end and completes verification of every section without break. Quantities are then totaled up and recorded in the stock sheet, showing physical stock, book balance and difference.

Under periodic stock verification system, all the items of stocks are to be verified once a year at the time of preparing annual accounts resulting in the following difficulties:

(i) Loss due to stoppage of production for stock-taking.

(ii) Shortage of experienced stock-verifiers, if all items of stores are to be verified at a time.

(iii) Thus, quality of verification suffers.

(iv) Discrepancies revealed during verification are rectified only at the end of the year.

(v) Element of "surprise check" which helps to detect irregularities are absent.

Stock Discrepancies

The discrepancies between physical stock and stores ledger balance may occur due to various reasons. Some of these are normal, natural and unavoidable, such as,

(i) Breaking bulk,

(ii) Evaporation loss, shrinkage and drying loss or absorption gain,

(iii) Volume fluctuation due to temperature,

(iv) Units of purchase and issues being different i.e. purchased by weight, but issued by quantity.

The avoidable causes of discrepancies are as follows:

(i) Incorrect entries in bin cards.

(ii) Storage in wrong bins.

(iii) Short or excess issues or wrong issues of material.

(iv) Excess or shortage in packages or bundles not checked at the time of receipt.

(v) Pilferage and theft.

Notes

Storage and Handling Loss

Material cost price is inflated to cover normal storage and handling losses, which arise because of the following reasons:

(a) Units of receipt and units of issue may differ.

Example: Aluminium foil is purchased by weight, but used by square metre.

(b) Natural losses due to evaporation, shrinkage or drying.

(c) Some of the materials may gain or loss due to change in temperature.

In case of such materials, cost per unit is inflated to ensure that such losses are recovered while the material is issued to production.

For example, if there is a natural loss of 10 percent of a material, which is purchased @ ₹ 10 per kg., the unit price for the same will be:

₹ 10 = 10 × 1.1 = ₹ 11.10 per kg.

However, where any abnormal loss occurs, it should be charged to the profit and loss account.

Material Control

A material control system is an integrated package of software and hardware used in stores operations, and elsewhere, to monitor the quantity, location and status of inventory as well as the related shipping, receiving, picking and put away processes. The essential requirements of the system encompass the following:

(i) Classification, codification, standardization and rationalization of all stores into raw material — classified into standard and nonstandard items, packing materials, components and assemblies, engineering stores and machine parts, loose tools, laboratory supplies, inspection materials, etc.

(ii) Determining standard or norm for consumption of stores as well as stockholding at various levels.

(iii) Use of standard forms and documents.

(iv) Planning of material requirements by reviewing sales plan, position of finished stock and work-in-process, production plan, stock-status in stores, and expected arrival as per orders placed.

(v) Continuous updating of stock position with the information available from purchase, stores, production and dispatch departments.

(vi) Arranging conversion of basic raw materials into components through outsourcing.

Checking of stock by physical verification is an essential feature of material control. In addition, preparing regular reports to management indicating stock-holding, ordering position, consumption, critical items, excess storage, slow-moving, non-moving, dormant, surplus and obsolete stocks (by quantity and value), etc. are the other functions of material control.

The proper choice of material control systems is extremely important. The following facts describe the important differences that determine the choice of the system that should be used.

1. Perpetual systems are expensive to operate and maintain but if economically justified, provide the best control parameters.

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2. Periodic systems require less manpower to control compared to perpetual systems. In perpetual systems, each item must be counted as it is issued or demanded. In periodic systems, physical inventory count is taken only at the end of the period. This system is especially good for fast moving raw materials and supplies.
3. Periodic systems require less calculating time than perpetual systems. In the event triggered system, each issue or demand from stock must be recorded and accounted for. Systemic costs i.e. the costs of running the system are generally less with the time triggered system.
4. Periodic systems may require more buffer stock to protect against uncertain demand and lead time. The reorder time is often non-optimal as it is fixed either weekly or monthly, and not based solely on economics, resulting in higher physical inventory costs.
5. Periodic systems run the risk in more stock outs when unusually high fluctuation in demand occurs. When one or successive periods of unusually large demand occur, perpetual systems can react more quickly, because they keep track of net inventory with each unit demanded.

The proper choice of control systems is extremely important. In order to be effective, the material control system should provide satisfactory answers to three questions: (a) How often should the assessment of stock on hand be made? (b) When should a replenishment order be placed? and (c) What should be the size of the replenishment order? The answers to these questions should determine the system used to control materials.

Task Which are the different documents required to issue material? Explain the different documents and their roles.

12.8 Impact of Supply Chain Collaboration on Warehouse Management

Warehousing facilities play a vital role in the overall supply chain process. It is evident that continuing globalization and changes/challenges occurring in such areas as reverse logistics, environmental sustainability, information technology, and overall supply chain integration are further evolving the strategies, roles, and responsibilities for warehouses.

In fact the term "distribution center (DC)" may be much more appropriate in representing the broad range of activities that now occur in modern warehouses that go beyond filling customer orders to provide an ever expanding array of value added services.

There are a number of situations where DC's simply would add cost (and little or no value) to the supply chain. DC's add little or no value for products bought in bulk (e.g. raw materials, manufactured items) with little or no time sensitivity associated with their use. Products insensitive to transportation costs (i.e. transportation cost is a small percentage of product value) also typically move directly to customers.

For other products, however, DC's provide a dual value-added role making supply chains more efficient and more effective. DC's add efficiency by consolidating products for shipment to customers, reducing transportation costs, and performing a broad range of value added services (e.g. branding, labelling, assembly, packaging, kitting, reverse logistics). DC's also make the supply chain more effective. The strategic placement of DC's allows the positioning of products and services close to major markets and customers (the economic principle of place utility).

Optimization strategies are utilized to position product availability and delivery as a competitive advantage while also optimizing the cost trade-offs associated with transportation, facilities,

Notes

equipment, workforce, and other critical cost variables. DC's also facilitate time utility by storing product until it is demanded.

Product type often determines the need for and specific role of DC's in the supply chain. Characteristics to be considered include:

- Seasonality in either production or consumption
- Demand variability
- Manufacturing economics
- Marketing and promotional initiatives
- Transportation economics
- Service requirements
- Customizability and variants of product

Products that have extremely high service requirements from a time perspective present unique challenges since they often affect the efficiency, performance, and cost of customers' operations. As an example companies that distribute parts for technology products (e.g. computers) and capital goods (e.g. airplanes, construction machinery) must be capable of distributing those parts within hours. Similarly many automotive manufacturers have "inbound" DC's located in close proximity to manufacturing plants so that subassemblies and other components can be assembled and "profiled to line" for the production process.

Postponement is also becoming a critical issue and value added service for DC's. When demand is unpredictable it often makes sense to "assemble and ship to order". Inventories remain "generic" providing more flexibility and reducing costs (e.g. inventory, transportation, surplus, obsolescence). Postponement is particularly effective in supporting customer product configuration and branding requirements.

Company capabilities to determine DC requirements are essential for achieving successful networks and operations. DC requirements include location, design and operations, determining the information and technology requirements, and measuring performance.

Location

In addition to transportation costs DC location is determined based on the location of major markets and customers, the location of supply points, the volume of product moving to or from supply points and customers, transportation rates, the level of service required, and the product characteristics. Local conditions including access to and cost of labor, land and buildings, IT/communications infrastructure, transportation infrastructure, and government policies (e.g. environment, incentives, taxes) also play a significant role in determining location.

Design and Operations

The product, how it is received, the nature of customer orders, service levels, and transportation mode are the primary determinants of distribution center design and operations. Product characteristics include weight and dimensions, packaging, shelf life, temperature and lot control requirements, and hazardous material requirements. How the product is received is critical to both inbound operations efficiency (dock to stock cycle time) and space utilization/storage efficiency.

To optimize efficiency in inbound operations it is ideal to receive material in an immediately storable conveyance (e.g. pallet, case, box). The types and volumes of orders that are processed

and the number of Stock Keeping Units (SKUs) in the DC are important considerations in determining layout, equipment selection, and business process requirements. Storage equipment selection should be matched to product characteristics, volume, and any additional unique requirements (e.g. security, temperature control,).

Information and Technology Requirements

Information is the critical driver for successful DC operations. Short term forecasts provide information to determine labor and space requirements over a short term planning horizon. Longer term forecasts are used for capacity planning (e.g. DC size, workforce and equipment requirements.). Information technology is critical in achieving DC performance. Warehouse Management Systems (WMS) direct where products should be stored and provide the necessary functionality for the completion and optimization of receiving, storing, and shipping operations. Additional functionality may permit the use of hand held devices and bar coding to optimize efficiency and reduce errors. Most WMS systems also include inventory management functionality that permits the DC to have real time information on the inventory status of all items in the DC.

Measuring Performance

The primary objectives of DC's include providing the right product, at the right place, right time, and damage free – at a competitive cost. Fundamental to achieving and sustaining these objectives is measuring performance. The most common DC performance measures include handling productivity, space utilization, accuracy, damage, service, cost, and inventory. Handling productivity is often measured in "units or lines" picked per hour or total handling cost per "unit". Space utilization is evaluated based on the percentage of total space available for storage, percentage of useable storage space actually used for storage, and storage cost per unit of product.

Accuracy includes measures of location and record accuracy, the percentage of items picked correctly, and the percentage of orders picked correctly. Damage measurements include the percentage of items picked that are undamaged when received by the customer and the percentage of orders picked without damaged merchandise. Service measures include fill rate which is based on the number of orders that were filled completely.

Cycle time is also a critical measure to determine service and efficiency. Dock to stock cycle time is a critical measure of how long it takes to make material available following receipt. Order cycle time measures the elapsed time from order receipt until order shipment. Order cycle time may also include transportation to measure the total elapsed time until the customer receives the product. Cost and inventory performance measurements include total distribution center cost per unit handled, distribution center cost as a percentage of sales, and inventory turnover.

Self Assessment

Fill in the blanks:

1. A …… is a static unit in the material and product pipeline, necessary to match products in a timing sense with consumers, for storage of products
2. …… planning in warehousing helps to ensure a high level of growth in the revenue for all the companies involved in the chain.
3. In …….. concept, manufacturers move away from multiple warehouses for downstream storage and combine their inventories with that of other

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manufacturers in huge warehouses that take the place of internal distribution centers or third party logistics providers.

4. A break-bulk facility is for the consolidation of ……-distance transportation movement for less-than-truckload freight to lower transport costs.

5. A …… is a practice in logistics of unloading materials from an incoming truck or rail car and loading these materials in outbound trucks or railway wagons, with little or no storage in between.

6. …… cross docking: receiving product from multiple vendors and sorting onto outbound trucks for different stores.

7. ……. cross docking is when the customer is assigned before the shipment leaves the vendor, so it arrives to the cross dock bagged and tagged for transfer.

8. …… equipment is used to handle material at a single location, so that it is in the correct position for subsequent handling, machining, transport, or storage.

9. ……. are used to transport material form one fixed point to another fixed point.

10. The …….. specifies the circulation, supplier's name, codes, date, purchase order no., challan no. and date, description code number, unit quantity, bin card and received/ rejected/accepted reference.

11. Continuous stock verification is generally used for …… inventory systems.

12. A …….. control system is an integrated package of software and hardware used in stores operations, and elsewhere, to monitor the quantity, location and status of inventory as well as the related shipping, receiving, picking and put away processes.

Case Study

Agrostroj Pelhrimov

Product: Accellos One Warehouse

Industry: Agricultural Equipment

Key Benefits

- Increase in accuracy from 50% to 98%
- Picking process time reduced by 50%
- Reduction in number of picking errors
- Sales order cycle time 3 times faster
- Able to reduce labor by two personnel

Company

Established in 1886 in Pelhrimov, Czech Republic, Agrostroj Pelhrimov (Agrostroj) has been providing North and South America, Europe, and Russia with a wide selection of specialized agricultural machinery for over a century. The sole manufacturer of agricultural machinery in the Czech Republic, Agrostroj builds agricultural machines and precise engineering tools in addition to partnering with other multi-national agricultural machinery companies such as Volvo, Mitsubishi, and Caterpillar. Agrostroj's product output consists of 20% finished machinery, 13% engineering tools, and 67% joint collaboration projects. With over 900 employees and sales reaching 37 million Euros in

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2005, Agrostroj is a widely recognized leader in its space. The organization prides itself on innovation in its products as well as the nature of its manufacturing process.

Challenge

Agrostroj was expanding due to the ambitious projects it undertook, its commitment to meeting strict customer requirements, and the expansion of their manufacturing capacities. In order to accommodate their growing business, the organization sectioned off a 25,000 square meter area within their production facility to act as their new warehouse designed to store extra parts for the manufacturing area of the production facility. With a larger warehouse area and a greater number of stock items, the company realized their need for specialized software to manage inventory.

Agrostroj had undergone several large structural changes to better meet the changing needs of the agricultural marketplace, transitioning from a state-owned and operated business to a privately held joint stock company. Due to their continued success, resulting in an average annual growth of 5%, the organization was finding it difficult to meet customer demands. As the company continued to grow, it became more difficult to keep track of all necessary components.

Agrostroj's warehouse used selective pallet racking with over 3,800 pallet positions, and pick racking with 4,000 positions. With no system in place to track inventory location, employees were forced to rely on memory, locating items by recollection, which led to long pick times and poor order accuracy. With one out of every two orders incorrectly picked, accuracy improvement was of great concern to the company. "We had outgrown our old way of storing machinery parts, and needed to find a warehouse management system that would take care of our products while allowing us to continue to expand," says Jaroslav Kudyn, IT Director, Agrostroj Pelhrimov. "Now, with Accellos One Warehouse, we never need to worry about our warehouse holding back our sales process again. Accellos keeps track of everything we have, from a single bolt to a finished machine."

Solution

In 2005, Agrostroj turned to Czech Republic-based Accellos partner, Kodys, to help them find a solution for their warehousing needs. A specialist in implementing barcoding solutions, Kodys has been helping customers improve supply chain and logistics management for over 15 years.

"Our partnership with Accellos has enabled us to expand our service offerings to include a complete portfolio of supply chain management solutions, bringing about new opportunities for both us and our customers," says Zdenek Vonasek, Managing Director, Kodys. "We are pleased to be able to offer our clients a solution to help them save both time and manpower in addition to increased accuracy and real-time visibility onto the warehouse floor."

Kodys developed a custom interface integrating Orfert ERP, a locally developed solution, with Accellos One Warehouse and guided Agrostroj's staff through the transition to an automated WMS to ensure a smooth conversion.

Benefits

Since implementing Accellos One Warehouse, Agrostroj has seen a 50 percent increase in accuracy while cutting pick times in half. The organization has also seen a significant decrease in the number of errors occurring throughout the day's processes, since all inventory movement is now tracked using RF barcodes.

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Accellos automatically logs all processes drastically reducing the possibility for human error. With Accellos One Warehouse, Agrostroj has achieved 98% inventory and order accuracy, and has been able to add a new product line to their business which they were logistically unable to accommodate under their old system. The company now processes between 100 and 300 orders per day, with each order consisting of 5-10 lines.

"I'm very happy with our Accellos One Warehouse system," says Jaroslav Kudyn, IT Director, Agrostroj Pelhrimov. "We are now able to accurately track our entire inventory within our warehouse, and our workers don't have to locate items by memory any more. With all of these benefits, and the fact that Accellos' ROI is already becoming apparent, we would have to say that this is a very cost effective system."

Question:

Discuss in brief the benefit of Accelloone Warehouse system.

Source: http://www.accellos.com/wp-content/uploads/Agrostroj-Case-Study.pdf

12.9 Summary

- A warehouse or store is a static unit in the material and product pipeline, necessary to match products in a timing sense with consumers, for storage of products. It holds raw materials, semi-finished goods or the finished goods, for different periods in time.
- Efficient warehousing permits reduction in material and parts storage and handling costs while optimizing production, for manufacturers producing products at multiple locations. Warehousing has also become an integral part of JIT and stockless production strategies.
- Technology-based improvements, especially information technology, makes it possible to respond to growing customer demands in terms of product and shipment profiles. With advanced information technology, warehouse operators can quickly react to changes in market conditions.
- Warehousing enhances the time and place capability of the overall logistical system. Nonetheless, it has to be fully justified on a cost-benefit basis. There are five basic benefits achieved through warehousing from a service point of view: (a) Spot stock, (b) Assortment, (c) Mixing, (d) Product support, and (e) Market presence.
- Some of the commonly used operational logistic techniques for cost reductions are, (a) consolidation, (b) break bulk, (c) processing/postponement, (d) stockpiling, and (e) cross docking.
- In consolidation warehousing, manufacturers move away from multiple warehouses for downstream storage and combine their inventories with that of other manufacturers in huge warehouses that take the place of internal distribution centers or third party logistics providers.
- In break bulk warehouse operations no storage is involved. A break-bulk facility is for the consolidation of long-distance transportation movement for less-than-truckload freight to lower transport costs.
- Stores can also be used to postpone, or delay production. Stockpiling provides an inventory buffer, which allows production efficiencies within the constraints imposed by material sources and consumer behaviour while at the same time supporting marketing requirements.
- A cross-docking is a practice in logistics of unloading materials from an incoming truck or rail car and loading these materials in outbound trucks or railway wagons, with little or

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no storage in between. Simply, stated cross-docking, means receiving goods at one door and shipping out through the other door almost immediately without putting them in storage.

- Material handling equipment can be generally classified as, (a) Transport equipment, (b) Positioning equipment and (c) Unit load formation equipment. Transport equipment is used to move materials from one location to another. It includes cranes and industrial trucks. Positioning equipment is used to handle material at a single location, so that it is in the correct position for subsequent handling, machining, transport, or storage. Unit load formation equipment is used to maintain integrity when handling a single load during transport and for storage. It includes pallets, bags and skids.
- There have been several new developments in equipment for moving stock in both factories and distribution centers. Such developments include Automated Guided Vehicles (AGVs) and Robots.
- A material control system is an integrated package of software and hardware used in stores operations, and elsewhere, to monitor the quantity, location and status of inventory as well as the related shipping, receiving, picking and put away processes. Checking of stock by physical verification is an essential feature of material control. In addition, preparing regular reports to management indicating stock-holding, ordering position, consumption, critical items, excess storage, slow-moving, non-moving, dormant, surplus and obsolete stocks (by quantity and value), etc. are the other functions of material control. The proper choice of control systems is extremely important.

12.10 Keywords

Break-bulk: This facility is for the consolidation of long-distance transportation movement for less-than-truckload freight to lower transport costs.

Consolidation warehousing: It is a concept for supply chain simplification and cost reduction.

Cross-docking: It is a practice in logistics of unloading materials from an incoming truck or rail car and loading these materials in outbound trucks or railway wagons, with little or no storage in between.

Industrial Trucks: These are manual or external powered vehicles, which can move on a variety of paths.

Owner-operated warehouse: It is operated by the firm owning the product.

Positioning equipment: It is used to handle material at a single location, so that it is in the correct position for subsequent handling, machining, transport, or storage.

Post-distribution cross docking: This is when the cross dock itself allocates material to its stores.

Pre-distribution cross docking: This is when the customer is assigned before the shipment leaves the vendor, so it arrives to the cross dock bagged and tagged for transfer.

Private warehouses: These charge clients a basic fee for handling and storage.

Retail cross docking: Receiving product from multiple vendors and sorting onto outbound trucks for different stores.

Store or warehouse: It is a static unit in the material and product pipeline, necessary to match products in a timing sense with consumers, for storage of products.

Transport equipment: It is used to move materials from one location to another.

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Transportation cross docking: Consolidating shipments from different shippers in the LTL and small package industries to gain economies of scale.

Unit load formation equipment: It is used to maintain integrity when handling a single load during transport and for storage. It includes pallets, bags and skids.

12.11 Review Questions

1. Provide a definition and an example of strategic storage from a logistical system you are familiar with.
2. Discuss and illustrate the economic justification for establishing a warehouse. How do you determine the number of locations and size of the facilities.
3. Why would a warehouse be used to perform consolidation operations? How does this differ from break bulk operations?
4. "Public warehousing is not of great interest to private industry." Do you agree? Justify your answer based on the functionality and economic benefits of public warehousing.
5. "The main objectives of material handling are to prevent damage and improve productivity." Critically discuss this statement.
6. Material handling equipment can be generally classified as: (a) Transport equipment, (b) Positioning equipment and (c) Unit load formation equipment. Classify the different equipments described in the unit on the basis of this categorization.
7. What do you know about the different types of conveying equipment and fork lift used by industry?
8. Why is stock verification important? How do excesses and shortages occur? Discuss how you would treat them and why.

Answers: Self Assessment

1.	store or warehouse	2.	logistics
3.	Consolidation warehousing	4.	Long
5.	cross-docking	6.	Retail
7.	Pre-distribution	8.	Positioning
9.	Conveyors	10.	GRN
11.	Perpetual	12.	material

12.12 Further Readings

Books

Sunil Chopra, Peter Meindl, D.V. Kalra, *Supply Chain Management*.

Upendra Kachru, *Exploring the Supply Chain*, Excel Books, Delhi.

Online links

www.osas.com/downloads/trav_wm_spec.pdf

www.axzopress.com/downloads/pdf/1560523611pv.pdf

Unit 13: People in Retailing: Making People Matter

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Objectives

After studying this unit, you will be able to:

- Discuss the concept of Retail Employment
- Discuss Planning the workforce
- Describe the Management and Organization Culture
- Explain Personal Management and Administration
- Discuss concepts of Health and Safety

Introduction

With growing consumerism, unprecedented awareness and a youth-hefty customer base, India is perceived as 'Most promising land' for the global and domestic retailers. As per A. T. Kearney's Global Retail Development Index (GRDI), India has placed among the one of the topmost destinations for retail investment with a huge potential for consumer goods marketing.

Humans found a vital resource for any business. As an old adage that business always runs by three M's men, money and material. Of late with the growth in the British and hazardous level of awareness and aspiration human resource management has become one of the most challenging frontiers of business management.

Employment market in India is lacking for skilled man power. The retailing industry is generating huge employment opportunities. The requirements of man power are in the all functional areas. The industry is looking for human resources to see the customers at retail outlets and to motivate them indirectly for more buying. The requirements are also for proper category wise display and layout at products to attract customers. The research personnel are required to know,

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understand and assess for what customers are looking for in the outlets and out of the outlets. The industry also requires manpower for awakening customers regarding why organized outlets. The industry is looking for human resources instead at man power. The industry will certainly get human resources in near future. The issues relating to job specification job classification, job design, recruitments, and selections, training and development is also becoming important.

In India, sudden and unprecedented growth in organized retailing poses a challenge to human resources development. Therefore, it would be useful to look at the usefulness of HRM in retailing emerging requirements and challenges and measures to improve work culture in Indian scenario.

13.1 Retail Employment

Retail Industry, one of the fastest changing and vibrant industries in the world, has contributed to the economic growth of many countries. Retailing is a vital part of the business industry that involves selling products and services to consumers for their individual or family use. Retailing can also be defined as the timely delivery of goods demanded by consumers at an affordable and competitive price. It is a vertical and people-oriented business industry. Retail business in India boomed in the 80's and within a short span of time, Indian retail sector has been rated as the fifth most attractive, emerging retail market in the world. Indian retail sector which account for over 10 percent of the country's GDP (Gross Domestic Product) and around eight percent of employment, is expected to grow at a compound rate of 30 per cent over the next five years.

Retailing process involves a direct interface with the customer and the coordination of business activities from the design stage of a product to its delivery and post-delivery service. Generally, retail business can be classified into several types depending on their size, shape, product lines, amount of service they offer and prices they charge etc. Some among them are specialty stores, supermarket/malls, factory outlets, franchises, chain stores, discount stores, lifestyle and personal products, furnishing household appliances and groceries stores etc.

With the tremendous growth of economy, retail management has emerged as one of the fastest growing careers in India. The enormous expansion in the retail sector during the past few years has thrown up a big demand for skilled professionals in the field. It is an industry looking for people at all levels, from the school pass out with basic skills, to the well qualified supply chain and retail management professionals. One can take up a job depending on one's interest and aptitude, since retail industry is an array of activities starting from marketing to branding. This makes retail profession one of the most demanding careers of the era.

The working time and atmosphere all depends upon the company one works for. One could start his career as a management trainee, and with hard work and right attitude, could reach the manager posts of different departments. Advertising agencies, Airlines, insurance companies, banks etc. are some other areas where one can find jobs, apart from retail shops. One can even start one's own business and be an entrepreneur. Job prospects in Retail Sector are:

Customer Sales Associate: It is the entry-level post of retail business. But as every retail shop is completely dependent upon the sales they get, this is one of the important posts in this profession. To be a good sales person, one should have good knowledge about the products, the shop, the customers etc.

Department Manager/Floor Manager/Category Manager: These are some of the posts one could handle in the store.

Store Manager: Store managers sometimes called General Manager or Store Director, are responsible for managing an individual store and its day-to-day functioning. The store manager is in charge of the employees of the store and he himself may report to a District or Area manager or the store's owner.

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Retail Operation Manager: It is the duty of a retail manager to plan and coordinate the operations of the outlet. This involves the layout of merchandise, monitoring the retail orders and stock, analysing the supply etc. Candidates with Master Degree can start off as retail managers.

Retail Buyers and Merchandisers: They are the persons who select and buy the goods for the retail shop. They should understand the needs of the customer, should be aware of the trends in the market, and should possess great enthusiasm and energy.

Visual Merchandisers: These people give the brand a face, so they hold one of the very important positions in the industry. Being a part of concept and design one could also be a technical designer, product developer and store planner.

- Manager Back-end Operations
- Logistics and Warehouse Managers
- Retail Communication Manager
- Manager Private label Brands
- Retail Marketing Executives

Trained and talented retail management professionals are always in great demand not only in India but abroad also. Big brands have opened retail chains throughout the cities and rural areas that offers huge job openings. A professional with excellent communication skills and a flair for convincing people can be recruited as store managers, customer care executives, merchandise officers, public relations executive and so on, in a multinational company.

Table 13.1: Statistics for Salary and Qualification in Retail Sector

Level	Qualification	Salary
Junior	Post Graduate, Technical Skills Communication Skills	Upto 4L
Middle	MBA , Experience, Team Player Good Performer, Relevant Skills	5L to 20L
Senior	MBA , Experience, Consistent Performance, Skills , Self motivated Enthusiastic and Strategic	20L and above

Part Time Employment

This type of employment is a result of coincidence of similar needs. Youth are presently on the look out for augmenting their pocket money by doing some short term assignment or getting some exposure. On the other hand retailers do need additional staff at times but not on a permanent 10 AM to 10 PM basis. Availability of such-people helps them, greatly. These assignments are dignified and at the same time paying. However the retailer should be cautious about making such recruitments. Point to be remembered here is that part time employment does not mean casual and irresponsible attitude on the part of the employees.

A part time employee has traditionally worked less than a 40 hour work week. Today, though, some employers count employees as full time if they work 30, 32, or 36 hours a week. In fact, fewer required work hours is considered a non-standard benefit in some organizations. Consequently, the definition of part time employee will vary from organization to organization.

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Quality part time work is work in which employees are part of the regular workforce, and have access to training, development and promotional opportunities. Part time employees should be seen as valuable contributors, and provided with work that is meaningful and satisfying.

Many employees do not want to work full time, due to family responsibilities, study commitments, the desire for extra leisure time, or as part of a phased retirement plan.

When request for part time work is received, managers should thoroughly consider the request and examine ways in which the request could be accommodated. Being creative and flexible is important. If it is not possible to meet the request exactly as made by the employee, discuss the issue and try to develop an alternative arrangement that suits everyone. Establishing a job sharing arrangement may be a solution if the job needs to be filled on a full time basis. Job sharing is the sharing of one job by two or more employees who work on a part time basis.

If a request is to be refused it should only be on the basis that the job cannot be undertaken on a part time or job share basis, and there must be significant and clear business reasons why full time employment is a reasonable requirement for a particular role. Any decisions made regarding approval of part time work should be documented in writing and a copy provided to the relevant employee. Particularly if a request for part time work is denied, the employees must be provided with the reasons in writing.

In many organizations, one differentiation between full time and part time employees is eligibility for benefits such as health insurance, Paid Time Off (PTO), paid vacation days, and sick leave. Some organizations enable part time employees to collect a prorated set of benefits. In other organizations, part time status makes an employee ineligible for any benefits. Part time employees are benefitting from employers' willingness to consider work schedule options such as flexible schedules and job sharing.

One of the keys to successful part time work is acceptance within the workplace for such arrangements. Employees who choose to work part time must continue to be seen by managers and colleagues as a part of the regular workforce. This means part time employees must continue to be included in team meetings where possible, social activities, and communication and consultation processes.

Ongoing training and career development is just as important for part time staff as any other employees, and all part time employees should be considered as valuable contributors who are eligible for promotion where appropriate.

How to Implement Part Time Work?

Work allocation: In a part time position work needs to be allocated so that it can be done within the hours the employee is at work. When a position changes from full time to part time, the workload of the job needs to be assessed, and some functions responsibilities or projects reallocated.

Work schedules: A work schedule for part time employees should be developed and agreed. This provides employees and the organisation will a clear outline of when the employees will be at work. In organisations where flexible work arrangements, particularly flexible hours, are available to full time staff, these should be made available to part time employees.

Communication: Ensuring part time employees are kept informed of all relevant information is essential. Communication can be through written notes, emails or the phone.

Conditions of employment: Part time employees are entitled to pro rate pay and conditions based on the number of hours worked. Part timers are eligible to be paid for any sick leave or annual leave taken on a day they would normally have worked, or if a normal work day is a public holiday.

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Example: A part time employee: Mr. Oberoi is a mature age employee who requested part time work to better balance work and care for an elderly relative. He has been with the organisation for many years and management did not want to lose his skills and experience.

13.2 Planning the Work Force

Employees are the most important asset for a business in the service industries, and business success depends largely on the quality of the service that those employees provide. Understanding their needs within the context of evolving business models, consumer behaviours and workforce trends will need to be a source of ongoing work for industry and government in the short, medium and longer term.

Within many occupations, the number of people with qualifications has increased faster than total employment. This is referred to as skills deepening and is the result of a number of factors, including:

- An overall rise in the level of skill and qualification requirements within occupations due to technological and organisational changes.
- The significant returns on training in the labour market for those who invest in education, as well as reforms to education systems broadening access.
- Removing skill gaps, where workers have been under-skilled for the occupation in which they are employed.

Workforce planning helps you create and manage labor budgets that align your overall business objectives and labor requirements.

- ***Create a labor budget to meet expectations***—Use historical performance, standards, and productivity factors to create a bottom-up labor budget that meets forecasted business demand within current and future business constraints like reduced budgets. Streamline the solicitation and approval processes. Use dashboards and alerts to ensure compliance.
- ***Analyze performance trends***—Get real-time visibility of performance trends through executive and role-based reports and dashboards.
- ***Adjust operations to address demand fluctuations***—Use real-time performance information to adjust staffing to match demand within your labor budget.
- ***Uncover and act on hidden factors that influence performance***—Use intelligence and performance tools to uncover and analyze hidden patterns for attendance, store traffic, and seasonal demand.
- ***Accurately account for labor***—Integrate labor planning with scheduling, and time and attendance to ensure all labor hours, absence hours, and costs are accounted for by location or the entire company.

13.3 Management and Organization Culture

Organisational culture is defined as the shared values, norms and expectations that govern the way people approach their work and interact with each other. In other words it's "what am I expected to do in order to fit in and get ahead here" or organisational culture reflects the things people value, the way people within the organisation generally relate to one another, share ideas and work together on a daily basis to get things done. It includes the shared view of directions and values, priorities, commitments and feelings of loyalty and personal worth within an organization.

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Cultural Diversity

Cultural diversity is a part of Retail, and through it, Retail can constantly develop. Retail believes cultural diversity is a positive aspect as it allows others not to stereotype and understand the different types of cultures around the globe. Retail may only be a young group yet it has adapted to different cultures. Another positive impact of cultural diversity for Retail is the fact that we can adapt to different:

1. Languages
2. Race
3. Dress
4. Values
5. Religion and associated practices
6. Social and community responsibilities
7. Sexuality
8. Family Responsibilities

Five Strategies for Managing and Building Cultural Diversity

Customers irrespective of culture, customers return again and again to companies that provide the environment and experiences that make them feel respected and welcome. Customer satisfaction and loyalty in an increasingly diverse marketplace include:

- World class customer service
- Diversity and inclusion training
- Managing difficult people and situations

Employees who feel a sense of being valued and belonging perform enthusiastically and energetically. Programs that increase employee productivity in increasingly diverse workplaces include:

- Diversity and inclusion training
- Men and women working together
- Type and temperament intelligence
- Emotional intelligence
- Cultural competence
- Building effective teams
- Communication styles and strategies
- Conflict management and resolution

Leaders who work to create and model inclusion ignite improved performance in the teams and individuals that they lead. Programs that increase leadership capacity to create inclusion include:

- Management consulting and executive coaching
- Leadership leverage in creating workplace culture
- Executive briefing: best practices in inclusion

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- Emerging leader development
- Leading from the middle

Organisations which consciously create environments to encourage and sustain inclusion, realise measurable bottom line improvements. Programs that help organisations create these environments include:

- Creating Inclusive Workplace Culture: A Systems Approach
- Strategic Planning to Integrate Inclusion into core business goals

Conflict Management, companies which help teams move from conflict to collaborative productivity. Beyond resolving specific issues, approach provides a perspective and tool set that allows individuals and teams to prevent unnecessary conflict and use those tools that remain as opportunities for constructive engagement.

Business Retreats are fun, energising, interactive, rewarding and productive. Whether the goal is to develop a strategic plan, team building, conflict management or resolution, or work on a specific project, it creates memorable, results-oriented experience that leaves teams prepared to achieve more when they return to work.

The organizational structure of a retail store will vary by the size and type of the business. Most tasks involved with operating a retail business will be the same. However, small or independent retail stores may combine many sectors together under one division, while larger stores create various divisions for each particular function along with many layers of management.

For example, the small specialty shop may have all of its employees under one category called Store Operations. A large department store may have a complete staff consisting of a manager, assistant manager and sales associates for its Sporting Goods department, Home and Garden, Bed and Bath, and each additional department.

In order to define the store's organization, start by specifying all tasks that need to be performed. Then divide those responsibilities among various individuals or channels. Group and classify each task into a job with a title and description. The final step is to develop an organizational chart.

Retailing Structure

The following is a brief outline of some of the divisions in a retail organization:

- Owner/CEO or President
- ***Store Operations:*** Management, Cashier, Sales, Receiving, Loss Prevention
- ***Marketing:*** Visual Displays, Public Relations, Promotions
- ***Merchandising:*** Planning, Buying, Inventory Control
- ***Human Relations:*** Personnel, Training
- ***Finance:*** Accounting, Credit
- ***Technology:*** Information Technology

As the store grows and the retail business evolves, the dynamics of the organization's structure will change too. Therefore it is paramount to redesign the store's organizational chart to support the decision-making, collaboration and leadership capabilities that are essential during and after a growth period.

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13.4 Personnel Management and Administration

Retailing is the human centric industry. Customers come to the store not only because of the ambience or reasonable price or the quality and range of products. They value the interaction with store personnel. Moreover it is this human factor which gives valuable input to the store management about the specific requirements of the customers. A proper human resource planning saves vital financial resources in the form of prevention of embezzlement, fraud and also shoplifting. All these factors makes the human resource management an essential element of the overall retail strategy for any retail organization.

The first step in effective personnel management in retail is to look into the organization of the store. One must look into the tasks to be performed in the retail distribution channel. Thereon the tasks are to be grouped into different jobs. These jobs can be further classified into various classes. Finally one can form an organization chart and integrate various jobs therein.

With the growing pace of retailing in India the rate of growth of retail malls and markets may have even exceeded the population growth. However, keeping up with the pace of retail growth, no such development in the growth of training facilities for prospective retail employees has taken place. This poses the biggest challenge for the human resource management department of any retail organisation.

Strategic Objective of Human Resource Management in Retail

Each human being has distinct goals in one's life; an individual's behaviour is directed by these goals and principals. Similarly each organisation has its own goals. The strategic objective of human resource management is to collectively integrate the capabilities and goals of the employees with the goals of the retail firm.

Factors Influencing Designing of Organisational Structure

While designing an organizational structure some important considerations need to be kept in mind as:

(a) ***Scope of Operations:*** With such difference in volume of transactions the job requirements are also different. Manpower planning accordingly changes. For larger chains it's essential that the manpower is well qualified to handle such large scale operations.

(b) ***Nature of Merchandise:*** It is very important constituent of the human resource planning process. The type of merchandise a store deals with has direct implications on the type of skill sets needed.

For instance a retailer selling readymade clothes will need people who are proficient in understanding customer's clothing needs and offer the best possible alternatives. However in a leather shoes and leather accessories outlet such persons will be needed who have at least preliminary knowledge about leather especially footwear.

(c) ***Type of Organisation:*** It depends upon the organisational structure, requirement for human resource changes. A retail organisation can have a host of departments like Sourcing, Marketing, Accounts Warehousing on a functional basis. It can also have divisions based on various products it deals with. For example the Giant at Hyderabad not only deals grocery items but also other categories like vegetables, fruits as well as casual wear and utensils to name a few. Thus they have different centres for sourcing their different products and also warehousing such varied products have specific requirements for manpower.

India is dominated by a large number of small and independent retailers.

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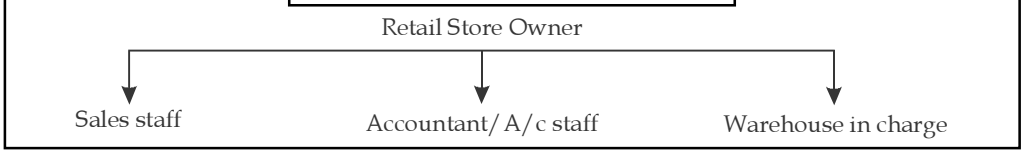
The best example and perhaps the oldest one is our neighborhood Panwala (beetle leaf shop). There can be a host of other examples such as the neighborhood grocery shop, furniture shop, gift shop, sweetmeat shop and others. These retail outlets are owned and managed by an individual or family.

Such retail stores have typically the following organisational structure.

Figure 13.1: Types of Retail Store owner



Small stores generally employ on a contract basis or on job rate basis, lawyers, chartered accountants, income tax consultants as well as investment consultants. However that cannot be included in the organisational structure as they are not employees of the organisation.

Human Resource Aspects in Retailing

Retailing is very different from other industries. As in any other services industry in retail human aspect is of prime importance. With technological advances there have been changes in retail environment. However this has only increased the importance of human resources. While you visit a store big or small, role of the individual who helps you buy your stuff is immense. Generally in India festival buying is one of the biggest sale earners for retail. Besides this generally sale picks up on holidays, vacations and similar occasions. Thus the bottom line is, when everybody is enjoying the festivities or having holiday time you slog the most. More importantly in the midst of tough competition and more demanding customer a retailer has to cash in. This gives a very strong message. All the employees of retail stores should be ready to sacrifice their holidays, festivals for the sake of business. Thus while recruiting staff one must be clear about the candidate's individual goals and temperament.

Here it's worth mentioning that character and integrity of the candidate is of great significance. In case a retailer is able to plug internal theft and embezzlement he is a big gainer. Moreover on the part of the employees it's also requited to be ever vigilant to prevent shoplifting.

Self Assessment

Fill in the blanks:

1. Tasks are to be grouped into different .....
2. Retail ..... can be based on function or products.
3. Small stores usually employ professionals on a ..... basis.
4. While recruiting stage for retail stores, one must be clear about the candidate's individual ..... and .....
5. The first step in effective ..... in retail is to look into the organization of the store.

13.5 Human Resource Functions in Retailing

Human resource management has always been an issue for big retailers only. Wherever you go to the neighbourhood grocery shop or cloth merchant or say a small restaurant the owner is the

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chief of operations. All the employees of that establishment report to him or her. All decisions whether strategic in nature or related to day-to-day operations are taken by the owner. The need for human resource management is actually felt by big retailers like shopper's stop, pantaloons, etc. Any typical retail organisation would commonly need the following human resource functions:

- Job analysis and job design
- Task Analysis and process
- Training and development
- Compensation and benefits
- Labour relations

Job Analysis and Job Design

Each retail store needs to analyse the jobs to be offered to the prospects. The job analysis involves a process of finalising the job content and based on the findings preparing a design for the job. It is the responsibility of the store to prepare the job design since, it is necessary from the new employee point of view. A well-prepared job design and job analysis helps in the recruitment process and thereon in training to achieve the required results.

Task Analysis

This is one method of facilitating the listing of tasks. First the retailer or HR manager identifies tasks which are essential for the achievement of organisational goals. Thereon it's defined that which employee positions will be responsible for those tasks. Finally standards of performance for each position are set.

The Task Analysis Process

For task analysis the first step can be termed as task identification. Here the retail manager is supposed' to list all the tasks needed to run the business. It is necessary to take a decision regarding assignment of different tasks to different members of the channels of distribution. At all points of time you should bear in mind that customer is the central focal point while taking any such decisions. Once the identification of tasks is done the next logical step is turning the different tasks into job positions.

In this step various tasks are grouped under distinct heads which can then be converted into positions or designations. For this, each task can be broken into some tasks which in turn can lead to creation of positions. This means, the set of tasks or an individual tires can be assigned to an individual person. For this we need to prepare what is known as a job description.

Job description is a document which states as to what are the exact requirements of a particular job. However in the present competitive scenario we need to keep in mind that the employees do not work with the narrow scope of job description. It is worth mentioning at this juncture because employees tend to limit their scope of work in line with the limitations of job description. We have to keep in mind that in this competitive and dynamic world our job profiles can change overnight as per the requirements of the store. Job description is an iterative process. One should keep in mind that job description is an ongoing process. Once our job descriptions are ready we must fix the standards of performance for performance appraisals and evaluation.

This is the final step in task analysis where performance standards are to be developed for the different tasks which have been mentioned in the job description. Whenever we are fixing

standards we must indicate the level of proficiency required to meet the quality and quantity expectations. This in turn helps us to identify as to what can be the training needs for a new employee or an existing employee. At the same time it guides the human resource management department in giving reasonably logical feedbacks to the employees.

Training and Development

New developments are always taking place in the retail scenario. With the growth in retail the consumers are maturing by the passing of everyday. In India, whatever you experienced as a customer 10 years back is very different now. Retailing is the most dynamic field of business management. With such changes in the field employees of any retail store ought to learn and train themselves to meet the new challenges. This is one of the most important profiles of any HR department. Training and development can take place in various ways. An organisation may like to give on-the-job training to the fresh incumbent whereas, the oldies may be sent for some advanced training to back up the vast experience which they already have.

Compensation and Benefits

The HR department of any retail business needs to have policy guidelines regarding compensation and miscellaneous benefits to be given to the employees. For this the HR department needs to know similar policies and guidelines in similar organisations. Benchmarking is very essential as far as compensation and benefits are concerned. Compensation and benefits at any point of time are the best way to satisfy the employees at the lower and middle level of management.

Labour Relations

The HR departments should know the rules and regulations with respect to labour relations. A harmonious labour relation always argues the efforts of an organisation to achieve its goals. All regional organisations besides having an HR department also hire legal practitioners for consulting from time to time. This has become necessary since each state has got different set of rules for human resource management with some standard rules.

13.6 Tasks Performed in a Retail Firm

We can broadly divide the tasks performed in a retail firm under four heads:

1. Strategic Management
2. Merchandising
3. Shop Management

Strategic Management

Devising and implementing a retail strategy. For devising a retail strategy the retailer must have a very clear understanding and complete information of the following:

- Target market
- Different retail formats catering the target market
- Present buying trends and preferences
- Various tasks to be performed within the organisation
- Accordingly designing an organisational structure

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- Site selection, location analysis, layout details
- Design promotional strategy

Strategic management is completely under the domain of top management. There can be circumstances where advisors or consultants are hired by the retailing firm in this regard. Firms need highly experienced and qualified professionals to take such high level decisions. Here it is worth mentioning that in small sized family owned retail businesses strategic decisions generally are a family affair.

Merchandising

Merchandise sourcing is the prime task of every retail organisation sourcing of merchandise is the major component of merchandising process as a whole. For sourcing of merchandise a retailer has to go through the following steps:

- Search for vendors dealing with the specific merchandise
- Based on specific requirements valuate each vendor
- Negotiate terms and conditions with them
- Place orders
- Examine quality of goods received with negotiated specifications
- Communicate grievances if any/follow up
- Make payments

After the merchandise is acquired a retailer needs to take full care since it's the single most valuable input in retail. A retailer can prepare and implement a merchandise control plan. This process includes the following steps:

- Based on past experience develop a merchandise budget
- If it's a chain store allocate merchandise to stores
- Review stock position and merchandise off take.

These processes need seasoned personnel with years of experience. Here the need is for an experienced person rather than high qualification.

Did u know? Strategic management is completely under the domain of top management.

Finally the most critical task in merchandising is pricing the merchandise. A retailer has to have complete information about existing price ranges in the market. In the present day competition is so intense that a small error in the pricing could lead to loss of sale as well as long term reputation of the firm.

A retailer may have to adjust his prices based on the market feedback. Generally the pricing task is done by the top management or by the owner himself in case of small scale or family owned retail firms. However it's worth mentioning that the shop floor level staff plays a big role here. They are in direct contact with the customers. Thus they can predict the best saleability of the merchandise at a given price. Besides this they are competent to state an ideal price for given merchandise.

Shop Management

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Store is the pivot for any retail store. Managing the shop involves various issues to be looked into like:

- Store facilities
- Layout and Display
- Selling of merchandise
- Customer grievances
- Complementary services like gift wrapping home delivery
- Prevent shoplifting and inventory shrinking
- Receive physical inventory and intimating for the procurement of the same.
- Merchandise repackaging/alteration

To execute all these tasks one needs to:

- Conduct manpower planning
- Prepare manpower requirement
- Recruit and hire store personnel
- Train them
- Plan work schedules
- Motivate people to perform
- Evaluate individual performances

13.7 Long-term and Short-term HR Planning

A retailer has to focus on overall growth of his organisation. Once the retailer is aware about his organisational growth pattern it becomes easy for him to project future growth. Company growth has got all around implications for the organisation especially human resource management. In the present day when every retailer feels the urge to expand into multiple stores or diversify into multiple products ranges. This immediately triggers the need for additional human resources. At any point of time the quality of human resources makes a big difference in the performance of the retailer. Performance here is defined by the sales volume achieved by the retailer. Very often it has happened that a retailer has not been able to expand due to lack of skilled employees or less than required number of employees. It has also been observed that if a retailer has tried to expand his business even after having this handicap. Then it has resulted in major losses. Thus under all circumstances a retailer should look into his long-term needs and have a HR plan designed accordingly.

Despite the significance of long term planning and analysis in the present context the importance of short term planning cannot be denied. Short term planning is generally of less than one year duration. India is a nation of many festivals and seasons. Market picks up and also goes down accordingly. Diwali, Dushehra, Id and Christmas are the festivals which the retailers look upon. Similarly season and off season are two terms very close to them. All such occasions need specific short term planning. This scenario has lead to another reality. Suddenly there is a need for part time employees.

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Caution Once the retailer is aware about his organisational growth pattern it becomes easy for him to project future growth.

Notes It has also been observed that if a retailer has tried to expand his business even after having this handicap. Then it has resulted in major losses. Thus under all circumstances a retailer should look into his long-term needs and have a HR plan designed accordingly.

Self Assessment

Fill in the blanks:

6. The first step in task analysis is .....
7. ..... states as to what are the exact requirements of a particular job.
8. Strategic management is completely under the domain of ..... management.
9. To make strategies for special occasions like festivals, the store has to do continuous ..... term planning.
10. A ..... may have to adjust his prices based on the market feedback.

Concept of Performance Appraisal

What does the term performance actually mean? Employees are performing well when they are productive. Productivity implies both concern for effectiveness and efficiency, effectiveness refers to goal accomplishment. However it does not speak of the costs incurred in reaching the goal. That is where efficiency comes in. Efficiency evaluates the ratio of inputs consumed to outputs achieved. Greater the output for a given input, greater is the efficiency. It is not desirable to have objective measures of productivity such as hard data on effectiveness, number of units produced, or percent of crimes solved, etc. and hard data on efficiency (average cost per unit or ratio of sales volume to number of calls made etc.).

In addition to productivity as measured in terms of effectiveness and efficiency, performance also includes personnel data such as measures of accidents, turnover, absence, and tardiness. That is a good employee is one who not only performs well in terms of productivity but also minimizes problems for the organisation by being to work on time, by not missing days, and by minimizing the number of work-related accidents.

Appraisals are judgments of the characteristics, traits and performance of others. On the basis of these judgments we assess the worth or value of others and identify what is good or bad. In industry performance appraisal is a systematic evaluation of employees by supervisors. Employees also wish to know their position in the organization. Appraisals are essential for making many administrative decisions: selection, training, promotion, transfer, wage and salary administration etc. Besides they aid in personnel research.

Performance Appraisal thus is a systematic and objective way of judging the relative worth of ability of an employee in performing his task. Performance appraisal helps to identify those who are performing their assigned tasks well and those who are not and the reasons for such performance.

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Task Visit any one retail store in your vicinity. Interview the people working there. Find out their issues, and how they are managed.

Self Assessment

State whether the following statements are true or false:

11. Every employee needs the same amount and level of motivation.
12. As per Maslow, individuals move to upper level needs only when his lower level needs are satisfied.
13. Theory lays emphasis on negative motivation.
14. Productivity implies both concern for effectiveness and efficiency.
15. Appraisals are judgments of the characteristics, traits and performance of others.

13.8 Health and Safety

Indoor Air Quality and Pollution

Most retail stores are in "closed" buildings, where windows can not be opened easily and doorway exits are often in remote areas.

Indoor air pollution is caused by the build-up of vapors, particles, molds, fungus and bacteria in building air. The indoor sources of these pollutants can be human waste, cigarette smoke, fuel-fired furnaces, building materials, furnishings, cleaning products, store consumer products, asbestos and pesticides. Molds, spores, fungus and bacteria can accumulate in standing water, wet furnishings, furnace water, and air ducts. Meat wrappers can be harmed by the vapors of burning plastic wrap.

Polluted outdoor air can be drawn into a building via the air intakes. Gases and particles from truck exhaust, as well as other pollutants from the area are common indoor air pollutants.

If unchecked, these pollutions can cause severe respiratory ailments. All workplaces where these risks are present need an effective mechanical ventilation system.

The system in your store may include a series of fans, ducts, heating or cooling coils, vents, and hoods. A single air handling unit may handle several zones with different requirements within the store. A mechanical system must bring in fresh outdoor air, mix it with the air that is already circulating inside the store and distribute the conditioned air to all areas, including stock rooms, via ducts.

Ergonomics

The basic idea of ergonomics (the study of workplace design) is to design the workplace to fit the worker and not change the worker to fit into a poorly designed workplace. Work stations must be adjustable to be able to accommodate the wide variety of heights and strengths of retail workers.

The best height for a working surface depends on the worker and whether or not he or she stands or sits. The ideal height is generally between 2 to 4 inches below the elbow for delicate work and between 6 to 18 inches below the elbow for heavy work. The solution for working surface height is to make the surface adjustable to accommodate each worker.

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A workstation that allows for alternating between sitting and standing is important, as is room to move about without awkward motions and decent lighting.

Repetitive Motion Illnesses

In many areas of a retail store there are workers performing jobs that require repetitive bending and twisting of the hands, wrists and upper body. These tasks often place excessive stress on muscles, tendons, blood vessels and nerves. These repetitive motions frequently result in conditions such as carpal tunnel syndrome, tendinitis, ganglion cysts and tenosynovitis. These conditions are serious, causing pain, loss of use of the hands and wrists and permanent damage.

Correct ergonomic design is one of the most important ways to avoid these kind of illnesses. Eliminate the twisting and bending caused by poorly designed tools and workstations is the only way to reduce the risk.

Lifting, Carrying and Standing

Lifting is an important part of all retail store work. Cashiers lift groceries during the whole work shift, stock clerks put products on shelves throughout the day, and department store staff stock and retrieve products from stockroom shelves frequently. These tasks contribute directly to the high rates of back injuries, lower back pain, hernias, heart and circulatory problems among retail store workers.

There are several important guidelines to follow when performing these tasks. Loads that seem too heavy for you to lift should be broken down into smaller units so that they are manageable. Mechanical lifting devices should be used to lift loads that are too heavy. If no mechanical device is available, have a co-worker help.

Heavy loads should not be lifted directly from the floor. Products should be stored at least 18 inches above the floor and not above shoulder height. A ladder may be necessary to be able to reach high items. A table may be necessary to bring products up to comfortable heights.

Lift slowly and evenly. There is no evidence that back belts prevent back injury.

When performing carrying tasks, it is important to bring the load close to your body. Use handles or cut handles on cartons.

Avoid awkward postures such as twisting and turning while carrying a load. Wear comfortable clothing and shoes. Rest and stretch muscles as frequently as possible. Take breaks, when possible.

Standing can cause varicose veins and back fatigue, aching feet and muscle strain, among other ailments. Anti-fatigue mats made of a soft material, foot rests, stools and chairs can help relieve the constant pressure of standing for long periods of time.

Computer Operators and Data Processors

The key to a safe computer workstation is ensuring that it fits the user, is adjustable and comfortable.

The monitor should be placed 18-30 inches from the user and the top of the monitor should be level with the user's eyes. The keyboard should be detached from the monitor screen. It should be flat or slightly angled. Both should be easily adjustable.

The seat height and armrests should be adjustable and the width should be a minimum of 18 inches. The seat pan should be contoured and cushioned. The backrest should support the lumbar region. Foot rests should be provided.

The other rules of ergonomic design, like good lighting and space, are also necessary to avoid the risk of repetitive motion illnesses.

Members employed in retail face an exhaustive list of hazards on the job. It is important for them to be aware of those dangers, as well as their employers' responsibilities in ensuring a safe workplace.

Fire Prevention

Fire hazards often exist in retail stores due to flammable and combustible materials, electrical malfunctions, open flames, sparks, hot surfaces, smoking and unsafe storage of chemical products. Your employer must have an emergency plan for how to evacuate the store, who to call in case of fire, and job tasks for people responsible for evacuation. Exit paths should not be blocked and must be clearly marked with exit signs that are lighted. It is better to have a pre-emergency plan than for chaos to result when a fire breaks out, causing loss of life and property damage.

Fire extinguishers must be available, and workers should be trained in how to use them. They must be the correct type for the hazard: type A for combustibles, type C for electrical equipment and type ABC for general fires. Fire extinguishers must be inspected regularly to ensure that they are in good working order. The needle gauge must be at the 12:00 o'clock position and the nozzle in good shape. Sprinklers must be installed and inspected at least once a year.

Good housekeeping and proper storage and disposal of combustible and flammable materials are the most important steps in preventing fires in a retail store. The employer must allow time in the work day for this type of work to be done.

Floors

Slips, trips and falls are common causes of injuries in all retail stores. Wet, slippery floors around produce, meat, fish and freezer areas are especially hazardous in grocery supermarkets. Similarly, aisles that are cluttered with boxes, and uneven cracked flooring are all hazards commonly found in department stores.

All spills need to be cleaned promptly, and time needs to be allowed to clear clutter and waste from the aisles.

Machine Guarding

Many bakery, deli, meat and fish department workers as well as store carpenters and maintenance staff, use electrical equipment that can cause serious cuts, bruises, amputations, crushed bones and other injuries. The machines include saws, meat grinders, slicers, mixers, trash balers and garbage disposal units. The moving parts must be guarded to prevent body contact with the machine, and chain mail gloves should be provided for cleaning them. Moving parts include belt drives, shear points, nip points pulleys, sprockets, blades, saw blades, rotating and flying parts.

In the deli or meat department, blades on the slicing machines must have machine guards to help prevent accidents. Non-automatic slicers must have a handhold protected from the blade. All slicers must be kept sharp so that force is not necessary. Deli workers should not wear loose clothing, which might get caught in the blades of a machine.

Trash Disposal

Trash disposal is a hazard that is present in most retail store situations, and it must be dealt with cautiously to ensure that nobody is hurt. Trash compactors and loading doors should be

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interlocked with the drive mechanism so that the unit can not be operated unless the door is fully closed. Balers should have two handed stop and operating buttons that make you push both buttons simultaneously to operate. This keeps your hands at a safe location and distance from danger. The feed throat on garbage disposal equipment and grinders should be guarded so that hands cannot come into contact with the moving blades.

Electricity

Members in department stores, supermarkets and other retail stores may face hazards from exposure to live electricity. Contact with energized equipment can cause shock, burns, startle accidents and even death.

Electric shock injuries are a danger when retail workers are exposed to live wiring, temporary wiring and damaged electrical equipment, especially when adequate training has not been given. The Occupational Safety and Health Administration (OSHA) estimates that more than half of all electric shock deaths and injuries can be prevented if employers provide training about electrical hazards and institute safe working practices.

In supermarkets, slicers, grinders, saws and other electrical appliances have exposed non-current carrying metal parts that can cause electrical shock when used near water. There is also the potential for shocks during routine maintenance and servicing if electrical lockout and tagout is not used to de-energize the powered equipment.

In department stores and other retail stores, exposed temporary wiring and damaged flexible cords can cause injury. Product displays and newly designed areas are frequently installed without permanent wiring. Back of the store stockrooms may have damaged wiring, temporary fixtures and obsolete electrical equipment. Retail workers should visually inspect all electrical wiring regularly to check for breaks, fraying, and other defects. All electric outlet boxes should be covered. All switch boxes and circuits should be labelled.

Ground Fault Circuit Interrupters, which shut off electrical current in the even of a leak, should be used whenever possible, and electrical lockout and tagout, which prevents accidental start up of machinery during maintenance, should be practiced at all times.

Working in the Cold

Members who work in cold environments like freezers, cold box storage rooms and refrigeration trucks need proper protection from the cold. Protection from the cold can be attained by wearing proper clothing and the redesigning of your working situation. Your employer should train you in the health hazards associated with exposure to cold, the early signs of overexposure, proper clothing and the safe work practices to use when working in cold temperatures. Clothing should be lightweight, waterproof and layered. It should allow moisture, such as sweat to evaporate from the inside, while preventing environmental moisture from penetrating to the inside. You may perspire even in cold temperatures. If the outer layer of clothing prevents the sweat from evaporating and wets the clothing close to the body, the body will remain cold and wet, a dangerous combination. It is important to alternate working in cold areas with working in areas that are warm and heated.

Machinery, tools and jobs should be designed to make them less hazardous. Since clothing is bulky and there is loss of manual dexterity due to clothing and the cold, tasks should be redesigned with this in mind. Attention should be paid to spacing of handles, knobs and other mechanical parts. Tool handles should be easy to grasp. Metal parts should be insulated.

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Case Study

Implementing a Comprehensive Performance Appraisal System for India's Leading Retail Chain

About the Customer

The customer is a leading retail chain in India with outlets in all the states and clients across USA, Europe and Japan. A large conglomerate with interests in various ventures, the company pioneered the concept of customer-oriented retail stores in the country. Over the years, it has successfully promoted a number of brands, products and events using innovative tactics. The company had a handful of stores for the first 5 years of its operations; today it is India's largest retail chain with a distinct brand identity that appeals to the Indian youth.

Customer Challenges

When the customer conducted an internal Employee Satisfaction Survey, the results indicated that employees were highly dissatisfied with the performance appraisal system. The appraisal and goal sheets were manual, resulting in a huge drain on employee resources in terms of time and effort. Additionally, there was no system to post employee KRAs (Key Result Areas). Employees wanted the company to maintain rosters of employee KRAs, with a flexible KRA setting process that allowed for detailed mid-year review and interactions between HR, employees and the respective managers. Thirdly, due to the manual nature of the appraisal process, the company found it difficult to generate MIS reports. Finally, there was a strong need for an online central repository of employee data.

Employee dissatisfaction with these elements was strong and was reflected in rising attrition rate, decreasing employee morale and loss of faith in the company's systems and its ability to manage them.

In consideration of these factors, the customer was looking to implement a complete solution for performance management that could be customized as per its needs and mapped to existing processes. This system would have to be implemented within a short time frame.

Saigun Solution

The customer evaluated a couple of products (SAP HR being one of them) before choosing Saigun's EmpXtrack for its comprehensive and flexible features that were available at a reasonable cost. EmpXtrack was faster to implement and offered a user-friendly, web-based interface that could be accessed anytime, anywhere. It had ready-to-use and yet, customizable, templates in every module. The product offered a wide variety of options, being available in five different editions, with each edition offering a different set of HR modules. Each edition, in turn, comprised different options based on the number of features available. This variety made EmpXtrack easily configurable and customizable for the customer's needs. Finally, it was cost-effective, offering a flexible pricing model and low front-end cost.

The customer chose to implement two modules of EmpXtrack that fit its requirements: the Goal Setting System and the Appraisal System. The solution was required for 500 users and was to be implemented within one and a half months. To meet the stringent

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implementation deadline, all the stakeholders from Saigun worked in parallel with each other, effectively handling both the qualitative and quantitative aspects.

Both modules were deployed smoothly though there were challenges in collecting the customer's data. This was resolved through constant communication with the stakeholder at the customer site, with Saigun team working relentlessly to collect the customer data till all the requisite information was collected in the format that it was needed in.

Results

This engagement was completed within the expected timelines. With the automation of HR processes, the organization and functioning of HR systems have become smoother and timeline-driven, resulting in a huge saving on time, efforts and resources. The solution allows the company to generate any kind of MIS report demanded by the management, and this ready availability of data has had a positive impact on non-HR processes as well. Most importantly, with the Goal and Appraisal Sheet being readily available to all employees and managers, employee satisfaction has increased and employees' faith restored in the company's capability to meet their expectations. The HR team in charge of the project on the customer side has won kudos for completing this engagement within such a short timeframe.

Saigun's product and flawless implementation has resulted in complete customer satisfaction, with the customer opting for three more modules from EmpXtrack – HRIS (Human Resources Information Systems), Employee Self Services and Payroll. This will be a bigger engagement covering 6000 employees.

"The Saigun team worked within a tight schedule to meet our appraisal cycle requirements. EmpXtrack is easy to use and offered some comprehensive features that were customized to meet our specific requirements. We found the Saigun team very proactive and quick to help during a crucial implementation phase where they provided us with 24/7 support."

— HR Manager

Question:

What were the customer challenges of a retail chain as discussed in the case study?

Source: http://www.empxtrack.com/resources/case-studies/implementing-a-comprehensive-performance-appraisal-system-for-India-leading-retail-chain/

13.9 Summary

- Retail Industry, one of the fastest changing and vibrant industries in the world, has contributed to the economic growth of many countries.
- Indian retail sector has been rated as the fifth most attractive, emerging retail market in the world.
- Indian retail sector account for over 10 percent of the country's GDP (gross domestic product) and around eight percent of employment, is expected to grow at a compound rate of 30 per cent over the next five years.
- Human resource is the pivot around which the complete retailing industry rotates. Being a typical service based industry human resources play a critical role.
- There are various factors which influence human resource management aspects in retail. These include scope of operations, nature of merchandise and type of organisation.

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- Human resource requirements vary for large retail stores vis-à-vis small retail stores. Human resource needs in retailing also vary as per the tasks needed to be accomplished.
- Tasks can be broadly divided into strategic, merchandising, group management and administrative/legal.
- Performance appraisal is concerned with setting objectives for individuals, monitoring progress towards these objectives on a regular basis in our atmosphere of trust and cooperation between the appraiser and the appraisee.

13.10 Keywords

Human Resource: Is a person or employee who staffs and operates a function within an organisation.

Job Analysis: Refers to various methodologies for analyzing the requirements of a job.

Job Design: The process of putting together various elements to form a job.

Performance Appraisal: The process of obtaining, analyzing and recording information about the relative worth of an employee.

Task Analysis: Systematic identification of the fundamental elements of a job, and examination of knowledge and skills required for the job's performance.

Training: A learning process that involves the acquisition of knowledge, sharpening of skills, concepts and rules.

13.11 Review Questions

1. Discuss the concept of retail employment in India.
2. What factors should be considered for planning the workforce?
3. Explain how you will assess human resource requirements of a retail organisation.
4. Explain the relevance of organisational charts in manpower planning.
5. Explain the significance of orientation programme. Should each employee in a retail organisation undergo the same orientation programme?
6. Elaborate the concept of performance appraisal.
7. "In today's Era it is difficult to gain an edge through unique product offerings, since today's customers has easy access to a wide selection of goods." Discuss.
8. Explain how is organization structure is being used by small independents in retail.
9. State the health and safety measures that are necessary to be considered in retail industry?

Answers: Self Assessment

1.	Jobs	2.	Organisation
3.	Contract/job rate	4.	Goals, temperament
5.	Human Resource Management	6.	Task identification
7.	Job description	8.	Top

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9. Short
10. retailer
11. False
12. True
13. False
14. True
15. true

13.12 Further Readings

Books

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Unit 14: A Review of Retailing: Environment and Operations

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Objectives

After studying this unit, you will be able to:

- Explain the Retail Change
- Discuss the Culture Transformation and retailing
- Discuss the Emerging themes and niches
- Discuss Building from the Future
- Describe the concept of Learning from the past

Introduction

In order to assess the future of retail, we need to understand the sector's current impact on our entire economy, the cultural transformation and the new approaches in retailing. This unit will give a clear understanding of a review of retailing in detail.

14.1 Retail Change: A Review

This report's aim is to analyse the main problems Marks & Spencer (M&S) faces in its business environment. In order to point to the most critical issues the report is divided into several sections, starting with an analysis of the broader macro and micro environment leading to focus on internal organizational problems afterwards. Thus, a broader picture is examined first and then narrowed down to more detailed analyses as illustration 1 shows:

Illustration 1: Main Topics of the Marks & Spencer Analysis

1. Having identified the most critical areas a list of recommendations will be provided before ending the report in form of a final conclusion.
2. Strategic Business Audit

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The Macro Environment

Due to lack of available information in this case, the PESTEL framework, which is normally applied to analyze the macro environment, cannot provide great help in this discussion.

The Micro Environment

From the case, we can identify that "clothing" and "food" are the two major industries M&S is involved in. These two industries have the common feature of swift change. The pace of technological improvement and the speed of global communications mean more and faster change now than ever before. This trend, therefore, requires managers to react swiftly to adjust strategies which fit the changing business environment. Unfortunately, M&S seemed to have done this poorly, as analysts commented: M&S ignored the changes in the marketplace while its competitors quickly reacted to changes. The reasons should be analyzed by looking closer at the micro environment.

Before using the five forces model to analysis the micro environment, the market has to be segmented. However relatively few information for this aspect can be drawn from the case. We roughly breakdown the clothing market into three segments numbered from 1 to 3 to which the model will be applied (see illustration 2 below):

Illustration 2: Proposed M&S Industry and Market Framework

A. ***Bargaining power of suppliers***

- Bargaining power of suppliers in most clothing segments is relatively low but when purchasing cloths from luxury designer firms, the bargaining power tends to be higher.
- M&S previously had only British suppliers for its claimed reason of high quality, but later on it outsourced globally to lower the cost. M&S was no longer reliant on particular suppliers and therefore the bargaining power of suppliers is lowered.
- M&S mass purchase also leads to lower the bargaining power of suppliers.

B. ***Bargaining power of buyers***

- Generally speaking, bargaining power of buyers is high. However buyers' power in segment 1 is relatively low, while that in segment 2 and 3 is high.
- Products in segment 1 are usually designed for the non-price-sensitive people who prefer quality and fashion.
- People in favour of products in segment 2 and 3 are more price-sensitive. And normally they can choose from a variety of companies. Thus they have high bargaining power.

C. ***Threat from substitutes***

- Broadly speaking, threat from substitutes is very low. Only products from different segments might work as product to product substitutes.
- In times of economic recession, people may shift from segment 2 to 3. And in times of economic development, people have more disposable income and accordingly more interest in products in segment 1 and 2 rather than 3.
- This means that segment 2 has the threat of substitutes from both segment 1 and 3. Products of segment 1 and 3 normally do not directly substitute each other.

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D. *Threat from new entrants*

- Threat from new entrants is high in segment 1 and low in segment 2 and 3.

  Brand name and high capital requirements build up high entry barriers in segment 1, which can efficiently protect existing firms from intense competition.

- To provide high quality and the latest fashion for segment 1, capital is required for using superior materials, modern design, superior workmanship and sufficient expertise. Brand name is also an important competitive advantage for established firms due to the brand loyalty of people in this segment.

- Meanwhile, low cost and low brand loyalty, resulting in low entry barriers in segment 2 and 3, provide more chances for potential entrants.

E. *Rivalry among existing firms*

- It seemed that existing firms in the clothing industry do not compete as intensely as firms in other industries. In relation to segment 1 and 2, M&S suffers more from the competition of segment 3.

- Competition in segment 3 comes from two aspects. Price-sensitivity feature of segment 3 is very likely to lead to a price battle which will finally squeeze out profits. A number of firms competing in segment 3 will erode M&S market share.

Further problem areas which need to be considered are in particular:

A. *Market*

- M&S is tied to a generalized view of the market due to a lack of proper segmentation. It might not need segmentation in early year since people had similar requirements and very few competitors could challenge its market leadership. However things have changed. Strong competitors emerged and different products have been required by customers. M&S failure to segment the market and to differentiate products resulted in shifting customers' interests to other brands. Consequently M&S market share has been eroded.

- M&S must target a segment or prioritize some segments. Different marketing strategies should be raised for each different segment so as to shield itself from competition.

B. *Customers*

- Demand and Competition are the determinants of industry profit. Therefore, understanding, stimulating or even creating demand is of great importance for profitability.

- Understanding customer preferences and trends was deemed as a major reason of previous success. However, survey results of customer satisfaction in the late 1990s revealed that customers were more and more dissatisfied with product or service. This resulted from the fact, as frequently reported, that M&S no longer understood or reacted to its customer's needs.

- Technology develops and people care more and more about clothing fashion rather than only quality or price, the life cycle of the products in this industry tends to be short. That means, if the company does not pay sufficient attention to collect information from customers, products might be outdated soon. This would then require a swift managing change including new designs, new concepts and new materials to meet customer's needs.

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- In addition to the product itself, value-added service is also an important part. The value of the product or service to customers should be created to appeal to customers. Furthermore, well working long-term relationships need to be established between the company and customers. This should greatly help to maintain them and to increase their loyalty to the brand. Salsbury's proposal of customer-focused approach should be appreciated. Unfortunately, the fact not to segregate different items and to deal with customer complains poorly reveals that this approach seemed not to be implemented very well.

Stakeholder Influence

Strategy making takes place in a *political* context, so the impact stakeholders will be considered in this section. These stakeholders are most of all:

1. Employees
2. Senior managers (excluding Sales bury)
3. Sales bury
4. Customers
5. Suppliers
6. Competitors

These individuals or groups can next be placed in a power/interest matrix which helps to analyse their potential influence on strategy. Having done that, ways can be found to reposition them if necessary (see illustration 3 below).

Illustration 3: Repositioning Main Stakeholders

The analysis implies that it is most important to shift the individuals or groups in box one to boxes where their impact on strategy is weaker:

(a) In the case of competitors, their power has grown because of M&S inability to position itself clearly in the market. By enforcing Vandevelde's new strategies their potential power should decrease leading to a shift in box two.

(b) Salesbury's influence is probably still strong because of his position and tradition in the company. However, outside pressure already forced him to accept Vandevelde. Increasing this pressure over time through PR and positive customer perception of the company may decrease Salesbury's power gradually over time leading to a shift in box two.

(c) The power of suppliers used to be high because M&S only sourced from a few British suppliers. Their interest in the company was high too because M&S was a major buyer. Their power already has been shifted to box two when Vandevelde started to purchase goods from Asian suppliers.

In summary it can be said that a new strategy has to take the political context into account represented by M&S's main stakeholders if future strategies want to be implemented successfully.

Strategy Development

The true strength of an organisation comes to the forth during changing environment. When the environment is static, the organisation knows its capabilities, and it devices its strategies accordingly. A successful organisation is one that can adapt itself according to the changing

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environment, by finding new capabilities and changing strategies. This interdependence between environment, strategy and organizational capabilities is shown in the following illustration:

Illustration 4: Interdependence of Main Factors

This is where M & S stumbled. Till 1990s M & S rode on a success wave because the environment hadn't changed and they weren't forced to face unpleasant tasks. But when the rules of competition changed, it failed to adapt itself, hence the mighty fall from everyone's favourite to one at which everyone looked at with wariness. In expanding laterally, it failed to focus.

When analysing the history of M&S strategy the following points have to be considered:

M & S was known for the family atmosphere, feeling of camaraderie, and the top management within the family. It had an inward looking culture- of 'growing your own tree'. Almost all the top management had come up through the lines in the organisation. There was no fresh blood, ideas to infuse life in the organisation. It was only as late as 2000, that a person from outside the organisation was appointed to the top post, Luc Vandevelde, who brought with him a new strategy, quite different from the existing one. He began changing the entire outlook of the organisation from inward looking to outwards.

- M & S had a top down management approach, which seldom worked. All the stores were similar in layout, design, etc., leaving no scope for modifications based on the local environment. The individual stores were allocated merchandise dependent on the floor space. Stores of the same size were sent the same clothes. It failed to understand that customer tastes are different, will change according to the lifestyle and the demographic characteristics.
- M & S always had the same UK based suppliers, because they felt that these suppliers could provide them with the highest quality goods. They also believed that the customers were patriotic. They gave scant regard when the costs escalated and competitors started buying its merchandise from low cost countries.
- M & S continued with its risk aversive formula long after the rules of competition changed. It ignored the market changes. Greenbury, who was heading the firm in the 1990s, when trouble began to erupt, used to focus on day to day operations and didn't focus on the long term strategy for the company. It neither understood nor tailored the offerings to the various growing market segments.
- Even though the majority of the customers were women, and much of the merchandise was womens' wear, the decision makers were dominated by men.
- M & S tried to expand in the international market in a big way. But it didn't give importance to the fact that Europe, America, Canada were entirely different from England. It failed to give respect to the new foreign environment.
- M & S built its reputation on the basics, the essentials, and didn't work on fashions. This worked for them in the beginning, but by late 1990s it began to lose out to its competitors, The Gap, Oasis, Next, at the top end and Matalan, Asda, etc. at the bottom end. In the value food market, Tesco and Sainsbury began competing with them. It was only in 2001, did they bring in a designer to design its new range of clothes. They stopped understanding or reacting to the customer's needs.
- M & S did not have a customer loyalty card, when almost all its competitors had one.

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The Organizational Culture of M&S

Understanding the Cultural Context

The culture of the M&S plays in important role if the company's performance wants to be understood. Only when the culture of an organization is analyzed, it is actually possible to understand its strategy, as Watson (2002) points out.

When speaking of *organizational culture* we speak of a general set of meanings that is shared by all members and that defines the way people have to think and behave. The roots of these shared beliefs trace back to the founders of M&S and are personified in the case study in the behaviour of the senior management such as Greenbury and Salesbury. So, in order to understand M&S culture, it is essential to understand the impact senior management had made on the rest of the company. This interrelation can be seen below:

Illustration 5: Impact of Senior Management on Organizational Culture

When analyzing the case, the following list of main beliefs and values can be found that has to be adopted by all members of M&S:

- Quality has to be offered at reasonable prices
- Relationships with suppliers on a personal basis are essential
- Control of the organisation should be exercised top-down
- Employees are promoted internally
- The company grows from within and can build upon its long lasting reputation

Problems of M&S' Organizational Culture

Structure, culture and strategy are interrelated. Accordingly, these three main aspects need to be discussed in more detail:

Problems with Strategy

First of all, it was believed by the former top management that quality had to be high while prices needed to be affordable. This belief was essential for strategy making because it implied which actions had to be taken to achieve these aims. Such a strategy is however problematic to implement because as Porter (1985) notes, it leads to a situation of "stuck in the middle" which means that companies should either be low cost or product led. Achieving both is to some extent contradictory in his view and can therefore help to explain the inability of M&S to achieve sustained competitive advantage.

Problems with Culture and Structure

Secondly, an important belief was that control should be in the hands of top management which had been exercised by the successors of the founder. The case shows that Greenbury always tried to run the business on his behalf and rejected delegating responsibilities. This approach can be named "top down" which means that information flow from top management to the shop floor. This has several disadvantages: it fosters autocracy and managerialism, it does not take advantage of the sales staffs' experiences who know best what customers demand, it leads to bureaucratic structures which hamper flexibility and quick decision making, it discourages lower managers to make critical suggestions because of Greenbury's habit to think that his decisions are hardly fallible.

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Lastly because all managers were promoted internally, such an approach led over time to a closed inward looking system which fairly ignored external change. Appointing managers solely on the basis of this system implies the danger that new innovative ideas from outside, essential for creating strategies leading to sustained competitive advantage are not fostered.

Culture is the product of a long time period, people get used to it because it offers direction. So, change strategies might lead to resistance because new ways of doing things have to be adopted. Furthermore, knowing now about the impact Greenbury, Salesbury and their predecessors have made on M&S culture it gets clear how difficult it is for the new CEO Luc Vandevelde to achieve a turnaround.

Strategic Capabilities

In this part, we will examine the resources and competences of M&S using the following model:

	Easy to imitate	**Difficult to imitate**
Resources	Threshold resources	Unique resources
Competences	Threshold competences	Core competences

Illustration 6: Resources and Competences of an Organization

A. ***Threshold Resources:*** Threshold resources are requirements needed for existing in the market. M&S, as a retailer, has nearly 300 stores, in which there are experienced staffs serving different customers. The company has long-time suppliers, which are essential to assurance the high quality of products. Furthermore, as a listed company, the organization has enough financial sources to fund its operation.

B. ***Unique resources:*** Unique resources are crucial to underpin the competitive advantage. M&S, which has long history in the market, has unique brand awareness. Most of the people in the U.K. know the company. The brand of St Michael is deemed as the symbol of trust and quality. Facing the decrease in performance, the company reacted by employing an experienced CEO, Luc Vandevelde, who has an outstanding performance in the industry. He emphasizes on building a flatter company structure to improve the decision-making environment and to improve customer relationships.

C. ***Threshold competences:*** Threshold competences are competences, which are essential to stay in the industry. M&S provide retail services along with financial services, domestically and globally. Facing the intensive competition, the company has to adjust its purchasing systems and starting global sourcing to reduce the cost of sales. M&S charges rents for each individual store, in order to make store managers more accountable for their branches' performance. In addition, they group the stores on the basis of demographic characteristics and lifestyle pattern instead of allocating merchandise depending on floor space.

D. ***Core competences:*** Core competences are activities or processes that critically underpin an organization's competitive advantage. There is no clear core competence held by M&S, but the new CEO thrives to it up in order to recover the market share. He emphasized on building a flatter company structure to improve the decision-making environment. Another point is that he wanted to create a customer oriented organization.

In general, the analysis outlined shows that M&S has enough threshold resources and competences, and even some unique resources. But unfortunately, the company has not any proved core competence at the moment. In the past, the company did have some unexampled competitive advantages, which resulted in M&S' dominant status in the industry. In recent years, there have been huge changes in both the macro and the micro environments. But the

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company did not develop their capabilities to follow the changes. It is no surprise that M&S lost market share. Now the main problem for the management is how to utilize and combine all the resources and competences to develop new competitive advantages.

Recommendations for Future Strategies

So far the report has highlighted M&S major areas of concern. Having done that, we will now take our analysis one step further and provide a list of recommendations for M&S management which we think are important to recognize in order to regain sustained competitive advantage:

- Macro and micro environment change have great impact on the performance of companies. Sticking to previous stubborn strategies and ignoring rapid environment change will only disadvantage the company. An open-minded and flexible management, with capability of reacting swiftly to the environment and competitors' strategy change, is crucial for the survive and success of the company.
- Strategy development takes place in a political organizational environment that is influenced by a series of stakeholders, each of them with different levels of interest and power. In the past, strategy making was done by the top management which paid little attention to the potential impact of stakeholders. It is highly likely that this contributed to the poor performance of the company. In the future, stakeholder mapping should assist the strategy developing process leading to a more transparent picture of potential influences.
- The importance of culture has to be considered when changes are planned in restructuring the organization or when new strategies are considered due to their interrelation. The challenge of the new top management is to achieve a 'fit' between these forces. This can only be done gradually over the long-term because rapid changes might lead to resistance among M&S employees.
- The resources and competences of companies are the primary determinants of their strategies. M&S should hold core competences to form their competitive advantages in the industry. Accordingly, M&S should build its own core competence by utilizing and combining its resources and competences, especially unique resources, such as brand name and image. Flatter organization structure and customer-closeness will help M&S to react quickly and to serve customers better.
- Lastly, M & S should consider the following suggestions:
  - To conduct market research to find what really current customers want.
  - To segment the markets scientifically.
  - Understand and treat each store as individual SBU.
  - To separate the food and clothing divisions into separate stores.
  - Find cheaper suppliers for the clothing range.
  - To introduce a new loyalty card for its customers.
  - To have more women in its top management who understands customers well.

Task Study the retail chance of a particular retail industry of your choice and make a project report on it?

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14.2 Culture Transformation and Retailing

Culture is that complex whole which includes knowledge, belief, a., law, morals, customs and any other capabilities and habits acquired by humans as members of society. Culture influences the pattern of living, of consumption, of decision-making by individuals. It can be acquired from the family, from the region or from all that has been around us while we were growing up and learning the ways of the world. Culture forms a boundary within which an individual thinks and acts. When one thinks and acts beyond these boundaries, he is adopting a cross-cultural behaviour and there are cross-cultural influences as well. The nature of cultural influences is such that we are seldom aware of them. One feels, behaves, and thinks like the other members of the same culture. It is all pervasive and is present everywhere. Material culture influences technology and how it brings cultural changes like use of telephones, mobile phones, clothing styles and fashions, gives the marketers a chance to improve the product, packing, etc. to meet the needs of the customers. Norms are the boundaries that culture sets on the behaviour. Norms are derived from cultural values, which are widely told beliefs that specify what is desirable and what is not. Most individuals obey norms because it is natural to obey them. Culture outlines many business norms, family norms, behaviour norms, etc. How we greet people, how close one should stand to others while conducting business, the dress we wear and any other patterns of behaviour. Culture keeps changing slowly over time; and is not static. Changes take place due to rapid technologies. In case of emergency, war, or natural calamities, marketers and managers must understand the existing culture as well as the changing culture and culture of the country where the goods are to be marketed. Major companies have adapted themselves to international culture and are accepted globally.

Everybody in this world is a consumer. Everyday of our life we are buying and consuming an incredible variety of goods and services. However, we all have different tastes, likes and dislikes and adopt different behaviour patterns while making purchase decisions. Many factors affect how we, as individuals and as societies, live, buy, and consume. External influences such as culture, ethnicity, and social class influence how individual consumers buy and use products, and help explain how groups of consumers behave. The study of culture encompasses all aspects of a society such as its religion, knowledge, language, laws, customs, traditions, music, art, technology, work patterns, products, etc. Culture is an extremely critical and all pervasive influence in our life.

Indian consumer has undergone a remarkable alteration. Just a decade or .two ago, they saved most of their incomes, purchased the only necessities.

But today, equipped with higher income, credit cards, exposure to new shopping culture of west, desire to show status and to improve standard of living, the Indian consumer is spending a lot. His new mentality, in turn is fueling the growth of organized retail in India.

Young Shoppers

Most of the consumers have grown up with television, the internet, and have been exposed to the better standard of living and consumer culture abroad. This generation is also making money at a younger stage in life due to call centre jobs and other avenues of employment openings. As a result most of them are considering these shopping malls as the place for their entertainment.

Higher Income/Mncs

With the entry of MNCs in India, the people are getting better job opportunities, and the income levels are also becoming better with different allowances. This sets the stage for a very exciting and promising retail market in the future

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Plastic Money

Credit card reward schemes, flexible financing options, EMI facility, loyalty cards are tempting the Indian consumer to shop.

Urbanization

Growing urbanization and different facilities of cities converted the local population from net saver to net spender.

Awareness Level

The urban population is well aware of the different shopping malls and through different media they are well known about the offers and schemes.

Aspiration

Aspirations for better standard of living make the urban consumer spending more. While consumer demand is driving retail growth, it is in turn being driven by the following factors:

1. Economic growth
2. Improved standard of living
3. More affluence
4. Mass awareness
5. Demographics
6. Credit availability
7. Promotional offers
8. Status symbol

These positive macro trends are resulting in changing preferences in demand for lifestyle goods. Mind sets are shifting towards an organized retailing experience.

Some charms in our culture:

Convenience: as more and more women are joining the work force there is an increasing demand for products that help lighten and relieve the daily household chores, and make life more convenient. This is reflected in the soaring sale of Washing machines, microwaves, Pressure cookers, Mixer grinders, food processors, frozen food etc.

Education: People in our society today wish to acquire relevant education and skills that would help improve their career prospects. This is evident from the fact that so many professional, career oriented educational centers are coming up, and still they cannot seem to meet the demand. As a specific instance count the number of institutions offering courses and training in computers that has opened in your city.

Physical appearance: Today, physical fitness, good health and smart appearance are on premium today. Slimming centers and beauty parlours are mushrooming in all major cities of the country. Cosmetics for both women and men are being sold in increasing numbers. Even exclusive shops arc retailing designer clothes.

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Materialism: There is a very definite shift in the people's cultural value from spiritualism towards materialism. We are spending more money than ever before on acquiring products such as air-conditioners, cars, CD players, etc. which adds to our physical comfort as well as status.

Positive Impact of Cultural Change

In India the retail sector is one of the largest employers after agriculture. But it is highly fragmented and chiefly consists of small independent, owner — managed shops. New formats like super markets and large discount and department stores have started influencing the traditional looks of bookstores, furnishing stores and chemist shops. The retail revolution, apart from bringing in positive changes in the quality of life in the metros and bigger towns, is also bringing in slow changes in lifestyle in the smaller towns of India. Increase in literacy, exposure to media, greater availability and penetration of a variety of consumer goods into the interiors of the country, have all resulted in tapering down the differences of spending between the consumers of larger metros and those of smaller towns. However, the supply of quality real estate space would be instrumental in propelling the future growth momentum of the retail sector in India. The addition of better and affordable retail space would enable retailers to distribute more better-quality products and services to the consumers. For the retail sector to accomplish more growth, the increase of organized retailing has to become a countrywide phenomenon. The growth of the organized retail industry in the country will mean thousands of new jobs, increasing income levels and living standards, better products, and services, a better shopping experience, and more social activities.

Table 14.1: Retail Trade in India

	2005	2006	2007	2008	2009	2010
Retail trade						
Retail sales (₹ bn)	15,409	17,360	19,465	21,715	24,215	27,107
Retail sales (US$ bn)	349.4	385.8	421.3	467.0	516.3	564.7
Retail sales volume growth (%)	6.0	7.5	7.7	6.9	6.8	7.3
Retail sales US$ value growth (%)	13.6	10.4	9.2	10.8	10.6	9.4
Clothing, cosmetics & household goo.						
Clothing, sales value (US$ m)	58[illegible]32	[illegible]18	74[illegible]1	8472[illegible]4	96[illegible]1	[illegible]71
Perfumes & fragrances, sales value (US$ m)	2,103	2,291	2,464	2,696	2,941	3,169
Electronic & domestic appliances						
Television sets (stock per 1,000 population)	91	94	97	101	109	118
Television sets, sales volume ('000)	8,867	9,436	10,029	10,655	11,204	11,795
Cable-TV subscribers (per 1,000 population)	28	29	30	31	32	33
Personal computers, sales volume (000)	693	789	894	1,026	1,178	1,352
Refrigerators, sales volume ('000)	4,230	4,626	5,048	5,505	5,996	6,542
Video recorders, sales volume (000)	121	121	125	127	128	129

The retail sector in India is undergoing substantial growth and development, driven by the impact of rising incomes, increasing urbanisation, low interest rates, greater brand competition and a youth-driven culture. Retail sales grew by 10.5% in rupee terms in 2005, equivalent to a volume rise of 6%. Retailing is undergoing a structural shift in India, as supply slowly moves from small, family-run shops to larger, organised retail outlets. The rising number of attractive stores and foreign brands, coupled with readily available credit, will support steady real growth in retail sales of 7.2% a year between 2006 and 2010.

Notes

Negative Affect of Culture

Table 14.2: India's Consuming Class

Table I **Estimated Households by Annual Income**		**Table II** **Structure of the Indian Consumer Market (1995-96)**				
Annual income (in ₹) at 1994-95 prices	No. of Households (in million)	Annual income (in ₹) at 1994-95 Prices		Number of households (in million)		
			Classification _ I	Urban	Rural	Total
<25,000	80.7	<16,000	Destitutes	5.3I	27.7	133.0
25,001-50,000	50.4	160-220	Aspirants	7.1	36.9	
50,001-77,000	19.7	22"4450	Climbers	16.8	37.3	54.1
77,001-106,000	8.2	45 % 215'	Consumers	16.6	15.9	32.5
>106,000	5.8	I >215,000	IThe rich	0.8	0.4	I12
		Total no. of households		46.6	118.2	164.8

Data on income distribution of households is insufficient in determining market size for different consumer products in India. This is because of the lack of homogeneity of the consuming class and the varying prices of a single product in different parts of India.

Example: Vegetables generally cost more in Mumbai than in Calcutta, hence vegetable-purchasing power for identical income groups would be different in the two places even though they are the two biggest cities in India with comparable populations.

Did u know? Purchasing power is location-specific, not income specific.

Consumption habits of households are therefore better determinants of consumer market size than income distribution. Of course, other factors are also to be considered and they are detailed below:

- While determining market size for a consumer product, the structure of the consuming class as seen in Table II above, can be both revealing as well as misleading depending on the kind of product. For example, any specific consuming class would be fit to be a market for consumer products like tea or soap, but a product such as vacuum cleaners would find market largely only in the "consumers" and "rich" segments of the market as defined in Table II above. Furthermore, *even* this may not be correct, because a taste for a vacuum cleaner is not necessarily a function of purchasing power but of culture and/or taste as well.
- Identifying a plausible market size for a consumer product is therefore a hazardous task in a heterogeneous country like India. Yet, the marketer needs some data to come as close to the real picture as possible. For this purpose, it can be cautiously assumed that purchasing power is proportional to income despite variables such as location, taste etc. Companies are therefore advised to plan their consumer product marketing strategies on an area-by-area basis, rather than on an all-India basis.It is also advisable to further refine the plausible market size by taking into account details based on social, cultural and demographic factors.

Notes

- Marketing a super-premium product such as a Rolex watch is relatively easy. Just go for the income class above ₹ 106,000 per annum (in 1995-96) as per Table I above. This class, Table I shows, comprises 5.8 million households. But the problem lies in the fact that the 5.8 million households are spread all over India.
- The prime market for consumer products in India is aware of the cost-benefit or value for money, aspect. Their concept of value incorporates socio-cultural benefits in addition to product utility.

For example, many households in the "consumers" class and the "rich" class may have two television sets, but both the sets may not be top-of-the-line. Thus, while they may be demand for an additional TV set in many households in the two mentioned classes, it must not be mistaken as demand for the higher priced TV models.

The prime consumer market in India therefore is not a market for absolute premium products, but for something between the "high end popular brands" to the "premium brands."

Task What is the impact of culture change on consumers buying habit?

14.3 New Approaches in Retailing – New Ways for Old Retail Approaches

Retail marketing professionals are flocking online in hopes of cashing in on the new economy. While armed with knowledge and the eagerness to deploy their grandest ideas the second they arrive at their door/desk/start-up cubicle space, these gurus find within days that their past retail experience will only take them so far.

In the online world, even the basics aren't always easy and successful. Retail marketing for e-commerce means finding new ways to deploy old techniques. The basics of traditional offline tactics don't easily translate online — even such "good as gold" standbys as thank yours, buddies and coupons.

Gone are the days of establishing relationships with customers through the old-fashioned "thank you." Remember training your customer service representatives to thank your customers by name? While you could look at the name on the credit card or customer account, the anonymity of the Internet makes it much tougher to thank someone by name.

You can drop a cookie into a computer and welcome Ms. Smith to your Web site, but with privacy issues and uncertainty about Internet security, it takes a while to get and build trust. Even sending a thank-you note after a purchase is difficult in these days of e-mail spam paranoia.

To avoid the spam factor, marketers must think of new ways to show their respect and gratitude for their customers. One simple way to build that customer relationship is placing a welcome gift, kit or thank-you note in their first shipment. Customers love being surprised by receiving more than they paid for. That alone immediately establishes a relationship. Place a coupon in the box, and you've got a good chance of getting that customer back. It is important to build a relationship in that first shipment.

Other basic techniques, such as referral programs, don't always work in online retail. In the bricks-and-mortar world, customers referring new customers get a special coupon, bonus offer or gift. It's an easy and low-cost way of acquiring a customer with a small incentive.

Online, though, confirming a customer referral is much more difficult. Customers can create a separate user name and password and refer themselves. By even slightly changing an address or name, a customer can reap the rewards of a referral repeatedly and undetected.

Notes

For instance, the address 123 Main Street can be changed to 123 Main St. and appear as a new account. Referring one account address as a home address and one as a work address gives customers another way to get around the program. Customers will even place their next-door neighbor's address into an account if it means getting a customer reward. Cookies, which can be placed into a customer's computer to track whether the customer has been to a site, can easily be either turned off or deleted. And, the customer most likely to abuse a referral program certainly knows his way around cookies as a means of detecting him as a new or existing customer.

Referral programs work best online when companies either spend time designing a good database program that will cross-reference several fields, including credit card numbers if applicable, or check referrals manually. Hire a database person to look at each referral and check against several fields. Checking a referral program helps spot patterns of abuse that an automated system will not pick up, such as names of people or techniques that can make it through the system long before they are discovered.

Everyone likes paying less. So just as in the bricks-and-mortar world, coupons offer an easy means of acquiring and retaining customers. The offline coupon route starts with retailers typically defining a goal for a coupon, and targeting a demographic through a list buy, ZIP code target or newspaper insertion. Then, coupons get printed on a piece of collateral with a barcode assigned to apply the discount at the register. The bricks-and-mortar road offers a measure of control, since the customer has to go to the store and be seen to redeem a printed coupon, reducing the risk of fraud.

However, the online world is, once again, different. An online retailer can target a demographic through list buys, niche Web sites and ad buys as well. But there is no printed paper for the coupon, only a code entered and redeemed by customers at the virtual checkout line. Nothing prevents a coupon code from popping up on consumer Web sites, news groups or in e-mail forwarded from one customer to another.

Thousands of Web sites specialize in posting coupons for the world to use. Even customers not likely to clip coupons in the offline world find it tempting to save an additional $10 at an online store by checking these coupon sites. And just as with the referral program, first-time customer coupon offers encourage the creation of several user names and accounts to meet the requirements of a new customer. With those problems lurking, developing one-to-one coupon programs that generate unique coupon codes per target vs. multiuse coupon codes per campaign becomes vital to the success of a coupon campaign's goals.

While somewhat overwhelming, offline retailing techniques still can be applied to Web stores. You can still thank your customers, and buddies can still help buddies. Online retailers simply have to change their way of thinking slightly. With thousands of customers in your online store each day, 24/7, the possibility for abuse of traditional programs is much higher.

Marketers have to stay about 50 steps ahead of the game instead of just ahead of the game. Many more techniques can be applied to online retail than offline retail. Master the basics, and you will be a pioneer.

14.4 Building from the Future: Learning from the Past

- In the Hyper growth phase during 2005-2007, organized retailers committed strategic and operational errors.

  Hyper Growth Frenzy-The Indian organized retail revitalization is already reflecting in improved financials over the past few quarters and this trend will sustain in the coming periods as well. However, the sector under went a hyper growth phase during 2005 2007. The companies got carried away and committed strategic and operational errors, which they subsequently realized.

Notes

- They entered the race of adding retail space without proper due diligence.

  Race for increasing retail space resulting in haphazard growth-Organized retailers entered the race of adding retail space without proper due diligence on the catchment area, mall density and acceptability of organized retail. Retail space addition was looked upon as a key success factor and was a key market cap driver. This resulted in haphazard growth, with several malls coming up with in a square km in places like Gurgaon and Ahmadabad, which impacted foot, falls and store viability.

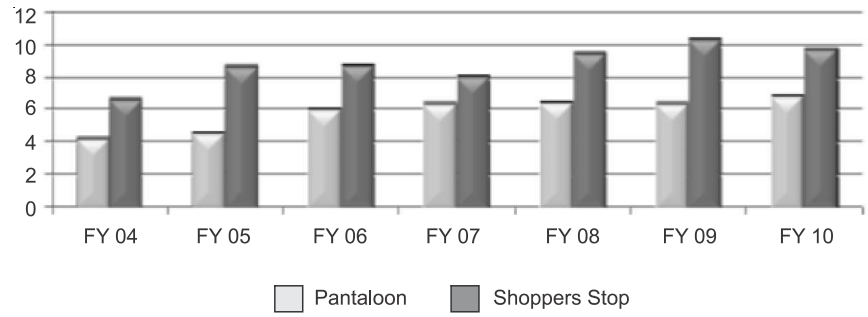
- Large players entered numerous formats, some of which proved to be unviable.

  Unviable formats-Various formats mushroomed during the hyper growth phase. Retailers were looking to create some niche positioning for which they were ready to experiment. Large retailers expanded into numerous specialty formats ranging from mobile phones, beauty, health, wellness, media, entertainment, catalogue retailing, tea and snacks kiosks, etc. Some of these ideas were ahead of their time, as the modern Indian shopper had just begun emerging. In their attempt to get a higher share of the consumer wallet, retailers ignored the value proposition for the consumer.

- In the race to acquire real estate for their stores, retailers pushed up lease rentals

  High lease rentals-Retail is a tough business to operate; PAT margins are also was 2-3 %. Indian organized retail follows the lease rental model due to high real estate costs and paucity of quality malls. Lease rentals should ideally be 3-6 % of sales depending upon the format. However, rentals in a few specialty stores touched ₹ 300/sf/month during the hey days-in a period of two years, lease rentals in general increased 50-70%. The increase was more evident in FY08 and FY09 due to decline in same store sales growth.

Figure 14.1: Lease Rentals (% of sales) have been inching up



Source: company financials

As trained manpower was scarce, salaries of experienced retailing professionals went through the roof.

- **Manpower costs and productivity issues:** Aggressive store opening plans resulted in retailers keeping a bench of new recruits. Trained man power was scarce, which resulted in salaries of experienced professionals going through the roof. However, lack of properly trained manpower and people with sales and retail mind set resulted in poor productivity for the industry and impacted performance.

  Retailers focused all their energies on store openings and neglected the backend.

- **Poor Back end infrastructure-** Focus of organized retail during 2005–2008 was faster store openings, with little focus on strengthening backend activities like vendor development, supply chain management, inventory management, logistics and reducing wastage. This resulted in companies having high cost of logistics, poor fill rates (70% of the required

Notes

SKUs or goods) and stock outs (lack of automated ordering systems and real time inventory), and very low inventory turns (loads of slow moving inventory in stock).

Viewing it as a sunrise sector, too many players entered organized retail and same have perished.

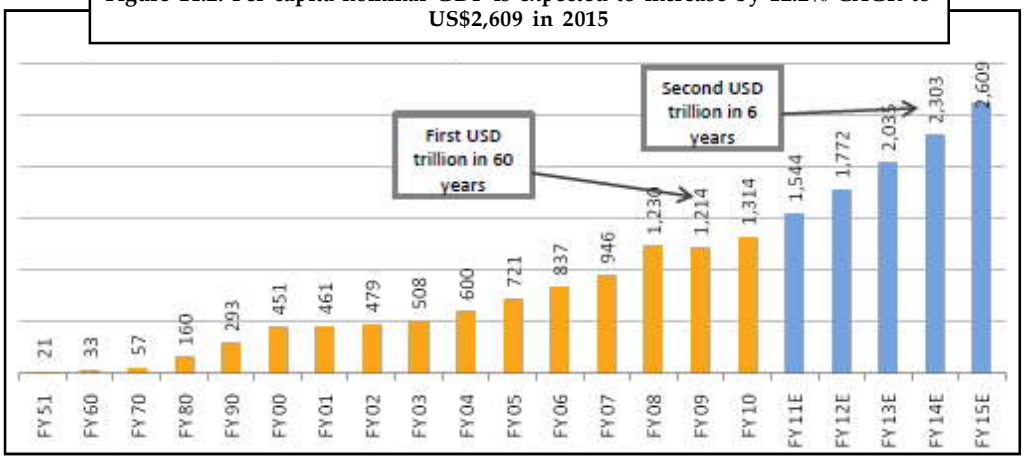
- **Entry of too many players:** The hyped phase resulted in the entry of houses like Reliance, Bharti, Aditya Birla Group, IndiaBulls, Mahindra, Godrej, DCM, Marico, Dabur, etc. with already established players like Tata, RPG, Future Group, Raheja, etc. Most of the players that entered the space had no prior experience in retailing nor were there any synergies with their existing businesses. Many players just entered to create a footprint, which could later be sold to foreign players in event of opening up of FDI in retail.

View on Future

Indian economy is expected to add another trillion dollars to its GDP in 5-6 years

Indian economy is expected to add another trillion dollars to its GDP in 5 -6 years, enabling per capita income CAGR of 12%. The resultant income growth would change the shape of income distribution from a pyramid to a diamond, with a huge consuming class in the middle

Figure 14.2: Per capita nominal GDP is expected to increase by 12.2% CAGR to US$2,609 in 2015



Consumer sentiment is improving and shoppers are back to retail stores in large numbers

Retail sector is in early growth phase of its life cycle and would emerge as unrise sector. Post reorganization, Indian retail is now revitalized and is poised to fully benefit from the opportunity as:

Consumer Sentiment Improving: Consumer sentiment is improving and the shoppers are back to retail stores in large numbers. According to the Master Card Consumer Confidence Survey for India, although consumer confidence at 68.8 is way below the highs achieved in 4 QCY 07, it has stabilized at 64-70 in the last 12 months. Some factors that impact consumer confidence are economic conditions, employment, regular income, inflation, personal financial health, quality of life, and stock performance.

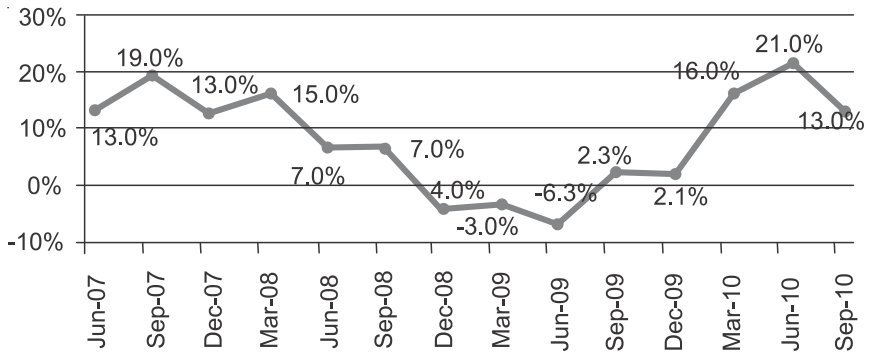
After bottoming out in June 2009, same store sales growth has since been on a recovery

Same Store sales rising: Organized retail is back to double-digit same store sales growth in the last 2/3 quarters. This follows sharp decline in growth rates during FY09 due to impact of global slowdown. We note that same store sales growth bottomed out in June 2009 and has been on a recovery since then. Same store sales growth had suffered across segments and formats.

Notes

- Premium segments had suffered more. Shoppers Stop reported a decline for three consecutive quarters from December 2008 to June 2009.
- Home retailing, which includes electronics, home building, furnishings, furniture, etc. witnessed high double-digit decline in same store sales, as consumers postponed their purchase decisions. Other discretionary items like jewelry, watches and accessories reported a decline in same store sales during this period.
- Consumers down-traded during the slowdown due to which value segments in food and grocery as well as fashion recovered faster. Same store sales did not decline and started improving from March 2009.
- Home, jewellery and premium segments in fashion bottomed out in June 2009 and 27 started recovering from September 2009, a good six months after recovery was visible in the value segment

Figure 14.3: Shoppers Stop: Some store sales bounce back



Post restructuring, retailers are now planning store additions

Store additions accelerating: Due to the slowdown, various retailers reduced the total number of stores operated by them to cut losses and improve store viability. The restructuring undertaken by the retailers is reflected in higher margins and increased store viability in the current scenario of rising sales growth. The resultant increase in confidence levels is driving up new store openings:

- Trent has added a total of 15 Westside departmental stores in the last 24 months on a base of 28 stores. It has added three Star India Bazaar stores, taking the total to seven. They are planning to add 7-8 Westside and 4-5 Star India Bazaar stores every year.
- Shoppers Stop has added six stores in the last two years and four stores in FY10. It expects to add 18 stores in the next 2.5 years on a base of 30 stores. It plans to increase the number of hypermarts from seven to 15 by FY12.
- Aditya Birla Retail operates eight hypermarts under the brand, More Megastore. It plans to add another 10 hypermarts in the coming 12-15 months.
- Bharti Retail plans to increase the total number of supermarkets from 60 to 125 by FY11 and double its compact hypermart stores, Easy Day Market from 6 to 12.
- Carrefour is close to launching its first cash and carry store of 60,000sf and plans to open 5-6 more in the current year.
- Amongst specialty retailers, Dominos plans to add 70 stores while Titan Eye+ is looking at expanding from 75 stores to 200 in two years. Adidas plans to increase the number of stores from 30 to 100 in the current year.

Notes

In food and grocery, organized retail has not been able to make much of the mark

- ***Government Initiatives:*** Organized retail operates with several limitations: FDI not allowed in multi-brand retail, poor infrastructure, high real estate costs, inefficient supply chain/ cold chain, complex taxation systems, and rigid labor laws. However, policy makers are realizing the role that organized retail can play in improving farm practices and in ensuring better price discovery. The growth of organized retail helps to reduce inefficiencies in trade - a win-win situation for farmers and consumers. It can be a big source of employment, more so for the unskilled workforce. We expect the following to be key upside triggers for the sector
- ***APMC Act reforms:*** In food and grocery, organized retail has not been able to make much of a mark. It accounts for just 1% of food and grocery sales in India; the ratio is even lower for fresh foods like vegetables and fruits. The policy impediments are:
- Organized retailers cannot source the produce directly from farmers.

Marketing of agricultural products is governed by respective state APMC (Agricultural Products Marketing Committee) Acts, which have created marketing monopolies.

- Contract farming is not prevalent and this limits the capacity of retailers to source products of uniform quality or products that are in great demand.
- Intermediation cost is very high and the farmers' share is just 40-60% of the final price at which the products are finally sold to consumers.

One reason for this is that organized retailers are currently not permitted to source directly from farmers

Direct sourcing can reduce the consumer price by ~26%; organized retailers' own distribution and logistics systems can help reduce costs further. Government has formulated a model APMC Act but implementation has been tardy. Players like Bharti Walmart and Reliance have begun building relationships with the farming community, but the benefits would be reflected only in the long-term.

The implementation of the GST can be a big trigger for organized retail

GST Implementation: The implementation the Goods and Services Tax (GST) can be a big trigger for organized retail. It will reduce the tax incidence and complexities of doing business in India. It will remove inefficiencies in the logistics and taxation system. Key benefits expected are:

- Organized retail suffers on account of VAT; unorganized players rarely pay VAT.
- Organized retail pays 10.3% service tax on lease rentals; this can be completely set off once GST is implemented. Organized retail could benefit up to 0.5% of sales.
- Inter-state taxes like central sales tax (2%) result in retailers having multiple warehouses to reduce taxes, and repeated loading and unloading of goods, which not only increases the lead time but also the cost of goods. GST implementation will result in realignment of the entire supply chain system, reducing storage, handling and transportation cost for organized retail.

Infrastructure is the key to sustainable growth for retail industry

Urbanization/improvement in infrastructure: Organized retail in India is more of an urban phenomenon; most retailers have so far been focusing on metros and tier-II cities. This is unlike the US, where Walmart focused on smaller cities, having a population of 10,000-20,000, with a strategy to enter city-by-city and state-by-state. Rural retail models are yet to stabilize in India due to small ticket size, high real estate costs and tough competition from millions of small mom-and-pop stores. However, the development of modern cities and townships is catching up in India, and should boost organized retail.

Notes

The catchments for retailers are shrinking, as most of them have been crowding the same areas. Consumers do not like to travel long distances for shopping. Poor road infrastructure and poor car density are impediments for growth. Retailers are forced to set up stores near the city centers, which increases their costs. Some retailers have started experimenting with the business model of having stores away from busy areas and offering free transport to consumers

Caselet

Hyper city Retail in Thane

Hyper city Retail opened its fifth hyper mart at Ghodbunder Road near Thane. It is a 0.1msf store, with 350 car parking spaces. The store is 4-5km away from the primary catchments. It provided consumers free car parking, which otherwise would cost ₹ 40-50. Also, for the first time in India's retailing history, the company offers a free bus service for the consumers. The experiment seems to be going well.

The store is receiving consumers from as far as 8-9km as against the initial target of drawing customers from catchment areas in a 4-5km radius. It is currently experiencing footfalls of 3,000 during weekdays and 7,000-10,000 during weekends.

Regulatory bottlenecks need to be addressed to encourage inclusive growth

Other issues: Organized retail also suffers from regulatory issues at the state and local levels, the resolution of which can reduce lead time and costs, and improve profitability

- ***Labor laws:*** Labor laws place restrictions on employing women for jobs that require them to work after 8:00 pm. The cost of employing women as store executives is lower, but the prevalent labor laws discourage retailers from doing so
- ***Too many regulatory approvals:*** Organized retailers require more than 40 approvals from various authorities for opening a store. Delay in getting the approvals increases the gestation period, inventory carrying cost (purchased in anticipation of store getting ready) and manpower cost (staff is recruited in advance for training)

Self Assessment

Fill in the blanks:

1. …….....…….. environment change have great impact on the performance of companies
2. …… development takes place in a political organizational environment that is influenced by a series of stakeholders,
3. …… influences the pattern of living, of consumption, of decision-making by individuals.
4. …….. are tempting the Indian consumers to shop.
5. Indian …… retail follows the lease rental model due to high real estate costs and paucity of quality malls.
6. …….. farming is not prevalent and this limits the capacity of retailers to source products of uniform quality or products that are in great demand.
7. Marketing of agricultural products is governed by respective state …… Acts, which have created marketing monopolies.
8. Direct sourcing can reduce the consumer price by …… organized retailers' own distribution.

Notes

Case Study

Vishal Retail

Performance till FY08

Vishal Retail was one of the most profitable hypermart retailer still FY08. Private labels were a big focus area and a key growth driver

- In FY 08, its EBITDA margin was 12.7% (highest in the industry) and PAT margin was 4.1% on sales of ₹10. 1b
- Vishal Retail had increased its store count from 49 to 100 in one year. Its retail space increased from 1.3 msf to 2.1 msf
- 74% of its stores were in tier-III cities
- Apparel contributed 62% of sales and FMCG contributed 18.5%; the rest came from general merchandise

Future Plans in FY10

- Vishal Retail had planned to increase the number of stores to 190 by FY 09 and to 500 by FY 11. The estimated retail space was 3.7 msf as at end –FY 09, which it had intended to expand to 10 msf by FY 11. The company was targeting 45% of sales from apparel, 30% from general merchandise, and 25% from FMCG
- It had plans to increase the proportion of private labels (excluding own brand of apparel) from 13% to 50%

Current situation

- Vishal Retail is under a corporate debt restructuring program, with numerous cases in the courts
- It reported a loss of ₹ 916 min FY 09 and ₹ 2.8 bin 9M FY 10 as against a profit of ₹ 403 m in FY 08

What went wrong Expansion was debt funded

- Vishal Retail's growth was primarily funded by debt, with the hope of raising cheap equity during the pre-melt down boom in the retail sector. To chase high growth, it continued to expand using debt. Its debt-equity ratio increased from 0.7x to 1.9x in FY 08
- Deterioration in inventory turnover-Controlling inventory is one of the golden rules in retail. Vishal Retail's inventory turnover declined from 5x in FY 06 to 2.5x in FY 08. Even though EBITDA margins expanded, lower inventory lowered ROCE by 6.5 % and ROE by 5%. The reasons for higher inventory could have been too fast an expansion, stocking goods in an inflationary environment and new private labels
- Small town strategy back fired: Vishal's growth was propelled by tier-III cities, where it was the first retailer to enter. It tried to replicate the same model in smaller cities that were not open to organized retail at that time. Consequently, it faced head-on competition from small kirana stores; Vishal had increased focus on FMCG significantly. It continued to invest in smaller cities where footfalls and sales per square foot were much lower, and competition from small stores was higher

Question:

Discuss the strategy Vishal Retailers should have chosen for maximum growth.

Notes

14.5 Summary

- ***Urbanization/improvement in infrastructure:*** Organized retail in India are more of an urban phenomenon; most retailers have so far been focusing on metros and tier-II cities. This is unlike the US, where Walmart focused on smaller cities, having a population of 10,000-20,000, with a strategy to enter city-by-city and state-by-state.
- Rural retail models are yet to stabilize in India due to small ticket size, high real estate costs and tough competition from millions of small mom-and-pop stores. However, the development of modern cities and townships is catching up in India, and should boost organized retail.
- ***GST Implementation:*** The implementation the goods and services tax (GST) can be a big trigger for organized retail. It will reduce the tax incidence and complexities of doing business in India.
- It will remove inefficiencies in the logistics and taxation system.
- Retail sector is in early growth phase of its life cycle and would emerge as unrise sector.
- Indian economy is expected to add another trillion dollars to its GDP in 5 -6 years, enabling per capita income CAGR of 12%.
- The resultant income growth would change the shape of income distribution from a pyramid to a diamond, with a huge consuming class in the middle.

14.6 Keywords

Culture: Culture is that complex whole which includes knowledge, belief, a., law, morals, customs and any other capabilities and habits acquired by humans as members of society.

GST: Goods and service tax.

Macro Environment: The macro environment refers to all forces that are part of the larger society and affect the microenvironment. It includes concepts such as demography, economy, natural forces, technology, politics, and culture.

Micro Environment: The microenvironment refers to the forces that are close to the company and affect its ability to serve its customers. It includes the company itself, its suppliers, marketing intermediaries, customer markets, competitors, and publics

14.7 Review Questions

1. Discuss the cultural transformation of Indian consumers in retailing.
2. What are the new developments in the retail industry?
3. Discuss the earlier trends in retail industry and its significant impact on future.
4. What do you understand by retail change?
5. What do you understand by GST? Discuss its relevance in retail sector.

Answers: Self Assessment

1. Macro and micro
2. Strategy

Notes

3. Culture
4. Credit card reward schemes/flexible financing options/EMI facility, loyalty cards
5. Organized
6. Contract
7. APMC (Agricultural Products Marketing Committee)
8. 26%

14.8 Further Readings

Books

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Online links

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http://classes.soe.ucsc.edu/ism158/Spring10/Projects/Retail%20Industry%20and%20Impact% 20of%20Technology.pdf

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