SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION

MBA HRD 406 (B)

SUBJECT NAME: FUNDAMENTALS OF RETAIL MANAGEMENT(OPT.PAPER)

UNIT-V

TOPIC NAME: RETAIL ECONOMICS, MEASURES OF PERFORMANCE

The word 'Retail' is derived from a French word with the prefix re and the verb tailer meaning "to cut again". Evidently, retail trade is one that cuts off smaller portions from large lumps of goods. It is a process through which goods are transported to final consumers. In other words, retailing consists of the activities involved in selling directly to the ultimate consumer for personal, non-business use. It embraces the direct-to-customer sales activities of the producer, whether through his own stores by house-to-house canvassing or by mail-order business

Retail is the process of selling consumer goods or services to customers through multiple channels of distribution to earn a profit. Retailers satisfy demand identified through a supply chain. The term "retailer" is typically applied where a service provider fills the small orders of many individuals, who are end-users, rather than large orders of a small number of wholesale, corporate or government clientele. Shopping generally refers to the act of buying products. Sometimes this is done to obtain final goods, including necessities such as food and clothing; sometimes it takes place as a recreational activity. Recreational shopping often involves window shopping and browsing: it does not always result in a purchase.

A retailer is a merchant or occasionally an agent or a business enterprise, whose main business is selling directly to ultimate consumers for non-business use. He performs many marketing activities such as buying, selling, grading, risk-trading, and developing information about cusotmer's wants. Aretailer may sell infrequently to industrial users, but these are wholesale transactions, not retail sales. If over one half of the amount of volume of business comes from sales to ultimate consumers, i.e. sales at retail, he is classified as a retailer. Retailing occurs in all marketing channels for consumer products.

Retail refers to the activity of selling goods or services directly to consumers or end-users. Some retailers may sell to business customers, and such sales are termed non-retail activity. In some jurisdictions or regions, legal definitions of retail specify that at least 80 percent of sales activity must be to end-users.

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## Importance of Retailing

The retailer is an intermediary in the marketing channel because he is both marketer and customer, who sells to the last man to consume. He is a specialist who maintains contact with the consumer and the producer; and is an important connecting link in a complex mechanism of marketing. Though producers may sell directly to consumers, such method of distributing goods to ultimate users is inconvenient, expensive and time consuming as compared to the job performed by a specialist in the line. Therefore, frequently the manufacturers depend on the retailers to sell their products to the ultimate consumers. The retailer, who is able to provide appropriate amenities without an excessive advance in prices of goods is rewarded by larger or more loyal patronage.

### GENERAL SERVICES

The general services which a retailer provides are:

1. The retailer anticipates the wants of the consumers and then supplies them the right kind of goods at reasonable price. His job is to make the consumers buying as easy and convenient as possible i.e. he acts as a consumers' agent.

2. He performs the service of bulk-breaking i.e. dividing large quantities into small units, such as individual cans, bottles, boxes, wrappers, packages, appropriate for consumer use.

3. He offers a large assortment of merchandise, of suitable size, colour, design, style and seasonal items-ranging from domestic utensils, household requisites to speciality goods.

4. He creates time and place utility by storing the products in off season and by transporting these goods to the places where they can be readily available as and when needed by the consumer.

5. He also assumes risks by guaranteeing the goods he sells to the consumer.

6. He also offers free delivery of goods, credit on open accounts, free alteration, liberal exchange facilities, instructions in the use of goods, revolving credit plans, and long term instalment programmes.

7. He adds to the convenience and ease of consumer purchasing by offering convenient shopping locations, market informations and other services such as free parking privileges, lessons on product use and a multitude of other facilities may be offered and found sufficiently desired to result in increased patronage.

8. He helps the producers in distributing their products by using advertisement display and personal selling.

9. The level of retail sales is one of the most useful barometers of the nations economic health. For example when sales of cycles pick-up, sales of steel and components also increase, as does employment and thus increasing purchasing power. But when sales go down, manufacturers cut back production, unemployment increases and retail sales also goes down.

**Retail strategy**

Retailers make many strategic decisions – store type, market served, product assortment and customer services

The distinction between "strategic" and "managerial" decision-making is commonly used to distinguish "two phases having different goals and based on different conceptual tools. Strategic planning concerns the choice of policies aiming at improving the competitive position of the firm, taking account of challenges and opportunities proposed by the competitive environment. On the other hand, managerial decision-making is focused on the implementation of specific targets."

In retailing, the strategic plan is designed to set out the vision and provide guidance for retail decision-makers and provide an outline of how the product and service mix will optimize customer satisfaction. As part of the strategic planning process, it is customary for strategic planners to carry out a detailed environmental scan which seeks to identify trends and opportunities in the competitive environment, market environment, economic environment and statutory-political environment. The retail strategy is normally devised or reviewed every 3– 5 years by the chief executive officer.

The strategic retail analysis typically includes following elements:

The retailer also considers the overall strategic position and retail image

* <u>Market analysis</u>

Market size, stage of market, market competitiveness, market attractiveness, market trends

* <u>Customer analysis</u>

Market segmentation, demographic, geographic and psychographic profile, values and attitudes, shopping habits, brand preferences, analysis of needs and wants, media habits

* <u>Internal analysis</u>

Other capabilities e.g. human resource capability, technological capability, financial capability, ability to generate scale economies or economies of scope, trade relations, reputation, positioning, past performance

* <u>Competition analysis</u>

Availability of substitutes, competitor's strengths and weaknesses, perceptual mapping, competitive trends

* <u>Review of product mix</u>

Sales per square foot, stock-turnover rates, profitability per product line

* <u>Review of distribution channels</u>

Lead-times between placing order and delivery, cost of distribution, cost efficiency of intermediaries

* <u>Evaluation of the economics of the strategy</u>

Cost-benefit analysis of planned activities

At the conclusion of the retail analysis, retail marketers should have a clear idea of which groups of customers are to be the target of marketing activities. Not all elements are, however, equal, often with demographics, shopping motivations, and spending directing consumer activities. Retail research studies suggest that there is a strong relationship between a store's positioning and the socio-economic status of customers. In addition, the retail strategy, including service quality, has a significant and positive association with customer loyalty.

**Five Measures of Performance of Retail Stores (Retail Economics)**

| **Instore-Retaling** | **Non-Store Retailing** | **Franchising** |
|---|---|---|
| 1. Department Stores | 1. Direct Selling | |
| 2. Super Markets | 2. Telemarketing | |
| 3. Discount Houses | 3. Online Retailing | |
| 4. Chain Stores or | 4. Automatic vending | |
| 5. Multiple Shops | 5. Direct Marketing | |

**Department Stores**

These are large scale retail stores selling under one roof and one control a variety of goods divided into different departments, each of which specializes in an individual merchandise. Converse is of the opinion that a department store is a retail shop handling several classes of goods including fast moving consumer goods, each class being separated from others in management, accounting and location. It is viewed by Clarke as that type of retail institution which handle a wide verity of merchandise under one roof which the merchandise grouped into well-defineddepartments which is centrally controlled and which caters primarily to women shoppers. Thus a department store is a retailing business unit that handles a wide variety of shopping and specialty goods and is organized into separate departments for purposes of sales promotion, accounting control and store operation. Recent trends are to add departments for automotive, recreational and sports equipment, as well a services such as insurance, travel advice and income-tax preparation. Department stores are distinctive in that they usually are oriented towards service. They are usually shopping centers.

Merits of Department Stores

1. Large department stores buy in large quantities and receive special concession or discount in their purchases. Many of them purchase direct form manufactures and hence, middleman's charges are eliminated.

2. Department stores are in a position to pay cash on all or most of their purchases and this gives them an additional advantage of picking up quality goods at cheaper rates and at the same time stocking the latest style and fads.

3. Customers can do all their purchases under one roof and it appeals to people of all walks of life.

4. The organization is too large to provide expert supervision of various departments for the adoption of a liberal credit and delivery service for large-scale advertising.

5. When customers enter the store to deal with one department they are frequently induced by the advertisement which the display of goods offers to make purchases in other departments as well.

**2. Super Markets:**

These are large, self service stores that carry a broad and complete line of food and non-food products. They have central check out facilities.

Kotler defines supermarket as 'a departmentalised retail establishment having four basic departments viz. self-service grocery, meat, produce and diary plus other household departments, and doing a maximum business. It may be entirely owner operated or have some of the departments leased on a concession basis.'

Characteristic Features of Super Markets

Chief characteristic features of supermarkets include the following:

i. They are usually located in or near primary or secondary shopping areas but always in a place where parking facilities are available.

ii. They use mass displays of merchandise.

iii. They normally operate as cash and carry store.

iv. They make their appeal on the basis of low price, wide selection of merchandise, nationally advertised brands and convenient parking.

iv. They operate largely on a self-service basis with a minimum number of customer services.

Supermarkets came into existence during the depression in U.S.A. At that time they sold only food products, and their principal attraction was the low price of their merchandise. As super markets increased in number day by day they also expanded into other lines of merchandise.

Advantages of supermarkets

i. Super markets have the advantage of convenient shopping, permitting the buyer to purchase all his requirements at one place.

ii. Super markets also stock a wide variety of items.

iii. These markets can sell at low prices because of their limited service feature, combined with large buying power and the willingness to take low percent of profit margins.

iv. Shopping time is considerably reduced.

**3.Discount Houses**

These are large stores, freely open to the public and advertising widely. They are self-service and general merchandising stores. They carry a wide assortment of products of well known brands, appliances, housewares, home furnishings, sporting goods, clothing, toy and automotive services. They complete on low price basis and operate on a relatively low mark-up and a minimum number of customer service. They range from small open showroom to catalogue type order offices to full line limited service, and promotional stores. They buy their merchandise stocks both from wholesale distributors and directly from manufacturers.

**4.Chain Stores or 5.Multiple Shops**

A chain store system consists of four or more stores which carry the same kind of merchandise are centrally owned and managed and usually are supplied from one or more central warehouses. A chain store is one of the retail units in chain store system. Chains have been interpreted as a group of two or more reasonably similar stores in the same kind or field of business under one ownership and management, merchandised wholly or largely from central merchandising head quarters and supplied from the manufacturer or orders placed by the central buyers.

In Europe, this system is called as Multiple Shops and the American call it as "Chain Stores". Under the multiple or chain shop arrangement, the main idea is to approach the customers and not to draw the customers as it as is practiced in the case of department store. In order to draw more customers, attempts are made to open a large number of shops in the same city at different places.

In India apt example for this retail system are offered by 'Bata Shoes', 'Usha Sewing Machines' etc., such multiple shops have 'centralised buying with decentralized selling". Fundamentally, they specialize in one product but with all its varieties or models.

**Chief Features of Chain Stores**

The chief features of chain stores are:

i. One or more units may constitute a chain,

ii. They are centrally owned with some degree of centralised control of operation.

iii. They are horizontally 'integrated' that is, they operate multiple stores. With addition of each new store, the system extends the reach to another group of customers.

iv. Many stores are also 'vertically integrated'. They maintain large distribution centres where they buy from producers, do their own warehousing and then distribute their own stores.

**Advantages of chain stores or multiple shops**

i. Lower selling prices. This is mainly possible due to economy in buying operation.

ii. Economy and advertising. Common advertisements covering all the units are feasible and this reduces advertisement expenditure.

iii. Ability to spread risks. Unlike the department store the principle here is not to "lay all the eggs in one basket". By trail and error, a unit sustaining losses may be shifted to some other place or even dropped.

iv. There is flexibility in working.

v. Since it works only on cash basis, bad debts as well as detailed accounting processes are avoided.

vi. Central and costly locations are not essential. Non-Store Retailing A large majority - about - 80% - of retail transactions are made in stores. However, a growing volume of sales is taking place away from stores. Retailing activities resulting in transactions that occur away from a physical store are called non-store retailing. It is estimated that non-store sales account for almost 20% of total retail trade.

**Five types of non store retailing:**

Direct selling, Telemarketing, Online retailing, Automatic vending and Direct marketing. Each type may be used not just by retailers but by other types of organisations as well.

**Direct Selling**

In the context of retailing, direct selling is defined as personal contact between a sales person and a consumer away from a retail store. This type of retailing has also been called in home selling. Annual volume of direct selling in India is growing fast from the beginning of the 21st century.

Like other forms of non-store retailing, direct selling is utilized in most countries. It is particularly widespread in Japan, which accounts for about 35% of the worldwide volume of direct selling. The U.S. represents almost 30% of the total and all other countries the rest.

**Advantages of Direct Selling**

i. Consumers have the opportunity to buy at home or at another convenient nonstore location that provides the opportunity for personal contact with a sales person.

ii. For the seller, direct selling offers the boldest method of trying to persuade ultimate consumers to make a purchase.

iii. The seller takes the product to the shoppers home or work place and demonstrates them for the consumer.

**Online Retailing:**

When a firm uses its website to offer products for sale and then individuals or organisations use their computers to make purchases from this company, the parties have engaged in electronic transactions (also called on line selling or internet marketing). Many electronic transactions involve two businesses which focuses on sales by firms to ultimate consumers. Thus online retailing is one which consists of electronic transactions in which the purchaser is an ultimate consumer. Online retailing is being carried out only by a rapidly increasing number of new firms, such as Busy.com, Pets Mart and CD Now.com.

**Automatic vending**

The sale of products through a machine with no personal contact between buyer and seller is called automatic vending. The appeal of automatic vending is convenient purchase. Products sold by automatic vending are usually well-known presold brands with a high rate of turnover. The large majority of automatic vending sales comes from the "4 c's" : cold drinks, coffee, candy and cigarettes. Vending machines can expand a firm's market by reaching customers where and when they cannot come to a store. Thus vending equipment is found almost everywhere, particularly in schools, work places and public facilities. Automatic vending has high operating costs because of the need to replenish inventories frequently. The machines also require maintenance and repairs.

The outlook for automatic vending is uncertain. The difficulties mentioned above may hinder future growth. Further, occasional vending-related scams may scare some entrepreneurs away from this business.

Vending innovations give reason for some optimism. Debit cards that can be used at vending machines are becoming more common. When this card is inserted into the machine, the purchase amount is deducted from the credit balance. Technological advances also allow operators to monitor vending machines from a distance, thereby reducing the number of out-of-stock or out-of-order machines.

**Direct Marketing**

There is no consumers on the exact nature of direct marketing. In effect, it comprises all types of non-store retailing other than direct selling, telemarketing, automatic vending and online retailing. In the context of retailing, it has been defined as direct marketing as using print or broadcast advertising to contact consumers who in turn, buy products without visiting a retail store.

Direct marketers contact consumers through one or more of the following media: radio, TV, newspapers, magazines, catalogs and mailing (direct mail). Consumer order by telephone or mail. Direct marketers can be classified as either general - merchandise firms, which offer a variety of product lines, or specialty firms which carry - only one or two lines such as books or fresh fruit.

Under the broad definition, the many forms of direct marketing include:

• Direct mail - in which firms mail letters, brochures and even product samples to consumers, and ask them to purchase by mail or telephone.

• Catalog retailing - in which companies mail catalogs to consumers or make them available at retail stores.

• Televised shopping - in which various categories of products are promoted on dedicated TV channels and through infomercials, which are TV commercials that run for 30 minutes or even longer on an entertainment channel.

Direct marketing has drawbacks. Consumers must place orders without seeing or touching the actual merchandise. To off-set this, direct marketers must offer liberal return policies. Furthermore, catalogs and to some extent, direct mail pieces are costly and must be prepared long before they are issued. Price changes and new products can be announced only through supplementary catalogs or brochures.

Direct marketing's future is difficult to forecast, given the rise of the Internet.

**Franchising**

A franchising operation is legal contractual relationship between a franchiser (the company offering the franchise) and the franchisee (the individual who will own the business).

The terms and conditions of the contract vary widely but usually the franchiser offers to maintain a continuing interest in the business of the franchisee in such areas as the site selection, location, management, training, financing, marketing, record-keeping and promotion. He also offers the use of a trade name, store motif standardized operating procedure and a prescribed territory. In return the franchisee agrees to operate under conditions set forth by the franchiser.

For the manufacturers, the franchising is beneficial in these directions:

i. it allows them to conserve capital.

ii. the distribution system is established in the shortest possible time,

iii. Marketing costs are lowest and

iv. Expenses of fixed overhead such as administrative expenses of the personnel of the company owned units are cut down substantially. Franchising exists in such products as soft drinks, automobiles and parts, business services, dry cleaning etc.