Block

1

INTRODUCTION TO RETAILING

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COURSE INTRODUCTION

Retailers play a significant role in the distribution of goods and services in the markets across the industry. Their position is vital in sustaining the production and consumption cycle. They also perform the role of a ‘gate-keeper’ by linking manufacturers to the ultimate consumers.

Being an intermediary in the marketing channel, a retailer has to manage his functions as a marketer that ranges from merchandise management to store management to customer management. It requires a strong marketing knowledge in devising the marketing strategies and precision in decision-making. With technological development taking rapid strides, and with the changing landscape of economic and cultural factors, retail marketing has gained a pivotal role and so has its management. In other words, retail management is a continuous process of developing retail marketing strategies. It takes into account the constantly evolving retailing environment by giving utmost importance to customer satisfaction.

This course, Retail Management, touches on the essential factors that should be understood by a retail institution while managing its business. Stemming from the basics of ‘retailing’ concept, this course is intended to help the learner understand the nuances of retail institutions in handling customers. At the same time, the significance of managing the financial aspects from a retailer’s point of view is also dealt with extensively. Identifying a store location, running a store with profits, having the right mix of technology upgradation are some important topics that fall within the scope of this course. The legal issues surrounding any business unit while operating at a global level is covered with suitable examples. Last but not least, career opportunities that are available in retail sector are also well analyzed in this course that gives the learner a wider perspective of retail management.

This course is organized into six blocks comprising 23 units as follows:

Block 1: Introduction to Retailing begins with an overview of retailing and then discusses the retail institutions and the role of retailers in understanding their customers.

Block 2: Retail Strategy throws light on the various strategies to be adopted by a retailer like the retail marketing strategy, financial strategy, the strategy to be adopted for site evaluation and store location, and the principles guiding retail organization and management.

Block 3: Merchandise Management discusses the role of a retailer while planning for merchandise assortment, designing purchasing systems of the varied merchandise that would be placed in the store and the efficient management of merchandise thus purchased.

Block 4: Managing the Retail Store equips retailers on the different factors that should be looked into while running a retail store. From store layout and design to managing a store and store personnel, all with customer service in the forefront, is discussed here. The role of information systems and logistics that helps in quick delivery system is also explained in this block.

Block 5: Retail Marketing covers the fundamental requirements of a retail outlet like marketing mix, pricing of products at the retail outlet, the right promotional mix to be adopted by a retailer and the IT tools like e-retailing and e-commerce that come handy in this modern age. This block ends with a note on international retailing that is of great importance in the globalized world and the path ahead for retail sector.

Block 6: Contemporary Issues in Retailing deals with current issues in retailing business, hinting at legal and environmental issues and ends with a note on career opportunities in the retail sector.

This edition has added a large number of contemporary examples and deleted old examples and exhibits.

BLOCK 1: INTRODUCTION TO RETAILING

Consisting of 3 units, this block *Introduction to Retailing* briefly overviews the Retailing Industry and covers the fundamental concepts underlying the retail institutions and the customer spread while establishing a retail institution.

Unit 1 - Retailing: An Overview: This unit begins with the definition and scope of retailing, and proceeds to describe retailers' role in the distribution channel, the evolution of retailer segment and its environment and ends with a note on Indian Retail Industry.

Unit 2 - Retail Institutions: This unit briefs on the theories of institutional change that explains the evolution of various retailing formats, the classification of a retailer as store-based and non-store based, the difference between the brick and mortar retail channel and the omni-channel store, the latter becoming the major platform of today's customers.

Unit 3 - Understanding the Retail Customer: In this unit, the focus is on the importance of understanding the customers who form the base for the survival of a retail store. 'Consumerism' has become dynamic, thanks to technological development. So are the expectations of consumers and their needs, wants and priorities, from retailers. To meet this objective, population, demographic, geographic, and buying behavior analyses that should be done by the retailer, is highlighted.

Unit 1

Retailing: An Overview

Structure

"Retail is detail."

- James Gulliver (late British retail entrepreneur behind the Fine Fare and Safeway supermarket brands), speaking on why are so many details so poorly executed).

1.1 Introduction

It might be something of a cliché but successful retailing is almost certainly still in the detail. When you look at some of the bigger retail names that we have lost over years, it is clear that they had lost their focus many years before their ultimate collapse and issues like the economy and internet competition were just the final straws to break the camel's back.

Retailing industry is one of the largest industries in India. It is one of the biggest sources of employment. Although the retailing industry has existed for centuries, it is only from the 1990s that it has witnessed tremendous growth. This has become possible due to the entry of many corporates. Some dominant entrants are the Reliance Retail Limited (2006), Aditya Birla Group (2006), Godrej Nature's Basket (2008), Future Value Retail Ltd. (2010), through its subsidiaries like Pantaloons and Big Bazaar were functioning independently before acquisition by Future Value Group, and Mahindra Retail (2014).

Indian retail industry emerged as one of the most dynamic and fast-paced industries due to the entry of several new players including online players as well. It accounted for over 10% of the country's gross domestic product (GDP) and around 8% of the employment. India is the fifth-largest global destination in the retail space and ranked 63 in World Bank's Doing Business 2020.

According to Kearney Research, India's retail industry was estimated to grow at 9% over 2019-2030, from US$ 779 billion in 2019 to US$ 1,407 billion by 2026 and more than US$ 1.8 trillion by 2030. Revenue of India's offline retailers, also known as brick and mortar (B&M) retailers, is expected to increase by ₹ 10,000-12,000 crore (US$ 1.39-2.77 billion) in FY20. Online retail market in India is projected to reach US$ 350 billion by 2030 from an estimated US$ 55 billion in 2021, due to rising online shoppers in the country. Online penetration of retail is expected to reach 10.7% by 2024 versus 4.7% in 2019.[1]

This unit, "Retailing: An Overview" introduces the various concepts of retailing and lists various factors responsible for its growth in India. It also analyzes the benefits that retailing bestows on consumers, manufacturers, and the economy.

1.2 Objectives

After reading through this unit, you should be able to:

- Familiarize with the concepts and principles of retailing and make business decisions in tune with the changing business environment as an entrepreneur.
- Recognize retailers' role in the distribution of goods and services as they are instrumental in shaping consumers' demands.
- Understand the benefits of retailing and its contribution to the economy as retailing influences every aspect in the supply chain.
- Take cognizance about the evolution of retailing industry in India that has reached the stage of high prominence.
- Gain practical knowledge of doing business in a country when circumferenced by various external environments that influence and impact a business unit.
- Assimilate the retailing environment in India as our country is considered as one of the ripe destinations for investments in the retail sector.

1.3 Retailing: Definition and Scope

Retailing is one of the fast-growing sectors in many countries. It is also one of the sectors to adopt innovativeness and modern technologies. Understanding 'retailing' will familiarize an entrepreneur with the concepts and principles

[1] "Retail Industry in India", August 2022, https://www.ibef.org/industry/retail-india, Accessed on 19.09.2022

underlying this industry and enable to adapt to the changing business environment. Retailing is derived from the French word *tailleur*, which means, "to cut a piece off". Thus, retailing can be defined as a set of business activities that adds value to the products and services sold to the final consumers for their personal, family or household use. A retailer is the key player in the marketing process as he regularly interacts with the end consumer. From a marketer's point of view, retailing can be defined as a set of marketing activities designed to provide satisfaction to the end consumer and profitably maintain the customer base by continuous quality improvements across all aspects of retailing.

Retailing involves:

- Understanding the needs of consumers.
- Developing good assortment of merchandise.
- Displaying the merchandise in an effective manner so that consumers find it easy and attractive to buy.

A retailer is any individual or business establishment that directs its marketing efforts towards the end users for selling goods and services. Retailers comprise street vendors, local kirana stores, supermarkets, food joints, saloons, airlines, automobile showrooms, video kiosks, direct marketers, vending machine operators, etc. An organization qualifies to be a retailer only when it derives a major chunk of its revenues from its transactions with end users. Thus, a seller is said to have conducted a retail transaction when he sells goods to the end customer while a wholesale transaction is conducted when the seller sells goods to a business concern. Table 1.1 gives a list of the kinds of retail institutions operating in the market.

Table 1.1: List of Retail Institutions

Motor vehicle dealers	Shoe stores
Catalog and mail-order houses	Florists
Motorcycle dealers	Grocery stores
Food stores	Liquor stores
Children's and infants' wear stores	Hardware stores
Radio, television, and consumer electronics stores	Retail bakeries
Book stores	Camera and Photographic supply stores
Fuel dealers	Stationery stores
Lumber and other building materials dealers	Men's and boys' clothing and accessory stores
Home Furnishing stores	Meat and Fish (seafood) markets

Contd….

Direct selling establishments	Drapery, curtain, and upholstery stores
Women's accessory and specialty stores	Women's clothing stores
Used merchandise stores	Sewing, Needlework, and Piece goods stores
Musical instrument stores	Dairy products stores
Luggage and Leather goods stores	Variety stores
Department stores (excluding leased departments)	Eateries
Sporting goods stores and Bicycle shops	Tobacco stores and stalls
Gift, Novelty, and Souvenir shops	Gasoline service stations
Family clothing stores	Books and CDs Stores
Apparel and Accessory stores	Paint, Glass, and Wallpaper stores
Hobby, Toy, and Game shops	Candy, Nut, and Confectionery stores
Optical goods stores	Household appliance stores
Watch & Jewellery stores/Fashion Jewellery	Floor covering stores
Furniture stores	Fruit and Vegetable markets
Retail nurseries, Lawn, and garden supply stores	Drug stores and Proprietary stores
Pharmacy stores	Footwear stores
Banking and financial institutions (termed Retail Banking & Retail Non-Banking Financial Market)	Homes and Apartments
Consumer Durables, Electronics & Entertainment	Natural Food (Organic) stores
Restaurants	E-tailers (FlipKart, Amazon, SnapDeal etc.)
Health, Fitness and Wellness Retail Institutions/Establishments	

Source: ICFAI Research Center

Example: Amazon: An Online Retail Giant

Amazon, the retail giant, offered online streaming services and is a major cloud services provider. It had its own consumer technology with products likes Echo smart speaker and Kindle e-book. It explored further into domain healthcare and publishing. Amazon considered retail as its primary source of revenue out of all its divisions.

Contd….

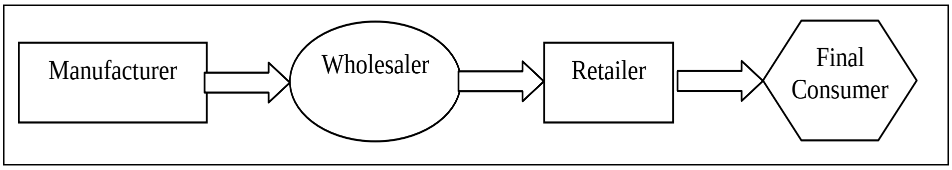
Most of Amazon's retail business is fetched from Amazon online sales. Amazon's online shopping platform has a plethora of products on offering alongwith customer reviews and ratings to facilitate online customers. Amazon has on offer a complete virtual shopping experience with a range of competitive prices and brands. It also offers delivery on the same-day or overnight

Source: Neenan, S. (May 5, 2020). Break Down The Components Of Amazon's Retail Business. Retrieved from https://www.techtarget.com/searchaws/feature/Break-down-the-components-of-Amazons-retail-business. Accessed on 28-06-2022

1.4 Retailers' Role in Distribution Channel

A retailer is the last entity in the distribution channel. But, 'they are becoming important in their role as gatekeepers within the channel of distribution[2]'. Retailers include all businesses and individuals who actively participate in the transfer of ownership of goods and services to their end users. Figure 1.1 depicts a typical distribution channel in retailing.

Figure 1.1: A Typical Channel of Distribution in Retailing



Source: ICFAI Research Center

A retailer usually plays the role of an intermediary, which links the producers, wholesalers, and other suppliers with consumers. Companies generally prefer to specialize in manufacturing of products, leaving the task of selling the products to an outside party, i.e. few wholesalers or retailers.

Example: Infiniti Retail Ltd.'s Croma - Leading Large Format Electronics Retailer

Infiniti Retail Ltd. owned Croma, a subsidiary of TATA Sons with a customer base of more than 6 million customers. Croma was one of the leaders in India's large format electronics retail segment. It was also the first omni-channel electronics retailer with 3 customer touch-points. These include a Croma store, the online electronics shop and a fully functional mobile app. Croma also had presence with a network of 97 Croma stores across 20 cities.

Source: Raveendran, R. (April 18, 2022). List of Biggest Retail companies in India 2022. Retrieved from https://indiancompanies.in/list-of-biggest-retail-companies-in-india/. Accessed on 28-06-2022

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[2] David Gilbert, "Retail Management", 2nd Edition, Pearson Education, Ltd., 2014, Chapter 1, pp.2-3.

Activity 1.1 List out a few E-Com sites that facilitate consumer to consumer transactions. Explain how the transactions are facilitated and processed. **Answer:**

1.5 Benefits of Retailing

Retailing is an integral part of an economic structure. It plays a prominent role in influencing every aspect of the economy. Retailers play a major role in the transfer of goods and services from the manufacturer to the end consumer. In this process, retailers deliver many benefits to customers, manufacturers, wholesalers, and the economy.

1.5.1 Benefits to Customers

Retailers act as buying agents for consumers. They perform various business activities that increase the value of the goods and services they sell to the end consumer. If there were no retailers in the distribution system, consumers would have to personally visit the manufacturers to procure the goods and services required by them. As a buying agent, a retailer performs various activities to satisfy the end consumer. These activities include:

- Breaking bulk
- Providing assortment
- Holding inventory
- Providing after sales services
- Providing information

Breaking Bulk

Retailers buy goods in bulk from manufacturers and divide them into smaller sellable units according to consumption patterns of the end consumer. By buying in bulk, the retailers gain two benefits - quantity discounts from manufacturers and lower freight rates for large shipment of goods. Availability of products in smaller units enables customers to buy products in quantities which suit their consumption patterns.

Providing Assortment

Retailers evaluate the products of various manufacturers and offer the best collection of products from which the customer can select the product of his/her choice. Retailers select the product assortment depending on the tastes and needs of their target customers. The variety in assortment offered makes the buying process easier.

Holding Inventory

Retailers carry inventory and make the products available to consumers at a convenient place and time. Retailers make it possible for consumers to make instant purchases. This reduces the cost of storage and enables the consumer to invest his money profitably.

For example, a customer can walk into an electronic goods showroom and buy a music system whenever he wants, or pick up a music album from any music retail outlet. Such spontaneous shopping would not be possible if retailers do not stock the goods.

Providing after Sales Services

Apart from selling goods, retailers also provide a variety of value added services, which make it easier for customers to buy and use products. These services include providing free home delivery, accepting credit cards, accepting payments on installment basis, arranging loans, etc.

Providing Information

Retailers play a major role in providing product related information to their consumers. Retailers use advertising and in-store salespersons to provide product information, which helps the consumer to simplify his purchasing process.

Check Your Progress - 1

1. *Tailleur*, a French word which means, ‘to cut a piece off’, what is it referred as in English?
   a. Realtor
   b. Retailing
   c. Retail Bakery
   d. Bulk breaking
   e. Retailer
2. Who are the beneficiaries of retailing when goods and services are transferred from production place to end consumer?
   a. Wholesalers and Customers
   b. Customers, Manufacturers, Wholesalers and the Economy

   c. Manufacturers, Wholesalers and the Economy
   d. Customers, Manufacturers and Wholesalers
   e. Manufacturers and Customers
3. Which of the following are included in a typical channel of distribution?
   a. Manufacturer, wholesaler, distributor, and retailer
   b. Manufacturer, wholesaler, retailer, and final consumer
   c. Manufacturer and consumer
   d. Retailer and final consumer
   e. Wholesaler and consumer
4. Which of the following entities is a retailer in the distribution channel?
   a. Second
   b. Last
   c. First
   d. Third
   e. Ultimate
5. Which of the following are not the activities involved in retailing?
   a. Breaking bulk
   b. Providing assortment
   c. Holding inventory
   d. Providing after sales services
   e. Developing, market.

1.5.2 Benefits to Manufacturers and Wholesalers

Manufacturers and wholesalers consider retailing as a channel for delivering their products/services to the end customer. By selling products and services (of a manufacturer on a much larger scale), retailers provide the manufacturer with greater revenues, which could be reinvested in production. Thus, retailers play a major role in smoothing out the variation between the production and sales of the manufacturer's products.

Retailers function as the sensory organs of manufacturers. While designing new products, or upgrading an existing product, manufacturers depend on retailers to gather information regarding the tastes and preferences of customers. Retailers provide feedback on the goods and services offered by them. This helps them to make modifications to the existing products or launch new products to satisfy the needs of customers.

Retailers also share some of the risks of the manufacturer by paying for the goods before they are sold to the final customer. A retailer is exposed to three types of obsolescence risks:

- Physical obsolescence
- Technological obsolescence
- Fashion obsolescence

Physical obsolescence risk arises from the damage or wear-out caused to the products while they are stored in the retail outlet. This type of risk is common for stores dealing in handicrafts, books, greeting cards, gift items etc. Retailers dealing in high technology products that are upgraded very frequently face the risk of technological obsolescence. Retailers who deal in personal computers and computer components face this risk quite often. In this industry (computer), upgraded versions are introduced frequently and these are available at a lesser price than that of the lower versions, which may result in severe losses for the retailer. Fashion obsolescence risk is very common for apparel retailers who deal in merchandise of varying style, design, or color.

1.5.3 Benefits to the Economy

The retail sector in all its likelihood is expected to grow at an amazing pace and become very complex and dynamic. Factors responsible for these changes are shifting demographics, smaller families, knowledgeable consumers and more technology oriented marketing practices. The retail industry had to modify its approaches to satisfy the needs of the customers to be more profitable, economically viable and get superior customer loyalty.

Example: IKEA Delivering Host of Benefits to its Customers

In the financial year 2021 (FY21), during and post-Covid times, the IKEA vision and business idea were more relevant than ever: "To create a better everyday life for the many people by offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them." IKEA was taking great efforts to keep its most popular products like BILLY bookcase in stock.

In the FY21, IKEA supported millions of people by improving life at home. IKEA persistently provided responsibly-produced products at the lowest possible prices. IKEA came closer to its customers through a diverse strategy of city-centre locations, suburban stores, improved online shopping capabilities, as well as home deliveries and services. In the FY21, IKEA stores had 775 million visitors. Also in the FY19 and the end of the FY23, IKEA planned to open 17 new markets in total and an average of 50 new locations per year. All so its customers could touch and try IKEA products before they buy.

Source: September 24, 2021. FY21: IKEA Grows Again. Retrieved from https://about.ikea.com/en/about-us/year-in-review. Accessed on 28-06-2022

1.6 Evolution of Retailing

From the days of barter system, retail in India has evolved to support the needs of the country, given its size and complexity. In the early eighties, 'retailing' in India was synonymous with peddlers, vegetable vendors, neighborhood Kirana stores (small grocery stores) or sole clothing and consumer durable stores in nearby town. These retailers operated in a highly unstructured and fragmented market. Very few retailers operated in more than one city. Before 1990, organized retailing in India was led by few manufacturer-owned retail outlets, mainly from the textile industry, for example, Bombay Dyeing, Raymond’s, S Kumar's, and Grasim in the early 80's followed by Bata and Titan in the mid 80's. But, the Indian retail scenario started changing in the nineties. The advent of 1990 set the stage for new type of specialized retailers in the Indian market like Music World (Music) and Crosswords (Books) and in some FMCG. Liberalization of the Indian economy led to the dilution of stringent restrictions. This paved the way for the entry of a few multi-national players like The Nanz Company [a joint venture between Goetz (India Ltd. and NANZ (Germany)] and the Spencer's into the Indian market in 1997 via the FDI route into the Indian market. Total amount of FDIs flowed in Indian retail sector during April 2000-March 2022[3] was around US$ 3.96 billion.

This was further augmented by the changing profile of the Indian consumers, who were being greatly influenced by western lifestyles. Increasing wages of the employees working in Greenfield sectors gave rise to a completely new group of buyers with higher purchasing power.

Entry of multinational brands like Metro Cash & Carry, Walmart etc. also generated considerable enthusiasm and interest among domestic retailers. This encouraged setting up of retail chains by domestic retailers like DMart Value Hypermarket, Reliance Signature Supermarkets, More Supermarkets & Hypermarkets, Spencers Hypermarkets etc.

1.6.1 Factors behind the Change of Indian Retailing Industry

Some of the factors, which have been responsible for the growth of retail industry in India, have been discussed below:

Economic Growth

India is one of the largest economies in the world. The gradual increase in Gross Domestic Product (GDP) and the purchasing power of Indians provided an excellent opportunity for organized retailing. India provides an excellent opportunity for global retailers in areas like single-brand, cash-and-carry and

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3 https://www.ibef.org/industry/retail-India. accessed on 22/9/22.

electronic trade. Walmart launched its 24th cash-and-carry stores in Karimnagar, Telangana state during 2019 and expressed plans to add some more. The German chain Metro AG has presence in Indian market since 2003 and has a chain of around 31 cash-and-carry stores across the country as of May 2022. Asics, the Japanese retail brand, Bestseller, the Danish store and Sisley, the French fashion retailer expressed their ambitions of expanding their Indian operation without franchisee tie-ups.

Table 1.2 provides the data on the private consumption and PPP-adjusted per capita GDP of some countries that could be cited, perhaps, as one of the reasons that augur retail growth across the globe.

Table 1.2: GDP - Per Capita (PPP) 2022 Country Ranks

Rank	Country	Value	2022 Population
1	Luxembourg	$118,001	647,599
2	Singapore	$97,057	5,975,689
3	Ireland	$94,392	5,023,109
4	Qatar	$93,508	2,695,122
5	Switzerland	$72,874	8,740,472
6	Norway	$65,800	5,434,319
7	United States	$63,416	338,289,857
8	Brunei	$62,371	449,002
9	Hong Kong	$59,520	7,488,865
10	Denmark	$58,932	5,882,261
128	India	$6,461	1,417,173,173

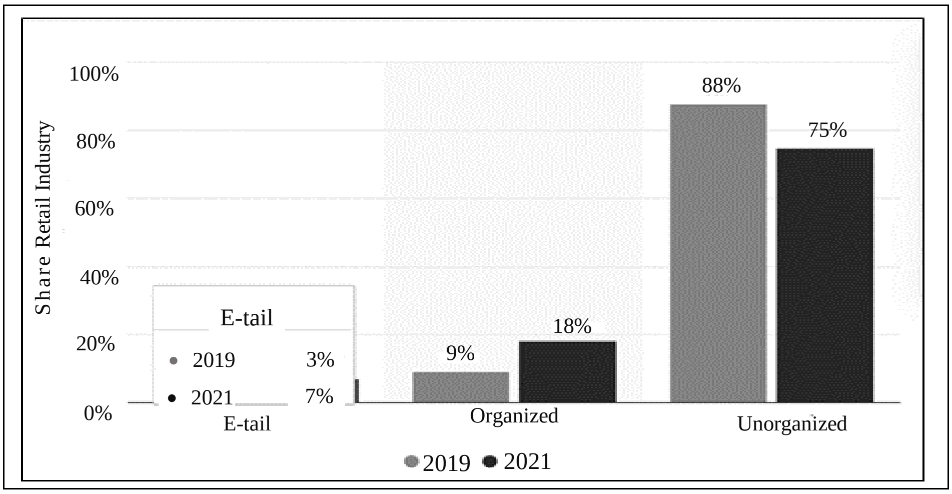
Source: https://worldpopulationreview.com/country-rankings/gdp-per-capita-by-country accessed on 22/9/22.

As of September 2022 the population of India stood at 1,417,173,173. In 2021[4] the urban population increased by 2.32% (at 493,169,259 people) form 2020.

In India, the retail sector is distributed by structure into E-tail, organized and unorganized sectors. In 2019, their contribution to retail sector was 3%, 9% & 88% for E-tail, organized and unorganized sectors respectively. By 2021, they are expected to reach 7%, 18% & 75% respectively.

[4] https://www.macrotrends.net/countries/IND/india/urban-population# accessed on 22/9/22.

Figure 1.2: Distribution of Indian Retail Industry by Structure

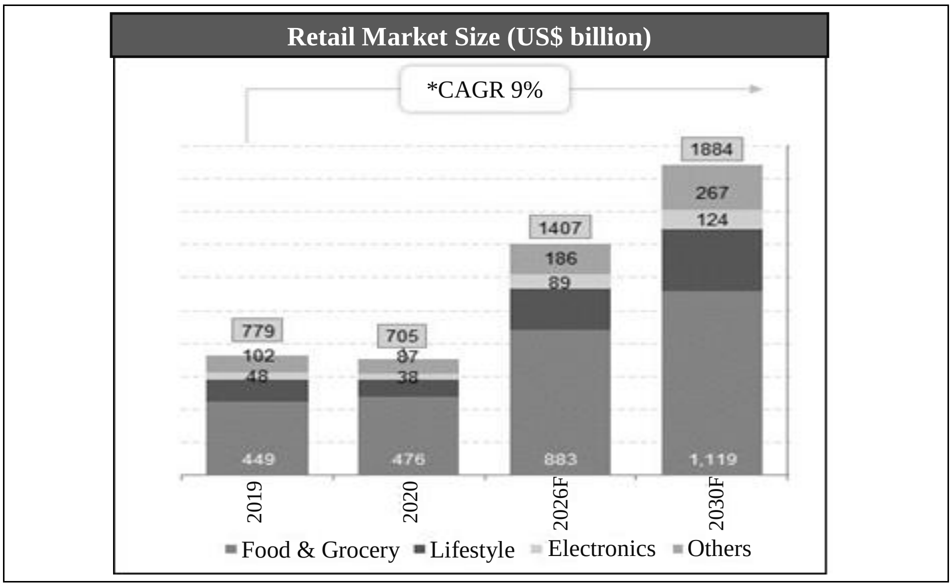


Source: https://www.statista.com/statistics/719359/india-retail-industry-distribution-by-structure/, June 29, 2022, accessed on 26/9/22.

Consumerism

The increasing influence of the western media has led to a considerable change in the lifestyle of the Indian consumer. The economic well-being of the Indian middle class and their growing aspirations for material comforts has also been responsible for consumerism gaining momentum in India. Today, the Indian consumer is more inclined towards buying goods like cars, washing machines, audio systems, designer dresses, cosmetics, and other personal care products. Figure 1.3 shows the organized retail split across various segments & market size estimate up to 2030.

Figure 1.3: Indian Organized Retail Split & Market Size up to 2030



Source: Extracted and adapted from IBEF, "Retail Industry Report June 2022" accessed on 26/9/22.

Example: Evolution of Consumer Credit Companies in Indian Retailing Sector

The big names in e-commerce like Amazon, Myntra, Flipkart, MakeMyTrip, among others, saw a substantial surge in online sales in 2020 due to better EMI financing schemes. Consumer credit companies such as TVS Credit and Bajaj Finserv were offering non-conventional funding. Affordable EMIs made consumer finance companies fulfill dreams of millennial in particular those who lacked credit history. The EMI adoption promoted a vibrant financial ecosystem with higher business.

Source: Kapur, S. (May 19, 2021). How the Rise Of Consumerism is Being Powered By EMIs In Fulfilling The Great Indian Millennial Dreams. Retrieved from https://timesofindia.indiatimes.com/blogs/voices/how-the-rise-of-consumerism-is-being-powered-by-emis-in-fulfilling-the-great-indian-millennial-dreams/. Accessed on 28-06-2022

Brand profusion

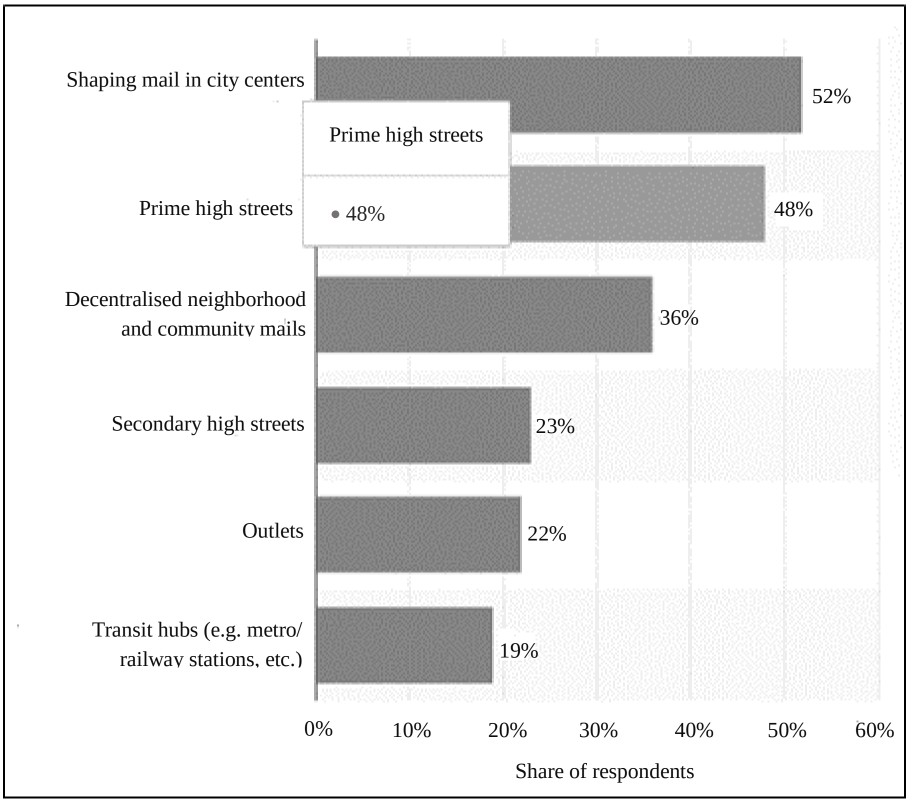
Consumerism and increased brand consciousness of Indian consumers has led to increased number of brands available in the market. Today, every product is branded. Even products like salt, oil, flour etc., which were sold as commodities a decade ago are now branded. Although there are no international retail stores in India, almost every international brand is available to the Indian consumer. India also has its share of strong domestic brands like Titan watches, Asian Paints, Thums Up (now owned by Coke), McDowell's whisky, Kingfisher beer etc. Therefore, the launch of more and more brands into the market increased the demand for shelf space and hence the demand for more retail outlets.

Availability of Real Estate

During COVID pandemic, brick and mortar retailing suffered heavily and only after 2021, it started regaining the market. Brick and mortar food and grocery (F&G) retailers will achieve 20% revenue growth during the year 2022[5] which is similar to that of 2021, where they achieved 20% growth. The availability of real estate is more in Metropolitan cities. Brick & Mortar stores deepened their presence in metro and Tier-I cities and they are also expanding fast into Tier-II and Tier-III cities. According to a research study 52% of the respondents voted shopping malls in city centers to be their most preferred location for new brick-and-mortar stores during 2022. (Please refer Figure 1.4).

[5] https://economictimes.indiatimes.com/industry/services/retail/brick-and-mortar-food-retailers-to-post-20-revenue-growth-in-fy23-crisil/articleshow/94170970.cms, September 13, 2022, *accessed on 26/9/22.*

Figure 1.4: Preferred Locations of New Brick-and-Mortar Stores in the Asia-Pacific Region in 2022



Source: https://www.statista.com/statistics/1275928/apac-preferred-locations-of-new-brick-and-mortar-stores/, June 29, 2022, accessed on 26/9/22.

1.7 Retailing Environment

Like any other industry, the external environment also affects the retail industry. Some of the constituents of the external environment, which have an impact on a retail organization, are:

- Economic environment
- Legal environment
- Technological environment
- Competitive environment

1.7.1 Economic Environment

The nature of the economic system (capitalism, socialism) in a country has a direct impact on the retailer's business. Therefore, a retailer should have a thorough understanding of the various economic factors of a country that would influence their operations and profitability. Some of the economic factors that affect the retailer are – Gross Domestic Product (GDP), rate of inflation, purchasing power, interest rates, tax levels, employment growth etc. Higher growth rate of GDP (in real terms) implies that consumers have more income and hence, they spend more, resulting in higher sales and more profits for retailers. On the other hand, increase in inflation leads to a decrease in the purchasing power of consumers. The economic reforms of the 1990s have resulted in a higher economic growth compared to the previous decade.

E-tail has become an important destination for the Private Equity (PE) investments in India, with Amazon, Flipkart and Snapdeal leading the format. Table 1.3 provides inputs regarding the investments that had taken place in various online retailing companies.

Table 1.3: Big Private Equity Investments in e-tailing Companies as on 2021

Company	Key investors	Amount Million USD	Total funding received since
Flipkart	Acquired by Walmart in 2018	16000	2018
FirstCry	SoftBank (E Series funding)	296	2021
Shopclues	Acquired by Singapore-based e-commerce company Qoo10	100	2019

Source: https://www.clickpost.ai/blog/best-ecommerce-companies-in-india#, September 5, 2022, accessed on 26/9/22.

1.7.2 Legal Environment

Governments use various laws and regulations to ensure that retailers do not indulge in unfair trade practices. But most of the times, these regulations hamper the growth of the retail industry. Some of the legal and regulatory problems that retailers face in India are: restriction on Foreign Direct Investment (FDI), property regulations, and complex taxation system. Each of these has been explained below:

Foreign Direct Investment (FDI) Restrictions

FDI in retailing had been permitted in India for a short period prior to 1997 and approvals were granted to a few MNCs like Nanz to set up retail chains. The government later retracted its decision and banned further FDI in the retailing sector. It felt that huge Foreign Direct Investment in this sector would be a threat to existing Kirana stores. In that short period when FDI was permitted in the retail sector, many multinational companies had entered India through joint ventures or franchisee agreements.

The ban on FDI and lack of industry status for retailing made it difficult for foreign players to fund big retail ventures in India. However, the Government of India permitted foreign players to forge franchising and technical alliances with Indian retailers. Marks & Spencer used this opportunity to enter India through the licensee route.

The central government of the country allowed foreign retailers to open multi-brand retail outlets with 51% ownership in 2015. In October 2020[6] again the government has given new FDI regulations giving 100% ownership in Cash & Carry, Single Brand Retailing. E-Commerce entities engaging only in Business to Business (B2B) e-commerce are allowed for 100% FDI but Business to Consumer (B2C) e-commerce companies are not allowed for 100% FDI. 100% FDI under automatic route is permitted in marketplace model of e-commerce, but not in inventory-based model of e-commerce.

The objectives of the government, allowing FDI in the Indian retail scenario were to:

- Bring in valuable foreign exchange
- Bring about organization of the sector
- Provide employment to thousands of Indians
- Provide a wider choice of products at reduced prices to the customer
- Improve the shopping experience.

Apart from the above benefits, the entry of large, well-established foreign retail players with considerable experience is expected to lead to an increase in consumer awareness and provide efficient and value added service to customers.

Property Regulations

Dearth of good quality retail space in prime locations, sky rocketing rental and high lease amounts act as hurdles in the growth of the retail industry in India. Some of the problems faced by organized retailers include high prices of retail space, hefty stamp duties for property transfer, rigid zonal laws, urban land ceiling acts, etc.

Real Estate

The government is the single largest owner of land in India. Hence it is very difficult for organized retailers to find suitable sites for establishing retail outlets in metros and other large cities. This mismatch between the demand and supply of real estate in large cities had led to an astronomical growth in the prices of real estate. This made it impossible for organized retailers to enter big cities without the backing of large real estate companies. K. Raheja's association with Shopper's Stop is a typical example of the involvement/interest of real estate

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[6] https://dpiit.gov.in/sites/default/files/FDI-PolicyCircular-2020-29October2020.pdf, Accessed on !2th October 2022

players in organized retailing. The high real estate prices in north India has led to most of the new players selecting South Indian cities like Hyderabad, Bangalore, and Chennai to start their retail operations.

Variation in sales tax rates across different Indian States is another problem faced by organized retailers. Apart from this, multiple point octroi and other taxes levied by states make it difficult for the retailers to source merchandise from different parts of the country. This situation got eased with the introduction of GST (Goods and Services Tax) in 2017. The GST Act is considered as the most significant indirect tax reform in India till date. Around 90% of India's retail and wholesale trade is mostly unorganized and heavily rely on cash payments. As GST is an online tax system that is levied at every single point of value addition to items or services, both large and small businesses got benefited from it.

Labor Laws

Unfriendly labor laws are another issue of concern for the retailers. Retailers require additional workforce to meet the increase in customer in-flow in the festival season but Indian labor laws do not allow the retailer to hire people as temporary workers for a few days.

1.7.3 Technological Environment

Technology is one of the most important drivers of change in the retail industry. The computerization of various retail store operations like inventory management, billing, data base management and the wide spread use of bar code scanners, computers, point-of-sale terminals, management information systems etc. have bought a sea change in the way retailing is conducted in India.

Retailers are also using technology to improve the shopping environment and to provide a pleasant shopping experience to the customer. Quick-response computer links with suppliers are increasingly being used to reduce lead-time and overcome stock-out problems.

Example: StyleScan Harnessing Technology into Fashion Retail with Digital Wearables Try-On Experience

StyleScan Incorporation provided visualization tools for fashion brands. The company made use of AI (artificial intelligence) enabled visualization technology to aid online shoppers in their purchase decision. The technology made use of image-processing technology in a 2D photo of a clothing item or accessory. It then converted it into 3D images. This digital wearables image created an unparalleled and fully customizable virtual try-on experience. Humans of different shapes and sizes can be superimposed onto the image taken. This additionally brings sustainability and cost-effectiveness to fashion industry.

Source: Torres, D. (August 15, 2022). StyleScan is Using 3D Technology to Improve Online Shopping. Retrieved from https://labusinessjournal.com/featured/stylescan-is-using-3d-technology-to-improve-online-shopping/. Accessed on 17-08-2022

1.7.4 Competitive Environment

Though the retailing industry is in its nascent stage in India, there is severe competition among the existing players. Moreover, the huge untapped potential is encouraging many players to venture into retailing. The growth of retail stores was in the categories of the specialty stores, the category killers and one-stop super stores. Table 1.4 gives a list of leading retail organizations in India with corresponding market capitalization.

Table 1.4: Leading Retail Organizations in India (As of October 2022)

Retail Organization	Market capitalization (in ₹ crores)	Ownership /brands and stores operations in India
DMart	2,89,101.84	Owned by Radhakishan Damani is now among world's top 100 richest people due to the success of DMart stores.
Trent	50,786.72	Owned by Tata group, it primarily operates stores in four formats; 1) Westside- exclusive range of its own branded fashion apparel with 174 stores across 90 cities. 2) Zudio fashion retail with 133 stores across 57 cities. 3) Star-food and grocery retail chain with 60 stores across 7 cities and 4) Landmark being a family entertainment concept based stores with 6 independent stores and also retailed through select Westside locations.
Vedant Fashions	35,264.76	Vedant Fashions Limited owns Manyavar, Mohey and Mebaz brands. Manyavar brand is the market leader in the branded wedding and celebration wear market in India.
Aditya Birla Fashion and Retail Ltd	32,435.77	Owned by Aditya Birla Group which acquired top fashion designers and is corporatizing Indian Fashion.
Shoppers Stop	8,324.68	Owned by Rajan Raheja group, operates 88 stores has plans to launch 12 new stores in 2023, in tier-2 and tier-3 cities in India.

Contd….

Go Fashion	7,409.76	Plans to open around 120-130 new stores year on year as well as omnichannel for smaller towns and cities, as on 2022, this brand sells women's bottom-wear clothing under Go Colors brand name.
V-Mart Retail	5,557.09	Operates over 380 stores in categories like: Apparel, Kirana Bazaar, Home Appliances, Toys, etc.

Source: https://www.moneycontrol.com/stocks/marketinfo/marketcap/nse/retailing.html, 2022, accessed on 10/10/2022.

Apart from the existing competition in the organized retail sector, organized retailers are also being affected by the stiff competition posed by traditional stores in the unorganized sector. The competition among retailers varies depending on the way the retail operations are carried out and which entity of the distribution channel carries out these retail operations.

1.8 Indian Retail Industry: An Overview

Indian retailing industry is the second most attractive retail destinations in the world according to GRDI 2021[7] report by Kearney international consulting firm, accounting for 10 percent of India's GDP and 8 percent of total employment (2022). Indian retailers can be classified into organized and un-organized retailers. "Organized retail or modern retail is usually chain stores, all owned or franchised by a central entity, or a single store that is larger than some cut-off point. The relative uniformity and standardization of retailing is the key attribute of modern retail. The size of each unit can be small so that a chain of convenience stores is modern retail. A single large department store is also modern retail*"*[8]. The un-organised retailers include traditional Mom & Pop or Kirana stores which do not possess license to retail. With majority of the business (approximately 92 percent) coming from un-organised retail sector, Indian retail sector offers scope for tremendous opportunity of growth and consolidation to the organised players in the market. According to IBEF report, India's retail industry is expected to grow at 9% during 2019-2030[9] (refer figure 1.3). The Indian e-retail market is projected to grow to US$ 120-140 billion by 2026, growing at 25-30% per annum in the next 5 years (from 2021).

Major Indian organized players in the retail industry are: The Future Group (Big Bazaar), Reliance Retail (Reliance Jewels, Reliance Footprint, Reliance Fresh etc.), Aditya Birla Group (More), Infiniti Retail (Croma), and RP-Sanjeev Goenka Group (Spencer's).

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[7] https://www.kearney.com/global-retail-development-index, 2022, accessed on 10/10/22

[8] Definition given by Indian Council for Research on International Economic Relations (ICRIER) extracted from Reurbanist (a multi-disciplinary firm), "Unorganized and Organized Retail: A Comparison", August 22, 2012.

[9] https://www.ibef.org/industry/retail-India, 2022, accessed on 10/10/22

1.8.1 Indian Retail Landscape

The Indian organised retail landscape mainly consists of the following retail formats:

1. *Supermarkets*: They are large self-serviced outlets generally located near residential areas catering to food and household products. Examples are Reliance Fresh, More, Ratnadeep.
2. *Hypermarket*: Typically occupying 50,000 to 1,00,000 square feet it provides a basket of goods, ranging from grocery to clothing and appliances. Some examples are Big Bazaar, Reliance Mart.
3. *Specialty Store*: Such stores focus on specific product categories pertaining to specific social class who have high product loyalty. Some such stores in India are Croma, Titan Eye, Tanishq, Reliance Trends, etc.
4. *Cash & Carry*: They are large B2B focused retail stores for those requiring bulk buying and selling. Metro is an example of a Cash & Carry store.

Of late, pharmacy retail market has cropped up as an individual retail segment, mainly owned by private players. Some examples are Apollo Pharmacy, Medplus Pharmacy etc.

1.8.2 Key Drivers of Indian Retail Industry

India has occupied a remarkable position in the global retail industry. Some of the key drivers are:

- Growth in nuclear family and working population leading to increase in customer disposable income.
- Liberalization of the Foreign Direct Investment (FDI) policy by the government in both single as well as multiple brand retailing.
- Growth in urbanization.
- An increase in individual wealth.
- Untapped rural sector and less developed Tier II and Tier III cities.
- Growing customer aspiration and preference for branded products due to growing young population.

1.8.3 Major Challenges faced by Indian Retail Industry

Though Indian retail industry is growing and dynamic in nature, it is not without pitfalls. Emerging enterprises are unable to sustain as the long-term vision appears to be unpredictable. The key challenges are:

- Lack of adequate infrastructure leading to inefficiency in supply chain management.
- Lack of attractive retail space and expensive real estate prices.
- Lack of skilled manpower.

1.8.4 Current Investment Scenario

Foreign investment in the retail sector has witnessed phenomenal growth in India. According to the Department of Industrial Policies and Promotion Board, the total FDI equity inflows in the retail sector between April 2000 and March 2022 was US$ 3.96 billion. Many companies like IKEA, Walmart, Amazon, Paytm, Fashion and You have either invested, or planning to invest in the Indian retail market. In 2006, Government of India allowed 51 percent FDI in single brand retailing which was raised to 100 percent in 2012. FDI up to 49 percent was allowed under automatic route over which government approval was not required. Further, multi-brand retailing up to 51 percent was also opened to FDI in 2012. In 2016, FDI policy allowed 100% FDI in retail stores that sold only 'Made in India' food products and for locally produced farm goods. However, in March 2017, during the budget speech, Finance Minister Mr. Arun Jaitley hinted on further easing of rules in FDI in the retail sector which has raised expectations of the foreign investors. Again in 2020 also Government gave 100% FDI permit in some retail segments like E-commerce (marketplace model), Cash & Carry etc.

Example: Reliance Retail - India's Largest Retailer

Reliance Retail grew to become India's largest retailer delivering superior value to its customers, suppliers and shareholders in the Indian retail sector. Reliance Retail owned a nationwide network of retail outlets selling directly to consumers through various world-class shopping environment and unmatched customer experience powered by state-of-the-art technology and seamless supply-chain infrastructure. Some of the retail outlets of Reliance Retail included:

The various retail brands of Reliance are - Reliance Fresh, Reliance Smart, Reliance Smart Point, JioMart, Reliance Digital, Jio Store, Reliance Trends, Reliance Consumer Brands, 7-Eleven, Project Eve, Trends Footwear, Reliance Jewels, AJIO, Hamleys, Reliance Brands, Reliance Mall.

Source: (April 8, 2021). Retrieved from https://relianceretail.com/. Accessed on 28-06-2022

Activity 1.2

Visit three well known retail shops in your city and observe how technological environment has changed the way goods are bought and sold. Make a list of at least two major technological changes and explain how it has impacted retail environment and changed buyer behavior.

Answer:

Check Your Progress - 2

6. Which of the following types of obsolescence risks were a retailer exposed to?
   a. Physical, technological and fashion obsolescence
   b. Technological, time and product obsolescence
   c. Time, physical and fashion obsolescence
   d. Fashion, physical and product obsolescence
   e. Product, fashion, and technological obsolescence
7. Some constituents of external environment affect retail industry. Which of the following constituents of the external environment doesn't have any impact on a retail organization?
   a. Economic environment
   b. Professional environment
   c. Legal environment
   d. Technological environment
   e. Competitive environment
8. Which of these is not a major reason for growth in retail sector?
   a. Consumerism
   b. Brand profusion
   c. Urbanization
   d. Economic growth
   e. Decrease in birth rate
9. In which of the following, retailing has presence?
   a. Largest public sector industry
   b. Largest private sector industry
   c. Largest public and private sector business
   d. Largest private sector activities
   e. Largest public sector activities
10. The increasing influence of the media has led to a considerable change in the lifestyle and habits of consumers. Consumers in emerging markets are more inclined towards buying goods like cars, washing machines, audio systems, designer dresses, cosmetics, and other personal care products. They are now indulging more than ever before and buying things which are not required

and not essential to sustain life. Which of the following phenomena is reflected above?

a. Consumer drive

b. Consumption drive

c. Consumerism

d. Consumer psychology

e. Consumer indulgence.

1.9 Summary

- Retailing involves a set of business activities that adds value to the products and services sold to the final consumers for their personal, family or household use.
- Retailers play a major role in the distribution system by helping manufacturers to reach out to the customers and at the same time, offering an array of value added services like breaking bulk, providing assortment, holding inventory, and providing information for their customers.
- Retailing is poised to become one of the largest industries in India.
- The size of the economic activity in this industry is bound to have an impact not only on the consumers and manufacturers but also the entire economy.
- Retail industry in India, though subject to many hiccups in terms of FDI, is expected to grow with the speculation of the government to relax some rules to give a boost to this sector.

1.10 Glossary

Brand Profusion: The phenomenon of launching more brands into the market is called brand profusion.

Breaking Bulk: Retailers buy goods in bulk from manufacturers and divide them into smaller sellable units according to the consumption patterns of the end consumer.

Mom and Pop Stores: A small, independent, usually family-owned, controlled, and operated business has a minimum amount of employee, and has only a small amount of business volume.

Physical Obsolescence: It refers to the risk that arises from the damage or wear-out caused to the products while they are stored in the retail outlet.

Retailing: Retailing is derived from the French word retailer, which means, ‘to cut a piece off’. It can be defined as a set of business activities that adds value to the products and services sold to the final consumers for their personal, family or household use.

1.11 Self-Assessment Test

1. What do you understand by retailing? Explain its importance.
2. Discuss the role of retailers in distribution channels.
3. How does retailing help manufacturers, customers and economy? Explain.
4. What are the various elements of external environment which influence retail industry? Explain competitive and technological environment.

1.12 Suggested Readings/Reference Material

1. Giri Arunangshu and Chatterjee Satakshi, “Retail Management: Text & Cases” Paperback, PHI Learning Pvt. Ltd., 2021.
2. Swapna Pradhan, “Retailing Management: Text and Cases”, McGraw Hill, Sixth Edition, 2020.
3. Barry Berman, Joel R Evans, Patrali Chatterjee and Ritu Srivastava, “Retail Management”, Thirteenth Edition Pearson Education, 2017.
4. Gibson G. Vedamani, “Retail Management”, 5th edition, Pearson Education, 2017.

1.13 Answers to Check Your Progress Questions

1. (b) Retailing

Retailing is derived from the French word *Tailleur*, which means, ‘to cut a piece off’.

2. (b) Customers, Manufacturers, Wholesalers and the Economy

Retailers play a major role in the transfer of goods and services from the manufacturer to the end consumer. In this process, retailers deliver many benefits to customers, manufacturers, wholesalers, and the economy.

3. (b) Manufacturer, wholesaler, retailer, and final consumer.

A typical channel of distribution consists of manufacturer, wholesaler, retailer, and final consumer.

4. (b) Last

A retailer is the last entity in the distribution channel. Retailers include all businesses and individuals who actively participate in the transfer of ownership of goods and services to their end users.

5. (e) Developing market

Retailing involves activities, i.e., Breaking bulk, providing assortment, holding inventory, providing after sales services, and providing information.

6. (e) Product, fashion, and technological obsolescence

A retailer is exposed to three types of obsolescence risks. They are Physical obsolescence, Technological obsolescence, and Fashion obsolescence.

7. (b) Professional environment

A retail industry is affected by the external environment. The constituents of the external environment, which have an impact on a retail organization are Economic, Legal, Technological, and Competitive environment.

8. (e) Decrease in birth rate

Some of the factors, which have been responsible for the growth of the retail industry are economic growth, brand profusion, consumerism, and urbanization. Decrease in birth rate would reduce population and consequently bring about a decrease in demand. Hence, it is not a major factor for growth in the retail industry.

9. (b) Largest private sector industry

The retailing business is the largest private industry in the world. Retailing plays a crucial role in the world economy.

10. (c) Consumerism

The increasing influence of the media has led to a considerable change in the lifestyle and habits of consumers. The growing aspirations for material comforts have been responsible for consumerism slowly gaining momentum.

Unit 2

Retail Institutions

Structure

"People are always going to go shopping. A lot of our effort is just 'how do we make the retail experience a great one?'"

- Phillip Green, Chairman, Arcadia Group, a British multinational retailing company headquartered in London, England.

2.1 Introduction

As emphasized by Philip Green, to make the retail experience better, the format of a store plays an important role in attracting and fulfilling the needs of targeted customers satisfactorily. The demographical changes witnessed in society forced retailers to modify and change their store formats to offer a holistic shopping experience to customers. The store format influences the whole retail business and plays a crucial role in formulation of retail strategies. Indian retail industry is witnessing drastic transformation. It has entered a new phase. The new retail formats built along different pricing and service strategies have evolved. Cooperatives and department stores are giving way to formats like warehouse, hypermarkets, category killers, clubs, convenience, and discount stores in India.

In the previous unit, we have discussed retailing overview. In this unit, we will look at the various theories that attempt to explain the reasons for the institutional changes taking place in the retail industry. We will also examine the classification of retailers.

2.2 Objectives

After reading through this unit, you should be able to:

- Relate to the type of retail theory a business unit is associated with and the underlying values explained in the different theories of institutional change in retailing.
- Classify the types of retailers that enables him/her to identify the product and process required in the retail business.
- Absorb the pros and cons in each type of classification based on which an entrepreneur can adopt a strategic mix while functioning in this sector.
- Discuss the role and significance of omnichannel retailing that has become the modern age trend in retail marketing.

2.3 Theories of Institutional Change

Retailing is a dynamic marketing activity. It evolves over a period to cope up with changing consumer demand, competition, and other environmental factors. Evolution of theories are essential for any discipline and so it is for retailing as well. Rather than dismissing them as anachronistic or simplistic, one should understand the value lent by these theories that reminds us of the failure of ‘individual firms, or trading formats and/or even wholesale sectors of retailing. Studies carried out to understand the changes taking place in the retail industry have thrown many theories on retail institutions. Four of the most accepted and well-known theories of retail institutional change are:

- Wheel of Retailing
- Dialectic Process
- Retail Accordion
- Natural Selection

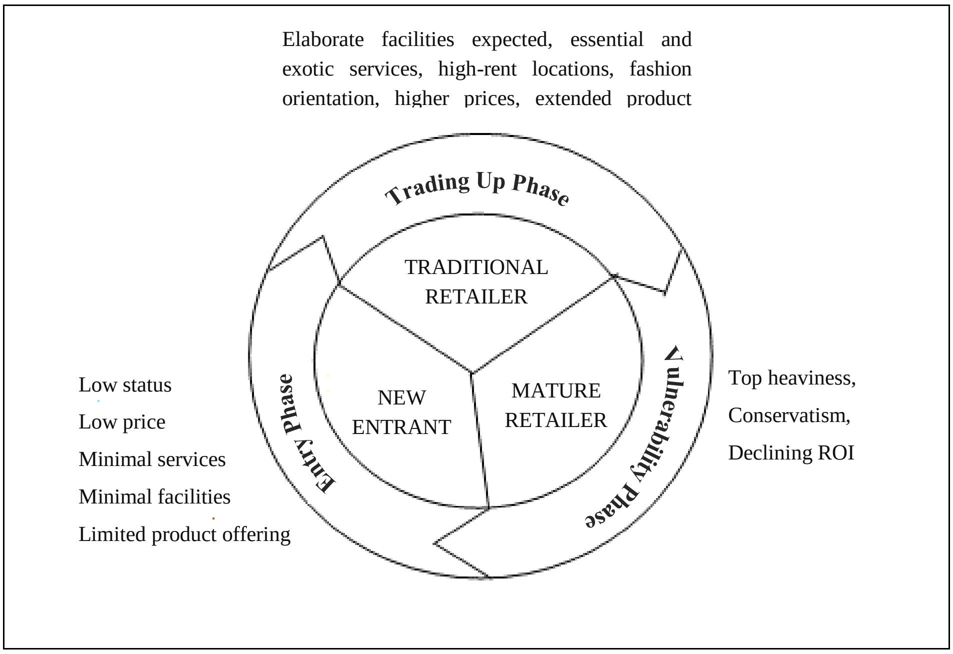
2.3.1 Wheel of Retailing

'Wheel of Retailing' by Malcolm. P. McNair is one of the most accepted theories on institutional changes in retailing. It states that changes in retail institutions take place in a cyclical manner. This cycle begins as new retailers enter the retail market with a low-profit-margin, low status, low-price store formats. Later, they move to up market locations and stock premium products to differentiate themselves from imitators. Eventually, they mature as high-cost, high-price retailers, vulnerable to new retailers who come up with some other innovative retailing format/concept. This innovative and novel retailer, in turn will, follows the similar cycle of retail development. A typical Wheel of Retailing is shown in Figure 2.1.

Based on the above theory, the above cycle can be classified into three phases:

- Entry phase
- Trading-up phase
- Vulnerability phase

Figure 2.1: Wheel of Retailing



Source: ICFAI Research Center

In the initial entry phase, the new, innovative retailer enters the market with a low status and low- price store format. The new retailer starts with a small store that offers goods at low prices or goods that have high demand. Thus, the retailer would be able to attract customers from more established competitors. The retailer brings down his costs at the lowest by offering minimal service to their customers, maintaining a basic shopping atmosphere, locating the retail in a low rent area, and offering a limited product mix.

The success and market acceptance of the new retailer will force the established retailers to imitate the changes in retailing made by the new entrant. This would force the new retail entrant to differentiate their products through the process of trading-up. During this period, the new entrant tries to make detail changes in the structure of the store by upgrading the same. The retailer will now reposition itself by offering maximum customer service, a posh shopping atmosphere, and relocating to a high cost area (as per the convenience of the customers). Thus, in the process of trading up, the new retail entrant will grow up to a higher status and price operation. This change will increase the costs of the retailer. In other words, we can say that during the trading up phase, the innovative retail institution will graduate into a traditional retail institution. Finally, this stage will take the retailers to a vulnerability phase. In this phase, the innovative store must deal with high costs, conservatism, and a fall in the return on investment. Thus, the innovative retailer matures into a well-established firm and becomes vulnerable to the new set of innovative retailers who enter the market. The entry of the new innovator marks the end of one cycle and the beginning of a new cycle in the industry.

In India, the "Wheel of Retailing" can be seen with changes taking place in retail formats. For example, Kirana stores were replaced by chain stores like more mega stores, which in turn, faced severe competition from supermarkets and hypermarkets like Big Bazaar.

Example: The Evolution of Amazon: From Bookstore to Superstore

Amazon was one of the biggest internet-based companies in the world. Amazon Incorporation started selling out books online from a garage. This was groundbreaking for the time. In 1998, the company expanded into selling computer games and music. Amazon further widened its horizon by offering products into various facets like consumer electronics, home-improvement items, toys, games, and much more. By the mid-2000s, Amazon launched its Amazon Web Services (AWS).

In 2007, Kindle e-readers was launched by Amazon. In 2011, Amazon entered the domain of publishing with Amazon Publishing Service. Since then Amazon continued to expand into various other services. Some of these are shipping fresh produce, drone delivery, and many more innovations. The wheel of retail cycle was reflected in the instance of Amazon as it entered the retail market as an online bookstore and metamorphosed into an online superstore differentiating itself in unparalleled ways. Amazon reached its new heights through its e-com business, after becoming the second-ever $1 trillion market cap company in history in 2020 after Apple Inc. In 2021, Amazon started expanding extensively and investing heavily on its physical retail – grocery retail and themed popup stores.

Sources: McFadden, C. (February 17, 2021). A Very Brief History of Amazon: The Everything Store. Retrieved from i) https://interestingengineering.com/a-very-brief-history-of-amazon-the-everything-store. Accessed on 29-06-2022
ii) https://www.forbes.com/sites/brinsnelling/2021/12/30/predictions-for-amazons-physical-retail-in-2022/?sh=2c13ce7055bf

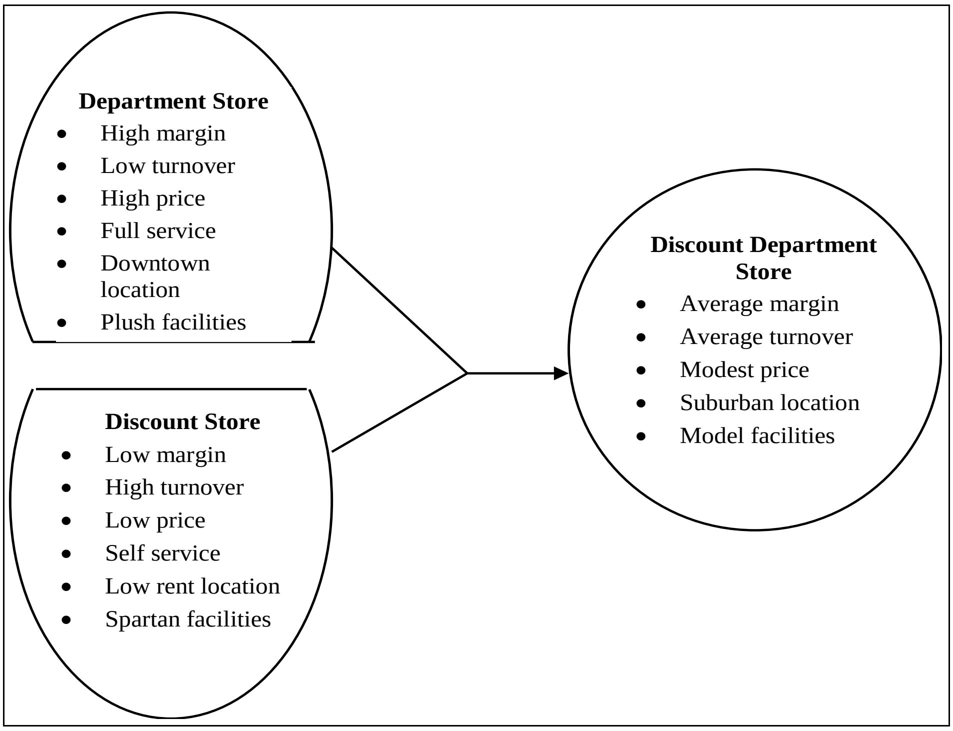
2.3.2 Dialectic Process

Another theory explaining the changes that take place in retail institutions is the Dialectic Process or "Melting Pot" theory. According to this theory, two different institutional forms with different advantages modify their retail formats until they develop a format which combines the advantages of both formats.

Thomas. J. Maronick and Bruce J. Walker in "The Dialectic Evolution of Retailing," explain the dynamic of the Dialectic Process as follows:

In terms of retail institutions, the Dialectic model implies that retailers mutually adapt themselves in the face of competition from "opposites." Thus, when challenged by a competitor with a competitive advantage, an established institution will formulate strategies and tactics in the direction of that advantage, thereby negating some of the innovator's attraction. The innovator, meanwhile, does not remain unchanged. Rather, as McNair noted, the innovator, over time, tends to upgrade or modify institutions and products. In doing so, he moves towards the "negated" institution. Due to mutual adaptation, both the retailers slowly move together in terms of facilities, offerings, prices, and supplementary services, thus becoming indistinguishable or may be similar and constitute a new retail institution, termed the synthesis. This new retail institution is then vulnerable to "negation" by new competitors as the Dialectic Process begins afresh.

Figure 2.2: The Dialectic Process



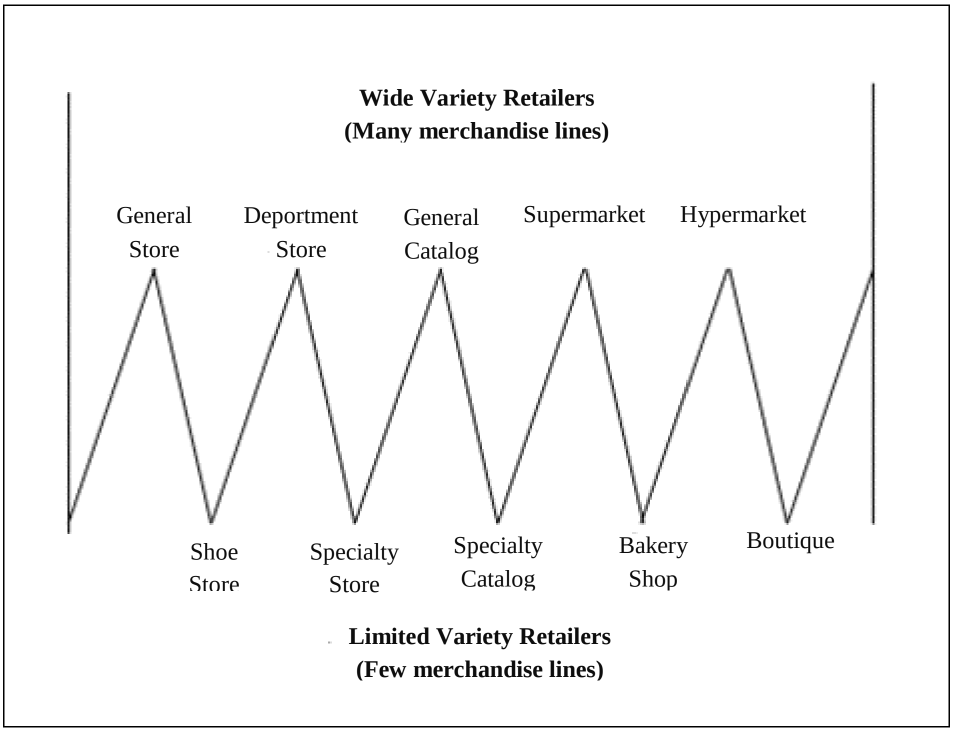
Source: Dale M. Lewison, "Essentials of Retailing", Merrill Publishing Company, 1993

Here, the established retail firm is the one, which earns profits due to its economies of scale. The new firm approaches the market with a new technology through which it expects to gain competitive advantage. In this case, both the firms ultimately develop a retail format that joins the advantages of their two different formats. Figure 2.2 depicts the evolution of retail formats according to the dialectical process.

2.3.3 Retail Accordion

This theory of 'retail institutional change' states that institutions evolve over a period from stores offering a variety of merchandise to offering specialized products, and then again moving towards offering a wide variety. According to retail accordion theory, the merchandise mix strategies of retailers change, but the retail prices and margins remain the same. Retailers can choose from different strategies. These strategies range from retailers offering multiple merchandise categories with a shallow assortment of goods and service to limited merchandise with a deep assortment of goods and services. The fluctuations shown in Figure 2.3 resemble an accordion. Firms can choose any strategy between the two extremes. They can offer either a wide variety or limited variety of goods with deep or shallow assortment. For example, a retailer may start as a small independent store, but as sales grow, it may move into a department store or even a supermarket.

Figure 2.3: The Retail Accordion Theory



Source: Dale M. Lewison, "Essentials of Retailing", Merrill Publishing Company, 1993

2.3.4 Natural Selection

The natural selection theory is based on Darwin's theory of evolution. This theory states that a firm or retail institution should be flexible to adapt to the changes sweeping the environment and should adapt these environmental changes to survive and grow in the market. The retail institution that is adaptable to changes in the economy will be the one that will be the most successful. If the retail institution is unwilling to change, it would stagnate and may be forced to exit the market. Thus, according to the natural selection theory, a retail institution will survive in a competitive market only if it is ready to change its product lines, price, location, and promotional strategies according to changes taking place in the retail environment. These changes can be, political, economic social, technological, and legal in nature.

Activity 2.1

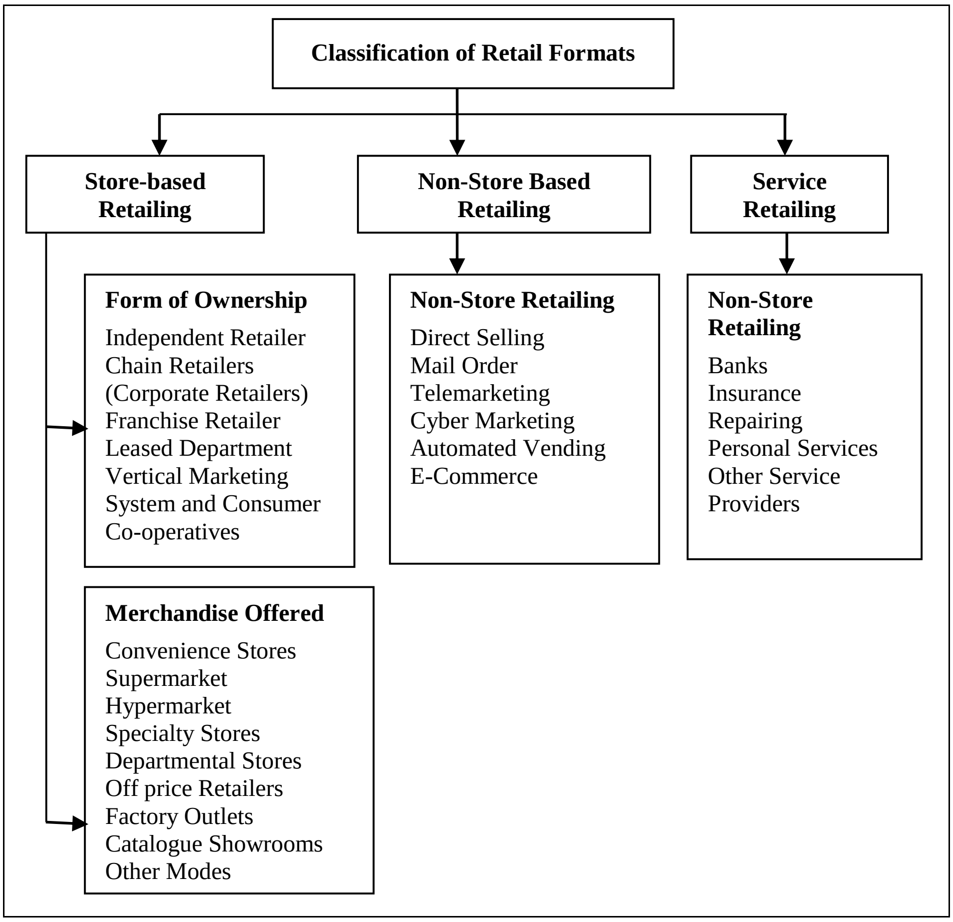
Based on your understanding of the Dialectic theory, explain how brick and mortar stores have evolved to bring to customers the advantages of both online and offline retailing. Give suitable examples to explain.

Answer:

2.4 Classification of Retailers

No two marketing strategies are the same. Each business must customize itself in their marketing efforts in accordance to its environment and exchange process. Retailers can be classified according to their selling processes as store-based retailers or non-store retailers (see Figure 2.4). In the following sections, we will describe these categories of retailers and discuss the advantages and disadvantages of different retail formats.

Figure 2.4: Retail Formats: Classification



Source: KVS Madaan, "Fundamentals of Retailing" Tata McGraw Hill, Second ed, 2009.

2.4.1 Store-based Retailers

Store-based retailers operate at fixed point-of-sale locations. Their stores are located and designed to attract a high volume of walk-in customers. In general, store-based retailers offer a wide variety of merchandise and use mass-media advertising to attract customers. They typically sell merchandise for personal or household consumption, but sometimes they also serve business and institutional clients.

Store-based retailers can be further classified based on various parameters like:

i. Ownership
ii. Strategy mix
iii. Services Vs. Goods retail mix

By Ownership

Depending on the ownership pattern, stores (or retailers) can be divided into six categories – Independent Stores, Chain Stores, Franchise Stores, Leased Department Stores, Vertical Marketing System, and Consumer Cooperatives.

Independent Store

An independent store can be defined as a store, owned by a single retailer and he/she does not own any other store. The entry barriers for setting up an independent store are low: licensing procedures are simple and the initial investment is low. Thus, there are many new entrants. This leads to an increase in competition in the retail market. In such an environment, to retain customers, independent retailers should become customer focused or customer oriented.

Advantages

- The independent retailer is free to select a convenient location and suitable store format (unlike the manager of a chain store).
- The independent retailer can concentrate on a small target market to achieve its business objectives.
- The retailer can decide on the timing, product assortment and price based on the requirements of the target market.
- The cost of setting up an independent store is low. Such stores employ a few people, have modest fixtures, and do not carry much merchandise.
- There is no excess stock or duplication of store functions as responsibilities are clearly defined in an independent store. This increases the efficiency and productivity of the store.
- The owner (the independent retailer) takes all decisions regarding the store. This reduces the time lag between decision-making and the implementation process. Consequently, an independent retailer can respond quickly to changes in the target market and adopt suitable strategies or policies.

- An independent store can act as a specialized store providing limited merchandise with a wide assortment. Such a store can be more consistent in its approach towards customers as it concentrates on a consumer segment.

Disadvantages

- The bargaining power of independent stores is less than that of other retail formats (like supermarkets and chain stores), as they purchase merchandise in limited quantities. This reduces the ability of retailers to negotiate with suppliers for better price, quantity discounts, better re-order service and access to a wide variety of merchandise.
- The productivity of independent stores is low because they depend on labor-intensive methods for activities like ordering, stocktaking, merchandising and accounting.
- In many cases, independent stores fail because the retailers lack exposure to modern tools and techniques for managing various retail functions like finance, merchandising, promotion, and operations.
- Independent stores usually order limited quantities frequently as they have limited funds for rotation and working capital.
- They operate with less working capital. This increases their total operational costs because of increased transportation, ordering and handling costs.
- Independent stores fail to attract customers from distant locations because they cannot promote their product aggressively in the media.

Chain Store

Chain stores have two or more retail outlets that are commonly owned and controlled. These stores have a centralized buying and merchandising system and sell similar lines of merchandise. Walmart, Walgreens, Kroger and Target of the U.S., Carrefour of France, Tesco of the U.K., are examples of global chain stores.

Advantages

- Chain retailers can purchase at a low price and keep shipping costs low because they purchase in bulk.
- As purchases for all retail units are done together, chain stores have a high bargaining power. They can bargain with suppliers over the price, quantity discounts and re-order service.
- A centralized decision-making system and the use of latest technology increase the efficiency of chain store.
- As chain stores are spread over a wide area they can afford aggressive and expensive promotion of their products through electronic and print media.
- Full time experts employed for long term planning allow chain stores to regularly monitor the opportunities and threats in the environment.

Disadvantages

- Since chain stores must maintain consistency across all stores, they cannot customize strategies for every location in terms of price, promotional activities and product assortments.
- The initial cost of establishment is high for chain stores. This type of format requires multiple stores with additional fixtures, product assortments and many store personnel.
- It is difficult for top management to control the activities of every individual store in the chain. This may lead to a communication gap and delay in decision-making.
- Centralized management is difficult for chain stores as the location of each store is geographically dispersed.
- No one takes a personal interest in managing a chain store efficiently. Unlike an independent store, a chain store is managed by several layers of management, employee unions, stockholders, and the board of directors.

Franchise Store

A franchise store can be defined as a store based on a contractual arrangement between a franchiser (manufacturer) and a franchisee, which allows the franchisee to conduct a given form of business under an established name and according to a given pattern of business. In other words, through franchising, small business firms can become a part of a multi-unit chain type retail institution. McDonald’s has become a successful franchise in India.

Franchising can be of two types: Product / trademark franchising and business format franchising. In product / trademark franchising, franchised dealers acquire the identities of their suppliers by agreeing to sell the latter's products and/or operate under the supplier’s name. In this format, franchisees are relatively independent from their suppliers. They are free to take decision regarding store timing, store location, facilities to be offered to customers, etc.

Under the business format franchising arrangement, the franchiser, apart from giving the right to sell goods and services, also helps franchisees in various aspects of store management, like store location, personnel training, quality control and accounting. Thus, under this type of ownership pattern, the franchiser and its franchisees work together like a chain store.

Advantages

- By becoming franchisees, retailers can own and operate retail businesses with relatively small capital investment.
- Franchisees get well- known brands and goods/service lines.
- Franchisees gain exposure to standard operating procedures and management skills through their association with the franchiser.

- Franchisees can benefit from the nation-wide promotional activities launched in association with the franchiser.
- Under the franchise agreement, franchisees enjoy exclusive rights to sell the franchiser's products or services at a location.
- Franchisees get a better bargain per unit purchase on account of the total purchase volume of all the firms in that franchising system.

Disadvantages

- Concentration of too many franchisees at a location may lead to over saturation and would affect the volume of sales and profit.
- Franchisers may hard sell their franchisee rights by projecting higher returns on investment to prospective franchisees.
- Once retailers enter a franchisee agreement, they have to purchase raw materials or goods only from their franchiser or its approved vendor till the contract expires.
- Franchisers may terminate the franchisee license when a franchisee fails to meet any of the conditions spelt out in the franchise agreement.
- In many cases, the royalty payable to franchisers is linked to gross sales rather than the profits of the franchisee.
- Retailers must renew their franchisee rights when the contract expires. The contract time is too short in some industries.

Leased Department

A department in a retail store that is rented to an outside party is called a leased department. In other words, floor space within a store is leased and run as a separate business. A department store can allot floor space for a shoe department, which is run by a different company. The volume of sale of the leased department depends on the existing store's customer base and store’s reliability.

The lessee is accountable for all the activities of the leased department. These activities include furnishing the department, planning the merchandise assortment etc. The lessee pays a part of the sales turnover to the store as rent.

The department store should ensure that the merchandise sold by the leased department does not cannibalize the sales of the existing product lines of the store. In addition, the department store should stipulate various conditions to ensure that the operations of the leased department are in line with its image and overall strategy.

Generally, department stores lease out store space to players whose products will add variety to the merchandise offered by the store. In some cases, they may also use leased departments to offer its customers those products/services that require unique skills, which the store lacks. For example, in Hyderabad, Lifestyle had leased out its floor space to Qwikys to run a coffee shop, and its saris and salwar suits section to Meena Bazaar.

In many departmental stores, leased departments usually offer those products/services that complement the primary product/service offering of the store. For example, a florist operating in a novelty store or a tailoring department in an apparel retailing store. These types of leased departments provide products/services that are on the fringe of the main store product line.

Advantages

The advantages of the leased department retailing format from the perspective of the lessor and the lessee are described below:

- Department stores can reduce their cost by leasing departments. Leased departments bear a part of the costs of inventory and personnel.
- A department store's shortcomings in handling certain goods and services can be overcome by leasing out floor space to an outside party, which is experienced in handling those products.
- By leasing out space, the store gains a regular monthly income in the form of rent.
- The leased department could increase customer traffic because of the established name of the lessor store. This helps the leased department operator generate sales.
- The initial cost of establishing an outlet is reduced because of leasing. For example, the cost of storing equipment, installing security equipment, and setting up display windows are borne equally by both the store operator and the leased departments.

Disadvantages

The leased department format can be disadvantageous for both the lessor and the lessee.

- Disputes between the leased department and the store may badly affect the image of the established store. Generally, such disputes arise when the operating procedures of the leased department are not in line with the store's overall strategy.
- If there is any conflict between the leased department and the customers, the customer will blame the store.
- The leased department may not be able to attract additional customers to the store and it may survive only on the purchases made by the store's loyal customers.
- The leased department must function within working hours and operating pattern of the store.

- The lessor can impose restriction on the goods and service lines offered by the leased departments.
- The store may increase the rent if the leased department is successful.
- The in-store location of the leased department may negatively affect its sales.

Vertical Marketing System

A vertical marketing system is a distribution system in which the producers, wholesalers, and retailers act in a unified manner to facilitate the smooth flow of goods and services from producer to end-use. One channel member owns the others or has contracts with them, or has the power to control them. There are three types of vertical marketing systems.

- Independent vertical marketing system
- Partially integrated vertical marketing system
- Fully integrated vertical marketing system

Independent Vertical Marketing System: An independent vertical marketing system consists of independent businesses like manufacturers, wholesalers, and retailers. This type of marketing system is required when customers are scattered, manufacturers and retailers are small, product sales are high, and when the products require extensive distribution. An independent vertical marketing system is generally used by stationery stores, gift shops, hardware stores, food stores, drug stores etc.

Partially Integrated Vertical Marketing System: In a partially integrated vertical marketing system, only two independent business units in a distribution channel work together. These units take care of all the production and distribution functions, without any interference from a third party. In other words, a manufacturer and a retailer alone manage the shipping, warehousing and distribution functions without the help of a wholesaler. Partially integrated vertical marketing systems are generally used in furniture stores, appliance stores, restaurants, computer retailers etc.

Fully Integrated Vertical Marketing System: In a fully integrated vertical marketing system, only one player manages all the activities (production and distribution), without any help from other channel members. In this system, several channel members at different levels in the channel are owned by the same company. The company/store using a fully integrated vertical marketing system exercises full control over channel operations like production, wholesaling and retailing. Full control over the channel operations allows the store to lower prices without affecting its profit margins. The initial cost of setting up a fully integrated marketing system is very high. Moreover, the company owning the entire marketing system may have difficulty in handling some specialized channel activities.

Consumer Cooperative

Consumer cooperatives are retail operations owned and managed by its customer members. In a consumer cooperative, a group of customers invest in the retail operations in return for stock certificates, which entitle them to a share in the profits of the retail store. The members vote on the store's policies and select a group to manage its operations. Consumer cooperatives are common in food retailing.

In many cases, consumer cooperatives are started by the residents of an area. These residents believe that the existing retailers in that area are not serving them well (either charging too much or providing poor-quality goods/services).

Strategic Mix

Depending on the type of strategic mix adopted by retailers, the latter can be classified into two groups:

- Food Oriented retailers
- General Merchandise retailers

Food-Oriented Retailers

NABARD (National Bank for Agricultural and Rural Development) estimates that large investments in supply chain and organized retail are necessary to avert wastages in agricultural supply chain.

Some of the store formats used by the food-oriented retailers around the world are:

Convenience Store

Convenience stores are relatively small stores that are located near residential areas. They are open for long hours, seven days a week and carry a variety of products with limited assortment of merchandise. They generally carry high-turnover convenience products. These stores charge relatively high prices and operate in a 3000 to 8000 square foot area. “More”, that runs the chain of supermarkets and hypermarkets across India, is a very successful convenience store.

Convenience stores cater to customers who prefer 'convenience of buying or shopping' to the price of the product. Considering the convenience of customers, these stores stay open for longer time than other stores. They also work on all the days of the week. Convenience stores may not carry all the items that are available in supermarkets, but they are very conveniently located for customers. In such stores, the traffic flow is less than in other stores and the customers can get their products billed faster than in a supermarket.

Conventional Supermarket

Conventional supermarkets are like department stores, but unlike department stores, these stores focus on food and household maintenance products. These stores earn very limited revenues from the sale of non-food or general merchandise goods. The main characteristic of this store format is the self-service operation. In this type of store, the customer himself picks up whatever he wants. This self-service arrangement allows the supermarket to reduce costs and provide a large volume of goods and services. Apart from reducing the cost to the supermarket, self-service enhances impulse buying. Supermarkets provide a variety of merchandise with deep assortments. D-Mart, Nilgiris and Food World are some of the conventional supermarkets operational in India.

Some conventional supermarkets follow an Every Day Low Price (EDLP) policy. In such stores, goods are priced lower than in other stores.

Recently conventional supermarkets have started facing competition from food-based supermarkets and convenience supermarkets that provide a variety of goods and services at better prices.

Food-based Supermarket

A food-based supermarket is larger and more diversified than a conventional supermarket, but is usually smaller and less diversified than a combination store. The size of the store ranges from 25,000 to 50,000 square feet and the store earns 20 to 25 percent of its revenue from general merchandise goods like garden supplies, flowers, and small household appliances. It provides the full range of grocery items, thus allowing the customer to do their grocery shopping under one roof.

Combination Store

A combination store is a blend of a super market and a general merchandise store, where the general merchandise contributes more than 40 percent of the sales. It maintains the identity of both a food store and drug store, thus allowing customers to do their food and drug shopping in one trip. The size of a combination store ranges from 30,000 to 100,000 square feet. These stores are designed to allow customers to have a one-stop shopping experience. As economies of scale are higher in a combination store, the prices are less than those in a general merchandise store.

Box (limited-line) Store

A box store is a food-based discount store that concentrates on a small selection of goods. Such store has limited shopping hours, limited services, and limited stocks. The retailer offers a limited number of national brands. Refrigerated perishable goods are not available and prices are displayed on the shelf or on overhead signs. The products are kept in cut cases, and customers have to serve themselves. Customers are not allowed to examine products in this type of store.

The products sold in these limited-line stores are private label brands, which are priced 20 to 30 percent below market prices.

Warehouse Stores

Warehouse stores are discount food retailers with an average size of 100,000 square feet. They cater to customers who look for low price deals. Merchandise is often displayed in cut boxes or shipping pallets and services are limited. Customers cannot be sure about the availability of the goods consistently as the warehouse retailer's buy these goods only when a manufacturer or a wholesaler offers a deep price or quantity discount.

Depending on their functioning style, warehouse retailers can be divided into four categories:

- Warehouse showroom
- Catalog showroom
- Hypermarket
- Warehouse club

Warehouse Showrooms: They are generally owned by a single-line hard-good retailer. These retailers usually sell well-known brands of furniture and appliances so that customers can see the price benefit they get by buying from them instead of the conventional retailers. As soon as a customer makes the selection and places an order, the goods are shipped from the nearest warehouse. The warehouse showroom retailer offers the customer different services like credit, delivery, and installation. The retailer charges extra for these services provided to customers. The warehouse retailer locates himself in freestanding sites that are adjacent to busy roads.

Catalog showrooms: These are discount operations that offer merchandise through a catalog or a showroom. They use showrooms that are near a regular warehouse to display merchandise. Catalog showrooms generally offer hard goods like house ware, jewelry, consumer electronics etc. The customer orders a product (merchandise) by mentioning the corresponding number of product in the showroom or catalog. The product will be delivered a few days after the order is placed. These retailers compete on price. They keep costs low by providing minimal service and locating their showroom (or warehouse) in a low rent area. Moreover, they display only a few goods. These stores concentrate on high margin merchandise and their success depends on how well they plan their merchandise mix.

Hypermarket: It can be defined as a large retail store that offers products at a low price. It is a combination of a discount store and a food based supermarket. Typically, it is spread over 300,000 square feet and offers over 50,000 different items for sale.

A Warehouse Club: This refers to a general merchandise retailer who offers a limited merchandise assortment with limited service at low prices to consumers as well as small businesses. Normally the store is in remote locations in an area of 100,000 sq ft. The interiors are simple and services are limited. A few warehouse clubs operate on a membership basis and are known as membership clubs.

General Merchandise Retailers

In general merchandise retailing, the strategic merchandise mix ranges from a shallow assortment to a deep assortment of goods and services. Based on location, merchandise, price, store atmosphere, service and promotional mix, retailers are classified into:

- Specialty stores
- Variety stores
- Department stores
- Off-price retailer
- Membership club
- Flea market

Specialty Store

A specialty store is a type of general merchandise store that sells limited lines of closely related products or services to a select group of customers. Specialty stores offer a product line with a deep assortment to its customers. These stores also assist customers by employing sales people who have thorough knowledge of that product line.

Specialty stores can be further classified into single line specialty stores and limited line specialty stores. Single line specialty stores concentrate on one or a few related product lines, whereas limited line specialty stores concentrate on more than one product line at a time. Specialty merchandise line retailers can specialize based on price, unit size, quality, style, fashion etc. Viveks in Chennai and Tirumala Music Center (TMC) in Hyderabad are specialty stores for electronic goods. ColorPlus is a specialty store dealing in men's casual wear. Khadims, Adidas and K.C.Das are also operative specialty stores in India.

The major variable in a specialty store's strategy is the merchandise assortment. In such stores, a deep assortment is provided to customers, i.e., a variety of brands, models, styles, sizes, and colors within the product line. These specialty stores provide limited product lines, consisting of quality brands, designer labels and private labels, along with adequate customer support.

Both high margin and low margin operators can be found in the specialty store category. The size of the specialty store varies based on the nature of merchandise and mode of operation. Specialty stores are in high traffic areas like shopping centers, downtown malls etc.

The promotional activities of specialty stores emphasize the uniqueness of the store and the deep assortment they provide to customers. Drug stores are specialty stores that concentrate on health and personal grooming merchandise. Toys “R” Us (toys), Circuit City (consumer electronics), Barnes and Nobles (book store), and Qwiky’s (liquid coffee) are some examples of specialty stores. A category killer is a new type of specialty store. It offers enormous selection in a product category at relatively low prices. A category killer offers not only low price but also variety within a narrow product line. For example, Nalli's (silk sarees) (Chennai based retail chain), Chandana Brothers (Andhra Pradesh-based saree retail chain) are category killers.

Variety Store

Variety stores offer a deep assortment of inexpensive and popular goods like stationery, gift items, women's accessories, house wares etc. They are also called 5 and 10-cent stores because the merchandise in such stores used to cost that much. This retailing institution is dying. In fact, Woolworth’s, which used to be the largest variety store, has been changing the format of its stores and making them into specialty stores.

Department Store

Department stores are large retail units that offer a wide variety and deep assortment of goods and services. These goods and services are organized into separate departments for gaining control over various store activities like selling, promotion, and customer service. These stores strive to provide a one-stop shopping experience to customers. A typical department store offers clothing, shoes, cosmetics, gifts, luggage, and other household goods. Unlike specialty stores, department stores offer many different product lines. Shoppers Stop, Westside, Globus, Lifestyle, and Pantaloons are national level department stores. Akbarally, Benzer, KBN, Naganis, Bombay Store and A to Z are in Mumbai. They are examples of department stores managed by regional players.

According to the U.S Bureau of Census, a store should satisfy the following four criteria to be considered a department store:

i. A department store should employ a minimum of fifty people.

ii. The store should generate at least 20 percent of its total revenue from the sale of apparel and soft goods.

iii. The store should have the following product lines: furniture and home furnishings; appliances, radio, and TV sets; a general line of apparel for the family; household products and dry goods.

iv. The annual sales of the department store should be under $ 10 million, where no single product line should contribute more than 80 percent of the total sales.

The US Bureau of Census classified department stores into traditional department stores and full line discount department stores. A traditional department store offers merchandise of average quality priced above average, with minimum customer service.

A full-line discount department store offers a broad merchandise assortment at less than prevailing prices. Full-line discount department stores are popular because they offer well-known brands at competitive prices. Saravana Stores in Chennai is an example of full line discount stores which offers clothing, stainless steel, jewelry, groceries, and silver articles at discounted rates throughout the year. A full line department store possesses the following features:

- It is a high volume, low cost, fast turnover outlet with a wide merchandise assortment. Prices are less than in conventional stores.
- It has a centralized checkout service.
- It is a self-service store (minimal assistance from the salespeople).
- It follows a low-cost model (building is located in low rent area and equipment's and fixtures are modest).
- It offers private brands for non-durables and well-known brands for durables.

Full line discount stores have been very successful because they offer value for money. These stores also provide latest goods and services from private and well-known national and international brands.

Off-price Retailer

Off-price retailers offer an inconsistent assortment of branded fashion-oriented soft goods at low prices. These retailers can sell branded and designer-label merchandise at low prices as they purchase goods from manufacturers who have excess inventory (because of cancellation of orders, irregular merchandise, and overruns). Off-price retailers have a long-term relationship with their suppliers. As these stores always buy merchandise in bulk at reduced prices and sell at off-prices, they have a high stock turnover. Consequently, they require a regular supply of goods. Future Group’s Brand Factory is an off-price retailer which deals with many suppliers of branded clothing and which are offered on discounts.

In some cases, off-price retailers get special prices from manufacturers by agreeing to order goods in the off-season. At times manufacturers also approach off-price retailers to sell their unsuccessful samples and products. This will give manufacturers quick access to cash and provide a market for goods that are not doing well. Off-price chains do not carry out many promotional activities.

Off-price retailers can be classified into:

- Outlet stores
- Close outlet stores

Outlet Stores: Outlet stores are widely known as factory outlets. Manufacturers own these. A factory outlet can be defined as a manufacturer's outlet offering discontinued merchandise, irregular merchandise, cancelled orders, and sometimes, in season first-quality merchandise. Manufacturers use these outlets to store and sell production overruns, irregular merchandise and returned merchandise. By liquidating inventory at low prices, manufacturers can earn some money quickly.

Close outlet stores are operated by off-price retailers who sell a broad but inconsistent assortment of general merchandise as well as apparels and soft home goods. Single-price retailers sell all merchandise at a single price.

Membership Club

Membership clubs are set up to cater to price conscious customers. Customers should pay an annual fee to become members of the club. Membership in the club allows them to purchase goods at a low price. Such stores are very large and are in isolated areas. These stores carry a fraction of the items stocked by full-line discount stores. They are characterized by little or no advertising, plain fixtures, wide aisles, concrete floors, limited or no delivery services, little or no credit, and very low prices. They get merchandise directly from manufacturers. Membership clubs are also known as wholesale clubs, warehouse clubs and wholesale centers. Metro cash & carry is a membership store which allows only members to shop there.

Flea Market

The term "flea market" is a literal translation of the French marche aux puces, an outdoor bazaar in Paris, France. A flea market is an outdoor or indoor facility that rents out space to vendors who offer merchandise, services and other goods that satisfy the legitimate needs of customers. Flea markets provide an opportunity for entrepreneurs to start a business with low investment.

A flea market consists of many retail vendors offering a variety of products at discount prices at places where there is a high concentration of people. On specific market days, they assemble for the exchange of goods and services. Exhibitions and trade fairs are such markets where people visit in huge numbers and retailers of different categories assemble and sell their products and services at discounted prices.

Service vs. Goods Retail Mix

Service organizations like entertainment firms, hospitals and banks initially had no intention of becoming retail institutions. As competition increased, these organizations started operating like retailers to attract customers. They began providing services at a convenient time and location.

Service retailing consists of the sale or rental of an intangible activity, which usually cannot be stored or transported, but satisfies the need of the user/customer.

Service retailing can be of two types - services along with goods, and services without any goods (pure service).

Services along with goods can be of three types: rental goods service, owned goods service and non-goods service. Rental goods service involves the rental of all types of consumer durable goods. Owned goods service refers to a service provided by a good owned by a person. Non-goods service refers to services provided by retailers to customers who purchase goods at their store. Providing these services is not the major function of the store.

Services that are provided without any physical product or good are called pure services. These include services provided by hospitals, hair stylists, banks, etc.

Check Your Progress - 1

1. According to this theory, two institutional forms with different advantages modify their formats till they develop a format that combines the advantages of both formats. Which of the following theories is referred here?
   a. Dialectic Process
   b. Retail Accordion
   c. Conservative Process
   d. Wheel of Retailing
   e. Natural Selection.
2. A theory says that a retail institution will survive in a competitive market only if it is willing to change its product line, price, location, and promotional strategies according to changes taking place in the retail environment. Which of the following theories is referred here?
   a. Wheel of Retailing
   b. Dialectic Process
   c. Melting Pot theory
   d. Natural Selection
   e. Retail Accordion.

3. The theory of ‘retail institutional change’ states that institutions evolve over time from outlets offering a wide variety of merchandise to stores offering specialized products, and then eventually these stores begin to offer a wide variety of merchandise. Which of the following theories is referred here?
   a. Wheel of Retailing
   b. Dialectic Process
   c. Melting Pot theory
   d. Natural Selection
   e. Retail Accordion.
4. In which of the following, a store’s characteristics such as low margin, high turnover, low price, self-service, low rent location, spartan facilities are found?
   a. Discount stores
   b. Departmental stores
   c. Discount Departmental stores
   d. Local stores
   e. Kirana Stores.
5. Store-based retailers can be further classified based on various parameters. Which of the following is not a key parameter to classify a store-based retailer?
   a. Ownership
   b. Strategy mix
   c. Service Vs. Goods retail mix
   d. Assortment of goods
   e. Marketing mix.

2.4.2 Non-Store Retailer

Although non-store retailers serve the general public like store-based retailers, they differ in their retailing methods. These retailers reach customers and market merchandise using various methods like broadcasting “infomercials,” broadcasting and publishing direct-response advertising, publishing paper and electronic catalogs, going door-to-door soliciting customers, conducting in-home demonstrations, selling from portable stalls (street vendors), and distributing through vending machines.

Non-store retailing takes place in two ways:

- Traditional
- Non-traditional

Traditional Non-Store Retailers

Traditional non-store retailing involves a variety of retailing methods. These are discussed below:

Direct Marketing

The Direct Marketing Association (DMA) defines direct marketing as an "interactive marketing system that uses one or more advertising media to yield a measurable response and/or transaction at any location". In direct marketing, a customer is informed about the product through non-personal media like TV, radio, magazine, newspaper, Internet etc. The customer places an order through the mail or phone.

In direct marketing, responses can be measured. This system allows retailers to keep track of consumers' responses, and maintain a database of customers and prospective customers. In other words, through direct marketing, a company can concentrate its promotional activities on potential customers. And by targeting potential customers, retailers can provide efficient and prompt service.

Advantages

- The initial cost or investment for direct marketers is comparatively less than that of retailers using other store formats. This is due to smaller inventories and absence of fixtures or displays. In addition, a prime location is not required in direct marketing.
- A wide geographic area is covered by the direct marketer's promotional activities. This reduces the total cost of the firm. Consequently, the retailer can offer its products at a lower price than any store based retailer. This form of shopping allows the customer to make purchases without having to look for a parking place or waiting in line at the cash register. In addition, the customer need not bother about the safety of shopping at odd hours.

Disadvantages

- Though direct marketing allows the retailer to market his goods without much investment, it is not without disadvantages. In this type of marketing, customers do not have the opportunity to see and feel the goods before purchasing them. This limits the scope of direct marketing, especially in India, where people want to feel the product before purchasing it.
- The direct marketing retailer tries to attract customers, through catalogs, but the cost of developing, printing and mailing these catalogs can be very high. Moreover, there is no guarantee that the person who requested the catalog will buy the products. In general, only ten percent of those prospected will become customers. Thus, the amount spent on the rest of customers will add to the costs of the company.

Direct Selling

As defined by the Direct Selling Association, direct selling is a method of "marketing and retailing consumer goods directly to the consumer that relies neither on direct mail, product advertising nor fixed retail outlets". Direct selling encourages convenience shopping as well as personal touch or feel of a product. This type of selling can also be called door-to-door selling because the salesperson approaches customers directly to sell a product or a service.

Direct selling takes place in three ways: person-to-person, multi-level marketing, and party plan.

Person-to-Person

In this type of selling, the company's salesperson directly contacts customers and describes the product to them face-to-face. The salesperson demonstrates the use of the product and provides a manual of usage. Avon (cosmetics), Eureka Forbes with vacuum cleaners and water purifiers use the person-to-person approach to market their products.

Multi-level (network) Marketing

In this type of marketing, a company uses commission/bonus based selling along with person-to-person marketing. Amway uses multi-level marketing.

Party Plan

This form of direct selling involves product demonstrations/sales to a group of consumers who have assembled in one customer's home or at an outdoor location.

Selling products and services directly to consumers through face-to-face interaction, using a salesperson, can be called direct selling. Direct selling benefits both consumers and sellers. From the consumers' point of view, goods are available at their convenience. Moreover, salespersons take the time to explain the use of the product to them. Direct selling is advantageous for retailers as it is an effective, low cost channel.

In India, direct selling became very popular after the liberalization of the economy and the entry of multinationals. Mary Kay, Herbal Life, Tupperware, Oriflame, and Amway are some of the leading direct selling companies in the world.

Vending Machines

A vending machine involves coin or card-operated dispensing of goods and services. It eliminates the use of sales personnel and facilitates round-the-clock sales. Machines can be placed wherever they are most convenient for consumers. Vending machines generally are installed in busy areas where they can benefit many customers. Though installation costs are high, vending machines help customers avoid the inconvenience of shopping in a store.

Retailing through vending machines is also called automatic merchandising. Customers use cash, prepaid cash cards, coins, or credit cards to purchase goods from vending machines. In India, vending machines are becoming a part of daily life. Goods sold through vending machine include soft drinks, coffee, photocopies etc.

Banks use an automatic vending machine called the Automatic Teller Machine (ATM) to make banking more convenient for customers.

Catalog Marketing

Catalog marketing refers to sales made through catalogs mailed to a select list of customers or made available in a store. In catalogs, basic product and pricing information is given along with instructions for placing an order. The kind of delivery (mail, express service, parcel post) that the customer wants can be mentioned in the order. Companies like Asian Paints, Lotus Lipsticks and Aquaguard water purifiers use catalogues to promote their products.

Telemarketing

To provide more convenience and service satisfaction to customers, goods and services are sold through telephone contact. This method is useful for customers who want to avoid traffic congestion and parking problems.

Telemarketing allows retailers to provide customers information on new merchandise and upcoming sales events. Retailers who use telemarketing deliver merchandise to the customers' residence or hold it till it is picked up by the customer later.

TV home shopping

It is a medium of marketing through which Shop-by-TV retailers demonstrate a product and describe its benefits and uses. If a customer wants to purchase the product, he can order it through e-mail using internet or telephone.

TV home shopping works in the following manner:

- The merchandise items are displayed, described, and demonstrated on television.
- Using the toll-free number provided, customers can place orders.
- Payments are done through credit cards.
- Goods are delivered by courier service along with a guarantee.

Example: Bank of Baroda, a Leader in Service Retailing

Bank of Baroda, a leading public sector bank, was there in existence for more than a century and across 17 countries. Bank of Baroda offered services in personal banking, business banking, corporate banking, foreign currency credit, import/export finance and host of other domestic and forex services.

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It also served to the rural banking services, pensions, lockers, remittance and many more. In December 2020, Bank of Baroda has strong domestic presence with 8246 branches and 11553 ATMs. It also had 99 overseas branches.

Sources: i) (June 8, 2022). A Saga of Vision and Enterprise - Bank of Baroda. Retrieved from https://www.bankofbaroda.in/about-us/overview. Accessed on 30-06-2022;

ii) (2022). Bank Of Baroda. (Bankbaroda) - Company History. Retrived from https://www.business-standard.com/company/bank-of-baroda-5456/information/company-history. Accessed on 30-06-2022.

2.4.3 Non-traditional Non-Store Retailers

The following are some of the non-traditional non-store retailers:

World Wide Web

The use of the World Wide Web allows people to access information about products (using the web address of the retailer's home pages). Retailers' websites allow customers to order with a click of the mouse. To attract potential customers, retailers also send details of new products through email to customers.

Retailers can use the internet as a medium for promoting their goods and services all over the globe at minimum cost. They can even conduct research on customers with the help of the internet. Moreover, the Internet reduces the costs of retailers as it allows them to use low cost electronic mail to communicate with customers.

Electronic Commerce (E-Commerce): A mention about internet in retail business can be complete without a mention about E-Commerce, which is purely based on internet. E-commerce is a term used for any type of business (or commercial transaction) wherein information can be transferred across the internet. It covers a range of businesses allowing consumers or business corporations to exchange goods and services within seconds – time or distance is no more a barrier. This form of computerized ordering system can either be business electronic commerce (described as B2B e-commerce) and/or customer electronic commerce (described as B2C ecommerce). However, both together are termed as e-business or e-commerce. In India, e-commerce is becoming an evolving retail business. To quote *The Economist* "Every second three more Indians experience the internet for the first time. By 2030 more than 1 billion of them will be online"[10].

Video Kiosks

The term kiosk is derived from a Turkish word köşk which means open summer house or pavilion. Kiosks are often placed near the entrances of shopping malls.

A video kiosk is a freestanding interactive computer terminal that displays product and related information on a video screen; it often uses a touch screen to allow consumers to select items.

[10] E-commerce in emerging markets: India online", The Economist, March 5, 2016

Video Catalog

A video catalog is a retail catalog on a CD-ROM disk. It has to be viewed on a computer monitor. After viewing the catalog, the consumer can call up the retailer to order the goods. The disk allows the customer to quickly gather information about the retailer's products.

2.5 Omnichannel Retailing

Omnichannel is the new buzzword in the retail world in India. It is largely uncomprehended, but likely to pick up pace rapidly. Rapid acceleration in the number of internet users is transforming the consumer shopping behavior and retailing industry. In the above scenario, the key to success for retailers lies in extending their products to their most valuable customers by espousing omnichannel approach. Omnichannel retailing is defined as *a business model comprising a multi-channel approach to sales in a way that seeks to provide consumers with seamless shopping experience irrespective of the place they shop i.e. brick & mortar store, desktop, or smartphone*[11].

Omnichannel retailing differs from multi-channel retailing with respect to the depth of integration in user experience. Most retail businesses are trying to engage their customers by providing multi-channel experience. They have a brick & mortar store, a website, a mobile application, a Facebook page, a blog, a twitter handle etc. However, in majority of cases, they are unable to provide a seamless shopping experience and consistency in interaction with customers across each of the above channels. Omnichannel retailing integrates the information gathered through customer interactions with firms across different channels, which it uses to provide a seamless shopping experience. Besides, brick and mortar, retailers use a variety of non-store based channels such as the Internet retailing (also known as online retailing, e-tailing and electronic retailing), catalogs, direct mails, direct selling, television home shopping, and automated retailing. This unit focuses on two primary channels through which retailers communicate with and sell products and/or services to their customers. These are brick and mortar stores and the internet. Following are advantages offered by these channels which can be leveraged by retailers to enhance customer shopping experience.

2.5.1 Advantages of Retail Channels

Levy, Weitz and Pundit (2013) cite the following advantages provided by store-based vis-a-vis online channel:

Brick & Mortar channel

It provides consumers an opportunity to evaluate merchandise prior to making their purchase using their senses. This increases the likelihood of customers making satisfactory purchase. Store-based retailers can provide meaningful,

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[11] Aaron Agius, "7 Inspiring Examples of Omni-Channel Users Experience", http://blog.hubspot.com/marketing/omni-channel-user-experience-examples, June 8, 2015

personalized service to their customers. Customers can obtain the purchased merchandise immediately after they make the purchase from stores. Visiting the store offers a simulating social as well as entertainment experience to some people, who seek a break in the daily routine. Shoppers also get a chance to browse through the store to see the merchandise available for purchase.

Online Shopping

It enables retailers to provide a broader and deeper assortment to customers, compared to store based retailers. This provides consumers with a vast number of alternatives which they can consider while making their purchase decision. The volume of information available to consumers on internet enables them to solve their problems associated with planning their purchase, rather than merely providing them with information about specific products. Due to its interactive nature, the online retailers can personalize merchandise offering for each customer based on their web history. The retailers are playing a proactive role in providing personalized offering through live chats, emails, or voice conversation with a customer service executive.

Nowadays, consumers access internet through their smartphone which has made retailers interested in developing m-commerce i.e. purchase of merchandise and services through their mobile devises using mobile applications. However, in majority of cases, the mobile application is restricted to minor updates of retailer’s existing website to accommodate the smartphone’s small screen.

2.5.2 Benefits of Omnichannel Retailing

There are a few key benefits of omnichannel retailing[12]:

- More Convenience: By making shopping simpler through omnichannel, customers are more likely to purchase.
- Competitive Advantage: As more and more businesses crop up every day, adopting omnichannel will be a differentiator for the existing companies. Between 2019 and 2021, according to Nasdaq, nearly 170,000 new professional and technical service firms came into existence. This might be the sign of a healthy economy, but it also means business leaders must work harder to attract customers.
- Improved Customer Service: Omnichannel support is one of the defining features of modern customer service. When people need help with a product, being able to reach a customer rep and resolve issues as quickly as possible is paramount. According to a research from Hubspot, 90% of the customers will purchase more from brands with excellent customer service, and 93% are more likely to be repeat customers. The more interconnected your

[12] https://www.linkedin.com/pulse/omnichannel-retailing-need-hour-pankaj-kankar, October 4, 2021 (Accessed on October 27, 2022)

company's channels, the easier a consumer can get help using their preferred method.

- Increased Sales: According to a study of 46,000 consumers by *Harvard Business Review*, omnichannel shoppers, compared to single-channel customers, spend 4% more in-store and 10% more online on every shopping occasion. According to HBR researchers, "customers who used 4+ channels spent 9% more in the store, on average, when compared to those who used just one channel."
- Optimized Business Processes: Interconnected sales and marketing channels mean interconnected, streamlined data. With a tightly controlled data stream, you get more precise insights into which processes bear fruit and which are less effective. Your website, store, social media and IoT information are combined, giving you a clear picture of the decisions customers make throughout the buyer journey.

2.5.3 Challenges of Omnichannel Retailing

Many retailers are struggling to provide a seamless shopping experience to their customers across multiple channels mainly due to unique skills and resources needed for effective management of each channel. Levy, Weitz and Pundit (2013) outline several major issues which retailers need to address to successfully implement Omni-channel strategy. According to them, store based retailers are required to efficiently move their merchandise from Distribution Centres (DC) to retail outlets where the bulk breaking takes place. On the other hand, internet retailers need to store the merchandise at their DCs for a considerably longer period (bulk breaking takes place at the DC) leading to higher inventory holding costs. The information systems required by physical stores are more merchandise oriented whereas that required by online retailers are customer centric. Due to difference in their operational management, retailers have a separate organisation structure for each of the above channels which increases the challenge of providing seamless customer shopping experience. Retailers need to maintain consistent pricing strategy across all its channels despite varied competition across different channels.

Example: Mercedes-Benz Omnichannel 'Retail of the Future' Strategy

Mercedes-Benz announced the 'Retail of the Future' strategy in 2021. Mercedes-Benz would take direct control of inventory, processing, deliveries, and prices while retailing will be handled by franchise partners.

Mercedes-Benz offered 'a seamless customer journey' with five different steps — quotation, order booking, order finalisation, invoicing, and handover. It launched Digital Commercial Platform as part of the Retail of the Future strategy.

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This was an online store where potential customers can book their choice of a Mercedes-Benz. There was also a low need for inventory and warehouse funding.

Martin Schwenk, managing director and CEO, Mercedes-Benz India said, that retail of future is a disruptive retail business model. The model is extremely customer centric which offers seamless, omni channel and transparent experience to customers.

Source: Singh, A. (October 22, 2021). Mercedes-Benz Launches 'Retail of the Future' Strategy. Retrieved from https://www.evoindia.com/top-news/mercedes-benz-retail-of-the-future-strategy. Accessed on 30-06-2022

Activity 2.2

In the E-Com space which is a new format, a few dominant players like Flipkart, Amazon and Snapdeal compete. Based on an analysis of the services offered, prices charged by these e-tailers, explain how the E-Com market is evolving with reference to Wheel of Retailing theory given by Hollander.

Answer:

Check Your Progress - 2

6. A store which is based on a contractual arrangement between a manufacturer and a franchisee allows the franchisee to conduct a given form of business under an established name and according to a given pattern. Which of the following types of business is getting reflected above?
   a. Chain stores
   b. Hybrid stores
   c. Dependent stores
   d. Franchise store
   e. Leased store.
7. Which of the following stores have two or more retail outlets that are commonly owned and controlled with centralized buying and merchandising system?
   a. Franchise stores
   b. Independent stores
   c. Chain stores
   d. Hybrid stores
   e. Departmental store.

8. Which of the following is a market with an outdoor or indoor facility that rents out space to vendors who offer merchandise, services and other goods that satisfy the legitimate needs of customers?
   a. Flea market
   b. Urban market
   c. Semi-urban market
   d. Local market
   e. Mom and Pop shops.
9. Off-price retailers offer an inconsistent assortment of branded fashion-oriented soft goods at low prices. These retailers can sell branded and designer-label merchandise at low prices as they purchase goods from manufacturers who have excess inventory. Which of these is not an off-price retail store?
   a. Outlet stores
   b. Close outlet stores
   c. Factory outlets
   d. Single price outlet stores
   e. Convenience stores.
10. Kiosk is a term used for self-sustaining outlets installed at key locations where footfalls are significantly more. The word 'köşk' means open summer house or pavilion. In which of the following words, the term köşk is mentioned?
    a. German word
    b. Turkish word
    c. Latin word
    d. French word
    e. Greek word.

2.6 Summary

- To survive in the fast-evolving retailing industry, retailers should have a fair idea of various retail store formats and their advantages and disadvantages.
- Retail institutions should continuously adjust their store formats to match the changing market environment.
- There are many theories which try to explain the evolution of various retailing formats. Some of these theories are: Wheel of retailing, Dialectic Process, Retail Accordion theory and Natural Selection theory.
- A retailer can use a store-based or non-store retail format to serve its target market.

2.7 Glossary

Chain Stores: Chain stores have two or more retail outlets that are commonly owned and controlled. These stores have a centralized buying and merchandising system and sell similar lines of merchandise.

Convenience Store: Convenience stores are relatively small stores, located near residential areas, are open for long hours, seven days a week and carry a variety of products with limited assortment of merchandise.

Department Store: Department stores are large retail units that offer wide variety and a deep assortment of goods and services. These goods and services are organized into separate departments for gaining control over various store activities like selling, promotion, and customer service.

Hypermarket: A large retail store that offers products at a low price. It is a combination of a discount store and a food-based supermarket.

Retail Accordion: It is a retail theory which states that the merchandise mix strategies of retailers change, while the retail prices and margins remain the same.

Store-based Retailers: Store-based retailers operate at fixed point-of-sale locations. They handle more traffic and deal with a variety of products.

VMS: Vertical Marketing System is a distribution system in which the producers, wholesalers, and retailers act in a unified manner to facilitate the smooth flow of goods and services from producer to end-user.

Wheel of Retailing: This theory states that in a retail institution changes take place in a cyclical manner. The new retailer often enters the market with a low-status, low-profit-margin, and low-price store format. Later, they move to upmarket locations and stock premium products. Eventually, they mature as high-cost, high-price retailers, and are vulnerable to new retailers who come up with some other novel retailing format/concept. This new retailer will, in turn, go through the same cycle of retail development.

2.8 Self-Assessment Test

1. What are the different theories of retail institutional change? Explain with examples.
2. What is the basis of classifying retailers? Explain store-based retailers.
3. Explain the terms: Chain stores, Franchise stores and Flea market.
4. What do you understand by Vertical Marketing System (VMS)? Explain the types of VMS.
5. Differentiate between departmental stores and discount department stores.

2.9 Suggested Readings/Reference Material

1. Giri Arunangshu and Chatterjee Satakshi, "Retail Management: Text & Cases" Paperback, PHI Learning Pvt. Ltd., 2021.
2. Swapna Pradhan, "Retailing Management: Text and Cases", McGraw Hill, Sixth Edition, 2020.
3. Barry Berman, Joel R Evans, Patrali Chatterjee and Ritu Srivastava, "Retail Management", Thirteenth Edition Pearson Education, 2017.
4. Gibson G. Vedamani, "Retail Management", 5th edition, Pearson Education, 2017.

2.10 Answers to Check Your Progress Questions

1. (a) Dialectic Process

Dialectic process or "Melting Pot" theory states that two institutional forms of retail with different advantages modify their retail formats till they develop a format that combines the advantages of both formats.

2. (d) Natural Selection

According to the natural selection theory, a retail institution will survive in a competitive market only if it is willing to change its product line, price, location, and promotional strategies according to changes taking place in the retail environment.

3. (e) Retail Accordion

This theory of 'retail institutional change' states that institutions evolve over time from outlets offering a wide variety of merchandise to stores offering specialized products, and then eventually these stores begin to offer a wide variety of merchandise.

4. (a) Discount Stores

Discount Store offers the characteristics of low margin, High turnover, low price, self-service, low rent location and spartan facilities.

5. (e) Marketing mix

Store-based retailers can be classified on the basis of various parameters. They are ownership, strategy mix and service vs. goods retail mix. Marketing mix is not a basis on which store-based retailers are classified.

6. (d) Franchise store

A Franchise store is based on a contractual arrangement between a manufacturer and a franchisee. It allows the franchisee to conduct a given form of business under an established name and according to a given pattern of business.

7. (c) Chain stores

Chain Stores have two or more retail outlets that are commonly owned and controlled with centralized buying and merchandising system.

8. (a) Flea market

A Flea market is an outdoor or indoor facility that rents out space to vendors who offer merchandise, services and other goods that satisfy the legitimate needs of customers.

9. (e) Convenience stores

Off-price retailers offer an inconsistent assortment of branded fashion-oriented soft goods at low prices. Off-price retailers can be classified into outlet stores, close outlet stores and single price outlet stores. Factory outlets are also another type of off-price retail store. Convenience store is a retail type based on assortment carried and not based on price.

10. (b) Turkish word

The term kiosk is derived from a Turkish word köşk which means open summer house or pavilion. Kiosks are often placed near the entrances of shopping malls.

Unit 3

Understanding the Retail Customer

Structure

"Your most unhappy customers are your greatest source of learning."

- Bill Gates, an American business magnate, software developer, investor, author, philanthropist and co-founder of Microsoft.

3.1 Introduction

Why understanding retail customer is important?

Because when a retailer is able to deliver an experience that meets their customers' expectations, customers are happy. And when customers are happy, they spend.

In the previous unit, we discussed the retail institutions. This unit deals with understanding retail customers. To understand the purchasing patterns of customers, it is vital to understand the customers' nature and examine the external factors that influence their buying behavior. The increasing value perception among customers is putting more pressure on the retailer to offer merchandise of superior quality that is valuable to the consumer's eye. Retailers explore investment opportunities after analyzing the customer's needs, aspirations, shopping preferences and buying behavior.

In India, there are huge differences in the social practices and food habits of people in various regions. The cultural differences in India, when compared to the rest of the world, and other Asian countries, are striking.

Before liberalization, the Indian market was a seller-driven market. But liberalization has changed the face of the Indian retail market, especially in the Fast-Moving Consumer Goods (FMCG) and consumer durables sector. Liberalization also witnessed the entry of multinationals resulting in a radical improvement in the models, features, technology, and sizes of consumer durables available to Indian consumers. Since 1991, the FMCG sector in India has been trying to cater to the consumers, according to their mindset, and deliver quality products at low costs. In short, consumers have gained much significance in the market with a wide range of products, a multitude of brands (Indian and foreign), various financing options, large one-stop shops, colorful stores, and shopping malls.

Retailing includes the purchasing and selling of products and services to the consumer, who buys them for individual and household consumption. The consumption of goods and services depends on the individual's preferences and choices. Thus, consumer behavior plays a crucial role in determining the success and growth of retail stores.

This unit analyzes the relevance of the retail market, the structure of the buying population and how their buying behavior affects the retail stores. This unit will also discuss population, demographic and geographic factors that affect or influence the buying behavior of a customer. These factors allow the retailer to calculate the market potential and growth of the retail store in an area. Understanding consumer behavior is a prime factor for the successful formulation of a retailing strategy. This unit gives a detailed explanation of factors that influence the consumer's buying behavior and its impact on the retailer.

3.2 Objectives

After reading through this unit, you should be able to:

- Define a ‘market’ that exemplifies the working of a retail market place.
- Analyze the factors surrounding the specific characteristics of consumers that helps in deciding the target market.
- Explore the factors surrounding the buying behavior of products and services that enhances consumer perception.
- Analyze and interpret the various marketing strategies to gain a competitive edge in the retail market.
- Understand the consumers’ decision making process that enables to target the potential consumers.

3.3 The Market

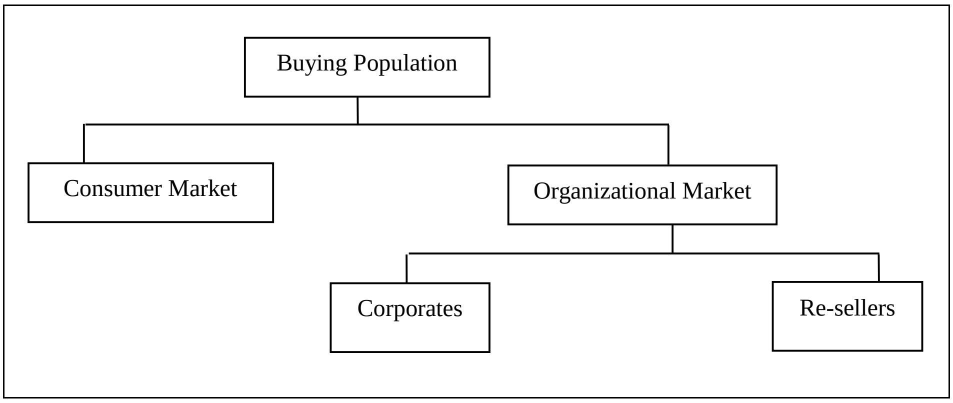
In general, a place where buyers and sellers interact for exchange of goods and services is known as a ‘market’. Market facilitates trade. It improves the distribution efficiency of the retailer. A market can be defined as a group of consumers or organizations that is interested in a product, has the resources to purchase the products, and is permitted by the law to acquire these products. A market, by its definition, begins with the total population and progressively narrows down to the target market and then to the penetrated market.

A retail market is a place where all the retailers compete with one another for recognition and acceptance through various merchandise promotional activities. Thus, to understand the retail market, one must understand the structure of the buying population and their behavior.

3.3.1 Structure of the Buying Population and their Behavior

A retailer should understand the structure of the population and their buying behavior so that he can cater to the needs of the buyer in a better way. Buying behavior deals with the process a consumer undergoes while deciding whether to purchase a product/service or not. Based on the customer's nature and his intentions behind purchasing the merchandise, the buying population can be divided into two categories: the consumer market and the organizational market. Figure 3.1 gives the classification of buying population.

Figure 3.1: Classification of Buying Population



Source: ICFAI Research Center

Consumer market

Consumer markets consist of the individuals or the households, which are the ultimate users of goods and services. Consumers purchase goods and services for their personal use or for the use of their families. The consumer market plays a crucial role in the success of a retail store. To understand the consumer market, a retailer should analyze the geographic and demographic distribution of the population.

Consumers' buying behavior or their decisions get influenced by factors like individual preferences, and social factors (like the influence of reference group, family life cycle and purchase system).

The geographic distribution helps the retailer to analyze the classification of the population - rural, urban, and suburban – and accordingly helps to understand the purchasing power of the population. The demographic features explain the classification of the population based on their age, gender, family life cycle, income distribution, and race and ethnicity, which are the major factors that influence the buying behavior of a consumer market. These geographic and demographic features help a retailer understand the purchasing behavior of the target market.

Example: Nike's Consumer Market - Target Athletes and Young Adults

Nike was a leading sports shoe suppliers and sports equipment manufacturers.

Nike has the consumer market segmented based on the needs, demographics, behavioral and psychographic basis. Nike offered shoes for running, gym, training, based on various games like football, tennis, golf, crickets, basketball, and athletics for men. For women, Nike offered yoga shoes. Young athletes are attracted through quality shoes, with range of colors with both comfort and attractive physical appearance to attract customers. This kind of strategy reflected one of its marketing strategies to target athletes and young adults.

Source: (December 30, 2021). Nike Market Segmentation, Targeting, and Positioning. Retrieved from https://www.edrawmind.com/article/nike-market-segmentation-targeting-and-positioning.html. Accessed on 30-06-2022.

Organizational market

An organizational market is comprised of corporates and re-sellers who represent intermediate consumers of merchandise. The corporate buyers are those companies that either buy the merchandise offered by the retailer for corporate use, or promote sales for the retailer by giving coupons to their employees. Resellers are those who buy merchandise in large quantities at discounted prices from the retailers, and sell them at normal prices in their shops. The organizational market differs significantly from the consumer markets because the consumers look for products that satisfy their own needs while the organizations look for products that satisfy the needs of their consumers. The organizational customers are affected by the organizational and economic factors apart from the cultural, social, personal, and psychological factors that affect the ultimate customers. Since retailing has more to do with the ultimate customers, we limit our discussion to the consumer market in this unit.

Retailing businesses concentrate more on consumer markets and hence, this unit would be limited to exploring various characteristics of consumer markets with the help of population analysis, demographic analysis, geographic analysis, and consumer buying behavior.

3.4 Population Analysis

To determine the actual and potential market for a product, the retailer must analyze the total population. The analysis of the total population allows the retailer to calculate the total demand in the market. Total population is determined by the total number of persons residing in an area at a given time. The total population of an area is determined by its birth and death rates, and immigration and emigration rates.

Table 3.1 shows the top 10 most populated countries in the world as of 2022.

Table 3.1: Top 10 Most Populated Countries in the World

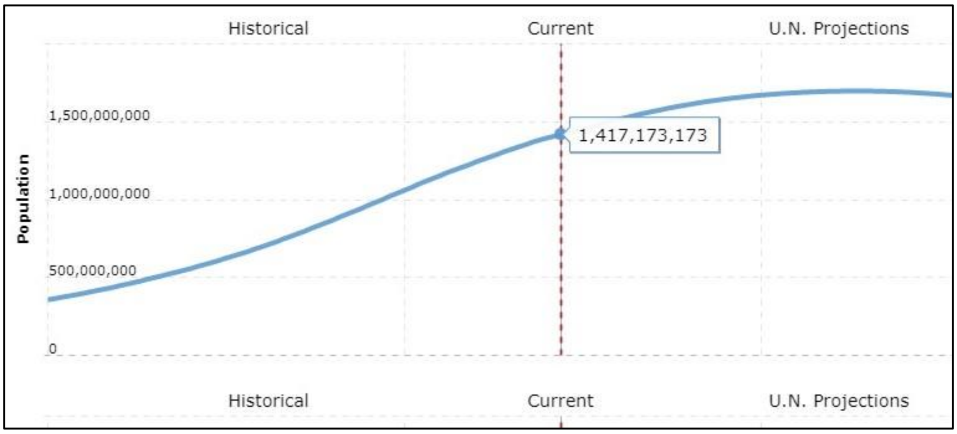
Rank	Country or Area	Population As of 2022
1	China	1.43 Billion
2	India	1.41 Billion
3	USA	329 Million
4	Indonesia	270 Million
5	Pakistan	216 Million
6	Brazil	211 Million
7	Nigeria	202 Million
8	Bangladesh	167 Million
9	Russian Federation	146 Million
10	Mexico	128 Million

Source: https://www.macrotrends.net/countries/IND/india/population accessed on 27/10/22

India stands second top in the world next to China in terms of population. USA stands at 3rd position followed by Indonesia, Pakistan, Brazil, Nigeria, Bangladesh, Russian Federation and Mexico in the positions from 4th to 10th respectively.

Figure 3.2 depicts the growth of population over a period and UN projections in future. As of 2022, the Indian population is 1.417 billion.

Figure 3.2: Indian Population Growth Over Years



Source: https://www.macrotrends.net/countries/IND/india/population accessed on 27/10/22

Table 3.2: Gender Ratio in India 2015-2021

Current Sex Ratio in India	1020 females for every 1,000 males (2019-2021)
Sex Ratio in India (Yearly)	991 (2015-16), 900 (2013-15), 906 (2021-14), 909 (2011-13)

Source: https://www.statista.com/statistics/617361/gender-ratio-india/ accessed on 27/10/22

The sex ratio is used to know the number of females per 1000 males. It is a rich source of finding the equality of males and females in a society in a time. Table 3.2 provides this vital information about the gender ratio in India in 2021.

Another parameter that is used in Population Analysis is the life expectancy or the longevity of the population. Table 3.3 provides the same for some select countries. This parameter is important to a retailer because it helps in analyzing the consumption pattern. It would be stable because, elderly consumers do not change as dynamically as the younger ones do as far as innovation is concerned.

Table 3.3: Life Expectancy of the Top Ten Countries

2022

Sl. No.	Country or Area	Life Expectancy (Years)
1	Hong Kong	84.9
2	Japan	84.67
3	Macau	84.396
4	Switzerland	83.836
5	Singapore	83.662
6	Spain	83.612
7	Italy	83.568
8	Australia	83.496
9	Iceland	83.07
10	Luxembourg	82.62

Source: https://bscholarly.com/countries-with-the-highest-life-expectancy/ accessed on 27/10/22

3.4.1 Immigration and Emigration

Immigration and emigration are two ways of population mobility. Immigration is the way of shifting into a new place or country. The population of a place increases when the immigration rates are high. Emigration is the way of leaving one's own place or country to settle in another place or country. High emigration rates reduce the population of an area or country. Hence, the factors that contribute to the increase of population are birth rates and immigration. Death and emigration reduce the total population of an area.

The person who leaves their original place of birth either for a better life or to escape the hard situations in their place of birth, is called migrants, and the process is called migration.

3.4.2 Race and Ethnicity

The race and ethnicity of the population also play a role in the consumer's choice patterns and buying behaviors. The purchase habits of the buying population differ from place to place even within the same country, based on the dominant races in that area. Hence the retailer should be aware of the racial mix of the population in the area of its operation.

Example: Skin Lightening Cream to Healthy Skin

Fair & Lovely was a popular skin lightening product by Hindustan Unilever. In 2020, the company dropped the word 'fair' from its name. Unilever has often been said to promote a certain idea of beauty.

The decision from Unilever came just days after Johnson & Johnson announced that it will be discontinuing its skin lightening creams. A representative of Johnson & Johnson said, "Conversations over the past few weeks highlighted that some product names or claims on our Neutrogena and Clean & Clear dark-spot reducer products represent fairness or white as better than your own unique skin tone. This was never our intention — healthy skin is beautiful skin."

Source: Dash, S. (June 25, 2020). It took Black Lives Matter protests in US to kill fairness creams in India. Retrieved from https://www.businessinsider.in/business/news/it-took-black-lives-matter-protests-in-us-to-kill-fairness-creams-in-india/articleshow/76622179.cms. Accessed on 30-06-2022

3.5 Demographic Analysis

Demography is the study of statistics used to describe a population. Each person can be characterized in terms of age, sex, education, income, occupation, race, nationality, family size and family structure. Individuals of similar character are grouped together to form a consumer market segment. This allows the retailer to serve according to the needs of each segment and cater to varied group preferences.

Though the total population is classified based on their homogeneous nature, customized marketing is difficult, as within one group, people may perceive a product or service differently, based on their age. To overcome this problem and to customize the products and services, the entire population can be classified on basis of the age factor.

3.5.1 Age Distribution of Population

Retailers should change their approach on the basis of the growing population. For example, if the population is more in the age groups of 0-4 and 5-14, the retailer should concentrate more on the kids' market, where the strategies should be developed in such a manner that they can attract more kids to the retail store.

The retailer can develop various strategies which concentrate on offering more kids' product lines, credit cards for kids (under the guidance of parents), entertainment areas (videos/reading areas), kids' clubs, kid-oriented visual displays (colorful signs and lighting), kids' fashion shows, placement of items that kids want near the checkout line, placement of kids' items at eye level, focus on designer brands and a large variety of kids' items, "teen" sections, kids' menus, cross-marketing, and training store personnel to value and assist child customers. A retailer should analyze the target market and develop strategies to satisfy their requirements.

Moreover, by analyzing the population distribution, retailers can adopt various strategies, that urge people to buy the products. For example, the young population will prefer a DIY (Do-It-Yourself) shopping experience whereas the aged population like to have a DIM (Do-It-for Me) experience, where they expect the retailers to be more cooperative and service-oriented.

3.5.2 Income

The National Council for Applied Economic Research (NCAER) classifies consumer households based on their income into five categories - rich, consuming, climbers, aspirants and destitute. The consumption behavior of these consumers varies accordingly. These classifications exist both in rural and urban areas and the variation again exists among the similar classes in rural and urban areas.

3.5.3 Urbanization

Urbanization can be defined as the growth in the number of cities and the number of people living in cities. Increased urbanization refers to the rise in the number of people living in cities. The reasons for the growth of the urban population can be attributed to the migration of people from rural areas in expectation of better quality of life, urban expansion, and the natural increase in population because of low death rates and high birth rates. The immigrants to urban areas are also drawn by the cultural attraction of cities, the fewer number of social constraints and perception of higher income. The benefits of urbanization are better quality of life, lower mortality rates, better education and literacy rates and lower birth rates.

Urban areas are the focus of organized retailers due to concentration of population and wealth in these areas.

3.5.4 The Shrinking Household

The number and composition of households affect the purchases made by consumers. By studying the household structure of the market, the retailers can predict the demand for goods and services. The Indian household distribution is changing rapidly with time. The size of the average household is shrinking. The reasons for this are: increasing longevity, lower birth rates and prevailing trends of staying independently, i.e. away from parents and grandparents.

The Indian family structure, which has been predominantly a joint family set-up is now being transformed into single-member and nuclear families with or without children.

3.5.5 The Working Women

Be it the purchase of groceries or cars, most purchase decisions in any household have been conventionally made by women. The increased cost of living and the drive to prove the above has seen more women enter the workforce. Women are now major players in the Asian economies as employees as well as entrepreneurs.

With the increasing number of women opting to work, the factors on which they focus to make decisions have changed. Therefore, retailers need to adopt merchandising strategies suitable to cater to these changing needs. This changing pattern means that there are dual earners at home, but the time spent on shopping has decreased since women's free time has decreased. The buzzword is convenience. Women are no longer willing to travel long distances to reach their favorite stores or spend long hours on spotting an apparel of their interest in piles of clothes. Convenience, availability, and quality service are the primary factors of importance for women today.

To ensure convenience and to increase the footfalls of time-pressed shoppers, the retailers hold sales and special events during evenings and weekends. Playing rooms for children with well equipped games and entertainment channels are being provided at many retail stores, so that the parents would have an undisturbed shopping experience. Little gestures like giving gifts and chocolates to children are arranged to make shopping a pleasure both for women and children. Some retailers even provide baby-sitting services.

Working women can be broadly envisioned in the roles of a working partner, the head of the household, and a working person, according to which the patterns of buying behavior vary.

The women's traditional role of being the chief purchasing agent of the household has changed with their new role as a working partner. The purchase decisions today are made collectively (together, by husband and wife), and sometimes children are also involved in these decisions. The retailer, hence, needs to aim at the satisfaction of all the partners, and target the products, price, and promotions at the team (husband and wife) rather than an individual.

Women are assuming the role of the head of a household either by choice to remain single or due to circumstances (as a widower or divorcee). In this role, along with routine purchase decisions, women are making non-traditional purchase decisions - like decisions regarding investments and purchasing a home, which were traditionally done by men. Thus, the line between the purchases decided by women like household products, and those decided by men is fading away.

The buying needs and the decisive attributes for a purchase have undergone a sea change as women have begun to don the role of working professionals. The workplace atmosphere influences many women to dress up in a better and more polished way. The woman who used cosmetics only occasionally is now using it every day to go to her workplace. Even the selection of apparel and the frequency of their purchases have undergone a drastic change. Added to these are the office tools like briefcase, appointment books, laptops, and so on.

Example: The State of Working Women in 2021

According to Motherly's State of Motherhood Report 2021 which surveyed more than 17,000 mothers, it was found that 58% of working mothers considered quitting their jobs. This was because of the stress of finding childcare, while 48% said they're unhappy with the lack of flexibility and paid time off from their employers. Retaining mothers in the workforce can come only with systemic change, says one senior leader at a not for profit organisation: "Policy makers need to put in place policies that help babies and families."

Reshma Saujani, founder of the leading nonprofit Girls Who Code and the founder and CEO of the Marshall Plan for Moms says we have to stop trying to fix the woman and instead fix the structure. If we don't fix the structure—through paid leave, affordable childcare, flexibility, all the things that make it possible for women to be moms and to work—we're never going to get to equality.

Sources: i) Leonhardt, M. (May 03, 2022). Working Mothers Still Face Childcare and Employment Hurdles as Pandemic Safety Nets Disappear. Retrieved from https://fortune.com/2022/05/03/mothers-are-still-facing-childcare-and-employment-hurdles/amp/?cid=other-eml-onp-mip-mck&hlkid=d05d998b0e934e99899254001e78c8d9&hctky=11601592&hdpid=1fa5b31c-e335-47a4-baeb-bdccab94ba13. Accessed on 30-06-2022

ii) Ellingrud, K., Modi, K. (May 5, 2022). Meeting the challenge of moms' 'double double shift' at home and work. Retrieved from https://www.mckinsey.com/featured-insights/sustainable-inclusive-growth/future-of-america/meeting-the-challenge-of-moms-double-double-shift-at-home-and-work. Accessed on 17-08-2022

3.5.6 The Diversified Minorities

The largest Indian religious minority in India is the Muslim community that accounts 14.2 per cent of the total Indian population (Census 2011). The Sikhs comprises less than 2 per cent of India's population. Among the other religious groups are Christians, Buddhists, Jains, Parsis, and Jews, who are in very small numbers compared to Hindus, who constitute about 80 per cent of the total population.

Though English is the most commonly used language in national, political, and commercial communications, there are more than a dozen major languages grouped into South Indian and North Indian languages. Hindi is spoken by 30 per cent of Indians. A few other official languages include Bengali, Telugu, Marathi, Tamil, Urdu, Gujarati, Malayalam, Kannada, Oriya, Punjabi, Assamese, Kashmiri, and Sindhi, There are also various tribal languages spoken by peoples across India, most notably in southern Bihar and in the seven northeastern states.

These minorities, which follow various religions and speak different languages, make it necessary for retailers to consider their various tastes and preferences while operating in areas having sizable populations.

Activity 3.1

Take the instance of at least 3 food products that your family purchases every month and trace the changes the product has undergone over a period in terms of packaging, mode of selling, size, etc. Explain how urbanization has brought about the change in the product itself and the buying behavior of the customers.

Answer:

<u>Check Your Progress - 1</u>

1. Which of the following can be defined as groups of consumers or organization that is interested in a product, has the resources to purchase the products and is permitted by the law to acquire these products?
   a. Marketing
   b. Market
   c. Consumers and customers
   d. Business
   e. Retailer
2. Based on the consumer's nature and his/her intention behind purchasing the merchandise, the buying population can be divided into two categories. Which of the following is one of the categories of buying population?
   a. Customer market
   b. Organization market
   c. Institutional market
   d. Personal market
   e. Individual market

3. Which of the following comprises an organizational market?
   a. Corporates and re-sellers
   b. Corporates and consumers
   c. Manufacturers and re-sellers
   d. Producers and consumers
   e. Re-sellers and consumers
4. Market consists of individuals or the households, who are the ultimate users of goods and services. Which of the following denotes the ultimate users as mentioned above?
   a. Buying population
   b. Consumer market
   c. Organization market
   d. Corporate
   e. Bazaar
5. Identify the 5 categories of consumer households based on their incomes, as given by NCAER.
   a. Rich, consuming, climbers, aspirants and destitute
   b. Rich, Poor, climbers, aspirants and destitute
   c. Rich, upper middle class, lower middle class, middle class and destitute
   d. Upper middle class, lower middle class, middle class, poor and destitute
   e. Elite, upper middle income, middle class, below poverty line consumers and destitute

3.6 Geographic Analysis

To know the extent of the spread of a market, a retailer should know the density of population in that area. Using this information, a retailer can calculate the potential consumption of that area.

To analyze the population more accurately, geographic analysis is also necessary. The prosperity of the people in a geographic location differs considerably across the different states of the country. The market potential of the districts within the states varies too, as there are wealthy as well as poor districts in most states. India has more than 726 districts (2022) (up from 640 districts as per Census 2011). All the districts are uniformly spread across the North, South, East, and West. The eastern, northeastern, and central regions contain most of the backward districts. Even the way consumers spend money on various categories differs according to the four regions. Geographic analysis can be carried out by a retailer by identifying the characteristic features of various geographic constituents like regional markets, metros and non - metros.

3.6.1 Why will India's population outgrow China?

The UN report states that China will be dethroned from being the most populous country of the world and India would occupy the place by 2022. In 2022[13] India had 1.41 billion people whereas China had 1.43 billion with a disparity of 65 million. But as China's population growth slowed down due to various reasons (the main being a drop in fertility rate), India, would top the list of world's populous counties by 2022.

Example: UN Report on Population of India and China

The United Nations-Habitat's World Cities Report 2022, released in June, 2022, said India's urban population was estimated to stand at 675 million in 2035. This was the second highest behind China's one billion. After the COVID-19 pandemic, the global urban population was back on track to grow by another 2.2 billion by 2050. It said that rapid urbanisation was only temporarily delayed by the COVID-19 pandemic.

India's urban population was projected to be 675,456,000 in 2035, growing from 483,099,000 in 2020 to 542,743,000 in 2025. While it is projected to be 607,342,000 in 2030. China's urban population in 2035 was projected at 1.05 billion while the urban population in Asia will be 2.99 billion in 2035 and that in South Asia 987,592,000. The report said that very big economies like China and India have a large share of the world's population and their development trajectories greatly influenced global inequality.

Source: (June 30, 2022). India's urban population to stand at 675 mn in 2035, behind China's 1 bn: UN. Retrieved from https://economictimes.indiatimes.com/news/india/indias-urban-population-to-stand-at-675-mn-in-2035-behind-chinas-1-bn-un/articleshow/92561893.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst. Accessed on 01-07-2022.

3.7 Consumer Buying Behavior

A consumer's buying behavior refers to the response and reaction of the ultimate consumer to various situations involved in purchasing and using various goods and services. A retailer has to understand consumers' buying behavior as consumer responses to various marketing strategies would determine the retailer's success. For understanding the retail customers' buying behavior, a retailer should collect information relating to what a customer likes to buy and in what quantity, who buys, from where (location) he wants to buy, who are the ones who influence a customer, etc.

[13] https://www.macrotrends.net/countries/IND/india/population accessed on 27/10/22

3.7.1 Buying Considerations - What Consumers Buy?

The first step towards understanding the consumer buying behavior is to find out what consumers buy and their motives behind buying them. Generally, consumers buy products, which are capable of satisfying their needs. Thus, a product is anything that is offered to a market and is capable of satisfying the needs of the customer. Successful products include tangible and intangible features that match the consumer's expectations. Realizing the customer's expectations and viewing the product in its broader perspective allows retailers to plan and offer products accordingly. Here, we have to define the products from a buyer's perspective, where he looks at a product based on its -

- Tangibility
- Durability
- Availability

Product Tangibility

A product's tangibility is based on its physical and material properties that enable the customer to touch or feel it. Generally, consumers consider a sense or feel of touch as the tangibility of a product. Thus, a customer can hold, lift and feel a tangible product, whereas intangible goods cannot be touched and felt.

The degree of product tangibility varies for goods, services, and ideas. The tangibility of a good refers to its size, shape, and weight along with its chemical and biological nature, for example, a pen, a dress, or a car. Services are predominantly intangible in nature and they are the result of the application of human skills for solving a consumer's problem. A service need not necessarily be associated with the sale of a product. Services range from personal services to professional services, entertainment, etc.

Ideas are highly intangible services, which include an opinion or a concept related to a specific event or situation. Here the retailer markets the concept or an idea to the end consumer.

Product Durability

The durability of a product is the capability of a product to endure or to last. Based on the useful lifespan of a product, some products are durable and others are non-durable. Durables are products that are capable of serving the customer for a long period of time. Non-durables are products that last for a very short time. Non-durable goods are perishable by nature.

Product Availability

Depending on the level of availability expected by the customers, products can be put in three categories:

- Convenience products
- Shopping products
- Specialty products

Convenience Products

Convenience products are relatively inexpensive, frequently purchased products, and the consumer spends only minimum time to find the product and purchase it. Customers expect these products to be readily available at the nearest retail outlet. Bread, biscuits, milk are some examples of convenience goods. Even though these products carry lower margins, retailers prefer to stock these convenience products as they have a high turnover.

Shopping Products

Shopping products are items for which buyers are willing to make more efforts to plan for and purchase. For shopping products, consumers spend considerable time in comparing the brands and sellers with regard to price, product features, quality, service, warranties, etc. Shopping products include furniture, appliances, and stereos. Compared to convenience products, shopping products are more expensive and consumers are not loyal to any particular brand.

Specialty Products

Specialty products are those products which while purchasing the consumer is least concerned about the time, effort or expense involved. Here, the consumers do not accept any substitute and are willing to spend any amount of money to obtain that particular item. These products are available in a limited number of retail outlets.

Example: Apple Store Bringing Tangibility to the Apple Experience

Apple, in 2021, celebrated the 20th anniversary of the opening of its first Apple Store. The first store of Apple was launched in May 2001 in Virginia, and the Glendale Galleria in California.

Apple Stores brought a new dimension into electronic retailing. As Steve Jobs said at the opening of the company's first retail stores, "The Apple stores offer an amazing new way to buy a computer." “Rather than just hear about megahertz and megabytes, customers can now learn and experience the things they can actually do with a computer, like make movies, burn custom music CDs, and publish their digital photos on a personal website.” Apple Stores came to be known for its design and architecture.

Source: (May 23, 2021). Apple Store celebrate 20th anniversary: Here Are Some of the Most-Beautiful Apple Stores From Across The World. Retrieved from https://www.gadgetsnow.com/slideshows/apple-store-celebrate-20th-anniversary-here-are-some-of-the-most-beautiful-apple-stores-from-across-the-world/photolist/82862580.cms. Accessed on 01-07-2022

3.7.2 Buying Situations - How much do they buy?

The volume of goods and services that a consumer buys depends on his requirements and his willingness and ability to purchase. Thus, the volume of a retailer's business in a particular market depends on the following:

- Consumer population
- Consumer requirements
- Consumer potential

Consumer Population

The volume of goods and services that would be sold in a particular area depends on the total number of ‘consumption units’ in that area. Depending on the product and its intended usage, the ‘consumption unit’ can be a 'household' or a 'person.' For example, when a person buys a home appliance or garden equipment, he is spending for the household, and hence the ‘consumption unit’ would be a 'household'. On the other hand, when he purchases an ice-cream or seeks medical or legal service, the purpose of which is personal, the consumption unit is a 'person.' Thus, the ‘consumption units’ will depend on the type of product purchased and this is the focus area for determining the market potential.

The total market potential can be calculated by counting the number of consumption units. Therefore, a market's total consumption capacity is a function of the total number of consumption units that make up that market.

Consumer Requirements

After determining the number of consumption units, a retailer should also determine what percentage of these units actually requires a particular product. A person's requirement for a particular good or service depends on his needs and wants. A ’need’ can be defined as an internal desire to satisfy a physiological or psychological urge. Wants are a person's desire for a specific product or service that can satisfy his needs.

Consumer Potential

Although the number of consumption units is more and each consumer’s requirement varies, everyone in the market might not buy the same product; also one may not have the potential or ability to buy a particular product. An individual can desire to buy a product, but he can do so only when he has the potential or ability to buy the product, and the willingness and authority to pay for a product. Thus, a consumer's buying behavior mainly depends on three factors - ability to buy, willingness to buy and authority to buy a product.

Ability to buy

A consumer's ability to buy refers to his purchasing power. In other words, it is the financial ability of a consumer to purchase a good. Thus, factors that determine the buying power of a consumer are the consumer's disposable income, asset position and available credit.

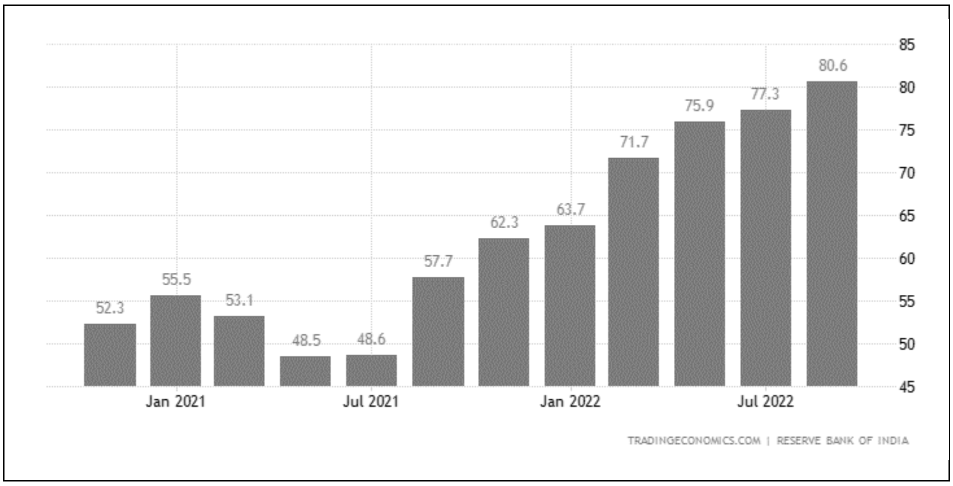
Here, the major factor is the amount of money that the consumer can spend on products that he needs and that he desires to own/purchase. A person's income can be expressed in different ways, like the total income, disposable income, and discretionary income. Total income refers to the sum total of the incomes received by an individual in the form of salaries/wages, rents, interest, investment, pension and so on. An individual cannot spend his total income because he needs to pay taxes, has to allocate some amount for his savings and has to take care of his basic needs.

Disposable income refers to the income that remains after tax deduction, and other deductions from the total income. Thus, the disposable income in hand is used by the consumer for spending and saving. Though a retailer can use this disposable income, to a certain extent, to forecast the demand or requirement for essential goods, the figures of disposable income are not useful to calculate the capacity of the market for luxury goods and non-essential products. Discretionary income is that portion of an individual's or a family's income that remains after purchasing the basic necessities. Based on their discretionary income, the consumers spend on entertainment, household recreation, etc.

In the nineteenth century, the German statistician Ernst Engel developed a law stating the relationship between the income and consumer expenditure patterns. According to this law, as income increases, consumers' percentage of income spent on food decreases and that spent on clothing remains roughly constant; expenditure on housing and household operations remains roughly constant; and expenditure on luxury and other goods increases.

In this context, let us delve a bit on the concept of ‘Consumer Confidence Index’ (CCI) that has gained importance of late. It is an indicator designed to assess the level of optimism (or pessimism) expressed by consumers in their spending (or saving) pattern. In other words, the perception of the consumers about their economy in the near future is obtained through their optimistic or pessimistic approach. Initially, it was begun in the US. The Nielsen Global Survey has been conducting an online survey periodically since 2005 (for majority of the countries) to find out the consumer confidence index. The survey throws light on the job prospects, personal finances and buying intentions of the consumers. Figure 3.4 provides consumer confidence index of India in 2021-2022. The confidence levels above 100 indicates optimism, and below 100 denotes pessimism. The CCI of India in September 2022 is 80.6 which is more than the previous scores indicating higher confidence levels among Indian consumers.

Figure 3.4: Consumer Confidence Index (CCI) of India: (2021-2022)



Source: https://tradingeconomics.com/india/consumer-confidence accessed on 27/10/22

Credit and assets are other measures that determine the purchasing power of a consumer. From an individual's perspective, income, credit, and assets are determinants of buying power. Credit can be defined as the borrowing power of a consumer. Credit is either in the form of money that is placed at a consumer's disposal by a financial or other institution, or in the form of time allowed for payment of goods and service sold on trust. Assets can be defined as anything of value that is owned by an individual. The possession of assets increases the buying power of the consumers in two ways. First, assets can be converted to cash, and second, they are a major factor in determining the amount of credit that Bankers are willing to extend to the consumer.

Willingness to buy

Though a consumer may have enough income to purchase a product, he may not buy the product because he is not interested. Hence the income of the person is not the only criterion for determining the buying process of a product. The buying process is also dependent on various other factors like psychological factors and acceptance by the peer group and family. For example, psychologically a customer may not be willing to buy a product. This is because of his perception about the product that it may not satisfy one of his particular needs.

Sometimes, the customer is a slow decision - maker by nature, which may delay the buying process. The customer requires more information about the product and a lot of time to evaluate the product on the basis of the available information. These factors delay a customer's buying process.

Authority to buy

Apart from the ability and willingness to buy a product, a consumer should possess the authority to buy a product. Such authority may be formal or informal.

Formal authority requires that the consumer must meet various eligibility requirements like age, residency, and occupational constraints. For example, minors cannot legally purchase alcoholic beverages. Non-residents cannot avail many services provided by the state and local governments. Social and professional organizations allow only their members to avail the benefits.

Informal authority for making purchases is an expected courtesy when more than one individual is involved and when the purchase is of great importance.

3.7.3 Buying Centers - Who Buys?

Identifying the buyers plays a crucial role in understanding the nature of retail buying. In the retailing context, a buyer may purchase a product for his personal use or for household use. When an individual purchases a product for himself, his buying behavior depends on his personal choice whereas when the same person makes a purchase for his household, the buying behavior depends on a collective decision based on the collective needs and requirements of the entire household. Thus, identifying the buyer would enable the retailer to study the various factors that may influence his buying behavior.

3.7.4 Buying Influences - Why do they buy?

Basically, all customers have similar needs. The difference in the buying process depends on the personal preference of the consumers. Thus, here we can define the need as that basic underlying motivation that moves people to action. Therefore, to satisfy these needs, customers engage in shopping. A variety of factors influences the buying decisions of a consumer – psychological, personal, and social factors.

Psychological Factors

Understanding consumer psychology helps a retailer in developing an appropriate retail mix that would appeal to the customer and influence his buying behavior. Motivation, perception, learning, and attitude are the psychological factors that influence buying behavior.

There are many theories that explain the various motives of an individual (customer) acting in a particular way (purchase decision). According to Abraham Maslow, a person may have many needs, which he cannot satisfy at one time. Maslow has established a theory of hierarchy of needs. According to this theory, consumers try to satisfy the physiological needs first, followed by the needs of safety, esteem, and self- actualization. The way a motivated consumer reacts to a retailer’s offer is influenced by his perception. Perception can be defined as the process by which an individual selects, organizes and interprets information inputs to create a meaningful impression of the world. But a customer's perceptions about a retailer or its offering may vary due to various reasons like selective attention, selective distortion, or selective retention.

Most of the consumers' behavior is influenced by his learning. Learning is a process of acquiring knowledge through experience. A customer's learning is a result of the interplay of drives, cues, responses, and reinforcements. A retailer can help the customer in his learning about its offers by exposing him to frequent advertisements and providing free coupons.

The attitude of a person is the positive, negative, or neutral opinion of a person or his feeling about the people, activities, policies, and other things around him. A person's attitude is also reflected in his perception about a particular retail store, its merchandise, location, arrangement, sales people, prices, quality of products, discounts and offers, ads, and so on. People’s attitude towards the stores is of interest to retailers because it is the way an individual thinks and looks at the stores that determines whether he would shop there. Hence, a retailer has to develop a list of store characteristics that can motivate the consumers to shop at a specific store. A consumer has several motives for patronizing a particular store. Patronage motives are the underlying forces that influence the choice of a store. The various patronage motives are:

- Price/value
- Location
- Convenience
- Parking
- Accessibility
- Friendly and helpful salespeople
- Merchandise
- Assortments
- Varieties and brand
- Atmosphere
- Store image and
- Service offered

The primary motives (like personal comfort, social approval, etc.) and secondary motives (like being efficient, seeking convenience) that influence product selection are associated with elements that the retailer can use to influence consumer' choice of store.

Personal Factors

Some of the personal factors that influence a customer’s buying decisions are his personality, self-concept, lifestyle, and stage in the life cycle.

Personality is the sum of the characteristics, traits, talents, and qualities of a person that make him the unique individual that he is. Self concept refers to the set of perceptions an individual holds of himself in a society. Life-style is the way an individual lives. The increasing influence of western culture and the media on Indian households has radically altered lifestyles and spending patterns, giving rise to new business opportunities. The modern consumers are showing an interest in western fashion but only in those that provide them value for money.

A typical family comprises parents (father, mother) and children. The family has a strong influence on our values, morals, and attitudes. We generally tend to adopt the values of our parents/grandparents and these influences affect all major decisions of our life. Thus, a retailer needs to understand the role of family in influencing the buying behavior of an individual, i.e. customers should not be just treated as an individual, but a representative of a family.

Social Factors

Consumer buying behavior is also influenced by social factors like culture, social class, reference groups and social performance.

A consumer's culture is reflected in his beliefs, customs and norms followed. It is the individual's culture that determines the importance he gives to his family, work, education, and other aspects of life. Indian culture stresses on integrity, tolerance, and family values.

Social class is a general, informal grouping of persons on the basis of their income group or caste or interests. Members of a social class share the same values and philosophy. A person who is very conscious of his social status tends to buy only those products, which are approved of and regarded with prestige by his reference groups. Such a person may not even think about the value-for-money part of the purchase. The individuals who are not so conscious opt for those products, which serve their purpose and give them satisfaction.

People whose opinions play a role in an individual's decision-making process are called reference groups. Such groups may be aspirational, membership or dissociative groups. A group to which a person does not belong, but values its opinion as he personally admires it (like sports persons) or wishes to be a part of that group (like social class) is an aspirational group. A membership group is one to which the individual belongs to by virtue of his birth or interests, like a family. A dissociative group is one to which a person would not like to be associated. Such groups may be groups that oppose the individual's interests, or lower social groups. The opinions that influence an individual the most are those of the groups with which he has direct interaction.

Social performance determines the individual's tastes and buying decisions. Social performance is the way a person plays his various roles - as an employee, son, friend, husband, etc. Such performance often determines the person's acceptance among his peers and social circles, which is quite an important factor for the individual's ego. A person yearning for social acceptance may buy expensive products to project an image or try to emulate his peers and seek their approval.

3.7.5 Consumer Buying Process – How do consumers buy?

The decision-making process of the customer takes place in six steps:

- Stimulus
- Problem awareness
- Information search
- Evaluation of alternatives
- Purchase
- Post purchase behavior

Whenever a customer purchases a product, he goes through a process of decision-making. He may or may not go through all the six steps mentioned above in the decision-making process. The steps in the decision-making process depend on the past experiences of the consumer. For example, a person who shops regularly at a particular store may not undergo all the six steps that a new customer would.

Let us analyze the six factors that affect the decision-making process of an individual.

Stimulus

A stimulus is a cue or a desire that motivates a person to act. There are three types of cues:

Social cue: A customer receives a social cue when he is interacting with his friends or fellow employees. This type of stimulus originates from a non-commercial source. For example, you may receive a social cue when a friend tells you that Shoppers Stop has announced a sale offering discounts up to 50 per cent. Such cues may evoke interest in you, depending on your needs.

Commercial cue: These cues are given by the seller. The seller can be the retailer, manufacturer, or wholesaler. The main objective is to create interest in a retailer, good or service. Commercial cues can be in the form of ads, sales pitches, and point-of-purchase displays. Though a retailer wants to create excitement through such cues in a store, it may not have the same effect, as a social cue is a seller-controlled one. Sometimes, customers may react more positively to a cue received from a friend rather than a salesperson.

Physical drive: Physical drive occurs when one or more of a person's senses are affected, like hunger, thirst, feeling of coldness, heat etc. The action or response to a physical drive depends on the intensity of the drive. If the physical drive is strong, it leads to action and if the drive is weak, it may be ignored.

A potential customer may face all or any one of the above stimuli before purchasing a product. If the stimulus is strong enough to motivate the customer, the customer will go to next step of the decision-making process. If the intensity of the stimuli is low, the customer may not step into the next stage of decision process, that is, he may not consider the idea of purchasing a particular product.

Problem Awareness

Under problem awareness, the consumer is not only aroused by social, commercial, and physical stimuli, but he also realizes that the good or service under consideration may solve a problem of shortage or an unfulfilled desire. Sometimes, it becomes difficult to understand why a person moves from the stimulus stage to the problem awareness stage. Every customer who comes to a retail store may purchase the same product, but for different reasons, like convenience, price, image, quality, service, and durability, without revealing these motives to the retailer.

A consumer recognizes a shortage when he realizes that he needs to repurchase a particular good. In some cases, the goods may have been worn out beyond repair or run out of stock. In these cases, a consumer realizes the need to replenish a good or service. Sometimes, when a customer sees a product in a retail store, he recognizes his unfulfilled desire and becomes aware of the goods and services that he did not purchase before. He buys the goods or service to improve his lifestyle, image, status, looks, etc. Sometimes, a customer wants to buy a product because he does not know the performance of that product and wants to test it. Thus, an urge is created in an individual and he tries to fulfill the desire for the product by purchasing it.

Information Search

When a person feels the necessity to satisfy the unfulfilled desire or solve a problem of shortage, he starts collecting information about a particular good or service that can help him do so. Here, a customer undertakes information search to serve two purposes:

- To determine the alternative goods or service available to solve the problem.
- To ascertain the characteristics of each of the alternatives.

First, the customer lists down the goods and services that helped him address the problems he faced in the previous stage. The list need not be a written one. Once he identifies the goods and services he requires, he thinks about the availability of the product and the sources from where he can purchase the product. The information search can be of two types - internal and external. A customer who has sufficient shopping experience has his experience to guide him in purchasing a product. In other words, the customer first checks whether he has any information about the needed product in his memory. For example, if a customer who already has a pair of shoes and wants to buy another pair of shoes, he compares all the brands, like Reebok and Nike, before purchasing a product. The customer asks himself various questions before taking a decision: Which shoe will give him more comfort? Will the shoe provide value for money? Which store offers the best price?

On the other hand, a person with less purchasing experience uses external sources for information search. The external sources include commercial sources like the mass media and retail sales people, non-commercial sources like consumer reports and government publications, and social sources like family, friends, and colleagues. A customer uses these sources to collect information about a product. With the help of the information about the products and the retail store, the consumers gain knowledge about products along with their characteristics. Here again, a customer with purchasing experience will be able to analyze the negative and positive features of the merchandise while the less experienced customer will have to depend on the external sources for information.

The information search depends on the customers' perception about risk. The degree of risk varies from customer to customer and situation to situation.

The retailer plays a major role in providing correct information to the customers and thereby helping them to do away with the anticipation of risk. The retailer can also help the customer to take a better decision by explaining the functioning and characteristics of the product. To make the information search more convenient for the customer, stores provide point of purchase advertising, product displays and employ knowledgeable salespeople to help customers. All these provisions help the customer gather adequate information, so that they can take decisions easily.

When a customer gathers information about the product, he compares his wants with the features of the product. If the product can satisfy the customer's need, he purchases the good; otherwise he drops the idea.

Evaluation of Alternatives

Once the customer gains enough information about all the products available, he can make a list of alternatives. He can then arrange them in an order of priority according to his tastes and preferences. The customer can then select the best of the alternatives available.

The customer has to make a careful evaluation of the information. This is because while deciding on the purchase, customers sometimes have two or three good alternatives. Here, the customer has to rank the product according to his personal criteria.

The criteria for taking a decision also vary from customer to customer. Some customers may rank price, quality, and color in this order while others may consider the initial cost and mode of payment first. Here the customer has to set standards for each of the characteristics and then evaluate these alternatives on the basis of his requirements. The criterion for judgment also varies depending on the customer's standard of living.

Based on his choice criteria, the customer ranks all the alternatives from the most preferred to the least preferred ones. The customer then chooses the product based on his budget (affordability) and tastes and preferences.

Sometimes, it becomes difficult for the customer to select a product based on the available/collected information. In such cases, the decision criteria change and the customer looks for some other criteria, like the price, brand name, etc., for deciding upon the product's quality, and then reaches a decision.

Once the customer examines the attributes of each product and ranks it, he decides to purchase the product that ranks high in most of his chosen attributes.

Purchase

Once the consumer has finished his evaluation of alternatives and finalized the product he wants to buy, he is ready to make the purchase. An act of purchase is an exchange of money or promise to pay for the ownership or use of goods or service. While a purchase takes place in a retail store, three factors are deemed important from the store's perspective as well as the customer's perspective -the place of purchase, purchase terms and availability.

Place of purchase: Before purchasing a product, a customer needs to identify the store/place from where he/she would like to buy the product. A customer can buy a product either from a store (kiosk, supermarket, jewelry store) or non-store (at home, or at office) location. A customer evaluates the alternate stores just like he evaluates the various product alternatives. Customers select store-based retailer on the basis of location, store layout, customer service, sales help, store image and the level of prices. While evaluating a non-store-based retailer, the store’s image, customer service, level of prices, interactivity and convenience are considered. Convenience is another basis of consumer’s selection.

Purchase terms: Purchase terms include the price and method of payment. Price is the amount of money a consumer pays to gain the ownership of the product. The method of payment includes money that the customer is going to pay; it can be in the form of cash, short-term credit, or long-term credit.

Availability and delivery of the product: The customer would like to know about the availability of the stock as well as the mode of delivery. Stock-on-hand refers to the amount of an item that a place of purchase has in its inventory. Delivery is the time span between the placing of an order and the receipt of the item. The ease with which an item is transported to its place of use also comes under the delivery criterion.

Once the customer is satisfied with all these three issues of purchase, the actual purchase takes place. There is a chance of the customer dropping the purchase decision, if any, if the above factors are not agreeable to him.

Post Purchase Behavior

After buying a product, the consumer may tend to contact the store again for two purposes - for future purchase and for revaluation of the already purchased product. Once the customer likes a retail store and its services, there is a tendency to revisit the store for further shopping. A customer may revisit the store to shop for complementary goods. Here, again, if the customer wants to buy another product, the same process is followed.

The customer will also re-evaluate the further purchases made at the store. If the retail store is able to provide the satisfaction expected by the customer, the customer may turn into a loyal one. But, if the customer is not satisfied with the retail store, it may lead to the customer switching over to other stores and spreading his dissatisfaction to other customers through word of mouth.

In certain situations, this dissatisfaction may lead to cognitive dissonance. Cognitive dissonance is the doubt that arises in the consumer's mind as to whether or not he has made a correct purchase decision. Here, the consumer may regret the purchase he has made or may wish for another alternative from the already chosen list.

To avoid cognitive dissonance, the retailer can provide after-sale service through a telephonic call, a service visit, acknowledgment, etc. The degree of dissatisfaction or cognitive dissonance is more in case of the purchase of an expensive item. The retailer can provide a realistic sales presentation and a realistic advertising campaign to reduce such dissatisfaction. A realistic projection will reduce the customer’s high expectation about the product or service.

3.7.6 Types of Consumer Decision Making

Whenever a consumer engages in a buying process, he undergoes the process of taking a decision. Here, a question arises as to whether he undergoes all the steps in the decision-making process before each and every purchase.

The decision-making process varies from individual to individual, and from age group to age group. For example, an experienced old customer may not spend much time in deciding about the product he purchases, when compared to an inexperienced young-adult who goes through the buying process. The process thus varies from age group to age group. Again, an educated customer analyzes a product more carefully and collects more information about it. Another factor that plays a crucial role here is the income. Someone from the higher income group may not take all the steps in the decision-making process compared to a customer from the lower income group. Thus, we can say that the decision-making process varies from one group to another.

Mainly there are three types of decision-making processes -- extended decision making, limited decision making, and routine decision making. Consumers use information from various sources to make these decisions.

Extended Decision-making

Extended decision-making happens when a consumer goes through all the steps of the decision-making process. Here the customer spends a lot of time on gathering information and evaluating the alternatives. Moreover, cognitive dissonance is high in case of such customers. Even the perceived risk is high in case of such consumers. This is because these customers are involved in buying expensive goods or services.

In extended decision - making, the age group, education, family status and income play a crucial role. Moreover, the consumer may stop the buying process any time during the decision- making process.

Customers undertake extended decision-making while purchasing expensive products like furniture, jewelry, cars, or real estate. In this case, the retailer can provide the customer with additional information by emphasizing on personal selling, brochures etc.

Limited Decision-making

Limited decision-making occurs when a consumer goes through all the steps of the purchase process, but does not spend a great deal of time on each of them. Here the consumer has purchasing experience and hence the time spent in shopping is comparatively less. The consumer has a fair idea about the product that he has to buy and from where he has to buy it. Based on experience, the customer evaluates the buying process. Here the perceived risks are comparatively low.

Routine Decision-Making

Routine decision-making happens when consumers buy products regularly and skip several steps in the purchase process. Here, the customers spend very little time in taking decisions as they generally repurchase the same brand. The perceived risk is very low for these commodities, and the consumer takes the purchase decision on the basis of experience.

The main criterion for this purchase is that the customer has to identify the need of the product. These types of purchases are common in supermarkets, at dry cleaners, fast food outlets, etc. The major influencing factors in such cases are the store location, the timing of the stores, clear in-store displays and product availability.

3.7.7 Buying scenes – Where do they buy?

Finding out the customer's preferred places of purchase is the last step in understanding his buying behavior. The buyer has a choice of buying scenes (places of purchase) - shops/stores, buyer's home, buyer's workplace, and parasite point. Most of the buyers in India make their purchases by visiting a store, which may be a retail store or a multipurpose shop. Some customers also buy the required merchandise from vendors who sell from door to door. Buyer's workplace is the buying scene where items like food are purchased from vendors supplying to office. Parasite points are places where vendors establish their shops (typically magazine stalls, pan shops, etc.) next to a restaurant or theater and then attract buyers who frequent these places. Even the pull-carts of many reputed brands of ice-cream manufacturers come under this class.

The buying scene is also dependent on the nature of the purchase made. Consumers do not prefer the same buying scene for all the purchases they make. They select the place of shopping as per their perception of the various buying scenes for a product that they intend to buy.

3.8 Strategies to Manage Consumer Behavior

"Customer knowledge can be a critical source of competitive advantage in retail business"[14]. Burman, Evans and Mathur[15] (2011) described target market as the consumer group sought by a retailer. According to them, a retailer may use one of the following three strategies aimed at targeting their selected consumer group/s. These are (i) mass marketing strategy (selling merchandise to a broad spectrum of consumers); (ii) concentrated marketing strategy (selecting one consumer group); and (iii) differentiating marketing (targeting one or two specific consumer segments with diverse retailing approach for each of the above groups). While deciding on their target market, consideration is given to various factors such as resources required, merchandise category to be sold, degree of competition, and size of the target market.

3.8.1 Mass Marketing

Retailers who adopt mass marketing (e.g. supermarkets & drug stores) broadly define their target customers. They focus on providing value for money by providing wide variety and deep assortment of average quality merchandise to their consumers at affordable price. Such retailers locate their stores near a large population base and adopt a mass advertising campaign to attract them. A prominent example of a retailer using mass marketing strategy is Big Bazaar. It is a flagship brand consisting of a chain of hypermarkets owned by the Future Group. The value proposition of Big Bazaar revolves around providing value for money to its consumers as indicated by its motto "Is se sasta aur accha kahin nahin". In line with the above value proposition, the management of Big Bazaar focuses on providing merchandise of reasonably good quality at lowest price.

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[14] Extracted from the abstract of Sourav Mukerji, "A framework for managing customer knowledge in retail industry", IIMB Management Review, Volume 234, Issue 2, June 2012.

[15] Barry Berman, Joel R. Evans & Mini Mathur, "Retail management: A Strategic Approach", 11th edition, Pearson Education, 2011.

This is supported by discounts and promotional offers available throughout the year at its outlets. Consumers also experience convenience, comfort, and good customer service during their shopping trips at the Big Bazaar outlets.

Example: Coca-Cola: The Mass Marketer

Coca-Cola was known as the leading global company of soft drinks with presence in more than 200 countries. 80% of its profit came from countries other than United States. Coca-cola has great brand recognition with around 94% of people across the globe recognising the red and white logo of Coca-Cola.

Thanks to the well-designed marketing strategy of Coca-Cola, which gave it global recognition. Coca-Cola's products were the most successful in the world today. Although the company only sold 25 bottles in its first year, it averaged 1.8 billion bottles per day in 2021. And that's thanks in part to its undifferentiated marketing strategy.

Source: Mevada, N. (August 5, 2020). Marketing strategy of Coca Cola. Retrieved from https://www.brainito.com/blog/marketing-strategy-of-coca-cola. Accessed on 01-07-2022

Universe, E. (November 26, 2020). Mass Marketing: What it is, why it's Important, and how to use it. Retrieved from https://edgy.app/mass-marketing. Accessed on 01-07-2022

3.8.2 Concentrated Marketing

Retailers (such as specialty retailers and some department stores) following this strategy target one specific consumer group. Such retailers focus on providing wide and deep assortment of reasonably good quality of merchandise to their target consumers. However, the merchandise available to a target consumer group is reasonably different from that available to others. Such retailers focus on selecting location near a small or medium sized population base, focus more on direct communication channels (email, direct mail etc.), and provide any of the premium or discounted prices depending on their target consumers. Fab India is an example of a retailer adopting a concentrated marketing strategy. It is a chain of 51 retail outlets that specializes in selling diverse handcrafted cultural products across the globe. It has more than 51 outlets in India and ships goods to over 33 countries. The product range of Fab India covers garments & accessories, home furnishing, organic food, and personal care products.

3.8.3 Differentiated Marketing

Retailers (mainly department stores) follow differentiated marketing strategy to target multiple consumer segments. They divide their outlet into multiple departments each catering to the needs of a specific targeted consumer segment. Large retailers such as Lifestyle and Shoppers Stop are examples of retailers belonging to this category. Like mass marketing retailers, these retailers too, focus on targeting a large population base with distinct merchandise to attract different consumer segments, and use different communication channels to attract them. The price orientation is based on the profile of their target customer segments. Westside from Trent Retail targets middle income consumers who look for wide assortments available at moderate prices, whereas Lifestyle (the Landmark Group) targets upscale consumers who look for more trendy merchandise, superior customer service and are willing to pay a premium for the same. The Loot India (P) Ltd., a multi-brand discount chain in India, was another example which focused on consumers who were extremely price sensitive. However, all outlets of this store was closed in 2015 due to bankruptcy.

Activity 3.2

'Do it Yourself' or put it together furniture kits or electronic gadgets are getting popular among the younger generation of customers. Name two organizations that have been successful in selling DIY kits. What are the advantages for the customer in buying DIY kits?

Answer:

Check Your Progress - 2

6. What is it called when consumers leave their own country to settle in another place or country?
   a. Immigration
   b. Emigration
   c. Displacement
   d. Movement
   e. Diaspora
7. Demography is the study of statistics used to describe a population. Which of the following is not a demographic variable used as part of demographic analysis?
   a. Age
   b. Gender
   c. Education
   d. Habits
   e. Income

8. The National Council of Applied Economic Research (NCAER) classifies consumer households based on their income into five categories. Which of the following are these 5 categories?
    a. Rich, consuming, climbers, aspirants, and poor
    b. Rich, consuming, climbers, aspirants, and destitute
    c. Wealthy, consuming, climbers, aspirants, and destitute
    d. Rich, consuming, climbers, aspirants, and struggling
    e. Rich, consuming, movers, aspirants, and destitute.
9. A stimulus is a cue or a desire that motivates a person to act. Which of the following are the 3 types of cues?
    a. Social cue, commercial cue, and physical drive
    b. Social cue, personal cue, and physical cue
    c. Social cue, personal cue, and market cue
    d. Social cue, commercial cue, and retailers cue
    e. Social cue, psychological cue, stores cue, market cue.
10. The consumer buying process takes place in six steps. Identify these steps that are in sequential order.
    a. Stimulus, problem awareness, information search, evaluation of alternatives, purchase and post purchase behavior
    b. Problem awareness, stimulus, information search, evaluation of alternatives, purchase and post purchase behavior
    c. Problem awareness, information search, evaluation of alternatives, stimulus, purchase and post purchase behavior.
    d. Stimulus, problem awareness, evaluation of alternatives, information search, purchase and post purchase behavior
    e. Stimulus, information search, evaluation of alternatives, problem awareness purchase and post purchase behavior.

3.9 Summary

- Any organization's growth and survival in the highly competitive market depends on how well it understands its customers and responds to their current and potential needs.
- In the retail industry, understanding the retail customers plays an important role in the success of a retail store. The development of technology and globalization has led to a new era of consumerism where retailers focus completely on meeting the needs, wants and priorities of the consumer.
- To understand the nature of the retail market, a retailer should analyze various factors like population, demography, and the geography of an area.

- Population analysis helps the retailer to understand potential markets. The population of an area is based on various parameters, like immigration and emigration rates, race, and ethnicity.
- Immigration and emigration rates help the retailer to understand the actual population of an area. Race and ethnicity help the retailer to understand the choices and buying patterns of the consumers.
- Under demographic analysis, the retailer classifies customers on the basis of their age, sex, education, income, occupation, race, nationality, etc. This allows the retailer to understand the customers in a better way and customize its products and service accordingly.
- Geographic analysis allows the retailers to understand the buying population, based on the total population. Moreover, the population is classified on the basis of which helps the retailer to have more accurate data about the buying population.
- Various strategies are employed by a retailer to tackle the spread and needs of consumers at large. Mass marketing, Concentrated marketing and Differentiated marketing are some important techniques used by them.

3.10 Glossary

Cognitive Dissonance: It is the doubt that arises in the consumer's mind as to whether or not he has made a correct purchase decision.

Consumer's Culture: It is reflected in his beliefs, customs and norms followed. It is the individual's culture that determines the importance he gives to his family, work, education, and other aspects of life.

Convenience Products: Convenience products are relatively inexpensive, frequently purchased products, and the consumer spends only minimum time to find the product and purchase it.

Emigration: It is the act of leaving one's own country to settle permanently in another country.

Immigration: It is international movement of people to destination country of which they are not natives.

Personality: It is the sum of the characteristics, traits, talents, and qualities of a person that make him the unique individual that he/she is.

Physical Drive: Physical drive occurs when one or more of a person's senses are affected, like hunger, thirst, feeling of coldness, heat etc.

Reference Groups: People whose opinions play a role in an individual's decision-making process are called reference group.

Routine Decision-Making: Routine decision- making happens when consumers buy products regularly and skip several steps in the purchase process.

Shopping Products: Shopping products are items for which buyers are willing to make more efforts to plan for and purchase.

Social Class: It is a general, informal grouping of persons based on their income or caste or interests. Members of a social class share the same values and philosophy.

Specialty Products: Specialty products are those products for which, the consumer is least concerned about the time, effort or expenditure involved during purchase.

Stimulus: A stimulus is a cue or a desire that motivates a person to act.

3.11 Self-Assessment Test

1. What do you understand by defining market? Explain the various steps involved in defining the market.
2. What are the various criteria for classifying buying population? Explain.
3. What do you understand by demographic analysis? Why it is important for success of retail organization to conduct demographic analysis? Elucidate.
4. Explain geographic analysis and its significance for retail organization.
5. What are the various steps of consumer buying process? Explain post purchase behavior with the help of a relevant example.

3.12 Suggested Readings/Reference Material

1. Giri Arunangshu and Chatterjee Satakshi, "Retail Management: Text & Cases" Paperback, PHI Learning Pvt. Ltd., 2021.
2. Swapna Pradhan, "Retailing Management: Text and Cases", McGraw Hill, Sixth Edition, 2020.
3. Barry Berman, Joel R Evans, Patrali Chatterjee and Ritu Srivastava, "Retail Management", Thirteenth Edition Pearson Education, 2017.
4. Gibson G. Vedamani, "Retail Management", 5th edition, Pearson Education, 2017.

3.13 Answers to Check Your Progress Questions

1. (b) Market

A market can be defined as a group of consumers or organization that is interested in a particular product, has the resources to purchase the products and is permitted by the law to acquire these products.

2. (b) Organization market

Based on the consumer nature and his/her intention behind purchasing the merchandise, the buying population can be divided into two categories. These categories are consumer market and organization market.

3. (a) Corporates and re-sellers

An organizational market consists of the corporates and the re-sellers**.**

4. (b) Consumer Market

Consumer market consists of the individuals or the households, which are the ultimate users of goods and services.

5. (e) Consumer Buying Behavior

Consumer buying behavior refers to the response and reaction of the ultimate consumer to various situations involved in purchasing and using various goods and services.

6. (b) Emigration

When consumers leave their own country to settle in another place or country it is referred to as emigration.

7. (d) Habits

Demography is the study of statistics used to describe a population. The demographic variable used as part of demographic analysis consists of age, gender, education, occupation, race, nationality, family size, and family structure.

8. (b) Rich, consuming, climbers, aspirants, and destitute

The National Council of Applied Economic Research (NCAER) classifies consumer households based on their income into five categories. These categories are rich, consuming, climbers, aspirants, and destitute.

9. (a) Social cue, commercial cue, and physical drive.

A stimulus is a cue or a desire that motivates a person to act. There are three types of cues, i.e., social cue, commercial cue, and physical drive.

10. (a) Stimulus, problem awareness, information search, evaluation of alternatives, purchase and post purchase behavior.

The consumer buying process takes place in six steps. These steps in sequential order are stimulus, problem awareness, information search, evaluation of alternatives, purchase and post purchase behavior.

Retail Management

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