
UNIT 1 INTRODUCTION TO RETAILING

Objectives

After reading this unit, you should be able to:

- define retailing and discuss its importance;
- identify the different types of retailers both in store and non store categories;
- explore major decision areas in retail management; and
- examine recent trends in retailing.

Structure

- 1.1 Introduction
- 1.2 What Does the Retailing Industry Include?
- 1.3 The Importance of Retailing
- 1.4 Retail Strategy and Structure
 - 1.4.1 Margin Turnover Model
- 1.5 Retailing Formats (Classifying Retail Firms)
 - 1.5.1 Form of Ownership
 - 1.5.2 Store Strategy Mix
 - 1.5.3 Non-Store Retailing
- 1.6 The Wheel of Retailing
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1.1 INTRODUCTION

India has often been called a nation of shopkeepers. Presumably the reason for this is; that, a large number of retail enterprises exist in India. In 2004, there were 12 million such units of which 98% are small family businesses, utilizing only household labour. Even among retail enterprises, which employ hired workers, a majority of them use less than three workers.

Retailing is the combination of activities involved in selling or renting consumer goods and services directly to ultimate consumers for their personal or household use. In addition to selling, retailing includes such diverse activities as, buying, advertising, data processing and maintaining inventory.

While sales people regularly call on institutional customers, to initiate and conclude transactions, most end users or final customers, patronize stores. This makes store location, product assortment, timings, store fixtures, sales personnel, delivery and other factors, very critical in drawing customers to the store.

Final customers make many unplanned purchases. In contrast those who buy for resale or use in manufacturing are more systematic in their purchasing. Therefore, retailers need to place impulse items in high traffic locations, organise,



store layout , trains sales people in suggestion , and place related items next to each other, to stimulate purchase.

1.2 WHAT DOES THE RETAILING INDUSTRY INCLUDE?

- Department Stores
- Discount Stores
- Clothing Stores
- Speciality retailers
- Convenience Stores
- Grocery Stores
- Drug Stores
- Home furnishing retailers
- Auto Retailers
- Direct Sales Catalog and mail order companies
- Some e-commerce businesses

1.3 THE IMPORTANCE OF RETAILING

Organised retailing in India was estimated at Rs.18,000 crores in 2002-2003 and has grown at about 40% over the last 3 years (Source KSA Retail Outlook).

Retailing has a tremendous impact on the economy. It involves high annual sales and employment. As a major source of employment retailing offers a wide range of career opportunities including; store management, merchandising and owning a retail business.

Consumers benefit from retailing in that, retailers perform marketing functions that makes it possible for customers to have access to a broad variety of products and services. Retailing also helps to create place, time and possession utilities. A retailer's service also helps to enhance a product's image.

In general, retailers perform four distinct function as, shown in Figure 1.1 below:

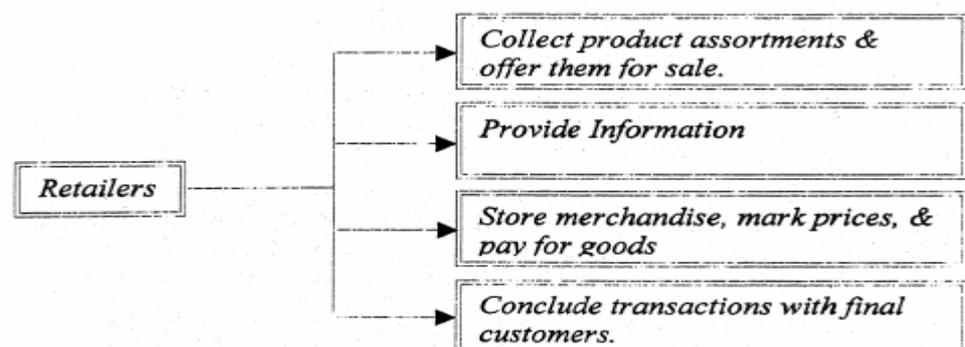


Figure 1.1



Retailers participate in the sorting process by collecting an assortment of goods and services from a wide variety of suppliers and offering them for sale. The width and depth of assortment depend upon the individual retailer's strategy.

They provide information to consumers through advertising, displays and signs and sales personnel. Marketing research support is given to other channels, members.

They store merchandise, mark prices on it, place items on the selling floor and otherwise handle products; usually they pay suppliers for items before selling them to final customers. They complete transactions by using appropriate locations, and timings, credit policies, and other services e.g. delivery.

Retailing in a way, is the final stage in marketing channels for consumer products. Retailers provide the vital link between producers and ultimate consumers.

1.4 RETAIL STRATEGY AND STRUCTURE

Successful retail operations depend largely on two main dimensions: margin and turnover. How far a retail enterprise can reach in margin and turnover depends essentially on the type of business (product lines) and the style and scale of the operations. In addition the turnover, also depends upon the professional competence of the enterprise.

In a given business two retail companies may choose two different margin levels, and yet both may be successful, provided the strategy and style of management are appropriate.

1.4.1 Margin Turnover Model

Ronald R. Gistl "Suggested a conceptual frame work, using margin and turnover, for understanding the retail structure and evolving a retail strategy."

Margin is defined as the percentage mark up at which the inventory in the store is sold and turnover is the number of times the average inventory is sold in a year. Fig. 2 is a diagrammatic representation of the frame work and can be applied to almost any type of retail business.

Depending upon the, combination of the two parameters, a retail business will fall into one of the four quadrants. For instance L-L signifies a position which is low on both margin and turnover; whereas, H-L indicates high margin and low turnover.

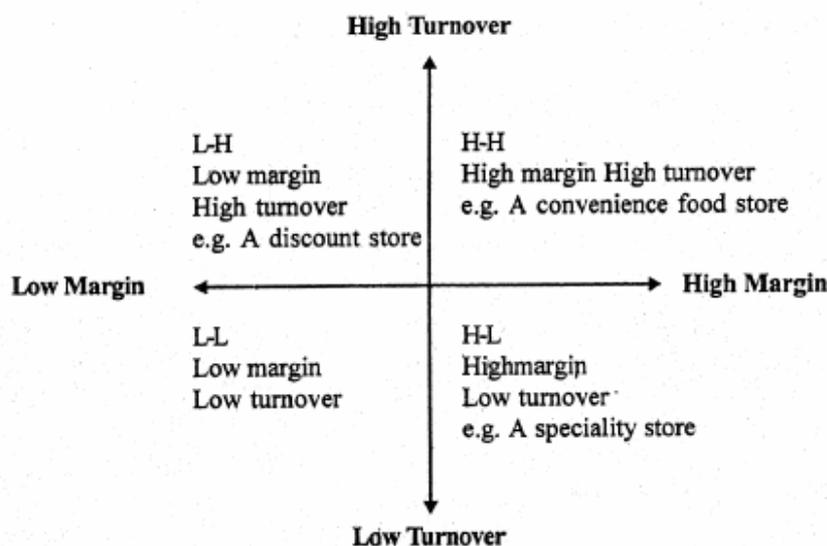


Figure 1.2



Low Margin High Turnover Stores

Such an operation assumes that low price is the most significant determinant of customer patronage. The stores in this category price their products below the market level. Marketing communication focuses mainly on price. They provide very few services; if any, and they normally entail an extra charge whenever they do. The merchandise in these stores are generally pre-sold or self sold. This means that the customers buy the product, rather than the store selling them.

These stores are typically located in isolated locations and usually stock a wide range of fast moving goods in several merchandise lines. The inventory consists of well known brands for which a consumer pull is created by the manufacturer through national advertising. Local promotion focuses on low price. Wal mart in the United States is an example and Pantaloon Chain or Subhiksha are Indian examples of such stores.

High Margin Low Turnover

This operation is based on the premise that distinctive merchandise, service and sales approach are the most important factors for attracting customers. Stores in this category price their products higher than those in the market, but not necessarily higher than those in similar outlets. The focus in marketing communication is on product quality and uniqueness.

Merchandise is primarily sold in store and not pre-sold. These stores provide a large number of services and sell select, categories of products. They do not stock national brands which are nationally advertised. Typically, a store in this category is located in a down town area or a major shopping center. Sales depends largely on salesmanship and image of the outlet.

High Margin High Turnover Stores

These stores generally stock a narrow line of products with turnover of reasonably high frequency. They could be situated in a non commercial area but not too far from a major thoroughfare. Their locational advantage allows them to charge a higher price. High over head costs and, low volumes also necessitate a higher price.

Low Margin-Low Turnover Stores

Retail enterprises in this category are pushed to maintain low margins because of price wars. Compounding this problem is the low volume of sales, which is probably a result of poor management, unsuitable location etc. such businesses, normally get wiped out over a period of time.

1.5 RETAILING FORMATS (CLASSIFYING RETAIL FIRMS)

Regardless of the particular type of retailer (such as a supermarket or a department store), retailers can be categorized by (a) Ownership, (b) Store strategy mix, and (c) Non store operations. Figure 1.3 illustrates this concept.

1.5.1 Form of Ownership

A retail business like any other type of business, can be owned by a sole proprietor, partners or a corporation. A majority of retail business in India are sole proprietorships and partnerships.

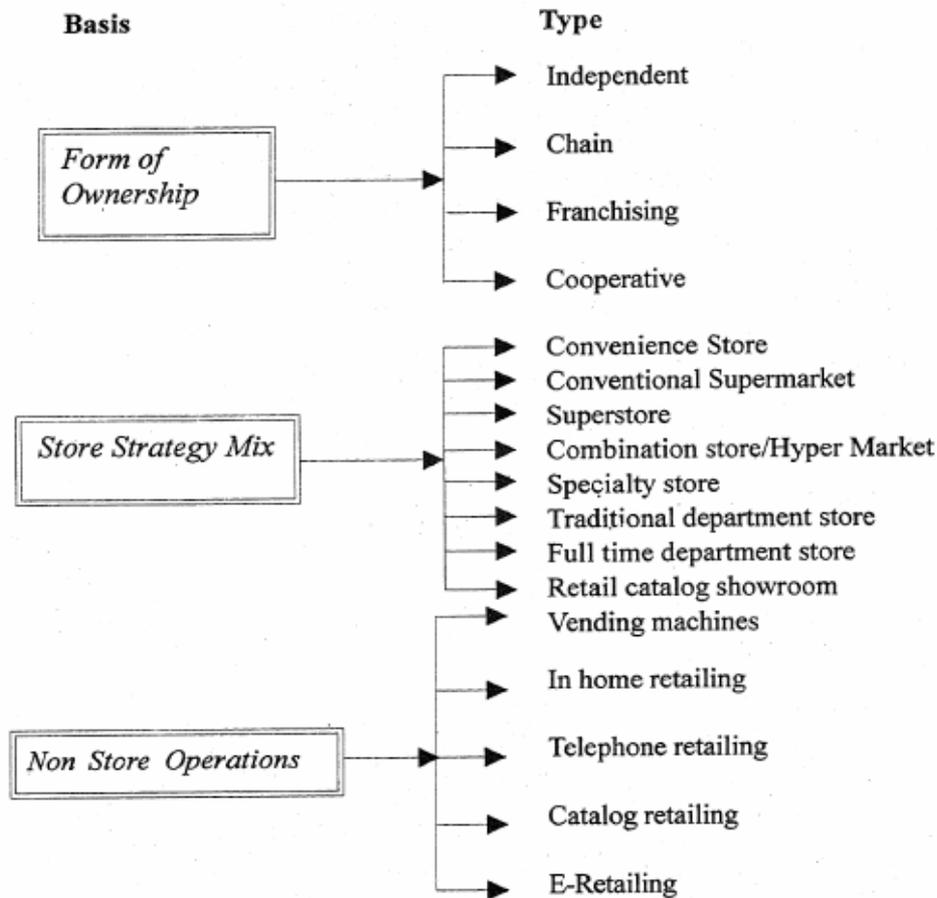


Figure 1.3

1.5.1.2 Independent Retailer

Generally operates one outlet and offers personalized service, a convenient location and close customer contact. Roughly 98% of all the retail businesses in India, are managed and run by independents, including barber shops, drycleaners, furniture stores, bookshops, LPG Gas Agencies and neighbourhood stores. This is due to the fact that entry into retailing is easy and it requires low investment and little technical knowledge. This obviously results in a high degree of competition..

Most independent retailers fail because of the ease of entry, poor management skills and inadequate resources.

1.5.1.3 Retail Chain

It involves common ownership of multiple units. In such units, the purchasing and decision making are centralized. Chains often rely on, specialization, standardization and elaborate control- systems. Consequently chains are able to serve a large dispersed target market and maintain a well known company name. Chain stores have been successful, mainly because they have the opportunity to take advantage of "economies of scale" in buying and selling goods. They can maintain their prices, thus increasing their margins, or they can cut prices and attract greater sales volume. Unlike smaller, independent retailers with lesser financial means, they can also take advantage of such tools as computers and information technology. Examples of retail chains in India are Shoppers stop; West side and IOC, convenience stores at select petrol filling stations.

1.5.1.4 Retail Franchising

Is a contractual arrangement between a "franchiser" (which may be a manufacturer, wholesaler, or a service sponsor) and a "franchisee" or



franchisees, which allows the latter to conduct a certain form of business under an established name and according to a specific set of rules. The franchise agreement gives the franchiser much discretion in controlling the operations of small retailers. In exchange for fees, royalties and a share of the profits, the franchiser offers assistance and very often supplies as well. Classic examples of franchising are; McDonalds, PizzaHut and Nirulas.

1.5.1.5 Cooperatives

A retail cooperative is a group of independent retailers, that have combined their financial resources and their expertise in order to effectively control their wholesaling needs. They share purchases, storage, shopping facilities, advertising planning and other functions. The individual retailers retain their independence, but agree on broad common policies. Amul is a typical example of a cooperative in India.

1.5.2 Store Strategy Mix

Retailers can be classified by retail store strategy mix, which is an integrated combination of hours, location, assortment, service, advertising, and prices etc. The various categories are:

- a) **Convenience Store:** Is generally a well situated, food oriented store with long operating hours and a limited number of items. Consumers use a convenience store; for fill in items such as bread, milk, eggs, chocolates and candy etc.
- b) **Super markets:** Is a diversified store which sells a broad range of food and non food items. A supermarket typically carries small household appliances, some apparel items, bakery, film developing, jams, pickles, books, audio/video CD's etc. The Govt. run Super bazaar, and Kendriya Bhandar in Delhi are good examples of a super market. Similarly in Mumbai, we have Apna Bazar and Sahakari Bhandar.
- c) **Department Stores:** A department store usually sells a general line of apparel for the family, household linens, home furnishings and appliances. Large format apparel department stores include Pantaloon, Ebony and Pyramid. Others in this category are: Shoppers Stop and Westside.
- d) **Speciality Store:** Concentrates on the sale of a single line of products or services, such as Audio equipment, Jewellery, Beauty and Health Care, etc. Consumers are not confronted with racks of unrelated merchandise. Successful speciality stores in India include, Music World for audio needs, Tanishq for jewellery and McDonalds, Pizza Hut and Nirula's for food services.
- e) **Hyper Markets:** Is a special kind of combination store which integrates an economy super market with a discount department store. A hyper market generally has an ambience which attracts the family as a whole. Pantaloon Retail India Ltd. (PRIL) through its hypermarket "Big Bazar", offers products at prices which are 25% - 30% lower than the market price.

1.5.3 Non Store Retailing

In non store retailing, customers do not go to a store to buy. This type of retailing is growing very fast. Among the reasons are; the ability to buy merchandise not available in local stores, the increasing number of women workers, and the presence of unskilled retail sales persons who can not provide information to help shoppers make buying decisions



The major types of non store retailing are:

- a) **In Home Retailing:** Where, a sales transaction takes place in a home setting - including door-door selling. It gives the sales person an opportunity to demonstrate products in a very personal manner. He/She has the prospect's attention and there are fewer distractions as compared to a store setting. Examples of in home retailing include, Eureka Forbes vaccum cleaners and water filters.
- b) **Telesales/Telephone Retailing:** This involves contact between the prospect and the retailer over the phone, for the purpose of making a sale or purchase. A large number of mobile phone service providers use this method. Other examples are private insurance companies, and credit companies etc.
- c) **Catalog Retailing:** This is a type of non store retailing in which the retailers offers the merchandise in a catalogue, which includes ordering instructions and customer orders by mail. The basic attraction for shoppers is convenience. The advantages to the retailers include lower operating costs, lower rents, smaller sales staff and absence of shop lifting. This trend is catching up fast in India. Burlington's catalogue shopping was quite popular in recent times. Some multi level marketing companies like Oriflame also resort to catalogue retailing.
- d) **Direct Response Retailing:** Here the marketers advertise these products/ services in magazines, newspapers, radio and/or television offering an address or telephone number so that consumers can write or call to place an order. It is also sometimes referred to as "Direct response advertising." The availability of credit cards and toll free numbers stimulate direct response by telephone. The goal is to induce the customer to make an immediate and direct response to the advertisement to "order now." Telebrands is a classic example of direct response retailing. Times shopping India is another example.
- e) **Automatic Vending:** Although in a very nascent stage in India, is the ultimate in non personal, non store retailing. Products are sold directly to customers/buyers from machines. These machines dispense products which enable customers to buy after closing hours. ATM's dispensing cash at odd hours represent this form of non store retailing. Apart from all the multinational banks, a large number of Indian banks also provide ATM services, countrywide.
- f) **Electronic Retailing/E-Tailing:** Is a retail format in which retailers communicate with customers and offer products and services for sale, over the internet. The rapid diffusion of internet access and usage, and the perceived low cost of entry has stimulated the creation of thousands of entrepreneurial electronic retailing ventures during the last 10 years or so. Amazon.com, E-bay and Baze.com HDFCsec.com are some of the many e-tailers operating today.

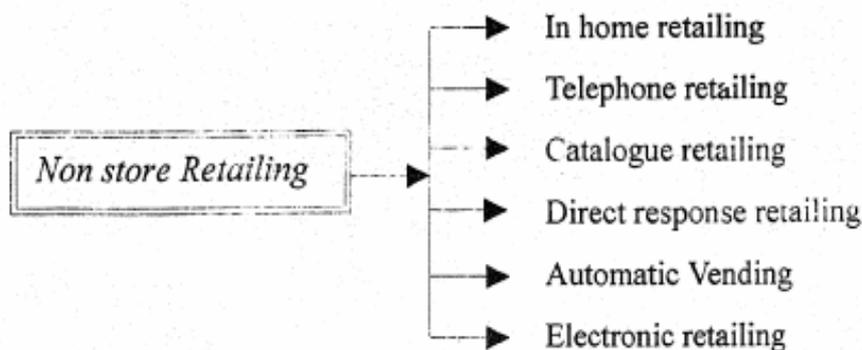


Figure 1.4



1.6 THE WHEEL OF RETAILING

Is a hypothesis that attempts to explain the emergence of new retailing institutions and their eventual decline and replacement by newer retailing institutions. Like products retailing institutions also have a life cycle.

According to this theory new retailers enter the market as, low margin, low price, low status institutions. The cycle begins with retailers attracting customers by offering low price and low service. Over a period of time these retailers want to expand their markets and begin to stock more merchandise, provide more services, and open more convenient locations. This trading up process, increases the retailers costs and prices, creating opportunities for new low price retailers to enter the market.

The evolution of the department store illustrates the "wheel of retailing" theory. In its entry phase, the department store was a low cost-low service venture. With time it moved up into the trading-up phase. It upgraded its facilities, stock selection, advertising and service. The same department store then moves into the vulnerability phase, because it becomes vulnerable to low cost/low service formats, such as full line discount stores and category specialists. Figure 1.5 illustrates this theory. While the wheel hypothesis has a great deal of intuitive appeal and has been borne out in general by many studies of retail development, it only reflects a pattern. It is not a sure indicator of every change, nor was it ever intended to describe the development of every individual retailer.

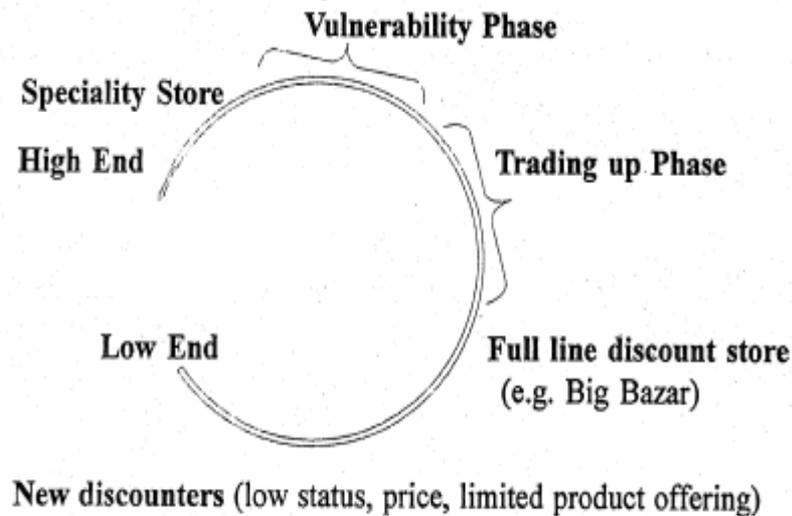


Figure 1.5

1.7 RETAILING DECISIONS

There are many factors for retailers to consider while developing and implementing their marketing plans. Among the major retailing decisions are these related to (a) Target markets (b) Merchandise management (c) Store location (d) Store image (e) Store personnel (f) Store design (g) Promotion, and (h) Credit and collections. This is shown diagrammatically in Figure 1.6.

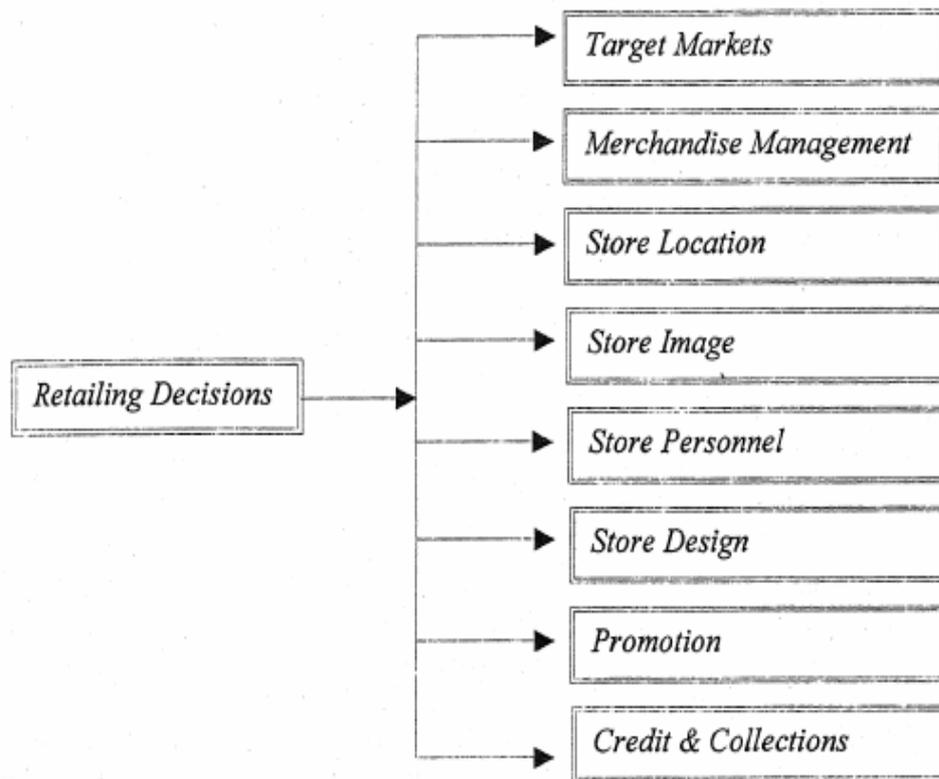


Figure: 1.6

- a) **Target Markets:** Although retailers normally aim at the mass market, a growing number are engaging in marketing research and market segmentation, because they are finding it increasingly difficult to satisfy everyone. Through a careful definition of target markets, retailers can use their resources and capabilities to position themselves more effectively and achieve differential advantage. The tremendous growth in number of speciality stores in recent years is largely due to their ability to define precisely the type of customers, they want to serve.
- b) **Merchandise Management:** The objective here is to identify the merchandise that customers want, and make it available at the right price, in the right place at the right time. Merchandise Management includes (i) merchandise planning (ii) merchandise purchase, and (iii) merchandise control. Merchandise planning deals with decisions relating to the breadth and depth of the mix, needed to satisfy target customers to achieve the retailers return on investment. This involves sales forecasting, inventory requirements, decisions regarding gross margins and mark ups etc. Merchandise buying involves decisions relating to centralized or decentralized buying, merchandise resources and negotiation with suppliers. Merchandise Control: deals with maintaining the proper level of inventory and protecting it against shrinkage (theft, pilferage etc.).
- c) **Store Location:** Location is critical to the success of a retail store. A store's trading-area is the area surrounding the store from which the outlet draws a majority of its customers. The extent of this area depends upon the merchandise sold. For example some people might be willing to travel a longer distance to shop at a speciality store because of the unique and prestigious merchandise offered. Having decided on the trading area a specific site must then be selected. Factors affecting the site include, traffic patterns, accessibility, competitors' location, availability and cost and population shifts within the area.
- d) **Store Image:** A store image is the mental picture, or personality of the store, a retailer likes to project to customers. Image is affected by advertising, services; store layout, personnel, as well as the quality, depth and



breadth of merchandise. Customers tend to shop in stores that fit their images of themselves.

- e) **Store Personnel:** Sales personnel at a retail store can help build customer loyalty and store image. A major complaint in many lanes of retailing, is the poor attitude of a salesperson. There is a growing trend now, to provide training to these sales clerks to convert them from order takers to effective sales associates.
- f) **Store Design:** A store's exterior and interior design affect its image and profit potential. The exterior should be attractive and inviting and should blend with the store's general surroundings. The term "Atmospherics" is used to refer to the retailer's effort at creating the right ambience. Merchandise display is equally important. An effective layout guides the customer through the various sections in the store and facilitates purchase.
- g) **Promotion:** retail promotion includes all communication from retailers to consumers and between sales people and customers. The objective is to build the stores image, promote customer traffic, and sell specific products. It includes, both, personal and non personal promotion. Personal communication is personal selling - the face to face interaction between the buyer and the seller. Department stores and speciality stores, emphasize this form of promotion. Non personal promotion is advertising. The media used are TV, Radio, Newspapers, Outdoor displays and direct mail, other forms of promotion include, displays, special sales, give aways and contests etc.
- h) **Credits & Collections:** Retailers are generally wary of providing credit, because of additional costs-financing accounts receivables, processing forms and bad debts etc. But many customers prefer some form of credit while purchasing. This explains the popularity of different types of credit cards and debit cards.

1.8 EMERGING TRENDS IN RETAILING

In recent years the nature of retailing has changed dramatically, as firms try to protect their positions in the market place. Many customers are no longer willing to spend as much time on shopping as they once did. Some sectors of retailing have become saturated, several retailers are operating under high levels of debt and number of retailers after running frequent "sales", have found it difficult to maintain regular prices.

Retailers are adapting to*the shopping needs and time constraints of working women, dual earner households and the increased customer interest in quality and customer service:

Shopping Malls: A growing number of shopping malls are coming up all over the country. In north India; there seems to be a proliferation of such malls surrounding Delhi, in places like Gurgaon and Noida. In general they target higher income customers, with their prestigious speciality shops, restaurants and department stores.

Factory Outlets: Manufacturers are opening factory outlets to sell off surplus inventories and outdated merchandise. This forward vertical integration gives manufacturers greater control over distribution, than selling the merchandise to off price retailers. Mohini knitwear of Ludhiana (Punjab) and number of woolen and hosiery manufacturers set up their outlets in Delhi during winters.

Non Store Retailing: Non store retailing is accelerating at a faster rate than in store retailing. This includes direct marketing. In Home shopping TV shopping and e-tailing etc.



Diversification of Offerings: Scrambled (unrelated products or services) merchandising is taking on a broader meaning and inter type competition among retailers is growing. For instance Citibank is organizing tourist trips and sending mail order catalogues to its credit card customers.

Impact of Technology on Shopping Behaviour: The way retailers present their merchandise and conduct their transactions are changing. Cable TV Channels are used to present merchandise, Videos have replaced catalogues and computer linkages to acquire information and make purchases are on the increase. Virtual shopping through PDA's is another possibility.

Multi Channel Retailing: Traditional store based and catalogue retailers are placing more emphasis on their electronic channels and evolving into multi channel retailers, because they can reach new markets and overcome limitations posed by traditional formats,

Activity 1

Keep a diary of where you shop, what you buy, and how much you spend in two weeks or one month. Get your friends to do the same thing. Analyse your results by type of retailer. Are your shopping habits significantly different from your friends ? why? or why not ?

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1.9 SUMMARY

Retailing encompasses those business activities involved with the sale of goods and services to the final consumer for personal, family or household use. It is the final stage in a channel of distribution.

Retailing has an impact on the economy because of the high volume of sales generated and the number of people employed. Retailers perform a variety of functions such as product assortment, providing information, handling merchandise and completing transactions.

Retail businesses maybe classified according to a number of criteria including, variety of products they sell, types of ownership and style of operation. A number of hypotheses, including the "wheel of Retailing" have been proposed to explain the evolutionary development of retailing institutions. Traditional retail businesses (super markets, convenience stores, department stores, discount and speciality stores) have been joined by category specialists, super stores, hyper markets, and catalog show rooms etc. super markets are focusing more on food items and perishables.

1.10 SELF ASSESSMENT QUESTIONS

A) Select True (T) or False (F) from the following statements :

i) Discount stores operate on a low margin, high turnover philosophy.

(T) (F)

ii) The chain store operations refer to two or more outlets under common ownership with central buying and selling similar lines of merchandise.

(T) (F)



iii) End users or final customers buy, only from retail outlets. (T) (F)

iv) Retailing helps to create place, time and possession utilities. (T) (F)

B) Indicate the correct choice in the following **multiple choice** questions:

i) retailing is a marketing function which:

- a) sells products to other businesses
- b) sells products to a company that resells them
- c) sells products to final consumers
- d) sells products for one's own use
- e) sells products to other retailers

ii) The wheel of retailing explains the emergence of new retailing forms by

- a) retailers cycle through peaks of high cost price and troughs of low cost price
- b) wholesalers see retailing opportunity, enter retailing, then turn to wholesaling again
- c) new retailers emerge ,grow, mature and decline
- d) retailers emerge to satisfy market segments; as segments change, so do retailers.
- e) Low margin, low price retailers enter to compete with retailers who are high margin and high price

iii) All of the following are possible types of service that a retailer can offer except:

- a) self service
- b) self selection
- c) limited service
- d) full service
- e) all of the above

iv) The correct statement about chain stores is

- a) they offer economies of scale in buying
- b) they can hire good managers
- c) they integrate wholesaling and retailing functions
- d) they centralize functions
- e) they achieve promotional economics

ANSWERS

(A) (i) True (ii) True (iii) False (iv) True.

(B) (i) c (ii) e (iii) e (iv) d



1.11 FURTHER READINGS

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