

Retail Management

Block

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RETAIL MARKETING

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Ref. No. RM-SLM-IFHE – 122022B5

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BLOCK 5: RETAIL MARKETING

Retail marketing makes a significant contribution to the economy through employment, facilitating consumption and by promoting economic growth. This block, *Retail Marketing*, handles the crux of retail marketing management. It throws light on the balancing act of a retailer on the 4 Ps – product, price, place, and promotion and how a retailer should think beyond that. The intervention of Information Technology helping retailers with online stores and instantly connecting to customer needs is spelt out in this block with deeper thoughts on the growth of global retailing and where it is heading to.

This block consists of 6 units that are divided as follows:

Unit 16 - *Retail Marketing Mix*: The way a retailer designs his marketing mix strategy marks the value proposition of a store. Extending its spread beyond 4Ps which is termed as 7P marketing mix model, this unit goes deeper to describe how a retailer should identify the target market. The different dimensions of retailing — service, quality, merchandise, store brand, features and benefits, and atmospherics that help a retailer in taking appropriate decisions on marketing mix of products and services — are enumerated in this Unit.

Unit 17 - *Retail Pricing*: Pricing strategies of a retailer have implications on host of factors for a business like profit margins, sales volume, market share etc. It should be affordable to the customers, yet yield profit to the business unit. This element is underlined in detail in this unit that goes on to explain the factors that guide the pricing principles. The methods of pricing and clarity in fixing the pricing policy depending on the category of retail store are elucidated with examples. The laws and legal issues associated with retail industry in general, and with special reference to India, are also examined.

Unit 18 - *Retail Promotion Mix*: A blend of promotion methods helps to communicate and reach the target customers quickly and effectively. Various tools and techniques are used by retailers to reach the customers in the form of ‘promotion’. Advertising, sales promotion techniques, personal selling, and store atmosphere are some among many such factors that contribute to retail promotion. How, combining many such factors, a retailer is positioning the image of his/her store is detailed in this unit. The need, effect and evaluation of promotional expenditure through methods like marginal analysis that should be within the budget of the retailer are also effectively dealt in this unit.

Unit 19 - *Application of IT in Retailing*: IT capabilities enhance the efficiency of a retail store’s functioning and are a tool for gaining competitive advantage. IT capabilities also help a retailer in improving customer relationship. Retail Analytics, Market Basket Analysis, Customer Lifetime Value Analysis, etc., which form the CRM in retailing, forms the background for this unit. The unit further delves into e-retailing — the big advantage given by IT to retailers.

Unit 20 - *International Retailing*: Spreading the tentacles of business beyond domestic boundaries aids a retailer in capturing new markets and raise revenues. With an introduction to International Retailing, this unit probes into the growth and development of

international retailing in recent years — in other words, ‘internationalization’ of retailing. Globalization, removal of tariff barriers and cross-border technology transfer have helped internationalization and improved global markets for the retailer. Structuring and classifying the global market and concentrating on market share vis-à-vis global competition are the topics that are discussed in this unit.

Unit 21 - *The Future of Retailing*: The issues, challenges and capabilities of retailing should be studied by a retailer to remain vibrant in this industry. Retail, which is a multi-faceted industry, is augmented by technology no doubt, but is equally threatened as well, especially when it comes to existence and sustenance of physical stores. The transformation that is happening in the dynamic retail market, taking cognizance of image, branding and brand positioning to sustain competition and how to meet the needs of tech-savvy Gen Y customers are the topics framing this unit.

Unit 16

Retail Marketing Mix

Structure

- 16.1 Introduction
- 16.2 Objectives
- 16.3 Marketing Mix of Services: Beyond Four Ps
- 16.4 Target Market for Retail Products
- 16.5 The Retail Product
- 16.6 Breakdown of Retailing
- 16.7 Summary
- 16.8 Glossary
- 16.9 Self-Assessment Test
- 16.10 Suggested Readings/Reference Material
- 16.11 Answers to Check Your Progress Questions

“Too many businesses today are based on driving prices lower by screwing over somebody: pounding suppliers or squeezing employees. We’re the opposite. We put employees first, radically... If you take care of them, they will take care of your customer better than anybody else.”

– Kip Tindell, CEO, Container Store

16.1 Introduction

Kip Tindell, co-founder and CEO of the Container Store, a leading retail store of storage and organization products underlines the importance of ‘Employees’, as an important element in the marketing mix of service organizations like retail stores.

The retail marketing mix refers to the ways in which the retailer strategizes to combine the marketing elements optimally to make his retail store the choice of consumers. When a customer is deciding on a retail store to shop groceries, i.e. Bazaar, Nilgiri’s or Reliance Fresh, he would evaluate these stores on the following factors: The store format, assortment of merchandise, their quality level and packaging (product), the price, discount offers (price), the location of the shop, car park facilities (place), the advertisements of the shop that he recollects, the loyalty schemes, promotion offers (promotion), the interiors of the shop, the hygiene factor (physical evidence), the courteousness of the service people and their level of efficiency (people) and the efficiency of the billing and the systems

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followed, technology used in system to save time (process). Marketing students are familiar with the first four Ps, i.e., Product, Price, Place and Promotion, the basic component of marketing mix. However, a typical retail marketer tries to tilt the consumer's choice in favor of his retail outlet, by judiciously using the other three elements: People, Physical evidence and Process. The other three elements become all that important in retail service as in the case of any other service because of the high element of intangibility in the case of services.

In the previous block, we dealt with store management, store layout, design and visual merchandising, customer service, retail selling, and information systems and logistics.

In this unit, we will discuss the role of marketing mix of services in adding value to marketing efforts and the right marketing mix for the right target customers. We will also discuss service, quality, merchandise, store brand, features and benefits, and atmospherics that help a retailer in taking appropriate decisions on marketing mix of products and services.

16.2 Objectives

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

- State the role of marketing mix of services in adding value to marketing efforts
- Underline the necessity of segmenting the market for formulating customer-centric marketing mix strategy
- Outline the right marketing mix that suit the needs of the target customers
- Craft the marketing mix strategies for making the store as customer's choice

16.3 Marketing Mix of Services: Beyond Four Ps

In the absence of a tangible product, touchpoints play a key role while marketing services. Kerala tourism industry can be cited as one of the best examples for creating touchpoints and offering marketing mix of services. Based on the type of market demand (holidays, festival days, vacation time etc.) this industry offers a variety of packages that suits the season with differentiated pricing policy for each package. Differentiation in services also exists between domestic and international tourists. This spells the success of Kerala tourism industry.

A retail business focuses its marketing efforts on serving and satisfying the ultimate end user. It adds value to the finished goods sold by: Buying in bulk from producers or middlemen and retailing them in small quantities, stocking many brands in accordance with the tastes and preferences of the customer, making the goods and services available at convenient locations and in comfortable and satisfying shopping environment, planning the merchandise in accordance with historical demand patterns and displaying an assortment of goods for the benefit of consumer, selling the goods at a suitable price and in credit or at

discount as required, creating awareness and communicating about the retail service through advertisement and various promotion measures. The 4 Ps expounded in marketing textbooks and given by McCarthy in 1978, is a simplified version based on a more comprehensive set of 12 marketing ingredients suggested by Borden in 1965. With the emergence of service revolution, Booms and Bitner (1981), adapted the 4Ps framework to services by including three additional elements, 'People', 'Physical evidence' and 'Process' and popularized the 7 Ps framework (Refer Figure 16.1).

Figure 16.1: Retail Marketing Mix



Source: ICFAI Research Center

Booms and Bitner deemed that the 4 Ps framework was appropriate for manufacturing. The authors reasoned that to address certain unique features of services like intangibility, a more comprehensive framework such as the 7 Ps was necessary. The various functions performed by a retailer have been elaborately listed and it is important that the marketing mix of retail services incorporates an elaborate framework, such as the 7 Ps, as suggested by Booms and Bitner for services.

Product: A retailer must plan and figure out the product which he intends to offer to his target consumers. Products in retail parlance could be categorized as: Durable goods (furniture, appliances, electronic goods, etc.), food, groceries and vegetables, soft goods (textiles, furnishings, cosmetics etc.). Product in retail business is broad based and includes the total offer. Product here refers to the products sold, the services provided, the store settings or servicescape, the merchandise and the company brand name. Since, the product is the basis and cornerstone of retail, it needs to be planned in great detail, keeping in mind the target customers and other considerations: Quality level, design and technology

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of the products sold, packaging, convenience and perceived usefulness of the product, warranty, guarantee and terms and conditions that go with it, accessories that go with the product and after sales service.

Place: Place refers to the actual distribution function performed by the retailer and includes aspects like: Logistics, inventory management, the location or the place where the service is offered and territory coverage. Another way of looking at the place would be how customers could access the retail service. From customer accessibility perspective, retail service could be: Online (in the case of E-commerce services, in neighborhood locations, in the roadside or at the doorstep in the case of hawkers and pavement retailers. Location could be big investment, especially if the retail store needs to be located in convenient locations in the heart of the city.

Price: Any business would base their pricing decision on certain factors like: Demand and supply, perceived value, affordability of the target customers, the cost of sales and overhead, desired profits, competitiveness of the business, quality of the products sold, etc. In retail business, certain other factors like the retail format (high end or low end), store location and the image that the retail store wishes to create in the minds of the consumer also play a role in price determination. In addition to these, retail stores also employ certain other pricing techniques 'Everyday low pricing', psychological pricing, competitive pricing, skimming or penetration pricing (at the time of the launch of a new product), etc., to attract customers.

Promotion: Any business needs to plan the promotion budget to cover the expenditure to be incurred on advertisements, sales promotion, public relations to: Create awareness of the product, communicate the features, benefits of the product or service and persuade target customers of the superior benefits of the brand over that of the competitors. A retailer catering to a certain geographic area may prefer to use his promotion money locally by: advertising and announcing sales promotion schemes (discounts, offers, sweepstakes, competitions, etc.) in the local newspaper, radio and TV channels. In addition, he may create a Facebook page and Website to engage his customers. Public relation (PR) activities like shoppers club, other programs to educate consumers about the use of product through events and press conferences making announcements of launch of new offers, produce range, etc. Retailers operating at national level would standardize and localize their promotion scheme as required and use the national and local media for communication as done by Big Bazaar.

People: Services are high on experience and credence qualities and hence evaluation of the quality of service delivered is often based on perceptions of people who receive the service and the physical settings where the service is delivered. Employees in the front office and various other touch points could make a huge difference in the quality of service rendered and hence retail organizations need to invest time and money in HR functions like: Recruitment,

induction and training. Employees are the representatives of an organization and customers see, interact and pass judgments about the quality of service based on their: efficiency in delivering service, behavior, interpersonal skills, appearance; disciplined, commitment and professionalism.

Physical evidence: The tangible physical environment in which the service is delivered and experienced is more important for retailers than for other services. The cues that the customers pick up from the physical environment would influence their rational, psychological and behavioral perceptions and responses and hence retailers must focus on creating a suitable and favorable retail service ambience. National and international retail chains like Starbucks, Titan, portray a strong and consistent character through physical environment and use symbolic cues to communicate the standard and quality of service. In this case by standardization of service environment, a strong brand identity gets communicated to various stakeholders.

The spatial layout, lighting, color, signage, style of upholstery and furnishings, wall décor, temperature, signs, symbols, artefacts and a host of other aspects could: draw the attention of the consumer to the assortment of products in display, create pleasant feelings and fuel desire to spend more time on shopping, and create the desired service experience in the mind of consumers.

Process: The systems and processes followed in service delivery would directly influence the efficiency level of service. For instance, Domino pizza's '30 minute delivery promise' shows their confidence in the delivery process. A retailer could enhance the service experience through improvement in processes by: Implementing time tested, standardized policies, processes and procedures across all retail chains, using technology (mechanization of processes) to save time and improve efficiency, putting into operation processes that involve customers (a customer could choose the toppings in an ice cream or coffee shop) in service delivery, getting feedback and improving processes to ensure smooth and continuous flow of service and outsourcing processes to reduce cost and enhance service.

Example: Walmart's Alhabot would Streamline and Improve its Ordering and Pick-Up Process

Walmart, which has been making enormous strides on the e-commerce front to catch up with Amazon, unveiled a new technology called 'Alhabot', for its grocery business in January 2020. Alhabot platform would expedite and make efficient the processes of pick up, packaging and delivery of groceries purchased online. This technology introduced in one of its superstores in the Salem city of Massachusetts on a trial basis since 2019 would soon be introduced in a few other pick-up centers.

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Alphabot, operates in a mini warehouse like settings constructed on the back side of Salem Walmart store. It uses autonomous carts to pick different products (groceries, refrigerated and frozen goods) ordered by customers online. Once the products are on the cart, the system sends them to the designated workstations, where the items are checked manually to ensure that the products match with the orders placed and they are then packed and sent for delivery.

The pickup, packaging and delivery processes have become faster and more efficient with the Alphabot technology as compared to the traditional system where workers used to walk around the sales floor to find the items.

Walmart's new technology has helped improve processes in Walmart, an important element of the extended marketing mix of retail business.

Source: Lauren Thomas, "Wal-Mart unveiled a new technology that could help defend its grocery business as America's largest grocer", CNBC, 8/01/2020

<https://www.cnbc.com/2020/01/08/walmart-unveils-a-new-technology-for-its-grocery-business-alphabot.html> Accessed on 14/09/202

16.4 Target Market for Retail Products

Segmentation of markets and precise targeting is the starting point for formulation of a suitable retail marketing mix strategy. All strategies relating to market mix need to be consumer focused. For instance, while deciding on the store format, the retailer needs answers to questions like: Should the store target upscale, medium scale or downscale customers? Do consumers desire variety or depth in assortment? Are consumers willing to pay a high price for convenience or are they very price conscious? Markets thus need to be grouped into homogeneous subgroups and retailers need to have absolute clarity on the segments that they wish to target.

To tilt the consumer's choice in favor of a given retail store, the sum total of value (store value, value created by people, service value, brand value, value created by loyalty schemes and promotions, value created by processes) must exceed the various costs (which includes the price paid, time spent, perceived risk with buying the product, etc.).

Example: Trusox's Target Market in India

Global sports brand Trusox, the preferred socks brand for international athletes, launched its performance enhancing grip socks in India in 2019. Trusox is described more as a sports performance equipment than merely a sock. The state-of-art apparel has been patented and is promoted through top players of soccer, rugby, football, baseball, and cricket. In India, Trusox would be sold out of 1000 stores and through Amazon and Trusox.in. Indian International Cricketer, Rohit Sharma was roped in as the brand ambassador of Trusox in India.

Contd....

After Nike, Under Armour, and Adidas, Trusox, the Manchester-based sports apparel company has succeeded by promoting its products through young athletes.

Co-owner of Trusox in India said that the sports channels and live telecast of sports events has created an awareness of sporting performance. A growing section of amateur and semi-professional athletes have become keener on using performance-improving gear. Apart from athletes, Trusox targets this section of highly motivated, aspiring sportsmen and sportswomen and their fans who are fitness freaks and are interested in sports and fitness activities.

Source: Dhara Vora Sabhnani, "It's all in the socks", Live Mint, 14/09/2022

<https://www.livemint.com/mint-lounge/features/it-s-all-in-the-socks-11581072205815.html>

Accessed on 14/09/2022

16.5 The Retail Product

A retailer has to select the right target market in the first step and then formulate a suitable customer centric retail marketing mix based on the characteristics and requirements of the target market. The retail product offered needs to satisfy the needs of the target market in a better way as compared to that of competitors. The marketing mix, created through the symbiotic amalgamation of the various elements of the marketing mix should surpass the value offered by competitors.

Example: Uniqlo's Lifewear Product Assortment

Japanese retail brand 'Uniqlo' launched its first Indian store in October 2019 in the Ambience Mall in Delhi. As of 2022, Uniqlo operates 6 stores in New Delhi NCR (National Capital Region) and one in Lucknow.

Uniqlo's 'Lifewear' range of products provide a new shopping experience to Indian customers by offering clothing to meet daily lifestyle requirements.

Tadashi Yanai, Founder and CEO of Uniqlo who views the Indian market as one with a lot of potential stated (October 2019) that the retail company planned to enhance lifestyles in India by offering innovative localized lifestyle apparel in sync with India's distinct culture and traditions. All the Uniqlo store interior designs integrate the Japanese and Indian aesthetic to convey a contemporary mood and provide a memorable show.

Uniqlo's product assortment showcases an entire range of high-quality clothes for men, women, and children. Its innovative product assortment includes UV protection, functional AIRism, DRY Ex and in addition premium fabrics, including supima cotton, rayon, and linen, etc.

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In the Lucknow store, Uniqlo launched its home and personal care brand 'Mitti Se' which uses naturally derived and bio-degradable fabric made using non-toxic and sustainable manufacturing processes. Uniqlo's service settings and innovative products resonate with its philosophy of 'Lifewear'.

Source: Indian Retailer Bureau "UNIQLO Expands Retail Footprint in India; to Open New Store in Lucknow", *Indianretailer.com*, 1/7/2022

<https://www.indianretailer.com/news/uniqlo-expands-retail-footprint-in-india-to-open-new-store-in-lucknow.n13733/> Accessed on 15/09/2022

Activity 16.1

Visit a high-end fashion store of your choice in your city to observe and evaluate the following aspects relating to physical evidence: Store layout, store location, store design, visual merchandising, store ambience, hygiene level, etc. Observe your ideas about the type of the store and the target market of the store. Elaborate upon the discrepancies between the store type and the aspects of physical evidence if any.

Check Your Progress - 1

1. Which of the following is under the control of the company and can be put together by the company to differentiate its produce and position it to make it appealing to the target market?
 - a. Marketing Concept
 - b. Societal Marketing Concept
 - c. Corporate Marketing Strategy
 - d. Marketing Mix
 - e. Promotion Mix
2. Issues such as waiting time and billing relate to which element of the retail marketing mix?
 - a. Physical evidence
 - b. Product
 - c. Processes
 - d. Price
 - e. Efficiency of people

3. Customers often judge the efficiency of the service based on the helpfulness, skill and knowledge level of service staff. As a result, for which of the following importance is assigned?
 - a. Payment of high salaries to employees
 - b. Careful, methodical, and proper recruitment, Induction, training of employees
 - c. Dismissing employees who are not courteous and helpful
 - d. Campus recruitment at premier colleges only
 - e. Employing staff who has all necessary skills for the job
4. Which of the following prices are likely to be charged by a premier and top notch fashion designer?
 - a. Premium prices
 - b. Moderate level prices
 - c. Penetration prices
 - d. Skimming prices
 - e. Competitive prices
5. Which of the following marketing goals is not a pricing goal?
 - a. To increase demand/sales
 - b. To differentiate based on low price and gain cost leadership'
 - c. To cover fixed and variable costs
 - d. To increase cash flow
 - e. To gain market share

16.6 Breakdown of Retailing

For the retail model to be successful, appropriate decisions relating to the following aspects need to be taken: Service, quality, merchandise, store brand, features and benefits, atmospherics.

Service: A retailer has to strategically think and settle on the level of service to be offered to the customers. The five dimensions used to measure service quality are: Tangibles (tangible cues such as uniformed service personnel, fitting rooms, trolleys, etc.), reliability (perceived trust, dependability), responsiveness (timely response, courtesy and knowledge level of staff), empathy (helpful and caring service), assurance (guarantee, warrantee, exchange facility).

Quality: A retailer who is able to deliver quality to his customers on a consistent basis becomes well known for quality. Over a period of time, the quality attribute gets associated with his retail brand. The perceived risk associated with purchasing products disappears in due course and is replaced with confidence and credibility. Such a retailer is bound to have loyal customers. Moreover, a retailer could also communicate quality as a differentiating attribute to his customers.

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Costco is an example of a retail store that has been consistently providing high quality merchandise and service to their customers. The quality attribute has got associated with brand Costco (a warehouse club and a low price, no frills format stores, where consumers pay the membership fees) and this achievement has given the brand, a competitive advantage.

Merchandise: Given the competitive environment, a retailer has to decide on the merchandise offer to his customers to present a clear message of differentiated offering to customers. The following decisions relating to merchandising needs to be taken: range of products to be carried, the depth of the assortment, the width and how the product lines carried fits into the overall merchandise offer, the price range covered in terms of whether the store is catering to upscale, medium scale or economy position. Eventually, the entire range of merchandise carried and displayed need to complement each other and crystallize to communicate a clear message to customers. Big retail organizations may decide to display their own brands along with national brands. Initially private labels (retailer's brands) were positioned as a cheaper alternative to national brands. However, with time, these brands are giving a tough competition to national brands.

Brand: Retailers may sell brands, but their own retail store brand images must be carefully created, developed and maintained. Consumers may not be very price conscious while shopping in a retail store whose brand name is well known. The various attributes that a brand could be associated with are: High quality, narrow range (specialization) or wide range (variety), value for money, high customer satisfaction level, etc. As discussed earlier, big retail brands may promote their own brands (private labels). These brands could be family brands or separate brands. While retailers such as Spencer's and More promote their own products using their family brand, Big Bazaar has successfully promoted their range of cleaning goods and food products under different brand names, Clean Mate, Tasty treat and Sensei. The following other factors add dimensions to brand image: Price (high priced or low priced, frequent discounts), store ambience and atmosphere, quality of products sold, level of service, etc.

Product features and benefits: Unlike the traditional approach, wherein, the product is viewed as a physical item, the severe competition faced has forced modern retailers to offer and present the product at different levels: The core product, augmented product, facilitating product and supporting product. Consumers buy benefits and not mere products. Every product or service therefore is packaged to offer: a set of benefits or solutions to problems faced by consumers. In the case of a clothing store, advice from a fashion stylist could augment the service, the trial room could be a facilitating accompaniment; exchange policy could be a supporting service. Similarly, in the case of automotive retailing the following would be the augmented, facilitating and supporting benefits: Service packages, test drives and insurance packages. Apart from the core product retailers offer the following augmented, facilitating and supporting products and services: Gift wrapping service, juice bars, cafeteria,

play space for children, free installation, online tutorials to use the product, free demonstration and training, cookery classes, training programs, in-house music and accompaniments, free delivery, free accessories etc.

Store Layout: The store layout and ambience is a tool that can be effectively used by retailers to augment purchase decisions. The physical layout of a store should facilitate free movement. The ambience of the store, the music, the signage, hygiene factor, etc., could create the following store induced feelings in customers: Cheerful and happy, comfortable and relaxed, sombre, cluttered and claustrophobic, uneasy and sad etc. Apple Stores for instance are crafted to give a space age and techie feel and impression. Apple customers are thus more likely to perceive themselves as technical whizzes. Research has suggested that store layout and intelligent and well planned merchandise display would definitely influence: flow of customers to the store, customers' shopping behavior, perceptions and satisfaction levels. Utilizing floor space effectively by improvising on unproductive areas and converting them into utility areas is another aspect of store layout and design.

Atmospherics: According to Kotler (1974), people respond to a host of factors apart from the core tangible product while purchasing goods and services and a decisive factor among them is atmospherics. By atmospherics Kotler meant use of lighting, colors, sound, music, pictures, and artifact to make the atmosphere appealing to the sense organs. The various dimensions of atmospherics are: visual dimension - color, brightness, size, shapes, aural dimension - sound, music, and olfactory dimension - perfume, freshness, aroma and tactile dimension – temperature etc.

- Retailers modify elements such as melody, rhythm, harmony and tempo to evoke feelings and create a positive mood. When product information is presented with music background, for instance, it can influence brand choice, especially if the consumer is in a decision making mood. Retail purchases are influenced by the psychological and emotional states of the consumer which are in turn influenced by the following factors.
- The atmospherics and the physical aspects that influence mood and emotions.
- The social factors which include meaningful interactions which consumers have with employees and other customers. Consumers may perceive a crowded retail outlet as credible and dependable.
- The temporal aspects which in an Indian retail context would refer to the high tempo built during festival occasions like: New Year, Diwali, Pongal, Ramzaan etc. Jewelers like Kalyan Jewelers and Tanishq push their promotional offers and build the tempo during wedding seasons.
- The objective of shopping is another influencing factor. Silk saree retailers like Pothys, Chennai silks and Kumaran have exclusive wedding saree collections.

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Example: Retailers Discover the Potential of Private Labels During the Covid Pandemic

During the Covid-19 crisis, many consumers opted for private label brands. Due to panic buying and the tendency to hoard goods, many well-known manufacturing brands disappeared from retail shelves. Retail stores replenished them with retail store brands or private labels and the strategy worked very well for them.

When shoppers did not find their favorite brand, they opted for affordable private brand goods. Private labels, which are less priced became an option for customers who faced financial constraints during the pandemic. Suddenly retailers discovered that private brands became more appealing and attractive to consumers.

For retailers the consumer shift towards private brands was a blessing in disguise because these retailer's brands are typically more profitable than manufacturer's brands. The future strategy for retailers to sustain this trend should be to develop high-quality private brands that have a devoted following. When customers are devoted to retail brands then this would drive customers to become even more loyal to the retail store.

Source: Steven Begley and Angus McOuat "The potential for powerhouse private brands: An updated view", 17/6/2021

<https://www.mckinsey.com/industries/retail/our-insights/the-potential-for-powerhouse-private-brands-an-updated-view> Accessed on 15/09/2022

Activity 16.2

Visit any two national retail chains (Big Bazaar, More, Reliance retail) located in your city. Compare the following elements of the marketing mix: The range of products offered in the two stores and the target market. Are the promotional offers, store layout and ambience in congruence with the store image?

Answer:

Check Your Progress - 2

6. Decisions regarding channel coverage, location and transportation relate to which of the following elements of the marketing mix?
 - a. Product
 - b. Place
 - c. Price
 - d. People
 - e. Physical Evidence

7. What are the goals of loss leader pricing?
 - a. To show that the company charges low prices
 - b. To show concern for poor customers
 - c. To maximize revenue from slow moving products
 - d. To attract customers to buy other profitable products
 - e. All of the above
 8. Which of the following is called as the process of creating and using name, symbol, and design to give identity to a product?
 - a. Creating unique selling proposition or USP
 - b. Advertising
 - c. Promotion
 - d. Identity and distinctiveness
 - e. Branding
 9. Which of the following is not a promotional goal?
 - a. Creating brand awareness
 - b. Educate consumers about the benefits of the product
 - c. Increasing the uses to which a product can be put
 - d. Explaining the pricing and promotional policy
 - e. Increasing sales
 10. In order to better understand the target market and their needs, which of these activities must be undertaken?
 - a. Conduct market research studies
 - b. Locate in shopping malls where your target market lies
 - c. Employ market consultants to give advice
 - d. Follow competitor's marketing mix strategies
 - e. Study sales pattern
-

16.7 Summary

- A retail business performs a number of functions: Buying in bulk from producers or middlemen, stocking and retailing them in small quantities in convenient locations and in comfortable and satisfying shopping environment, merchandising in accordance with historical demand patterns, display of an assortment of goods at an appropriate price and selling on credit or at discount as required.

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- The 7 Ps marketing mix model, given by Booms and Bitner (for services) has been deemed as an appropriate model for retail service, considering the multitude of services offered by them to attract their target customers.
- A retailer needs to first identify his target market and then craft out the marketing mix strategies to make his retail store the choice of consumers. The various dimensions of the retail product are as given below:
 - **Service:** Level of service, trust, reliability, responsiveness, helpfulness and empathy, assurance by way of guarantee, warranty etc.
 - **Quality:** Product and service quality, value for money.
 - **Merchandise:** Range of products displayed, depth of assortment
 - **Store brand:** The image of the brand, attributes associated with the brand, brand loyalty.
 - **Features and benefits:** Core, augmented, facilitating and supporting products and service.
 - **Atmospherics:** Use of lighting, colors, sound, music, pictures, and artifacts, etc. to create favorable mood and increase purchase tempo.

16.8 Glossary

Ambient Conditions: Environmental characteristics of servicescape such as lighting, color, temperature, music, scent and color.

Atmospherics: Coined by Philip Kotler, Atmospherics is a term used to refer to the discipline of designing service settings (retail spaces).

Augmented Product: The value added to the actual product (which delivers the core benefit) for which the consumer may or may not pay.

Merchandising: Planning that goes in displaying and marketing the right merchandise or service at appropriate prices to cater to the target customers.

Olfactory: Pertaining to the sense of smell.

Private Labels: A brand or product owned by retailer and not manufacturer.

Product Depth: The number of items in a product line that are in display in shelves.

Retail Marketing Mix: All the 7 Ps which are part of any service organization. i.e., product, price, place, promotion, people, process and physical evidence.

Servicescape: The cues in a physical setting which shape the customer's perception and behavior.

Store Layout: layout refers to the way in which machinery, furniture and equipment are arranged in a service setting.

16.9 Self-Assessment Test

1. Write a note on Store layout and its significance in retail.
2. Write a note on: Merchandising, Product depth and breadth.
3. Why do certain retail organizations like IKEA have minimum employees? Give an example of another organization which employs people to help and serve customers. Compare their strategies.
4. How can technology be used to make processes efficient in retail organizations? Explain with an example.
5. How are target markets and marketing mix elements related? Illustrate with a real-life example.

16.10 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.

16.11 Answers to Check Your Progress Questions

1. (d) Marketing mix

Marketing mix is a tool in the hands of the company that can be effectively used to target customers.

2. (c) Processes

Issues like waiting time and billing relate to processes.

3. (b) Careful, methodical and proper recruitment, Induction, training of employees

These will help companies to serve customers better through knowledgeable, courteous service staff.

4. (a) Premium prices

A top notch fashion designer will charge premium prices because it helps customers perceive premium quality and product.

5. (d) To increase cash flow

Generating cash flow is not a pricing goal. All other options represent important pricing goals.

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6. (b) Place

Decisions regarding channel coverage, location and transportation relate to the marketing mix element 'Place'.

7. (d) To attract customers to buy other profitable products

The objective of Loss leader pricing tactics is to attract customers to buy other profitable products.

8. (e) Branding

The process of creating an identity for products through name, symbol or signs is known as branding.

9. (d) Explaining the pricing and promotional policy

"Explaining the pricing and promotional policy" is not a promotional goal.

10. (a) Conduct market research studies

Market Research Studies would help a retail company understand the target market.

Unit 17

Retail Pricing

Structure

- 17.1 Introduction
- 17.2 Objectives
- 17.3 Price as a Concept
- 17.4 Price Sensitivity
- 17.5 Factors Influencing Retail Pricing
- 17.6 Approaches to Pricing Retail Merchandise
- 17.7 Pricing and Values
- 17.8 Markdown: A Pricing Policy for Retailers
- 17.9 Laws Governing Retail Pricing
- 17.10 Summary
- 17.11 Glossary
- 17.12 Self-Assessment Test
- 17.13 Suggested Readings/Reference Material
- 17.14 Answers to Check Your Progress Questions

“The single most important decision in evaluating a business is pricing power... If you’ve got the power to raise prices without losing business to a competitor, you’ve got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you’ve got a terrible business.”

- Warren Buffett, American business magnate

17.1 Introduction

Warren Buffet conveys through the quote that the perceived value of the products offered by a business is key to its success. When a product enjoys considerable consumer surplus (perceived value is greater than price) then businesses are in control as they have the power to raise prices without losing business to competitors.

Right pricing has become imperative for the success and survival of today’s retail businesses because of the increase in competition. Consumers too are better informed about the alternative purchase options at various price levels available to them. While pricing the merchandise, a retailer has to provide for reasonable

Block 5: Retail Marketing

profit margins because without sufficient margins, long term survival becomes impossible. At the same time, to garner market share and increase sales revenue, the retailer has to price the merchandise low to make them appealing to the consumers. Thus, the pricing policy of a retailer is akin to walking on tight rope balancing the various objectives of the company: coverage of costs, profitability, sales revenue, market share, customer satisfaction.

A number of discount stores are emerging by the day, luring customers with attractive price offers. Given this competitive environment, big retail chains are facing low price challenge by: forging alliances with manufacturers to maintain standards and procure merchandise at low costs, and leveraging on technology to keep operating costs low. To sum up in the current scenario, consumers stand to gain because they have greater choice and better quality products at low prices. As for retailers, pricing is a weapon in their hands to fight competitors and hence right pricing is absolutely important for long term survival and success in the retail business.

The previous unit discussed the right retail marketing mix for right target market and the role of marketing mix in adding value to the marketing efforts.

In this unit, we discuss pricing concept, the influencing factors of retail pricing, various pricing methods and the laws that govern the retail pricing.

17.2 Objectives

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

- Define the concept of price from a retailer's perspective that forms the basis of revenue generation
- Explain the significance of price sensitivity of a product to a retailer for aiding customer segmentation
- Enumerate the factors influencing retail pricing in determining the profitability of a business
- Discuss the various pricing methods adopted by a retailer for increasing sales and maintaining market share
- State the laws governing retail pricing for unhindered business functioning

17.3 Price as a Concept

Price, from a buyer perspective, is the monetary value that needs to be paid while purchasing a product. If the customer perceives value in exchange for the price charged, the transaction materializes. Value here, refers to the perceived benefits with reference to the price. From a retailer's perspective, pricing generates revenue.

Pricing a product determines (i) Profits after meeting costs for the firm (ii) Value of the product as perceived by the customer and (iii) Retaining the market share by meeting competitors' price. A retailer can increase the value of the product, by augmenting the perceived value or by decreasing the price. As an important element of the retail marketing mix, pricing policies have to be integrated with other elements of the marketing mix to communicate and appeal to the target group. The following factors need to be considered while determining a suitable pricing policy: target group (upscale, medium scale or downscale), overall company objectives (expected profits, return on investment, sales and market share), corporate strategy (growth, expansion, or other strategies) pursued by the company, demand and demand pattern of the (seasonality) product, supply and supply patterns (particularly in the case of agricultural products), competitiveness, nature of consumers.

Pricing is the toughest decision to make because it becomes a benchmark for consumers to compare. A retailer has discretion in setting prices and hence it is a very important tool in the retailer's hand to achieve the various marketing objectives. A retailer needs to set prices to cover costs to ensure long run survival and smooth functioning and simultaneously accord importance to the value the product has in the consumer's hand. To sum up, retail pricing has a cost and revenue (financial) perspective, value (perceived value) perspective and competition (supply) perspective. Retail marketers choose the target group and take decisions, balancing the various considerations.

Example: Cost Perspective in the Pricing Concept

Fine-dining and quick service restaurants and bars and cafes of metro cities like Chennai, Mumbai and Bengaluru increased prices up to 15% to make up for rapid surge in the prices of edible oil, rice, pulses and other raw materials and fuel that are used in food preparation. The price rise was triggered by global supply chain disruptions on account of the Covid pandemic and Russia-Ukraine war.

Building rent and salaries had also risen post Covid and this was also cited as a reason for the increasing pressure on bottom lines. The hotel industry which is yet to recover from the Covid losses thus decided to rethink their pricing strategy. It was reported that most food chains and restaurants reduced discounts and simultaneously increased prices to make up for the surge in the food inflation which is anywhere between 7% and 30% since January 2022. Mr.P.C.Rao, President of the Bengaluru Hotel Association said in a press interview (5/04/2022) that the members of the association decided to hike prices of all food items by 10%.

Contd....

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The above example illustrates the cost perspective involved in the pricing. When costs of raw materials and ingredients increase and rents and salaries increase, firms increase product price to cover variable and fixed costs.

Sources: Ratna Bhushan, "Raw material costs on boil, restaurants and cafes put price hikes on the menu", CNBC, 8/01/2022

https://economictimes.indiatimes.com/industry/services/hotels/-restaurants/raw-material-costs-on-boil-restaurants-and-cafes-put-price-hikes-on-the-menu/articleshow/90946885.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst Accessed on 22/09/2022 and <https://indianexpress.com/article/cities/bangalore/eating-out-to-become-costlier-in-bangaluru-as-hotel-association-hikes-prices-7852868/> (April 5, 2022)

17.4 Price Sensitivity

A retailer, while understanding consumer demand and demand patterns, should also give due consideration to price sensitivity of his target group. The lower and middle class, middle aged and older customers, who are generally more thrift-oriented, tend to be more price-sensitive and in contrast the higher income group and the youth are likely to be less price-sensitive. While referring to price sensitivity, a marketer is actually referring to the elasticity of demand for a given product. Demand elasticity is defined as the degree of responsiveness of demand to changes in price levels. For e.g. if the price rises by 10%, then in response, demand may in turn decrease by: an equal measure of 10 (unitary elasticity) or by more than 10% (highly elastic) or less than 10% (inelastic).

Demand elasticity varies depending on the nature of the product. For instance, groceries are essential products and hence are relatively inelastic to changes in price. Instant food brands are not necessities. They are purchased for convenience and hence are found to be relatively elastic to changes in price. Price sensitivity depends on a host of factors like: income of the target group, age of the target group, purchase situations (urgency of purchase, emergency situation, etc.), perceived importance of the purchase to the customer, availability of substitutes and competitiveness of the product, brand equity and loyalty factor, perceived quality of the product etc.

The demand elasticity (E_d) is measured by the formula:

$$E_d = \text{Percentage change in Quantity Demanded} / \text{Percentage change in Price.}$$

Based on the magnitude, price elasticity can be of different types: Perfectly elastic ($E_d = \infty$), Relatively elastic ($E_d > 1$), Unitary elasticity ($E_d = 1$), Relatively inelastic ($E_d < 1$), Perfectly inelastic ($E_d = 0$). The perfectly elastic and inelastic types are more theoretical than real.

Example: Covid Impact Forces Lifestyle Companies Offer Discounts

During the Covid pandemic, stores selling fashion and lifestyle brands (these retail stores were forced to close due to lockdown), offered steep discounts to push online sales.

Contd....

As the pandemic impact on businesses intensified, many fashion and lifestyle brands witnessed a fall in sales to the tune of 70%. Even online sales that was growing rapidly prior to the pandemic declined by 15% because consumers cut down on discretionary spending.

Given the gloomy situation of piling inventory, leading brands such as Gap, Adidas, Asics, Aeropostale and Hummel offered discounts ranging from 30% to 60% on various products to cut down losses in March 2020. Shoppers Stop offered 70% rebates on all fashion products and accessories that it showcased in its website. Shoe companies like Liberty and Clarks that offer end-of-season discounts in May-June, offered 70% discount on various products.

Customers are price sensitive in the case of high-priced products (like high-end fashion and fashion accessories) because a significant portion of their budget goes towards buying these products. Due to the Covid impact customers faced financial constraints and prioritized purchase of essential products and postponed purchase of price sensitive fashion products. Retail stores therefore offered discounts to push online sales of these price sensitive products.

Source: Rasul Bailay "Coronavirus Impact: Lifestyle and Fashion Companies push discounts as stores stay shut", Economic Times, 24/03/2020

https://economictimes.indiatimes.com/industry/services/retail/lifestyle-fashion-cos-push-discounts-as-stores-stay-shut/articleshow/74784370.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst Accessed on 20/09/2022

17.5 Factors Influencing Retail Pricing

There are many external components that can affect the profitability of a business. Setting the right price is crucial among them. It directly influences the profitability of the retailer. Hence it is essential to know the factors that influence retail pricing. The following factors are considered by the retailer while fixing the price of the product.

Price sensitivity: As pointed out earlier, price sensitivity or the price elasticity of demand is an important factor that influences pricing decisions. A retailer is more interested in the coefficient of E_d , which is usually negative because of the inverse relationship between price and demand. A high co-efficient means high price sensitivity and vice versa. A retailer would strategize on price by: Keeping margins and prices low for products that have high price elasticity, fixing high price and comfortable margins for prices that are relatively price inelastic. In the first case (low margin-low price), the retailer hopes to make profits through volumes and in the latter case (high price-high margin), the retailer may sell less volume but may make profits because of the high margins.

Perishability of the product: Products like vegetables have a short shelf life and hence the pricing decisions are market based (based on demand and supply).

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Fads and fashions too have a short shelf life and therefore the pricing tactics aim at quick disposal of stock.

Competitiveness of the market: Here, retailers need to fix the price competitively to avoid loss of market share to competitors.

Volatile market conditions: Due to various reasons like fluctuating international prices, seasonal production, supply uncertainty, hoarding by middlemen, etc., the market price of certain products fluctuates. In case of such products, retailers need to plan their stock and change pricing tactics in accordance with the market situation.

Seasonal demand: Certain products have seasonal demand. The demand conditions during periods of lean and peak demand need to be considered and the pricing, purchase and warehousing decisions have to be made accordingly.

Legal considerations: Legal requirements like Minimum retail price (MRP) etc., need to be followed.

Example: How Covid-19 Lockdown Affected Mango Pricing

The nationwide lockdown during the Covid pandemic hurt mango sales due to lack of transportation facilities and supply chain disruptions. Mango is cultivated in Tamil Nadu, Andhra Pradesh, Uttar Pradesh, and Gujarat. From the first week of May the season for mango begins.

In the year 2020, overcoming various challenges like infections to the crop, farmers ensured that they received good flowering. The Covid lockdown came as a big shock to farmers who were ready for an early harvest in the year 2020. There was little scope for export of the fruit because of worldwide lockdown and supply chain disruptions. Fruit dealers and retailers did not come forward to buy the product and sell them in other Indian states as transportation of this perishable fruit to other States within the country was either too difficult or even impossible.

Mango producers were thus forced to sell their crop to consumers directly through online channels and makeshift markets at throw away prices. The agricultural marketing department helped farmers to sell mangoes to different markets within the respective states.

As mangoes are seasonal and perishable, farmers were forced to sell their produce in local markets at a much lower price.

Source: Venu Lanka, "Covid-19 lockdown dampens prospects of mango farmers in Andhra Pradesh", *Times of India*, 6/04/2020

http://timesofindia.indiatimes.com/articleshow/74999692.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst Accessed on 19/09/2022

Activity 17.1

The price of a mobile phone while buying online is much lower than that of a brick and mortar store. How do you account for the difference in the price? Enumerate the factors contributing to the rise in purchase of such high-end products.

Check Your Progress - 1

1. You are the marketing manager of a hotel and you have been informed that the price elasticity of demand is greater than 1. What should you do to increase total revenues?
 - a. Increase the room tariffs
 - b. Decrease the room tariffs
 - c. Hold room tariffs constant
 - d. Decrease the demand
 - e. Either increase the room tariffs or decreases the demand
2. The demand for Nike basketball shoes is more price-elastic than the demand for basketball shoes. Which of the following explains the above context?
 - a. Nike basketball shoes are the best made and are widely advertised
 - b. Basketball shoes are a luxury good, and not a necessity
 - c. There are more complimentary products for Nike basketball shoes than for basketball shoes
 - d. There are more substitutes for Nike basketball shoes than for basketball shoes
 - e. 'Basketball shoes are necessary.
3. The pricing strategy in which prices are adjusted for psychological effect is classified as which of the following?
 - a. Psychological pricing
 - b. Odd even pricing
 - c. Product line pricing
 - d. High Low pricing
 - e. Loss leader pricing

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4. Consumers' Perceived value is made up of which of the following?
 - a. Customers' support
 - b. The channel's deliverables
 - c. The price paid regarding the benefits that are valued by the customer
 - d. Buyer's image or idea of the product
 - e. Customers' support and buyer's image of the product only
5. Let us say as a retail store owner, you face severe price competition and further undercutting would make your business unprofitable. Which of these measures would be suitable for the problem you face in your business?
 - a. Develop an international website to solicit more customers from a wider geographic region
 - b. Announce discount offers more frequently
 - c. A differentiated product with unique product and service offer and repositioning
 - d. Change the package and label of the product
 - e. Target new group of customers

17.6 Approaches to Pricing Retail Merchandise

‘How customers perceive price is as important as the price itself’ – HBR¹.

Customers should notice and respond to the price quoted for the product in a positive way. Otherwise, firms may not get the ‘pricing credit’ they deserve, i.e., their image might get distorted in customers’ perceptions. To manage price perceptions, retailers adopt various approaches to pricing their retail merchandise and the most popular of the approaches are given below.

- **Cost plus pricing:** Under this pricing approach, the retailer adds a certain profit margin to the cost to arrive at the price. This pricing mechanism thus provides for the cost and a reasonable profit margin as determined by the retailer. Under this pricing method, the cost is calculated by adding the purchase price, transportation, overheads etc. and a margin is added to it.
- **Manufacturer Suggested Retail Price (MSRP):** Under MSRP, the retailer sets his price based on the price suggestions given by the manufacturer. Under MSRP the retailer could follow one of the methods: Set the same price as suggested by manufacturer or set a price lesser than what was suggested by the manufacturer.
- **Competitive Pricing Policy:** In the present retail scenario, where competition faced is cutthroat, it is common for retailers to set their prices

¹ Sandeep Heda, Stephen Mewborn and Stephen Caine, “How Customers Perceive a Price Is as Important as the Price Itself”, *Harvard Business Review*, January 3, 2017.

based on the prices charged by competitors. Accordingly, a retailer would set his price: to match the price of competitors, higher than that of his competitors (premium or prestige pricing), or lower than that of competitors (Economy pricing).

- **Pricing below competition:** If the retailer is able to negotiate low prices with suppliers and is able to keep costs low, he is in a position to set the prices of his products below competition. Retail stores like Walmart, who are big in size, are able to negotiate low price deals and also keep costs low (by following a no frills, minimum service) and target the price sensitive segment. New stores may charge a low penetration price to capture market share in the initial stages.
- **Pricing above competition:** Under this pricing approach, the retailer charges a price higher than the price charged by his competitors. A retailer can do so only when his retail store or the merchandise in his store satisfy one of the following conditions: retail store has been positioned as an exclusive one and it sells premium merchandise or stocks the latest fashions (not available in other stores), the brand equity of the retail store is very strong, the retail store is situated in a prime locality, the retail store is known for its excellent customer service etc. Since here the premium positioning of the retail outlet based on price charged by competitors is done to target upscale customers, this pricing approach is also called prestige pricing. In the retail industry, skimming prices are charged when the retailer has reason to believe that the target customer associates the store with high quality and upscale image and hence is willing to pay a high price.
- **Discounted pricing:** Retailers like Big Bazaar, follow discounted pricing method as a part of the retail price strategy. Coupons, rebates, seasonal prices, markdowns are a part of their pricing policy to attract customers.
- **Bundle pricing:** The retailer bundles a group of products and offers them at a reduced price. In India, most shops offer, 'the buy one get two or get two/three offer', during festival seasons. Most retail stores, including big retail brands like Globus, Life Style, Max, etc. have adopted bundled offers as a regular pricing tactics.
- **Everyday Low Pricing (ELP):** Under ELP, retailers offer low prices in comparison with that of competitors on a continuous basis. Walmart, a pioneer in practicing this strategy successfully, keep their costs low through bulk purchase and efficient supply chain logistics.
- **Psychological pricing:** Under this method the retailer bases the price on psychological considerations. The various commonly practiced psychological pricing tactics are: Using even/odd pricing, choosing numbers with fewer syllables, highlight smaller instalment payments, offer rebates from high price etc. Bata for instance prices their shoes INR 999 instead of

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INR 1000. This gives the impression to the customer that the product they are purchasing is under 1000 and thus gives them psychological satisfaction.

- **Loss leader pricing:** Under this approach, the retailer sells certain merchandise below costs. Retailers may price certain products at such low prices, hoping that customers who get attracted to the shop because of these abysmally low prices would also buy other products where the margin for the retailer is high.

To sum up, a retailer could approach pricing from different angles: A cost angle (Cost plus pricing), customer angle (loss leader pricing, discounted pricing, bundle pricing) and competition angle (Competitive pricing). There is no hard and fast rule to suggest a particular pricing approach as the most suitable one for a retailer. A retailer may base his pricing decisions to achieve the following goals: adapt to changing market conditions, increase market share, prevent competitor from gaining market share, revenue maximization, profit maximization, enhance customer loyalty, take advantage of buying behavior of customers like purchase during festivals etc.

Example: Competitive Pricing by E-Commerce Players During the Festival Season in India

Flipkart's 'Big Billion Days Sale' and Amazon's 'Great Indian Festival' are two mega events that Indian customers look forward to during the festival season. As the month of September approaches, Indian customers get into a festive mood and expect mega sale announcements and discount offers.

In 2022, a year of high inflation, customers wishing to buy quality products at affordable prices eagerly await the Amazon and Flipkart's sale announcements. From smartphones to electronic and home appliances, customers facing the wrath of high prices, hope that low prices would bring relief.

According to Counterpoint, in 2021, 1.39 billion smartphones were sold during Big Billion Day 2021 and Great Indian Festival-2021.

For the upcoming Big Billion Day-2022, Flipkart has created a webpage where it is posting updated on probable and awaited deals and product offers across categories. The website has given a list of smartphones that would be sold under ₹ 20,000. Similar such offers are expected from Amazon.

Flipkart and Amazon's pricing approach is getting bolder by the year. Both these players who compete in a duopoly market use the deep discounting pricing approach to maximize sales, retain customers, and increase customer base during the festival season.

Source: Business Standard Web Team "Flipkart Big Billion Days sale 2022: List of smartphones to be on discount", Business Standard, 19/9/2022

https://www.business-standard.com/article/technology/flipkart-big-billion-days-sale-2022-list-of-smartphones-to-be-on-discount-122091900780_1.html Accessed on 22/09/2022

17.7 Pricing and Values

Value based pricing, a strategy in which a retailer sets a price based on what his customers are willing to pay for the product, has emerged as the most recommended pricing technique in the highly competitive retail industry. The strategy here is to capture a majority of the target customers by offering them a compelling value for the money that they are paying. While value is what the customer gets in return for the price he pays, to some customers value always means getting a low price. Let us say a price sensitive customer is in Big Bazaar comparing the price of Tasty Treat noodles and that of the leading brands like Yippee, Knorr or Maggie. Since private labels like Tasty Treat, Ching's, Smith and Jones are perceived to provide good quality products for a lesser price, the consumer may opt for Tasty Treat noodles because in his opinion the brand offers value for money. The key to value pricing here is to make the price appear reasonable for the product, i.e. a packet of noodles.

Retailers need to understand that while price has a huge impact on tilting purchase decisions in favor of a brand, price is not just everything. What is more important is to enhance the perceived value of purchase. The perceived value of the merchandise can be enhanced by better customer service, timeliness in service, holding a range of products, holding high quality products, providing better retail ambience, etc. By increasing the price by 1%, the retailer can make a huge difference to the margins and profitability. A retailer needs to do some marketing research to understand what benefits and features translate into greater value to the customers and incorporate the same into the service. Simultaneously, the retailer also needs to invest in advertisement to communicate the value to appeal to the target group.

Value based pricing is an effective pricing strategy for retailers from a revenue perspective due to the following reasons.

- When a customer is considering the purchase of a product, the primary concern that fills his mind is whether or not the product is worth the price.
- Customers do not consider aspects like the cost of production, for the simple reason that those aspects are not their concern but the manufacturer's and retailer's.
- Unlike cost plus or competition-based pricing, this method distinguishes the retailer's products from many other competing brands and options for the reason that this approach is customer-centric.
- It is reasonable to assume that the consumer is right and to understand what represents value from his perspective ought to be a good approach.

Consumers are different and they differ in their perceptions about what represents value to them. It is important that the target customers value the unique features, benefits and advantages that the retailer offers.

Example: High Prices Did Not Disrupt Sales of Luxury Products during Covid Pandemic

The covid pandemic forced the lower-class and middle-class and upper middle-class population to prioritize purchase of essentials and postpone purchase of fashion products and accessories. However, it did not stop rich Indians from buying highly expensive luxury products. Luxury brands like Hermes, Armani and MF Hussain paintings witnessed double digit growth even during the pandemic. The marketing strategies of these companies (like push communication, customization, and relationship marketing) kept luxury product sales buoyant during the pandemic.

Luxury Retailer, 'The Collective' (owned by Madura Fashion and Lifestyle) which sells luxury brands like Prada, Paul Smith, Ralph Lauren, Karl Lagerfeld, and Ted Baker witnessed a 3.5% revenue growth in 2020 in India as compared to 2019.

The spending capacity of the buyers pushed the prices of these products and high price in turn did not having a dampening effect on sales. Artiana, a click-and-mortar hybrid auction house (focusing on artwork, watches and luxury collectibles) sold two pieces of art for ₹ 2.5 crores and ₹ 4 crores to one buyer.

Factors like the 'prestige associated with buying a product', 'the exclusivity of the product', 'the brand name and label' and related factors justify the high price of a luxury product. The high price reiterates and confirms the high value of the luxury products and thus super luxury products that are perceived as high value products are exceptions to the law of demand.

Source: Tasmayee Laha Roy "Why the pandemic failed to deter sales of luxury brands in India", Fortune, 3/12/2021

<https://www.forbesindia.com/blog/storyboard18/storyboard18-why-the-pandemic-failed-to-deter-sales-of-luxury-brands-in-india/> Accessed on 20/09/2022

17.8 Markdown: A Pricing Policy for Retailers

Due to the increase in competition in the retail industry, retail chains are leaving no stones unturned to attract customers to their retail shops. Consumers have become very price sensitive and even leading national retail chains like 'Reliance Retail' and 'More', view Markdown as an inevitable retail strategy to increase sales and maintain market share. A few of the leading retail chains sell merchandise at below the Manufacturer's Suggested Retail Price (MSRP).

'Markdown' can be defined as a reduction of the original retail price. Markdowns are feared because they are linked to lower profits and sometimes even losses. Retailers use Markdown pricing policy, when faced with slow moving inventory or to sell old stock whose value might deteriorate in future. Low priced inventory

is often promoted as a loss leader to increase footfalls to the store. Two types of Markdowns are popular among retailers: Flat Markdown and Phased Markdown.

Flat Markdown, which could be temporary or permanent, is normally offered on merchandise that may have the following shortcomings.

- **Inventory leftovers at end of season:** Unsold inventory that gets piled up towards the end of the season could be disposed by the End of Season Sale (EOSS). Textile showrooms selling winter clothes normally offer massive discounts to get rid of unsold inventory
- **Ill-fitting size:** Retail stores selling readymade garments offer Size Markdown for Non-selling sizes
- **Defective products:** This markdown is given on merchandise which has defects like: Color mismatch, design defects, pockets in wrong place, defective embroidery designs, patchwork etc. and irregular sizes.
- **Perishables:** Markdowns are also common for groceries nearing expiry dates, perishables like vegetables and dairy products.
- **Phased Markdown** approach is adopted in the case of merchandise which has a short life. There is a need to dispose and reduce the inventory of such slow moving designs to provide shelf space to new designs that are likely to sway the fashion conscious customers.

Phased Markdowns are normally permanent and the discount scheme continues till the entire inventory gets disposed. Temporary markdown could be promoted to increase footfalls and these markdowns are reversible, meaning that the retailer can go back to the original price.

Example: Year End Steep Discounts on Old Model Cars

At the end of the year, generally during the month of December, car dealers offer old model cars at steep discount to sell old model cars and make room for new inventory. This pricing policy of car dealers attracts an influx of customers to buy the old model cars at a steep discount.

Leading car manufacturers like Toyota, Subaru, Honda and even luxury brands like BMW execute this policy of offering steep discounts on old models through their dealers to clear old stock and minimize losses on old inventory.

From the customer's perspective year end discounts which offer prices below the cost, are attractive to beat the price hike expected in the following year.

Source: CNBC Team, "Buying car at year-end sale for discounts, exchange offers? Know pros and cons" CNBC TV18, 9/12/2021

<https://www.cnbc18.com/auto/car-buying-guide-pros-and-cons-of-december-discounts-year-end-sale-11759352.htm> Accessed on 21/09/2022

17.9 Laws Governing Retail Pricing

Standard regulations govern the contractual relationship that exist between the retailer and the customer. Any violation of law may lead to legal disciplinary action by the concerned authority. This is true in India as well. The retail industry in India accounts for over 10% of the Gross Domestic Product (GDP). The retail market is estimated to be at USD 2 trillion in 2032². Notwithstanding the unprecedented growth in organized retail during the last decade, unorganized retail accounts for 97% of the total retail trade in India.

Multiple laws and regulations are in force to oversee the retail industry in India at the central, state and local level and these laws directly or indirectly influence retail pricing. The various laws that apply to retailers are: commercial laws, corporate tax laws, trade and employment laws, laws relating to intellectual properties, etc. The various aspects concerning retail that are regulated are: taxes, pricing, weights and measures, shopping hours, marketing / advertising practices, licensing, employment, etc.

A few provisions that apply to retailers are given in the following paragraphs.

- The various provisions relating to the Sale of Goods Act, 1930 that govern the contract of sales of goods.
- The Corporate Tax Act that governs the payment of tax on profits.
- Consumer Goods (Mandatory Printing of Cost of Production and Maximum Retail Price) Act, 2006, provides for the printing of Maximum Retail Price (MRP) on the packages so that consumers cannot be overcharged. All packed goods should carry labels that have essential information like: weight, volume, date of manufacture and expiry date in the case of food packages, name and address of manufacturer.
- The Shops and Establishments Act (SEA) 2008, a state legislation, regulates employment of workers and their working conditions.
- The Consumer Protection Act to protect the interests of the consumers.

Retailers grudge the plethora of laws that regulate Retail Businesses such as: the Essential commodities Act, the Cold Storage Order, the Weights & Measures Act, Labor laws, the Shops Establishments Act and so on. Retail businesses are also asking for the quick implementation of Goods and Services Tax (GST) which they believe will help bring about market integration and boost overall growth. GST, a comprehensive tax levy on manufacture, sale and consumption at the national level, is considered as one of the biggest tax reforms that will boost overall growth in the retail sector.

² "Retail industry in India", <https://www.ibef.org/industry/retail-india>, August 2022 (accessed on November 29, 2022).

Example: Small Online Retailers Would be Exempted from GST Registration

The Government of India plans to exempt all small online sellers from GST registration. As of May 2022, offline retailers with annual sales of less than ₹ 40 lakhs need not register for GST and only those offline retailers with an annual turnover of more than ₹ 40 lakhs need GST registration.

GST registration is however compulsory for online sellers irrespective of the size of their annual turnover. In order to rectify the inconsistency, the Government of India plans to exempt all small online sellers from GST registration. This move would not just bring small online and offline sellers on par but would also boost the reach of small online sellers. Online sellers with small annual turnover would be able to reach out to more customers and have larger customer base.

This move has been initiated in response to the repeated representations from the industry and trade.

Source: Business Desk of New18 "GST: Small Online Retailers May Soon Be Exempted From Indirect Tax Registration", 31/5/2022

<https://www.news18.com/news/business/gst-small-online-retailers-may-soon-be-exempted-from-indirect-tax-registration-5281027.html> Accessed on 23/09/2022

Activity 17.2

Visit the following three stores in your neighborhood area: Big Bazaar, More and Reliance Retail. Make a list of the various pricing strategies (Bundling, loyalty schemes, discount offers, loss leader pricing, etc.). Study the similarities and differences in the offers.

Check Your Progress – 2

6. Which of the following denotes Every Day Low Prices?
 - a. Consumers are charged low prices on a continuous basis
 - b. Low prices everyday for a certain period like a month or a year
 - c. Reducing the price every day
 - d. Every day price reduction for a product
 - e. Every day low price for a category

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7. When retail stores charge very low prices on certain merchandise to attract additional traffic it is known as which of the following?
 - a. Psychological discounting
 - b. Special event pricing
 - c. Economy pricing
 - d. Competitive pricing
 - e. Loss leader pricing
8. A retailer dealing with cosmetics sells the same products at different levels using ordinary and premium packaging. This type of pricing is known as which of the following?
 - a. Product differentiation
 - b. Image pricing
 - c. Price discrimination
 - d. Low Pricing
 - e. Skim pricing
9. Which of these factors should retailers take into account while pricing their merchandise?
 - a. Competition
 - b. Target group customers
 - c. Elasticity of demand
 - d. Cost to the company
 - e. Competition, target group customers elasticity of demand, Cost to the company.
10. Which of the following is not a valid reason for marking down the price of a product?
 - a. Slow moving inventory
 - b. Robust demand for the product
 - c. Defective product
 - d. Inventory that is subject to wear and tear with the passage of time
 - e. Competitive pressure

17.10 Summary

- Pricing is the key to the success of retail businesses because it translates into revenue and helps sustain and run the business smoothly, efficiently and profitably. At the same time the price fixed should be affordable and appealing to the target group.

- As a key component of the retail marketing mix, its role in achieving the company objectives like growth, market share, profitability, customer satisfaction etc. needs no further emphasis.
- In this unit on retail pricing the following topics were discussed: factors that influence pricing policies like price sensitivity, various approaches to pricing, and various pricing strategies.
- Pricing decisions become complex because of the challenges faced like: Government regulations, changing retail scenario (competitiveness) that is putting pressure on retailers to lower price, cost pressures, and highly demanding consumers who have become price conscious and sensitive.
- To face these challenges, retailers use various pricing strategies like: Every-day low pricing, high low pricing, discount offers, rebates, price bundling, coupons, loss leader pricing, multiple unit pricing, price lining etc.
- Value based pricing is recommended and considered as an effective pricing strategy by retail experts because of its customer-centric approach. Mark down pricing which is used widely by today's retail businesses is used to dispose slow moving inventory and merchandise with short life cycles.

17.11 Glossary

Contribution Margin: Contribution margin (CM) is calculated by deducting variable cost from total sales. CM is the surplus available to cover fixed costs and profits.

Coupon: A document that can be presented by the customer at the time of purchase and be redeemed to avail cash savings or discounts.

Discount Stores: These are stores that sell merchandise at very low prices. The service offered is minimum to keep costs low.

Keystone Pricing: Under this method, the selling price is fixed very high. The price is marked double that of wholesale of manufacturer's price.

Loss Leader: The retailer offers steep discounts and communicates the same to attract new customers to the shop. It is assumed that the new customers would also be attracted to buy the other products in display in the shop.

Markup: A percentage (profit percentage) added to cost to arrive at the selling price.

Odd Even Pricing: A psychological pricing scheme which assumes that customers are sensitive to prices that end in certain digits. For instance, a price tag, 999, gives the impression that the price is lesser than 1000.

Stock Keeping Unit (SKU): SKU is a number assigned by the retailer to a product to identify the product, its price, product options etc.

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17.12 Self-Assessment Test

1. Anna Theme Park charges ₹ 75 ticket as entry fee. The new marketing manager, Tushar advises the President, Anna Park, Mr. Deeraj, to reduce the entry fee to ₹ 50 to boost the sales amidst competition. Deeraj is upset that his revenue would considerably be reduced. Tushar points out that Deeraj is focusing only on price effect and not on quantity effect. What are Tushar's views on the price sensitivity of consumers? Illustrate with a graph, the type of price elasticity of demand of the theme park.
2. What are the various pricing objectives that a retailer should keep in mind?
3. What pricing strategies are available to a company that is stuck with slow moving inventory?
4. What is value-based pricing? What are the advantages of using this pricing strategy?
5. What is Markdown pricing? Explain the concept of Flat and Phased Markdowns with suitable examples.

17.13 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.

17.14 Answers to Check Your Progress Questions

1. (b) Decrease the room tariffs

The price elasticity $E_d > 1$. This implies that a small decrease in price could bring about a huge increase in demand. Hence, the hotelier would decrease the room tariffs to benefit from high E_d .

2. (d) There are more substitutes for Nike basketball shoes than for basketball shoes.

Nike basketball shoes have more substitutes and hence its demand is more price elastic than the demand for basketball shoes.

3. (a) Psychological pricing.

Odd even pricing is one of the psychological pricing methods.

4. (c) **The price paid regarding the benefits that are valued by the customer.**

A consumer gauges the benefits derived from the product purchased or to be purchased. This is termed as consumer's perceived value.

5. (c) **A differentiated product with unique product and service offer and repositioning.**

A feasible and effective solution to price competition would be to reposition the product and service by differentiating the product and its offerings as against that of competitors.

6. (a) **Consumers are charged low prices on a continuous basis**

EDLP is that pricing method where consumers are charged low prices on a continuous basis.

7. (e) **Loss leader pricing**

Loss leader pricing is a pricing strategy wherein very low prices are fixed on certain merchandise to attract new customers to shop.

8. (b) **Image pricing**

When a retailer sells the same product, say cosmetics at high price and low price. The high price charged is known as image pricing.

9. (e) **Competition, target group customers elasticity of demand, Cost to the company**

All factors given need to be considered while pricing a product: Competition, cost to the company, price elasticity and target group.

10. (b) **Robust demand for the product**

All options except for option 'b' give a valid reason for resorting to a price markdown policy. Robust demand for the product is not a reason. On the other hand, when there is robust demand the retailer may increase the price.

Unit 18

Retail Promotion Mix

Structure

- 18.1 Introduction
- 18.2 Objectives
- 18.3 Promotion
- 18.4 Role of Retail Promotion Program
- 18.5 Planning Retail Communication Program
- 18.6 Assigning the Promotional Budget
- 18.7 Implementing the Advertising Programs
- 18.8 Evaluating the Effectiveness of Advertisements
- 18.9 Implementing Sales Promotion Programs
- 18.10 Implementing Publicity Programs
- 18.11 Summary
- 18.12 Glossary
- 18.13 Self-Assessment Test
- 18.14 Suggested Readings/Reference Material
- 18.15 Answers to Check Your Progress Questions

“Make a customer, not a sale.”

- Katherine Barchetti, Founder,
K. Barchetti Shops

18.1 Introduction

Katherine Barchetti, the founder of a well-known retail store, through this quote makes clear that the tone and content of promotion should aim at building a consistent and clear brand identity. Retail promotion can result in a sale. Only when a sale is followed by memorable and consistent customer experiences does the sale result in a regular customer.

Unlike many businesses, retail organizations usually do not take their merchandise to the marketplace. Their sales depend on the customers' initiatives like visiting their store or placing an order through telephone or mail. The retailers have to motivate the customers to visit their stores. A customer would visit a particular store only when he knows about its presence, its location and the merchandise they offer. The customer would also like to have information on the prices, modes of payment (like cash and credit cards), availability of various

services (like free home delivery of the goods purchased), the store timings, and so on. Retailers generate sales by making its target customers aware of the merchandise they offer through promotional activities. There are five channels through which retailers communicate with their target customers - advertising, sales promotion, public relations, personal selling, and enhancement of the store atmosphere and visual merchandising. (As the store atmosphere and visual merchandising, and personal selling are discussed at length in separate unit, this unit does not discuss those topics elaborately).

In the previous unit, we discussed the pricing and different approaches of pricing and price sensitivity.

In this unit, we will discuss the role of the retail promotion program, planning retail communication program, allocating the promotion budget, implementing advertising, sales promotion and publicity programs and evaluating the effectiveness of advertising.

18.2 Objectives

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

- State the components of a promotional strategy in communicating with the target customers
- Explain the role of retail promotion program for generating sales
- Illustrate the steps involved in developing a retail communication program to create awareness about the store
- Allocate budget for promotional strategies for accomplishing communication objectives
- Explain the process involved in implementing advertising programs for attracting customers' attention
- Evaluate the effectiveness of advertisements for generating positive results for the store
- Describe the importance of sales promotion and publicity programs for increasing sales and improving store's image

18.3 Promotion

Promotion involves providing information to the consumer about the retailer's store, its merchandise and services it offers, to influence the perceptions, attitude and behavior of the consumers towards the retailer. Promotion consists of four components - advertising, public relations, personal selling and sales promotion. Though each of these components is an individual function, a good promotional strategy usually integrates all these components, depending on the retailer's overall strategy.

Retail promotion can be defined as any communication (initiated by the retailer) between the retailer and his target customers that informs, persuades, and/or

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reminds the latter about anything related to the store. Retail promotion is a process that has both informative and persuasive communication roles. Therefore, it can be understood better by knowing the various steps involved in a typical communication process. It is important for the retailer to observe that the process of communication moves beyond the components of promotion mix mentioned earlier here. The design, price, shape, color, packaging, the graphics on a product and the ambiance of the store offering that product - all communicate something or the other to the consumer.

Example: Reliance Brand's "The Luxury Shopping Festival"

'The Luxury Shopping Festival', hosted by Reliance Brands Ltd. is an annual online retail promotion event organized in the month of July or August. In 2020, the festival was organized between 7th and 23rd of August and customers could purchase their favorite luxury, fashion, and lifestyle brands 24X7 on all weekdays.

Customers got a chance to engage in conversations with well-known personalities and veterans of the fashion and lifestyle and food industry. Fashion enthusiasts were excited to take a virtual tour of the fashion museum of Museo Ferragamo (where 10,000 shoe models created by Ferragamo were showcased) with 'Pernia Qureshi', the designer's granddaughter. Art lovers got opportunities to attend sessions hosted by art enthusiast Feroze Gujral and Vintage car lovers engaged with collectors Siddhraj Singh, Arihant Taleria and Srinivas Krishnan.

Luxury brand patrons who participated in virtual walkthroughs got to know about the legacies of their favorite brands and their collections.

Customers looking for deals had a chance to participate in 'End of Season Sale Period' to avail of attractive discounts.

The virtual luxury shopping festival hosted by Reliance Brands Ltd. showcased a spectrum of brands such as Canali, Tiffanys, Burberry, Jimmy Choo, Bottega Veneta, Paul Smith and Diesel.

Reliance's virtual shopping festival for 2022 was successfully organized between 7th and 21st of August 2022. The shopping festival featured Neha Dupia (Actor) chatting with Mitali Sagar (House of Misu) and virtual tour of 'Museo Ferragamo', fashion museum with Pernia Qureshi and panel discussion with Vandana Mohan (India's first woman event manager) and many other interactive sessions with fashion experts and celebrities. As in the past, the 2022 luxury shopping festival was a one-stop-shop for international luxury and fashion brands and wedding related products.

Source: Garima Gupta, "Don't miss this new virtual shopping festival for fashion weddings, food and more", Vogue, 6/08/2022

<https://www.vogue.in/fashion/content/dont-miss-this-new-virtual-shopping-festival-for-fashion-weddings-food-and-more> Accessed on 26/09/2022

18.4 Role of Retail Promotion Program

The goal of a retail promotion program is to generate sales. The retailers, in order to achieve this goal, adopt various methods like informing, persuading and reminding its target customers about their existence and their products and/or services. Thus, informing, persuading and reminding are the key functions of a retail promotion program.

Informing: This is the primary function of the retail promotion program. Retailers provide information to the customers about themselves and the products and services they offer. For instance, the most common tool for disseminating information is the advertisements placed by supermarkets in the newspapers that inform customers about the special discount prices on its groceries.

Persuading: This is an important function of the retail promotion program. It involves a retailer asking people to visit the store and purchase its merchandise and/or services. For instance, a supermarket might offer discount coupons to customers through a newspaper and motivate them to buy its products.

Reminding: It involves reminding its customers frequently about its products and its benefits, so that customers may purchase them again and develop customer loyalty towards the store. Though a retailer may be liked by customers, it could be very difficult for the former to retain its customers due to its competitors' appeals. Hence, an increasing number of retailers, as a part of their reminding task, are developing promotional strategies like loyalty programs or frequent shopper programs for their customers. This may ensure the retention of most of its customers.

18.4.1 Methods for Communicating with the Customers

The communication methods of a retailer can be classified as impersonal or personal, and paid or unpaid, on the basis of the functions of the promotional program, i.e. informing, persuading, and reminding. Thus, there are four types of communication – paid impersonal, paid personal, unpaid impersonal and unpaid personal.

As discussed earlier, promotion consists of four key elements: Advertising, Sales promotion, Public relations and Personal selling. A good retail promotion mix effectively combines all these components. The quality and status of the merchandise and the store conveyed by advertisements must be equally reflected in the other elements of the retail promotion. Else, the customers might receive contradictory messages about the retail store, which might create confusion among the customers and eventually loss of customer loyalty.

Advertising, sales promotion, and the store atmosphere are some forms of paid impersonal communication. Advertising is a paid form of communication through an impersonal mass media that encompasses newspapers, magazines, broadcasting, and the Internet.

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Sales promotion is a paid form of impersonal communication. It provides the customers with an incentive for visiting the store and/or purchasing its merchandise during a particular period. For instance, many departmental stores offer discounts for a short period during their annual clearance sale or during occasions of festivity. Though direct sale is the most prominent sales promotion tool, retailers also use special tools like holding in-store demonstrations, offering coupons and organizing contests. Usually, sales promotion tools are used to influence the behavior of the consumer for a short duration.

Though sales promotion activities are effective tools for generating short-term sales, they do not help establish long-term customer loyalty. Customers who are influenced by sales promotion programs are generally interested in the merchandise being promoted, not in the store selling them. However, there is a possibility that the customers who are influenced by a retailer's sales promotion program might revisit the store. Table 18.1 describes the various types of sales promotion techniques.

Table 18.1: Sales Promotion Techniques

Sales Promotion Technique	Description
Point-of-Purchase(POP)	Displays on the floor, counters and windows remind the customers about products and stimulate their buying impulse. Sometimes displays are provided by the manufacturers.
Contests	Customers compete for prizes by writing slogans.
Sweepstakes	The participants fill an application form and a winner is chosen randomly.
Coupons	Special discounts are advertised (mostly in print), and customers can get discounts against these advertisements.
Frequent shopper / Frequent flyer programs	Retailers offer points or discounts to customers, depending on the amount for which they have bought goods. The customers can even exchange points with goods or services.
Prizes	Unlike the frequent shopper programs, the customer receives the prizes immediately after the purchase of goods of a certain value, for example, glassware, casseroles etc.

Contd....

Samples	Free samples are offered to the customers. For e.g., big departmental stores and supermarkets have sample perfumes for testing.
Demonstrations	One instance is the demonstration of the use of vacuum cleaners.
Referral gifts	Retailers offer gifts to their customers for bringing in a new customer.
Pencils, calendars, diaries, wallets, etc.	Products carrying the retailer's name are given to the customers on purchasing their products.
Special events	Retailers may organize many special events like fashion shows, autograph sessions with celebrities, or theme festivals.

Compiled from different sources by ICAI Research Center.

Advertising

Advertising can be defined as any paid form of non-personal communication and promotion of goods or services by an identified sponsor. Certain media used for advertising are the print (newspapers and magazines), broadcasting (television, radio and Internet), and displays (billboards, signs, posters, etc.). Advertising is generally intended to present a consistent and enduring image of a product or retailer in order to reinforce its positioning on a continuous basis.

Sales Promotion

Sales promotion can be defined as the technique of offering short-term incentives to customers, so that they are motivated to purchase the retailer's products or services. Sales promotions are generally communicated to consumers through the in-store displays or packaging labels. Premiums, discounts, coupons, cash rebates, free offers and demonstrations are sales promotion tools a retailer may use. Though this is a non-personal form of communication, the objective of most sales promotion programs is to arouse consumer interest in the product or service being promoted. Sales promotions are not only targeted at the final consumers, but also at the retailer's employees and the members of the distribution channel.

Public Relations

Public relations is a form of unpaid impersonal communication. It is the process of reaching the target customers through an unpaid and impersonal channel, such as an article about the store or its products in a leading newspaper. These tools are aimed at establishing good relations with the consumers and other people through publicity, a good corporate image, and management of unfavorable rumors or issues. Public relations has many unique features. It is highly credible -- news items and features appear more realistic to the consumers than

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advertisements. Public relations enable the store to reach out to many target customers who cannot be accessed by salespersons or advertisements or those potential consumers who avoid meeting sales personnel and looking at advertisements. The message is conveyed to the target customers as news rather than a sales-related communication.

The most effective unpaid personal communication tool is word-of-mouth. Retailers can use this tool effectively only by providing high-quality service to the customers. However, if the word-of mouth amounts to negative communication, it can have a significant negative impact on the retailer.

Personal Selling

Personal selling is a form of paid personal communication, wherein the sales personnel satisfy the customers' needs, by exchanging information through personal interactions. It is a two-way communication process aimed at selling products and/or services and building relationships with customers and other people. This promotional tool is personal in nature and it thus enables the retailer to modify its services as per the customer's needs. It also enables the retailer to get customer feedback and ideas to improve customer service immediately. The sales personnel can modify the product-related information according to the customer's needs and present the same in a more effective manner. Sales presentations, trade shows and incentive programs are all forms of personal selling.

Example: D-Mart's Retail Promotion Program to Increase Customer Base and Increase Sales

D-Mart, ranked as one of the top retail brands is a pure food and grocery retailer, founded and owned by Radhakrishnan Damani. The key to D-Mart's success is attributed to its focus on both quality and affordability. Targeting middle income group customers, D-Mart's promotion focuses on value pricing and affordability. D-Mart buys products in bulk directly from manufacturers (avoiding middlemen) for all its stores and it passes on the benefit to customers by offering deep discounts on products. The interior of the store is simple. Most D-Mart stores are located in the outskirts of the city which also helps reduce real estate costs.

D-Mart's Promotion activities play a major role in maximizing sales, increasing customer base, and maintaining excellent customer connect and relationships. Gift coupons are given to customers on purchase of a goods of certain pre-determined value. Discounts are offered during festival seasons. For instance, during Raksha Bandhan chocolates and certain other gift products were offered at discounted rates.

Contd....

D-Mart puts up hoardings in important locations in the city to enhance brand visibility and awareness. The retail store's discount schemes and sales promotion events are notified to customers through newspaper advertisements.

To enhance customer experience during the sales promotion events, the retail store has put in place a good queue management system that minimizes waiting time and facilitates impulse purchases. Loyal customers are given reward points, gift vouchers, scratch cards, etc. to encourage them to visit the store again. Value retailing is the key to the strong customer base and the customer loyalty that the store enjoys. D-Mart also engages in CSR activities to improve brand image and goodwill.

Sources: D Mart: *Strategies that make it a success*", *The brands of India*, 22/06/2021

i) <https://thebrandsofindia.com/dmart-strategies-that-make-it-a-success/>

ii) https://www.linkedin.com/pulse/success-story-dmart-retail-industry-po-hway-consultants-co/?trk=pulse-article_more-articles_related-content-card Accessed on 26/09/2022

18.4.2 Store Atmosphere

Maintaining a good store atmosphere is a paid form of impersonal communication. It involves all the attributes of the store like its architecture, layout, design, displays, color scheme, lighting, temperature control, music and fragrance. These elements are referred to as atmospherics.

The retailer must be careful while using any of these methods of communication, which have their own advantages and disadvantages. Table 18.2 shows the objectives, advantages and disadvantages of the different communication methods. The advantages and disadvantages of these communication methods can be analyzed on the basis of four factors – control, flexibility, credibility and costs.

Control: Retailers have a greater control over paid forms of communication than over unpaid forms of communication. In case of advertising, sales promotion and enhancing the store atmosphere, retailers can determine the content of the message and the time of its delivery. But they have relatively less control over the other forms of paid communication, because every salesperson might communicate a different message. Further, the retailer can exercise very little control on the content of the message sent through public relations and word of mouth.

Flexibility: Personal selling is the most flexible method of communication between the retailer and the customer. As it involves the interaction of the sales personnel with each customer, identifying the specific needs of the customers and tailoring the product or service as per the customer's needs becomes convenient. The other methods of communication are not so flexible. For instance, advertisements convey the same message to every target customer.

Credibility: Consumers consider the information that is conveyed through publicity and word of mouth communication more credible when compared to

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the information conveyed through paid communication. For instance, the information given by a friend on a newly opened food joint would influence an individual more than the advertisements or the information given by its sales personnel.

Costs: Though publicity and word of mouth are referred to as unpaid forms of communication, retailers generally incur significant costs in organizing an event that would make a good news item.

The effectiveness of the various communication methods in fulfilling their tasks shows considerable variation because of differences in cost, credibility, flexibility and control mentioned earlier here. Table 18.2 below gives the synopsis about the different methods discussed above.

Table 18.2: Objectives, Advantages and Disadvantages of Various Communication Methods

Advertising	<p>Objectives: Increase short term sales, increase customer traffic, reinforce the retail image, inform the target customers about the merchandise and services offered, ease the salesperson's job and create demand for its private labels.</p> <p>Advantages: Ability to attract a large audience; low cost per reader, listener or viewer; availability of a number of alternative media vehicles; control over the content; timing and length of the message.</p> <p>Disadvantages: Inability to tailor the message according to the tastes of the target customers, inability to emphasize the individual customer's needs, need for huge investments for some types of advertisements, brevity of the advertisements often limiting the information conveyed, direct mails and pamphlets being discarded without even reading the message.</p>
Sales Promotion	<p>Objectives: Increase short term sales volume, sustain the loyalty of the customer, focus on novelty, support other promotional tools</p> <p>Advantages: Highly attractive, uniqueness of the themes and tools used, ability to provide the customer with additional value like free gifts/merchandise, attract customers and sustain customer loyalty, increase impulse buying, customers can participate in the contest and enjoy the demonstrations.</p> <p>Disadvantages: Difficulty in pulling back certain promotions without adverse reaction from customers. Using routine promotional schemes may hamper the image of the store.</p>

Contd....

	Sometimes retailers might emphasize on some trivial points rather than the merchandise offered, additional services provided, and the prices. Short term influence can be used only along with other promotional tools.
Personal Selling	<p>Objectives: Persuade the customers to buy the merchandise, complete transactions with customers, create awareness about merchandise through in-store selling and telemarketing, provide feedback to the top management of the retail organization, provide required customer service and ensure customer satisfaction.</p>
	<p>Advantages: Ability to modify the message according to customer needs, flexibility of the salespersons in addressing the various customer needs, increased attention of the customer to the message being conveyed, greater response of the customers to personal selling than to advertisements, ability to provide immediate feedback</p> <p>Disadvantages: Reach is limited to a small number of target customers at a particular time, high costs of interaction with each customer, inability to attract customers to the store initially, may not promote self-service (which may be preferred by many customers). Some customers may regard sales personnel to be aggressive.</p>
Public Relations	<p>Objectives: Increase awareness about the retailer and its strategy, improve the retailer's image and project the retailer as a contributor to the quality of people's life. Show innovativeness, convey a favorable message in a credible manner, and minimize the promotional costs.</p> <p>Advantages: Enhances the store image, establishes credibility through an objective source. It comes free of cost, targets and addresses mass audience, news coverage receives more public attention than advertisements.</p> <p>Disadvantages: Some retailers might not spend money on building up their image; less control over the message, its timing and its location, greater short term suitability, retailers might have to bear the costs of public relations staff.</p>

Compiled from different sources by ICAI Research Center.

However, advertising and public relations have been found to be the most cost-effective methods of communication between the customers and the retailer about the merchandise or services offered by the retailer. In order to persuade the customer to buy the merchandise, retailers use promotional tools like personal

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selling, sales promotion, store atmosphere and visual merchandising. Retailers remind the customers about their products and incite them to repeat purchases, by adopting the image advertising strategy.

The retailer should ideally make all these individual elements of communication work together so that they reinforce each other, for accomplishing its overall communication objectives. The guidelines for developing a promotional strategy is as follows:

Retailers should -

1. Use only those promotional tools that are pertinent with, and enhance, the image of the store.
2. In order to develop effective promotional strategies in the future, evaluate the success and failure of every promotional tool, which they use.
3. Evaluate new promotional tools prior to making any big investments and using them on a large scale.
4. Use tools that appeal to their target customers and are realistic to fulfill.
5. Ensure that their objectives are measurable and achievable.
6. Develop not just advertisements, but complete promotional campaign.
7. Note that new stores or outlets require higher promotional budgets than the established ones.
8. Note that the stores or outlets located in isolated or standalone places require more promotional activities than the stores in more noticeable locations.

Instead of developing separate programs for sales associates, advertising and sales promotion, the retailers should combine all these activities into a single communication program, usually referred to as an integrated marketing communications program. The absence of an integrated marketing communications program might lead to the individual communication methods working at cross-purposes. Thus, an integrated marketing communication program can be defined as the strategic integration of various methods of communication to develop a comprehensive and consistent message.

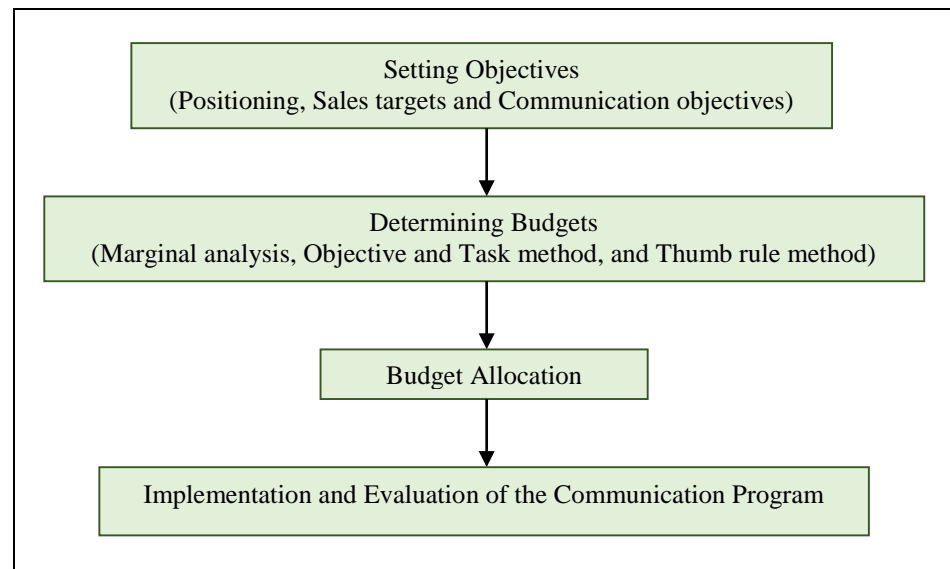
18.5 Planning Retail Communication Program

A well planned retail communication program plays a pivotal role in the retailer's effectiveness in communicating with the customers. Some of the common steps in planning a retail communication program are:

- Establishing the communication objectives.
- Determining the promotional budgets.
- Assigning the promotional budgets to various communication activities.
- Implementing and evaluating the communication program.

Figure 18.1 illustrates the steps for developing a retail communication program.

Figure 18.1: Steps for Developing a Retail Communication Program



Source: ICFAI Research Center

Establishing Objectives

Establishing clearly defined communication objectives is the first step in developing a successful promotional program. This gives proper direction to people handling the implementation of the communication program. It forms a basis for measuring the effectiveness of the program. While some of these programs (aimed at developing an image of the retailer in the customer's view or changing the consumer's perception of the retailer) have long term implications, some other programs (for example, aimed at increasing the customer traffic in the store during weekends) have short term implications. However, promotional objectives, in a broad sense, include increasing sales, stimulating impulse buying, increasing customer traffic, generating leads for the sales personnel, reinforcing the store image, informing the customers about the products, increasing the popularity of the new stores, strengthening the manufacturer's support, providing quality customer service, strengthening customer relations, and building and maintaining customer loyalty. While developing a promotional strategy, retailers should decide upon their promotional objectives from the ones mentioned above.

Retailers should state their promotional objectives as precisely as possible. Hence, aiming at increasing the store's sales is not enough. It is essential to set an objective that is measurable in quantitative terms. For instance, the objective of a retailer may be to increase its sales by 20 percent. With this kind of a promotional objective, the retailer can then measure the effectiveness of its promotional plan. The three main factors that a retailer should consider while setting objectives are positioning, sales targets, and communication objectives.

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Positioning

Positioning can be defined as the process of developing and implementing a retail communication program that creates an image of the retailer in the mind of the consumers, against the backdrop of the images of its competitors. Positioning gives the retail store long term competitive advantage. Generally, positioning helps the customers associate a retailer with the particular merchandise category or a benefit it offers. Retailers also set for themselves some specific positioning objectives.

There are various positioning objectives. Some important ones are discussed below:

1. **Merchandise Category:** Retailers usually try to become as unique as possible in the merchandise category offered. For instance, Himalaya Book Depot is associated with books and other stationary items.
2. **Price and Quality:** Some retailers position themselves as selling high fashion goods at high prices. Some retailers may position themselves as selling good merchandise, service and good value at low prices.
3. Retailers can associate their stores with some special attributes like service or convenience, for example convenience stores.
4. Sometimes retailers can associate their stores with particular lifestyles, activities or products. For instance, a retailer might offer computer books only.

Example: Amazon's 'Make in India' Connect with Indians

Indian Prime Minister's Atmanirbhar Bharat' (self-reliant/sufficient India) that gathered momentum gave a boost to the Indian economy and created a sense of pride and newfound confidence in Indian nationals.

In September 2020, E-Commerce giant, Amazon came out with a print-advertisement whose ad-copy resonated with the national mood. The ad stated that Amazon Market place facilitates lakhs and lakhs of Indian sellers, artisans, and delivery partners to come together to bring smiles to the people of the country. Amazon's CEO 'Jeff Bezos' said that Amazon would facilitate export of 'Make in India' products worth \$10 billion by 2025. The full-page ad released in 'Economic Times' also featured Amazon officials who stated that the company had made a commitment to digitize 10 million MSMEs (Medium and Small Enterprises) to provide 1 million incremental jobs and drive \$10 billion worth 'Make in India' exports.

Through this Corporate Ad, the world's largest E-Commerce company has positioned Amazon Marketplace as a platform that contributes its bit towards the cause of strengthening the Indian economy. The Amazon platform provides a level playing field to lakhs and lakhs of small producers and merchants to sell their 'Made in India' products to people worldwide.

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Amazon's 'Make in India' theme targets government and policy makers and policy influencers by showing its solidarity to the 'Atmanirbhar' policy. In addition, it strikes an emotional connect by touching the heart of millions of patriotic Indians by explaining how Amazon helps distribute 'Made in India' products to the world.

Source: Misbaah Mansuri, "Why Amazon talks about its India connect in latest print ad?", *Exchange4Media e4m*, 1/09/2020

<https://www.exchange4media.com/advertising-news/why-amazon-talks-about-its-india-connect-in-latest-print-ad-107235.html> Accessed on 26/09/2022

Sales Targets

Increasing the sales for a specific period is the most common short term objective of retailers. For instance, retailers generally offer a sale during which all or part of the merchandise present in the store is sold at a discount price. Supermarkets frequently advertise their money saver offers.

Communication Objectives

Though the final objective of retailers is to derive long term profits and short term sales, they generally set communication linked objectives for planning promotional programs and measuring their effectiveness, instead of sales objectives or targets. Communication objectives usually relate to specific goals. These goals are concerned with the effect of retail promotion mix on the consumer decision-making process. In order to implement a communication program and to measure its effectiveness, retailers should state their communication objectives clearly in quantitative terms. The retailer should also clearly mention its target customers for the promotion mix with the expected degree of change (in the sales target percentages) and the time to realize this change. Once the communication, positioning and sales objectives have been established, the next step is to determine the promotional budget.

Determining the Promotional Budget

A retailer can determine the promotional budget through the marginal analysis method, objective and task method or the thumb rule method. The marginal analysis method is one of the most accurate methods. The problem is that retailers generally do not have sufficient information to conduct a complete marginal analysis. However, the marginal analysis method provides a direction to managers in setting a promotional budget.

Marginal Analysis Method

Organizations may increase their promotional costs as long as the Return on Investment is more than the investment. This economic principle forms the basis of the marginal analysis method. Table 18.3 illustrates how a specialty men's suit store determines its promotional budget for the coming months/seasons. For the various levels of promotional expenditures (A), the retailer has to determine the

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sales of its stores (B), gross margin C), rental costs (D), and personnel costs (E). The sales contribution prior to the promotional expenditure (F) is calculated. The profits after deducting the promotional expenditure (G) are also calculated. The retailer might have estimated the correlation between promotional expenditure and sales either through judgment and experience, or by analyzing the past trends in establishing a relationship between the promotional expenditure and the sales generated. Analyzing existing data can help the retailer gather information about the gross margin and other expenditure as a percentage of sales. Table 18.3 shows that at low levels of promotional expenditure, an additional promotional expenditure of ₹ 250,000 resulted in a more than ₹ 250,000 of incremental contribution to sales.

Table 18.3: Illustration of Marginal Analysis (All units in Rupees Thousands)

	Promotional expenditure A	Sales B	Gross Margin C	Rental costs D	Personnel Costs E	Contribution prior to promotional expenditure F = C – D – E	Profit G = F – A
	0	12000	4800	2200	2610	–10	–10
	250	14000	5600	2400	2670	530	280
	500	16500	6600	2650	2745	1205	705
	750	19000	7600	2900	2820	1880	1130
	1000	21000	8400	3100	2880	2420	1420
	1250	23000	9200	3300	2940	2960	1710
Last Season	1500	25000	10000	3500	3000	3500	2000
	1750	27000	10800	3700	3060	4040	2290
	2000	28500	11400	3850	3105	4445	2445
	2250	30000	12000	4000	3150	4850	2600
	2500	31250	12500	4125	3187	5188	2688
	2750	32500	13000	4250	3225	5525	2775
	3000	33500	13400	4350	3255	5795	2795
Best Profits	3250	34500	13800	4450	3285	6065	2815
	3500	35250	14100	4525	3307	6268	2768
	3750	35750	14300	4575	3322	6403	2653
	4000	36250	14500	4625	3337	6538	2538
	4250	36750	14700	4675	3352	6673	2423
	4500	37250	14900	4725	3367	6808	2308
	4750	37500	15000	4750	3375	6875	2125

Source: ICFAI Research Center.

A ₹ 250,000 increase in the promotional expenditure of ₹ 750,000, has led to an increase in sales worth ₹ 540,000 (₹ 2,420,000- ₹ 1,880,000). At the promotional expenditure level of ₹ 3,250,000, an increase of ₹ 250,000 has been found to generate less than ₹ 250,000 of the incremental contribution. For instance, an increment of ₹ 250,000 in the promotional budget of ₹ 3,250,000 has led to an incremental contribution of ₹ 202,500 only. In this example, a promotional budget of ₹ 3,250,000, seems to have generated maximum profits. But, it is also found that the promotional budget levels from ₹ 2,750,000 to ₹ 3,500,000, have generated almost similar profits. Therefore, the retailer may adopt a conservative approach and decide to allocate ₹ 2,750,000 to its promotional budget. In many situations, it may be very difficult for managers to conduct a marginal analysis because of the complexity of connecting the promotional budgets and the sales generated. In some cases, retailers conduct experiments to get a clear picture of the relationship between the promotional budgets and the sales generated.

The other methods that retailers use to determine promotional budgets are the objective and task method, and thumb rule methods such as the affordable method, percentage of sales method and competitive parity method. These methods are less sophisticated than the marginal analysis method, and are simple to use.

Objective and Task Method

Retailers use the objective and task method to determine their promotional budget. It adopts this method with the twin aims of (i) taking up a particular task; and (ii) achieving certain communication objectives. The retailer should first establish its communication objectives in order to use the objective and task method. Once the communication objectives are established, the required tasks for achieving them and their costs should be determined. The sum of the costs of all the tasks required to achieve the communication objectives is the promotional budget.

Thumb Rule Method

While the marginal analysis method and the objective and task method help the retailer determine its promotional budget by measuring the effect of the promotional activities on its communication and sales objectives, the thumb rule method uses historical data about the retailer's sales and promotional activities to determine the current promotional expenditure. There are three types of thumb rule methods:

- Affordable method
- Percentage of sales method
- Competitive parity method

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Retailers using the affordable method should first determine their sales targets and their expenditure for that budgeting period (without taking the promotional expenditure into account). The difference between the sales targets and the other expenditure is then added to the projected profits, which gives the promotional budget. Thus, the affordable method helps determine what amount of money is available for promotional activities after budgeting for profits and operational expenditure. However, the major drawback of this method is that it is based on the assumption that the promotional expenditure does not influence the sales and profits generated. Though promotional expenditure is regarded as the cost of running a business, retailers using the affordable method, generally cut the unnecessary promotional costs if the expected sales are not generated.

In *percentage of sales method*, the promotional expenditure is a fixed percentage of the predicted sales. In this method, the retailer decides on a promotion-to-sales ratio, and then the value of the promotional budget is worked out on the basis of the expected sales for the next year. Promotional budget can be calculated using the following equation.

$$\text{Promotional budget} = \text{Expected sales (in Rupees)} \times \text{Promotion-to-sales ratio (in \%)}$$

For instance, if a retailer has decided on a 10 percent promotion-to-sales ratio and the expected sales for the next year is ₹ 5,000,000, then the promotional budget according to the percentage of sales method would be the following:

$$\text{Promotional budget} = ₹ 5,000,000 \times 10\% = ₹ 5,00,000$$

The main drawback of this method is that the promotional budget is calculated on the basis of the percentage that was used in the past or on the percentage that is being used by its competitors. But, using the same percentages as their competitors might not be appropriate for several reasons. The retailer's stores might be situated in a better location than its competitors due to which customers might be more aware of the retailer's presence. In this case there would be no need to spend heavily on promotion, unlike the case of the competitors situated in remote locations. The major advantage for a retailer, while determining the promotional budget using percentage of sales method, is that its promotional budget will not exceed its capacity. Since the promotional expenditure is determined on the basis of its sales forecasts, promotional costs would increase only when its sales increase. Though an increase in sales would permit the retailer to communicate with its customers more aggressively, a slight decline in sales will affect a proportional decrease in the promotional costs, which can speed up the sales decline. Table 18.4 illustrates the percentage of sales method of determining the promotional budget.

Table 18.4: Illustration of Setting Promotional Budget as a Percentage of Sales

Estimated Sales (<i>in Rupees Lakhs</i>)	50
Percentage of sales towards promotional budget	5%
Promotional expenditure in Rupees	250,000
Promotional Expenses in Rupees	
Newspaper advertisements	75,000
Magazine advertisements	50,000
Brochures	25,000
Samples	35,000
Event sponsorships	40,000
Danglers and display material	25,000
Total Promotional costs	250,000

Source: ICFAI Research Center.

Retailers using the *competitive parity* method change their promotional budget, depending on the actions taken by their competitors. For instance, if a leading retailer located in a particular area reduces its promotional expenditure by 5%, then all the other retailers in that area reduce their promotional expenditure by 5%. The major merits of this method are that it is based on comparison and it is market driven and conservative. Its demerits are that it is a follower's strategy, and that it is difficult to obtain detailed information about competitor's strategies. Above all, it is based on the assumption that the competitors are similar with regard to many micro factors like the size of the business, the target customers, the location, the merchandise and services offered, and the pricing strategies. As no two retailers can be similar in all these aspects, they would require different promotional strategies and hence, different promotional budgets.

Activity 18.1

Do a comparative study of the New Year Promotional Offers of two leading consumer appliance stores, say Croma, Vivek, Sharptronics, etc. Are there similarities and differences in the offer schemes? If so, list out and analyze the similarities and differences and study how they would impact sales.

Check Your Progress - 1

1. Providing information to the consumer on the retailer's store, its merchandise and services it offers, and influencing the perceptions, attitude and behavior of the consumers towards the retailer is referred to as which of the following?
 - a. Publicity
 - b. Communication
 - c. Advertising
 - d. Promotion
 - e. Sales Promotion
 2. The communication process involves the transmission of meaningful messages to the target market by the retailers. Typically, a communication process consists of which of the following elements in order?
 - a. Sender, Encoding, Message, Media, Decoding, Receiver, Response, Feedback, Noise
 - b. Message, Media, Decoding, Response, Noise
 - c. Sender, Encoding, Receiver, Response, Feedback, Noise
 - d. Sender, Encoding, Media, Decoding, Legal factors
 - e. Sender, Encoding, Message, Media, Decoding, Legal factors
 3. Which of the following are the key functions of a retail promotion program?
 - a. Informing, persisting and reminding
 - b. Insisting, persuading and reminding
 - c. Informing, persuading and reminding
 - d. Instructing, persuading and reminding
 - e. Informing, persuading and requesting
 4. Which of the following sales promotion techniques is aimed at customer retention?
 - a. Point of Purchase (POP)
 - b. Contest
 - c. Sweepstakes
 - d. Prizes
 - e. Membership cards that rewards regular customers
 5. Which of the following is a paid form of non-personal communication, and promotion of goods or services by an identified sponsor?
 - a. Public relation
 - b. Advertising
 - c. Promotion
 - d. Publicity
 - e. Testimonial
-

18.6 Assigning the Promotional Budget

To decide the promotional strategy of a product to reach the intended and targeted audience, it is important to decide on the promotional budget. Once the promotional budget is determined, the next step in the process of promotional planning is to assign the budget to specific communication elements, product categories and geographic areas. Assigning the promotional budget effectively is more important than determining this budget. Retailers can accomplish their communication objectives even after reducing the promotional expenditure by effectively assigning the promotional budget to different communication elements. To do this, the retailers should distribute the promotional budgets judiciously among all the geographic areas in which they are located and all the merchandise categories. But this technique does not maximize the profits as it does not consider the fact that promotional programs can be more effective for some product categories, and in some geographic areas. Retailers can adopt another approach for assigning the promotional budget – allocating the promotional budget on the basis of estimated sales or the contribution of each merchandise category to the overall sales. While taking budget allocation decisions, retailers should apply the principles of marginal analysis. A major portion of the budgets must be assigned to those geographical areas that give maximum returns for every rupee spent. This approach is sometimes referred to as the 'high assay principle'.

Example: Digital to Dominate the Promotion Budget in 2025

Zenith, an ROI agency (multichannel digital marketing agency that helps maximize returns on clients' marketing expenditure) has predicted that India Inc whose ad-spends is predicted to increase by 21% in 2022 would be the fastest growing market for advertisement spending in the years to come. The global ad-spends is expected to grow by 8% in 2022. The growth in the global ad-spends is accounted for by USA (9.1%), China (6.2%), Japan (6.2%) and the UK (5.8%). India, ranked fifth after the UK, accounted for 4.6% of the growth in ad-spends even though it was ranked the twelfth-largest ad-market.

FMCG, Fintech, Edutech and Food tech and new app-based startups drive the ad-spend growth in India.

Zenith has further predicted that in 2024, 65% of ad-budgets would be spent on the digital media as compared to 62% in 2022 and 59% in 2021. Among various digital media channels, online video is expected to emerge as the fastest growing channels. Its annual average growth rate between 2021 and 2024 is expected to be about 15.4%.

Social media ad spend is expected to account for 25% of expenditure across all media.

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Advertising in cinema and hoardings and other out-of-home channels which were witnessing a healthy growth prior to Covid have taken a beating due to the pandemic.

Source: Business Standard Web Team "India will be fastest-growing market with 21% growth in ad spends in 2022: Zenith, Best of Media, 8/6/2022

<https://bestmediainfo.com/2022/06/india-will-be-fastestgrowing-market-with-21-growth-in-ad-spends-in-2022-zenith#:~:text=Zenith%20has%20forecast%20that%20social,on%20advertising%20across%20all%20media>. Accessed on 26/09/2022

18.7 Implementing the Advertising Programs

Retail advertising helps in creating an image of a retailer and reinforcing it. It informs the target customers about the merchandise offered by the retailer and their prices, and sale periods. Though some big retailers aim at image building through advertising, most of the small-time and medium retailers take up advertising for achieving short term objectives. But retailers, while using advertisements, must keep in mind the legal issues that may arise. These may include deceptive advertising tactics like bait-and-switch, advertising substantiation, corrective advertising, price comparison and puffery. Retailers, while implementing advertising programs, should decide upon the message they intend to convey, identify a particular media to transmit the message, and then determine the timing and frequency of the message.

18.7.1 Creating the Message

Many retailers often develop advertising messages that have an immediate impact, although it is short-lived. The need for creating an immediate impact requires an ad copy writing style that would catch the attention of the target customers. Retailers seek help from various sources in developing an ad-campaign - co-operative advertising, advertising agencies, and the local media.

Co-operative advertising

Co-operative advertising involves two or more parties sharing the costs and the responsibilities of making decisions. In general, manufacturers support retailers by sharing the costs of advertising their products. It is a form of incentive given by the manufacturers to the retailers, to encourage them to promote and advertise a particular product. This cooperative support is offered mostly by manufacturers of consumer goods. Retailers in some places contribute collectively to each other's advertising programs. Based on this, co-operative advertising can be categorized as vertical cooperative advertising and horizontal co-operative advertising. Under *vertical cooperative advertising*, the advertising costs are shared by the retailer and the manufacturer or the wholesaler. In a *horizontal cooperative advertising*, the advertising costs are shared by a group of retailers.

Manufacturers have many motives behind providing cooperative support to retailers regarding advertising expenditure. This increases the manufacturers' local exposure. Manufacturers may like to leverage the image of the retailer. Retailers can derive significant promotional advantage through cooperative advertising, as long as they are careful in selecting the opportunities. But, the retailer has to accept some terms and conditions laid down by the manufacturers or the wholesalers. Retailers can increase their advertising expenditure through cooperative advertising. Apart from reducing costs (because advertising costs are shared by vendors), co-operative advertising helps the retailer associate its name with popular national brands.

However, co-operative advertising has some drawbacks. Conflicts may arise between the manufacturers/vendors and the retailers while advertising their own products. This conflict in goals may have a significant impact on the effectiveness of cooperative advertising for a retailer. Further, the advertisements developed by the manufacturer/ vendor are frequently used by various competing retailers as the advertisement features a list of names and addresses of all the retailers that sell the manufacturer's brands. Thus, retailers cannot distinguish themselves from their competitors if they use co-operative advertising.

Advertising Agencies

Large retailers generally have specialized departments that take care of their advertising needs. These departments or agencies create advertisements aimed at building the image of the store. Sometimes, small retailers too engage local advertising agencies in planning and developing their advertisements. Such advertising agencies are generally more proficient in planning and developing their advertisements than the retailer's employees. Such agencies also help retailers develop special promotional programs like contests.

Apart from selling space in newspapers and broadcast time on radio and television, the advertising media/agencies offers various services to the local retailers. The services offered might range from planning an advertising program to designing the advertisement and copy-writing. As media organizations conduct market research on their readership, they can provide retailers with information about the shopping habits of people in a particular area.

Selecting Advertising Media

The advertising message of a retailer must be carried to its target customers through a communication vehicle - the media. The most common media used for retail advertising are newspapers, magazines, direct mail, radio, television, hoarding and other outdoor media. From a managerial perspective, newspapers and television are considered to be mass media that target the total market, while other media like the radio, magazines, direct mail and the Internet are used for

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targeting specific markets. The following are the merits and demerits of the various media.

Newspaper advertising is the most frequently used medium by a retailer for the following reasons:

- Newspapers are locally based, and hence, they have a stronger influence on people in the local trade areas of the retailer.
- Developing newspaper advertisements does not require excellent technical skills.
- Newspaper advertising is advantageous, especially for the small retailers.
- There is very little lead time between the creation of the advertisement and its publication.

The following are the disadvantages of newspaper advertising:

- The target consumer may read a newspaper in which the ad is published, but may not notice the advertisement.
- The life span of an issue of a newspaper is very short and so is the case with advertisements published in it.
- The poor print quality of newspapers makes the advertisements unappealing.
- As newspapers have a wider reach they do not target specific groups of customers. This way, it actually does not do justice to the money spent by the retailer on advertisements.

In spite of all these disadvantages, newspapers have been the primary choice of advertising medium for many retailers.

Television Advertisements: Some retailers have been using television as their advertising medium. It has been found through observations over time that visual advertisements stay for a longer period in the consumer's memory, when compared to the verbal messages conveyed by any other media. Although advertising on the television is more effective than any other method, it has its own limitations. Some of these are as follows:

- Television advertisements are so expensive that a few well-designed advertisements can consume the entire advertising budget of a retailer.
- The reach of a television advertisement can be much beyond the trading area of a small or a medium sized retailer.
- Nowadays, too many ads are telecast (very frequently) on television, due to the heavy competition between companies to catch viewers' attention. The target audience may leave the room or switch to another channel during the commercial breaks in a program. Such behavior of viewers has become a complex problem for the concerned retailers, with increased (and increasing)

number of channels on cable and satellite television. Due to this increase in the number of channels, television advertising may catch the attention of a specific audience and not the mass.

In spite of its disadvantages, advertising through the television has been a powerful tool for generating sales volumes. Also, the constantly expanding cable television is becoming an attractive medium for many small retailers.

Radio Advertisements: Some of the retailers use *radio* as their advertising medium because of its ability to transmit the retailer's messages to a selected audience. Most regions generally have 5 to 10 radio channels, each of which is targeted to customers in various demographic categories. As a communication medium, radio allows retailers to use various tones and sounds in their messages. This helps retailers develop messages that appeal highly to its target customers. Although the radio is an efficient medium, many local radio stations do not have the creativity required to cater to the advertisement needs of a retail store. Also, the advertisements on the radio cannot be reused as print advertisements. Further, the radio being a non-visual medium lacks the ability to display the merchandise it is promoting. However, the increasing number of private FM channels in India indicates strongly that radio will soon become a popular advertising medium.

Magazine Advertisements: Generally, it is the local retailers who advertise in magazines that are popular with people in the retailer's local trade area. Only large retailers can afford to allocate some of their advertising budget for magazine advertising. And generally, such advertisements are institutional advertisements. Advertisements through magazines can be highly effective, when compared to newspaper ads. These advertisements have a longer exposure time, and are better in terms of reproduction quality. However, magazine advertisements have long lead times.

Direct marketing is regarded as the most powerful tool in a retailer's promotion mix. Direct mail (a form of direct marketing), allows the retailer the flexibility to tailor its message according to the requirements of its target customers. The performance of direct mail can be measured easily, as it usually provides feedback to the retailer. However, direct mailing is more expensive than media in terms of the cost per contact. Also, it is the quality of the direct mail that determines its ability to reach the target audience.

Internet Advertisements: With the number of Internet users increasing phenomenally across the globe, the Internet is likely to emerge as a powerful advertising medium in the near future. Internet advertisements help customers get a better idea of the various types of products or services available with the retailer. Also, the prices of the goods and services sold through the Internet may be lower than those of goods or services sold traditionally at stores. However, online advertising has some drawbacks, especially for retailers.

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Example: How Global Businesses use Social Media for Targeted Reach and Engagement

Businesses leverage the social media network effectively to reach out to their target customers. Different social media sites are patronized by customers from different geographic regions and demographic characteristics.

Across different social media platforms, businesses can engage and connect with their potential customers. For instance, luxury and fashion brands like Burberry, Prada, Louis Vuitton, and Gap use WeChat to connect and sell their products to high-end Chinese customers. On the other hand, Chipotle, Betty Crocker's Fruit Gushers effectively use TikTok to target the Chinese youth.

Global businesses can use social media platforms to reach out to specific customer segments and gain visibility in specific geographic regions. Norwegian Air uses Facebook and Instagram advertisements to increase awareness of the specific flight routes it operates in certain geographic regions.

Customer segmentation happens within a social media site based on geographic locations. For the same reasons many businesses have separate accounts for different geographic regions and audiences. Netflix for instance, has Twitter handles specific to different markets also for several of its shows.

There are many characteristics of social media that makes it a powerful tool for business. However, social media enables businesses to reach out and target customer segments and send out customized messages and offers and this feature makes social media attractive to businesses.

Source: Katie Sehl, "Social Media for Big Companies: 10 + Inspiring Examples", Hoot Suite, 10/5/2021

<https://blog.hootsuite.com/social-media-for-big-companies/> Accessed on 27/09/2022

Characteristics of Media: When the retailer has understood the merits and demerits of various media, he should select an appropriate medium depending on characteristics of these media. The characteristics may be described as follows:

Communication Effectiveness: It is the ability of the media to create the desired impact on the target audience. The print media use pictures and words for the target customers to see and read. Radio advertising helps the target customers 'hear' the message. Television enables the target customers to watch and listen to the retailer's message.

Geographic Selectivity: It is the ability of the media to appeal to a particular geographic area. As the target customers of a majority of retailers come from a particular trading area, the media should be able to create a significant impact on the target customers in that particular area, depending on the characteristics of their viewers or readers.

Audience Selectivity: It is the ability of the media to convey the message to a specific target audience within a larger population. Advertising in special magazines targets a specific audience with special interests. (Examples are: automobile and electronics magazines)

Flexibility: This pertains to the ability of the media to allow the advertiser to perform several functions simultaneously. For instance, using direct mail will allow the retailer to send coupons, gifts, postage paid envelopes, etc., to the customer, along with the actual message.

Impact: The media can stimulate certain behavioral responses in its target customers. For instance, television and magazines are the most preferred media for building store image.

Prestige: Media advertisements help retailers establish themselves as prestigious firms. Consumers generally perceive ads in the print media (certain magazines and newspapers) as a high status symbol rather than the electronic media.

Immediacy: This is related to the ability of the media to convey messages on time. For instance, advertisement messages can be prepared and aired within a day on the radio. However, the lead time is generally higher in the case of magazine and television advertisements.

Message Life: This is the duration that the message is available for the target customers. The duration of television advertisements is generally 10 seconds and hence, they should be repeated frequently for building a store recall. Newspaper advertisements are alive for many hours, while magazine advertisements are available for some days.

Coverage: This is the percentage of a specific target market that the media is able to reach. For instance, the coverage of a particular magazine can be 55%.

Cost: This pertains to the ability of a particular media to reach a particular market in the most cost-effective manner.

Retailers should measure the efficiency of all the media, before selecting one of them. The efficiency of a medium can be determined by measuring the cost of reaching a certain number of target customers, through 'cost per thousand method'. The 'cost per thousand method' is a technique used to measure the effectiveness of advertisements in various media, depending on their cost and reach. Generally, the costs of advertisements in the media are represented in terms of cost per 1000 readers/ viewers / listeners. Thus,

$$\begin{aligned}\text{Cost per thousand} &= \text{Cost per message} / (\text{Circulation}/1000) \\ &= (\text{Cost per message} \times 1000) \div \text{Circulation}\end{aligned}$$

Frequency: This is the number of times that the media reaches the same target customer with the same advertisement. In other words, this is a count of the exposure of the same viewer to the same advertisement.

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Lead times are different for different media. For example, a retailer can place an ad in a newspaper a little while before the publishing of the paper, but in order to place an advertisement in a magazine, he would have to submit it weeks or months in advance. Also, deciding on the content of the advertisement is extremely important. Whether the message is written or spoken, or it is delivered personally or otherwise, the message is the most important aspect of advertising. While developing advertisements, retailers (or the agencies they hire) should think about the most appropriate themes, words, headlines, captions, colors, size, layout and position.

18.7.2 Determining the Frequency and Timing of the Advertisements

Retailers advertise their store and the merchandise offered throughout the year. The frequency at which these advertisements appear varies, depending on the purpose of the advertisements. But, retailers should understand that the timing and the frequency of the advertisements would determine how frequently the target customers notice their message. Therefore, the effectiveness of an advertisement campaign in drawing the attention of a customer depends on the frequency and timing of the advertisements. *Frequency* can be defined as the number of times a target customer is exposed to the advertisement. Deciding the appropriate frequency depends on what the retailer wants to achieve through the advertisement. Generally, frequent exposure to ads influences the customer's buying behavior. Thus, advertisements are intended to positively influence the consumers' buying behavior, rather than building store awareness. Further, *timing* the publication or broadcasting the advertisement properly is important for getting a good return on an ad investment. Typically, an advertisement should be published or broadcast immediately before the day on which consumers are most likely to purchase the goods and/or services.

18.8 Evaluating the Effectiveness of Advertisements

Retailers need to assess whether advertisements are achieving their goals by generating return on investment made on them. The ability of advertisements to generate positive results depends on how well they are designed and how appropriate are the decisions that were taken regarding these ads. A retailer can make better advertising decisions only when it plans its advertising program effectively. Some retailers have a systematic procedure for measuring the effectiveness and efficiency of their advertisement programs.

Advertising effectiveness can be defined as the degree to which the advertisements have produced the desired results or helped the retailer accomplish its advertising goals. It can be also defined as the technique of achieving the desired advertising results with the minimum possible expenditure. The efficiency or effectiveness of retail advertising can be measured subjectively.

Retailers should ask themselves whether they are satisfied with the returns from their advertising programs and whether they believe that the returns were generated with the minimum expenditure.

Retailers can measure the effectiveness of their advertising programs consistently by:

- Publishing the same advertisement in two different media, with a mark on each of them to distinguish one from the other. Customers should get a discount or a free sample of a product on bringing the advertisement to the retailer. The retailer will be able to understand which advertisement worked better by looking at the distinguishing marks on the ads, or the mail addresses.
- Advertising a product at slightly different prices in different media or publications. This test will prove whether the consumers will buy the product at a higher price.
- Advertising a product only through one advertisement without promoting or display the product in the store. The retailer should then count the number of calls or solicitations for that product. The higher the number of calls or solicitations for that product, the higher is the effectiveness of the advertisement.
- Not publishing or broadcasting a regularly published or broadcast ad for some time and checking for any effect on the sales.
- Measuring the sales volumes whenever the advertisement is placed for the first time.

However, the retailer cannot expect immediate returns from an advertisement, as consumers take some time to notice the advertisement and learn about the retailer. It has been found that an individual becomes a customer after he has been exposed nine times to an advertisement of a new company. Moreover, every three times a prospective customer is exposed to the advertisements, he comes in contact with the advertisement only once. This implies that a retailer has to expose the advertisement to a prospect for an average of 27 times before he or she becomes a customer.

Example: Key Metrics to Assess Effectiveness of Social Media Ads

A great benefit of advertising in the social media is that every single detail that reflects effectiveness of the advertisement can be tracked down. Given below are some important measurement metrics that helps businesses understand whether or not the company's social media strategy is working:

Reach is the number of people who view the content. If non-followers view content, then the content is probably shared. Reach can be measured for each individual video or story, or the average reach can be considered.

Contd....

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Audience growth rate, another measure points to the number of new followers the brand gets in the platform within a stipulated time. When measured as a percentage of new followers acquired against total audience, it reflects the growing popularity of the brand.

Engagement rate measures the responses and engagement of the content by way of shares, reactions (likes etc.) and comments.

Virality rate measures how much the content is shared and how much the content is spreading exponentially.

Conversion rate measures the value of social content by pointing to the number of subscriptions, sales or downloads that have occurred after viewing the ad- content.

In addition to these several other measures such as social sentiment etc., need to be tracked and compared with the costs paid for advertisements. Tracking social metrics is easy for all companies and it helps them understand whether or not their social media strategy is working.

Source: Christina Newberry, "16 Key Social Media Metrics to Track in 2022", HootSuite, Strategy, 23/6/2022.

<https://blog.hootsuite.com/social-media-metrics/> Accessed on 27/09/2022

18.9 Implementing Sales Promotion Programs

Costco, one of the biggest membership-only retailers provides free sample lunch every day. This habit of Costco's has helped it reap the benefits of increased sales. Starbuck's loyalty program rewards its customers based on the number of stars earned on every purchase. By doing so, it increased its sales by 11% purely through this loyalty program. Generally, to stimulate consumer demand and improve dealer effectiveness, retailers implement sales promotion programs. Discount sales combined with advertising are the most common sales promotion programs adopted by the retailers. Retailers may adopt other forms of sales promotion programs like demonstrations, coupons, games, sweepstakes and contests. *Sale* is the most common promotional tool used by a retailer to increase the customer traffic and to clear the old merchandise. A sale can be promoted either through advertisements or through displays within the store. Retailers may also offer special end-of-the-season sale to clear the merchandise that is still in the inventory.

Example: India earned Goodwill through "Vaccine Maitri" Program

India ranks third worldwide in production of pharmaceutical products by volume and it exports pharma products to more than 200 countries in the world.

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As a pharmaceutical powerhouse, India provides generic medicines globally and produces nearly 60% of the world's vaccines, including Tetanus (DPT), Tuberculosis, Measles, Diphtheria and Pertussis.

The 'Vaccine Maitri' (Vaccine Friendship) initiative, launched in January 2021, under which India gave away its domestically produced vaccines to low-income countries has been hailed as a major diplomatic move that has enhanced India's status in the world. By April 2021, India had already shipped over 66 million doses of vaccines to other countries.

Many Caribbean countries and ACP (African Caribbean and Pacific Group) countries praised India's effort and demanded that other countries also follow India's footsteps and take measures to give free vaccines to low-income countries. India's 'Vaccine Maitri' initiative was praised by the 'WTO' (World Trade Organization). Caribbean countries and other low-income countries who are members of WTO expressed deep dissatisfaction and concern about the inequitable access of vaccines (Vaccine Inequity). These countries also pointed out that 'Vaccine Nationalism' during the covid-19 crisis period would not be prudent, as the world would be safe only when people all over the world are vaccinated.

India's noble and benevolent gesture enabled India to gain the goodwill of nations. This initiative also gave good publicity to India's indigenous vaccine, 'Covaxin', Made in India vaccine, 'Covishield' and India's credentials as the world's major producer of vaccines.

Source: Amiti Sen, "India's 'Vaccine Maitri' initiative earns praise at WTO", Business Line, 3/3/2021

<https://www.thehindubusinessline.com/news/national/indias-vaccine-maitri-initiative-earns-praise-at-wto/article33979754.ece> Accessed on 27/09/2022

18.10 Implementing Publicity Programs

Generally, publicity is aimed at creating awareness, improving the store image, helping the community and improving the community members' goodwill for the store. Retailers can generate publicity by organizing events within the store and/or by sponsoring events outside the store or any other community related activities. Retailers generally organize fund-raising programs for charitable purposes. There are many publicity tools that retailers use, in order to get a favorable coverage for the events they organize - press releases, press conferences, by-lined articles and speeches.

A press release is a statement of facts that a retailer wants to publish in a reliable medium. Special events like fashion shows, opening a new outlet, a festival sale, or any modification in its routine operations are all events that can be published as a press release. Typically, a press release is supposed to contain all the information that a journalist would seek – who, what, when, where, why and how.

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Press releases are generally one or two pages of matter printed on the retailer's letterhead. Big retailers have their own public relations departments that create press releases for the news media.

A press conference is a meeting with the media representatives called by the retailer. Press conferences are usually meant for advertising major news events like the merger of two big retail organizations, or a tie-up with any retail chain for overseas expansion. The news media gets more information through a press conference than from a press release.

Bylined articles are the articles written by any of the most efficient employees of the retailer on a particular issue of the retail industry. For example, the operations head of a retailer can write an article on the category management practices of the industry, with special reference to its own store. These articles are usually published in trade magazines.

Speeches are publicity tools that help retailers express their opinion in a public forum, conference, business gathering, or industry group. Most of the speeches are usually covered by the press to generate more publicity.

As advertising is used to target most of the potential customers, publicity is used to reach more people. Favorable publicity is said to boost employees' morale and improve their performance. Though much of the publicity is generated by internal newsletters, magazines, bulletin boards and handbooks, advertising through newspapers, TV and the radio has a greater impact on the employees than internal sources. Like customers, employees rely more on the external sources than on the internal sources. Publicity also has a significant impact on many stakeholders.

Activity 18.2

Make a comparative study of Amazon and Flipkart on their annual mega savings day sale based on five newspaper articles that have made observations and given reviews about these mega events.

Check Your Progress - 2

6. Which of the following is a process of developing and implementing a retail communication program that creates an image of the retailer in the mind of the consumers, against the backdrop of the images of its competitors?
 - a. Targeting
 - b. Segmenting
 - c. Communicating

- d. Positioning
 - e. Promoting
7. Thumb rule method uses historical data about the retailer's sales and promotional activities to determine the current promotional expenditure. Which of the following are the three types of thumb rule methods?
- a. Affordable method, Percentage of sales method, and Competitive parity method
 - b. Affordable method, Percentage of profit method, and Competitive parity method
 - c. Capable method, Percentage of sales method, and Competitive parity method
 - d. Affordable method, Percentage of sales method, and Competitive superiority method
 - e. Affordable method, Percentage of sales method, and Competitive parity method
8. The various methods of communication used by retailers have their own advantages and disadvantages. The advantages and disadvantages of these communication methods can be analyzed on the basis of four factors. What are they?
- a. Control, flexibility, creativity and costs
 - b. Control, flexibility, credibility and costs
 - c. Control, flexibility, credibility and profit
 - d. Control, feasibility, credibility and costs
 - e. Control, flexibility, consistency and costs
9. Under vertical cooperative advertising, the advertising costs are shared by which of the following?
- a. Distributor and manufacturer.
 - b. Manufacturer and wholesaler
 - c. Retailer and distributor
 - d. Retailer and manufacturer or wholesaler
 - e. Retailer and supplier
10. Which of the following is price bundling?
- a. Multiple price units
 - b. Price Lining
 - c. Price range
 - d. Price clubbing
 - e. Discounted price
-

18.11 Summary

- Advertising, sales promotions, store atmosphere, public relations, personal selling and the word of mouth are the tools used by retailers to communicate with their target customers.
- All these components of the promotion mix must be combined properly to develop an integrated marketing communication system, for customers to have a clear and distinct image of the retailer.
- Retailers develop a promotional mix in order to accomplish several objectives, such as positioning of the retailer, increasing the customer traffic, increasing the sales, announcing special events and providing information about the store location and the merchandise offered.
- Determining the promotional budget is a significant task of the retailer. Retailers should use the marginal analysis method for determining the promotional budget, as it is the most appropriate method for determining this budget, which can accomplish the objectives of the retailer.
- The marginal analysis method helps to find out the level of promotional expenditure that maximizes the profits generated by the promotional mix.
- Retailers spend the largest portion of their promotional budget on developing advertisements and on sales promotion activities. The retailer has a wide choice of media for advertising itself, its products and its services. While every medium has its own merits and demerits, advertising through newspapers is effective for announcing 'sales' and reaching a larger population, and advertising through TV facilitates the building up of a retailer's image.
- Generally, sales promotion activities are intended to meet short term objectives, like increasing the customer traffic in the store during weekends. Though promotional tools like publicity campaigns and word of mouth provide the most reliable information to the target customers, these two are very hard to control.
- Retailers usually follow a six-step process in developing their advertising campaigns. It involves developing the advertising objectives, determining the advertising budget, developing the message, selecting the media, scheduling the advertisements and measuring the effectiveness of the advertisements.
- Most of the retailers generally adopt the Cost per Thousand Method for measuring the effectiveness of advertising in the various media activities.
- However, the sales promotion activities and publicity campaign of a retailer must be in complete agreement with his overall promotional objectives.

18.12 Glossary

Advertising: Advertising can be defined as any paid form of non-personal communication and promotion of goods or services by an identified sponsor.

Audience Selectivity: It is the ability of the media to convey the message to a specific target audience within a larger population.

Encoding: The process of representing the message in the form of words, illustrations and images.

Frequency: It can be defined as the number of times a target customer is exposed to the advertisement. Deciding the appropriate frequency depends on what the retailer wants to achieve through the advertisement.

Immediacy: This is related to the ability of the media to convey messages on time. For instance, advertisement messages can be prepared and aired within a day on the radio.

Lead Times: Are different for different media. For example, a retailer can place an ad in a newspaper a little while before the publishing of the paper, but in order to place an advertisement in a magazine, he would have to submit it weeks or months in advance.

Message Life: This is the duration that the message is available for the target customers.

Noise: The distortion during the process of communication, that leads to customers receiving a different message than the one originally transmitted. Noise can arise because of a number of reasons like poor TV reception, distraction by someone, or the competitors' message.

Point of Purchase (POP): Displays on the floor, counters and windows remind the customers about products and stimulate their buying impulse. Sometimes displays are provided by the manufacturers.

Press Conference: It is a meeting with the media representatives called by the retailer. Press conferences are usually meant for advertising major news events like the merger of two big retail organizations, or a tie-up with any retail chain for overseas expansion.

Press Release: It is a statement of facts that a retailer wants to publish in a reliable medium.

Public Relations: Public relations are a form of unpaid impersonal communication. It is the process of reaching the target customers through an unpaid and impersonal manner.

Sweepstakes: The participants fill an application form and a winner is chosen randomly.

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18.13 Self-Assessment Test

1. What do you mean by communication? Explain its various elements.
2. What are the various methods of communicating with customers?
3. Explain the various methods of fixing promotional budget.
4. Explain the process of evaluating the effectiveness of advertisements.
5. Elucidate the criteria of selecting an advertisement medium.

18.14 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.

18.15 Answers to Check Your Progress Questions

1. (d) Promotion

Promotion involves providing information to the consumer on the retailer's store, its merchandise and services it offers, and influencing the perceptions, attitude and behavior of the consumers towards the retailer.

2. (a) Sender, Encoding, Message, Media, Decoding, Receiver, Response, Feedback, Noise

The communication process involves the transmission of meaningful messages to the target market by the retailers. Typically, a communication process consists of Sender, Encoding, Message, Media, Decoding, Receiver, Response, and Feedback and Noise.

3. (c) Informing, persuading and reminding

Informing, persuading and reminding are the key functions of the retail promotion program.

4. (e) Membership cards that rewards regular customers

The common sales promotion techniques used by retailers are contests, sweepstakes, coupons, frequent shopper/frequent flyer programs, prizes, samples, and membership cards. Out of these, membership cards and rewarding of regular customers (option 'e') help in customer retention to a greater extent.

5. (c) Advertising

Any paid form of non-personal communication, and promotion of goods or services by an identified sponsor is called advertising.

6. (d) Positioning

Positioning can be defined as the process of developing and implementing a retail communication program that creates an image of the retailer in the mind of the consumers, against the backdrop of the images of its competitors.

7. (a) Affordable method, Percentage of sales method, and Competitive parity method

Thumb rule method uses historical data about the retailer's sales and promotional activities to determine the current promotional expenditure. The three types of thumb rule methods are, Affordable method, Percentage of sales method, and Competitive parity method.

8. (b) Control, flexibility, credibility and costs.

The various methods of communication used by retailers have their own advantages and disadvantages. The advantages and disadvantages of these communication methods can be analyzed on the basis of four factors – control, flexibility, credibility and costs.

9. (d) Retailer and manufacturer or wholesaler

Under vertical cooperative advertising, the advertising costs are shared by the retailer and the manufacturer or the wholesaler.

10. (d) Price clubbing

Price Bundling is clubbing of price to give an attractive offer to customers.

Unit 19

Application of IT in Retailing

Structure

- 19.1 Introduction
- 19.2 Objectives
- 19.3 Information Technology: Concepts and Definitions
- 19.4 Growth of IT in Retailing
- 19.5 Capturing Point of Sale (PoS) Data
- 19.6 IT: A Tool for Competitive Advantage
- 19.7 Use of Database, Data Mining and Business Intelligence in Retail Marketing
- 19.8 E-Commerce and E-Retailing
- 19.9 Future Trends
- 19.10 Customer Relationship Management in Retailing
- 19.11 Summary
- 19.12 Glossary
- 19.13 Self-Assessment Test
- 19.14 Suggested Readings/Reference Material
- 19.15 Answers to Check Your Progress Questions

“Take information technology. We have winners implementing CRM (Customer Relationship Management systems) and losers implementing CRM. What matters in technology is that the technology actually drives either cost reduction or superior strategy execution.”

- Tahl Raz, Award Winning Journalist and Author

19.1 Introduction

Tahl Raz, who is a storyteller of big ideas in technology, business and social sciences, clearly points out that investment in information technology pays when it is directed towards cost reduction or superior strategy execution. Both cost reduction and superior strategy execution gives a company a clear competitive advantage.

Satisfactory customer service is the key to success in retail. Over years, retailers have been using technology to gear up and support the increase in consumer demand. With the advent of information age, consumers are getting technology savvy. Their shopping behavior has visibly changed and more than anything else their expectations have changed. Retail is all about getting the attention of the

buyer, increasing footfalls to the store, connecting to the customer and getting customers to buy most of their purchases in the same shop. In this high volume business, Information technology has a key role to play in enhancing customer satisfaction. Retailers are getting technology savvy and are utilizing technology to cut costs and improve customer service by deploying IT processes in the following areas of operations of a retail enterprise: Supplies, stock control, logistics and customer service.

The current retail business environment is fretted with the challenges posed to profitability and survival. Competition is a major challenge that hurts profitability and to counter this challenge, retailers need to understand consumer demand in real time at the point of interaction. IT solutions that enable insights on customer perceptions and demand in real time are the key to crafting retail strategies that would win customers. Competition and regulation have also reduced the margins in retail business. Margins have become so low that to ensure long term survival, retail businesses have to get super-efficient. IT systems that monitor and control business processes help retail businesses in: achieving the desired efficiency and sustaining the business in the long run.

In the previous unit, we discussed the role of the retail promotion program, planning retail communication program, allocating the promotion budget, implementing advertising, sales promotion and publicity programs and evaluating the effectiveness of advertising.

In this unit, we will discuss the role and growth of IT in retailing, e-commerce and e-tailing.

19.2 Objectives

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

- Define the various concepts of Information Technology for application in retail business
- Capture PoS data for increasing sales and improving business functionality
- Explain the role and growth of IT in retailing for redefining customer experience and achieving competitive advantage
- Analyze the large quantum of data generated for building business intelligence
- Emphasize the role of e-commerce and e-tailing in retail to expand customer base
- Predict the future trends in retailing to keep pace with the expected growth potential
- Discuss the essential nature of customer relationship management in retailing that drives business growth

19.3 Information Technology: Concepts and Definitions

Advancements in Information and Technology have resulted in the creation of IT based solutions to increase the effectiveness of a retail enterprise. IT solutions are being applied in backroom operations like stock control, logistics, accounting and financial management, HR management and in customer service operations like billing, etc. The various hardware and software tools used by retailers could be broadly classified into 3 broad areas based on their applications: Customer interface systems, Operation support systems and Strategic decision support systems.

Customer interface systems: A company's objective is to help its customers and the following IT solutions help enhance retailer customer interface.

- *Bar coding and scanners:* Point of sale (PoS) systems using scanners read the bar code in products to identify the products. PoS systems use pre-stored data to calculate the cost and generate the bill for the customer.
- *Tunnel scanning system:* Uses a battery of imaging scanners on all sides to read bar codes and optical character recognition technology (to read letters and numbers) is the latest innovation in PoS self-checkout systems. A consumer can push his shopping cart through an electronic gate to the point of sale and just pay the bill.
- *Radio Frequency Identification (RFID):* RFID, a technology that prevents piracy, relies on a small chip (to store data such as serial number, price of purchase record) that is implanted in a tag that can be attached to merchandise.
- *Payment:* Customers are aware that they need not carry cash to shop, because most retail stores accept payment through credit and debit cards.
- *ECC (Electronic Cheque Conversion):* It is a new innovation when installed and utilized by a retailer, allows the retailer to process cheques rapidly at a much lesser cost without paperwork. The system allows for the cheque to be scanned through a cheque reader or imager which captures all relevant information in the cheque after which the cheque is stamped and returned to the customer. The service providers charge a nominal fee for verification and guarantee of cheques to reduce the risks associated.
- *Internet:* Advancements in internet technologies and popularity of smart phones have led to the growth of E-Commerce and mobile commerce. Brick and mortar retail stores have responded to this challenge by integrating the physical and electronic channels to create Omni channel. Thus, by delivering a seamless customer experience, irrespective of the channel, retail stores are using the powerful internet and social media to facilitate customer interface.

Operation Support System: Retailers are under tremendous pressure to optimize in-store operations by improving performance (increase revenue, enhance customer service) without increasing operational costs. Retail store operations involve the following functions: supply chain and logistics, merchandise management, marketing and sales. The various IT based solutions and systems that help improve performance in operations are given below.

- *ERP system:* An ERP system is a software package that imparts efficiency in the retail organization by integrating all the data and the processes. It uses a central database to store all data pertaining to the various system modules and enables monitoring and dispatching of the necessary information as the merchandise navigate from the supplier to the point of sale.
- *Retail ERP systems:* Provide components customized to cater to the specific requirements of retail organizations, support for retail operations like management of retail tasks, tracking of inventory, ordering and replenishment, flexibility to operations, reliable information for quick decision and planning, support for merchandise management, support for supply chain management and execution.
- *CRM:* The following sources provide key customer data: Point of Sale billing, customer loyalty programs, social media interactions with customers and internet. Data warehousing and mining technologies enable retailers to extract meaningful information out of the customer data collected and integrated. The information collected through CRM system, coupled with customer research enable retailers to formulate customized offers and loyalty programs to valued customers, which in turn would keep these valued customers loyal.

Example: Sathguru's Retail ERP Software 'Retail Viva'

Sathguru, a Hyderabad-based ERP Software company, designed its Retail ERP, 'Retail Viva' in 2007. 'Retail Viva', one of the most innovative and advanced retail software, was designed with a vision to digitize retail activities in a controlled way and help retail firms navigate some of the most complex merchandising challenges. The power of advanced analytics enables retailers take well informed and intelligent strategic decisions. On 3rd January 2022, Sathguru announced that it was moving its flagship retail ERP product 'Retail Viva' to the cloud. The company also unveiled another variant of 'Retail Viva', 'Retail Viva Lite' (on cloud) for small and medium sized retail companies. Both these products together cover all segments (large, medium and small sized retail firms) of the retail industry.

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Modern retailers of the digital era look for agile retail solutions that enable their administrators to manage store operations from any place and at any time. Sathguru's multi-module architecture helps automate all retail activities. It takes away the stress of retail administrators and in the process enables them to focus on their core activity, which is serving customers.

Source: "Sathguru Soft announced the movement of its flagship Retail ERP product, Retail ViVA to the cloud, Newswires, 3/01/2022

https://www.einnews.com/pr_news/559710031/sathguru-soft-announced-the-movement-of-its-flagship-retail-erp-product-retail-viva-to-the-cloud Accessed on 1/10/2022

Strategic Decision Support System (DSS): Modern retailers have the option of using sophisticated DSS that can give them a competitive advantage by facilitating intelligent decision making and also identify inventory models that reduce wastage and optimize operations. Retailers have benefited from DSS in

- DSS can perform a range of tasks like generating meaningful sales forecasts, identifying customer buying trends, product lifecycle forecasts.
- DSS can rate various sales promotion schemes in terms of their effectiveness in increasing footfalls and sales revenue.
- The buying patterns of residents of a geographic area can be studied and these inputs can help in decisions like store site location, optimal store size, floor space etc.
- Visual merchandising is an exercise undertaken to gain attention, engage and motivate target customers to purchase goods displayed for sale. DSS allows for analysis of costs, comparison with revenue generated and provides for change of visual merchandising plan periodically to optimize results.

19.4 Growth of IT in Retailing

Technology is pervading the retail scape from the entry point to the point of exit and redefining customer experience. The IT sector too is targeting the Indian retail industry because: customers are getting technology savvy and expect big retail stores to provide better customer service which is possible only by deploying IT solutions; there is a greater need to cut costs by using IT solutions than never before.

IT has become inevitable to the modern retailer for the primary reason that it imparts efficiency to modern retail businesses by integrating data from different sources and making it accessible and available to the right persons at the right time. As a tool for the retailer, IT aids in decision making by generating meaningful information out of data. At the point of sale for instance, IT helps in billing. The billing clerk scans the products and prepares the bill very quickly and efficiently. The customer is happy because his waiting period is minimal and the service is very efficient. If the customer is a regular customer, the bill clerk scans the customer id and all data relating to the purchase gets stored. This data when

integrated with the data collected from other billing counters and other touch points gets integrated and converted to provide a wealth of information. The growth of IT in retail business is thus due to the following applications of IT in retail business.

- IT helps in the collection of the following data relating to consumers: their purchases, purchase behavior (frequency of purchase, size of purchase, the demographic, psychographic details of customers, etc.), consumers' reaction to various schemes, promotion offers, their tastes and preferences, perceived value of merchandise.
- IT facilitates keeping track of merchandise sold and the balance inventory. It can give alerts for reorder, in the case of products whose inventory fall below a minimum level and hence need replenishment. For instance, in the case of fast moving, fashionable merchandise with short product life cycle, crucial information on sales trends, forecasts, etc. would help in planning of: minimum inventory levels, reorder and replenishment required and pricing of products. IT systems, thus help in preventing stock out, facilitates in planning timely markdowns and appropriate reorder and replenishment of stock sold.
- IT helps in integration of data collected from various touch operations. Since the employees have access to crucial information, their efficiency in servicing customers gets enhanced considerably. For instance: Billing gets done faster, reordering of goods is done precisely, stock out situation is prevented by transfer of products from one retail chain to another or timely reordering, appropriate quantity is ordered.
- Fast and efficient communication between retail chains and warehouses gets facilitated with the use of sophisticated software. Electronic data interchange (EDI) facilitates communication with suppliers and vendors.

Example: Whole Foods Enhances IT Capabilities to Drive Online Sales

'Whole Foods', one of the world's biggest and recognized grocery brand was founded in 1980 and in 2017 was acquired by Amazon. In 2020, when the world was facing the Covid pandemic, Whole Foods witnessed huge growth in online sales, and this led to the company making large investments in areas like online order fulfilment and shipping software systems. To strengthen its IT capabilities the company hired entry-level software developers, software development managers, technical product managers and technical program managers. Whole Foods' investment in Cloud technology and machine learning in 2022 and the following years would provide insights for operations and key decision making. These technologies would provide key insights that constitute the foundation for leveraging optimizations in the retail industry.

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Block 5: Retail Marketing

In the post-covid pandemic era, online grocery sales are expected to increase and hence it would be imperative to optimize the fulfilment of online orders. Technology and IT would play a role in reducing the time spent on order fulfilment and cost reduction.

Thus, investment in IT would improve efficiency, reduce costs and enable speedy order fulfilment. Growth of IT in grocery retailing would directly and indirectly improve customer satisfaction and drive online sales.

Source: Quinton Dol, "22 companies spearheading digital innovation in their industries in 2021", 5/01/2021

<https://builtin.com/corporate-innovation/corporate-digital-innovation-transformation-2021>
Accessed on 5/10/2022

19.5 Capturing Point of Sale (PoS) Data

The shopping exercise of a customer often culminates in the purchase and the time and place of this transaction is called Point of Sale or PoS. At the PoS, the products purchased by the customer are scanned for details like product code, price and billed and the customer in turn makes payment and collects his purchases and departs. Beyond these routine occurrences, PoS is also a place, where valuable data about consumers is collected. Most retail stores use PoS systems to effectively perform the various PoS tasks and also capture customer data. By not only automating their transaction processes, PoS also helps retailers in increasing their functionality by installing a network of data-capturing devices. The various equipments, gadgets, and systems used at this point are: Weighing scale, scanners, touch screens, electronic cash registers and IT based retail software systems.

Universal Product Code (UPC): Most retailers use the UPC. A product's identification code is represented by a series of vertical lines, numbers or both. These lines read by scanners, facilitate instant recording of data like product's model, size, color and other details of products sold. The sales data entered are sent to a computer which helps monitor and control of: inventory, sales level, etc. The UPC, which has now become the dominant technology to process product related data of goods sold also, provides the following benefits: Reduction of errors, information gathering, better inventory management, reduction in waiting time for customers etc.

Electronic data interchange (EDI) and Internet Electronic data interchange (I-EDI): EDI and I-EDI facilitate exchange of information and even exchange of documents like purchase orders, invoices, shipping orders, etc., between suppliers and retailers. Both vendors and retailers enhance their decision making ability by exchanging information on the following: inventory levels, delivery time, unit sales of specific items, replenishment required etc. The UPC scanner forms the basis of the exchange of product related information. Thanks to EDI, retailers are able to maintain stock of all products that are in great demand and avoid stock out

situation. The use of paper involved in placing orders is avoided and the entire ordering and replenishment of merchandise happens on an ongoing basis, very efficiently using standard format, cutting down costs significantly. Incorporating internet communications with vendors, big retailers like Walmart have started using I-EDI. To implement EDI and I-EDI successfully, vendors have to partner with retailers and incorporate these systems to facilitate smooth communication and delivery of supplies.

Capturing relevant customer data at PoS: In addition to making available product related data through UPC, the PoS is also a place where valuable customer data can be captured. Retailers capture customer data through the following methods:

- Retail marketers could collect data at PoS or other counters depending on the nature of the retail business. Often asking too many details at the PoS, especially when there is a long queue may not be feasible and there is a possibility that consumers may get irritated. Here, the cashier at the counter could just ask for the phone number and name and link the customer records to the phone number. A store associate could collect other details and get the customer to sign up for a loyalty program. In the case of certain retail shops like jewelry, clothes, etc., consumers spend a lot of time with the sales staff. Hence sales staffs who get friendly with customers are perhaps the right persons to request for consumer data and create customer records.
- **Loyalty Programs:** Creating a loyalty program has dual purposes: To reward loyal customers, and to capture valuable customer data. Retailers need to decide what information they would require and also what kind of customer insights and analysis would be required for the retail store. Keeping these considerations as the base, a customized PoS software system could be designed for the retail store.
- Loyalty programs help trace demographic trends in retail sales. By connecting sales transactions with customers, relationships between sales trends and specific demographic factors could be traced. A regular customer could be given some incentive to provide demographic details and other details like telephone/mobile number etc. at the time of registration. The customer gets a unique membership number that qualifies him to get SMS alerts about sales offers, new arrival of merchandise, contests, sweepstakes, special festival offers, etc. In addition loyalty card holders would qualify for extra benefits on purchases. The PoS software provides for a process to scan the loyalty card and categorize the transactions that follow under the loyal customer's account. A customer-centric, well designed program helps a retailer obtain insights on sales trends, such as: top selling products according to gender, age and pin code, revenue trends associated with specific geographic locations or demographic groups, etc.

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- **Define triggers to implore customers into action:** If a customer purchases a consumer durable, say, washing machine, a possible trigger could be to ask him to sign up for a 5 year warranty. Similarly, a customer who purchases goods worth INR 800 could be prompted with an offer of goods worth INR 1200, on purchase of goods worth INR1000. These triggers could provide a wealth of information on the customer's response to various offers and triggers.

Example: How Zara Benefits through Customer Information Generated by POS and PDA Systems

Zara, a fashion retail store that seldom invests in advertising, has achieved unparalleled success in the fashion industry. A typical Zara customer visits the store 17 times on an average in a year. Zara uses data analytics to disrupt the fashion market. Its store managers use insights provided by data analytics to decide what assortment of products each Zara store should carry.

Zara staff use Personal Digital Assistants (PDAs), which are computing devices for mobile use outside office setting, to gather customer inputs, engage with customers and get customer feedback. Chats with customers focus on what clothes Zara should carry and related topics like the design preferences of customers etc. The pile of clothes that customers tried buy did not buy give clues on what designs customers avoid or don't prefer.

The Point-of-Sale System (POS) captures customer purchase information. POS provides specific purchase information like how garments got ranked in terms of sales. PDAs are linked to POS and this helps store managers circulate updates on customer preferences. Based on the valuable information captured, Zara managers plan styles and issue rebuy orders. Thus, POS and PDAs together provide valuable customer information and help improve the quality of decisions and design of fashion clothes by the planning teams.

Source: Zara Case Study, Harvard Case Solution and Analysis

<https://www.thecasesolutions.com/zara-case-study-69729#:~:text=The%20company%20has%20the%20capacity,example%2C%20Linux%2C%20Windows%2C%20or>

Accessed on 5/10/2022

19.6 IT: A Tool for Competitive Advantage

Retailers have realized that to succeed they need to be close to customers and markets and IT is an important tool that provides a competitive advantage because it facilitates this closeness. Retail Information System (RIS) is a means of collecting, categorizing, integrating, analyzing and storing data that is put to use in strategic decision making to improve retail processes. IT driven high tech RIS is a database warehouse that integrates smaller databases.

As retail businesses grow in scale, the distance between customers and the people making strategic business decisions increases. Store line management focuses on managing the stores. There is very little time for people to discuss customer trends before procuring merchandise. RIS gives a competitive advantage by integrating data from various operations and providing a singular view of data collected from diverse departments. The retailer must have a good understanding of the performance of the business through analysis of the Key Performance Indicators (KPI). In the present retail scenario that is highly competitive, strategic decision making should be powered with perfect analysis and accurate predictions. The following are a few of the benefits of RIS:

- RIS ensures that all areas are completely integrated into the system. Also facilitates continuous updating of data.
- With UPC, PoS systems and EDI, retrieval of data or information pertaining to price, inventory or sales could be retrieved in less than a second and communicated to other departments and suppliers.
- Armed with accurate information about inventory and sales trends, optimal level of reordering could be done with suppliers (Economic order quantity (EOQ)).
- RIS facilitates analysis of sales trends of individual products, product lines, monitor sales of new arrivals etc. Consumer responses to the promotion schemes, offers could be understood. RIS also helps in creating effective loyalty programs.

19.7 Use of Database, Data Mining and Business Intelligence in Retail Marketing

Any retail organization generates large amounts of data in their day to day business transactions and operations. With the help of this data, retail businesses build business intelligence to gain greater insights on their consumers, their buying trends and behavior. Further, with IT driven systems that analyze the data collected, they also predict sales trends. Business Intelligence is in a way a Decision Support System (DSS) that facilitates the following functions: spot and mine data, analyze the data and make predictions on sales trends and make sales forecasts etc.

The scale of business done by retail companies is increasing. Simultaneously retailers are doing business through multiple channels (in-store and online). Retail businesses are thus sitting on a warehouse of data and the scope for data mining to identify consumer behavior, forecast sales, predict shopping patterns and trends in retail businesses is enormous.

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Example: How Zulily uses Data Analytics and Machine Learning to Experiment and Predict Consumer Behaviour

Zulily LLC, an e-commerce company based in Seattle, launches thousands of new deals and products every day, from apparel to footwear to home décor, sourcing discounts for customers on all products. For customers using their mobile phones or other gadgets to shop, shopping is fun as it helps them find unique products at incredibly low prices. Zulily, an online intermediary connects customers with the ecosystem of vendors.

Zulily's marketing, merchandising and technology teams operate efficiently based on insights and data solutions provided by its team of data analysts and data scientists. For instance, in 2020, Zulily's marketing and merchandising team focused on product categories like bakeware, arts and crafts, toys and outdoor playsets based on the insights provided by its team of data analysts and increased sales and profits. In 2021, Zulily focused on pairing business analysts with machine learning engineers to assess the quality of site experiences and test the results of new marketing initiatives and other data-driven projects.

The company strongly believes that machine learning, data analytics and data science have converged. In the past, business analysts helped review past business performance. In 2021, as business analysts work along with machine learning engineers, they are able to create new and better ways to measure, test and forecast customer behavior as they respond to company advertisements and engage with content messaged to them. As e-commerce grows, machine learning and data analytics together can help measure the lifetime customer value.

Source: Quinton Dol, "22 companies spearheading digital innovation in their industries in 2021", 5/01/2021

*<https://builtin.com/corporate-innovation/corporate-digital-innovation-transformation-2021>
Accessed on 6/10/2022*

19.8 E-Commerce and E-Retailing

The internet is an excellent medium to communicate, promote and distribute goods and services to customers. E-Commerce is a retail medium that facilitates buying and selling of goods and has its application in: 'Consumer to Business, Business to Business and Intra-organizational'.

Valery Zwass (1992) defined e-Commerce as:

- "The sharing of business information, maintaining business relationships, and the conducting business transactions by means of telecommunications networks"
- E-Commerce facilitates the following functions: Electronic presentation of information about company and goods and services offered, electronic

publishing of advertisements, electronic posting of product information and service offerings. Customers, in turn, can make inquiries and complaints and in return receive e-mails as replies to their queries. e-commerce sites support customer service. Further, e-commerce sites enable complete handling of the transaction by facilitating order taking, bill presentation and online payment. Internet Commerce is about businesses using the network to achieve business goals. Many retail businesses are using online channels to support and also compete with e-commerce players like Amazon and Flipkart.

- The following are the advantages of E-Com: Facilitates easy buying and selling of products and better servicing of products; enables buying and selling of products and services 24/7; customers can compare price and product features and make informed choice; a low cost set up because it does not require extensive floor space or parking facilities.

The internet helps the retailer in ‘fulfilling’ customer needs by delivering customer orders quickly and accurately. Electronic retailing (e-retailing) is one such technology which is used by the retailer for meeting customer demands. It has evolved as a subsection of e-commerce.

E-retailing: Amazon.com uses the internet and sells physical goods to the end users. We can say that Amazon.com is an e-commerce company and an e-retailer. E-retailing (which includes B2B and B2C) is an electronic delivery system connecting the retailer to the consumer. Also called e-tailing, online retailing and internet retailing, it is defined as ‘a retail format in which the retailers communicate with customers and offer products and services for sale over the internet’. One specific benefit in this system is that it does not warrant direct human interaction for transactions to take place. Through technological convergence, e-retailing compensates the paucity of time faced by consumers to visit the physical store and make purchases. E-retailing has been showing positive growth signals due to its increasing usage by many retailers across the globe.

If electronic retailing is done through a mobile device, then it is termed as m-commerce. Thus, e-retailing is expected to shape the future of retail industry which is now facing Gen Z consumers.

Example: Walmart Leverages on its E-Commerce Capabilities to Launch New Delivery Service for Local Online Retailers

In August 2021, Walmart launched ‘Walmart GoLocal’, a new delivery service business which was expected to be a big boon for other local retailers. The service would enable other merchants to use Walmart’s delivery platform to get purchase orders and ensure efficient delivery of the same.

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Local retailers can opt to use a range of services which includes same-day delivery or scheduled and unscheduled deliveries. Merchants can also opt to increase their delivery coverage and capacity as their business demands.

Walmart initially developed the 'GoLocal' service capabilities by incorporating new technologies, self-driving cars, and delivery drones for its own delivery needs. Since 2019, Walmart has been working to improve its in-house Express Delivery Service to compete effectively with E-Com major Amazon. With 'GoLocal' Service, Walmart has developed the capabilities to deliver purchase orders in two-hours or less. More than 16,000 Walmart store products are delivered to 70% of the US population using these services.

From August 2021 onwards, other merchants too would be able to tap into Walmart's delivery platform and get products delivered to their customers. Amazon developed similar services called 'Amazon Shipping' to compete with FedEx and UPS and later dropped the idea. Industry experts feel that 'GoLocal' would not directly compete with FedEx or UPS as was the case with Amazon.

Source: Frank Holland, "Walmart launches delivery business to connect other local retailers with consumers", CNBC, Retail News, 24/08/2021.

<https://www.cnn.com/2021/08/24/walmart-launches-delivery-business-to-connect-other-local-retailers-with-consumers.html> Accessed on 02/10/2022

Activity 19.1

Visit a retail store in your locality and interview the manager to understand how the bar code works after you pay for the products purchased. Make a flow chart to illustrate the flow of information to various departments and how it is used. Also, pose queries on possible disadvantages of the bar code system.

Check Your Progress - 1

1. E-purchasing has its drawbacks and problems. Which of these is the most important barrier to expanding electronic links with customers and partners?
 - a. Security
 - b. Privacy
 - c. Cost
 - d. Lack of correct technology
 - e. Poverty

2. The term e-commerce includes which of the following?
 - a. Electronic trading of Physical goods and intangibles such as information.
 - b. The electronic provision of services such as after sales support or online legal advice.
 - c. All the steps involved in trade, such as on-line marketing, ordering, payment, and support for delivery of all kinds of transactions.
 - d. Business to Customer (B2C) transactions.
 - e. Customer to Customer (C2C) transactions.
3. Which of these systems facilitates communication and transmission of sales data, purchase orders, invoices, and data about returned merchandise which are transmitted from retailer to vendor or within the various departments of a retail organization?
 - a. Data Warehouse Exchange
 - b. iPad and iPod
 - c. Electronic Data Interchange (EDI)
 - d. Data Exchange Software
 - e. None of the above
4. Which of the following is a huge database in which purchase data collected at the sales counter goes into?
 - a. Database warehouse system
 - b. Cloud
 - c. EDI
 - d. PoS system
 - e. PDA
5. Which of these about RFID is not true?
 - a. RFID helps reduce theft and shrinkage.
 - b. RFID technology could facilitate faster checkout.
 - c. RFID technology is less expensive compared to other technologies.
 - d. RFID technology could be used to check inventory.
 - e. RFID relies on a tag and the tag could be attached to merchandise, inventory or even pet animals.

19.9 Future Trends

With millennials giving way to Generation Z³, the latter have taken the digital charge, who have also become the drivers of retail boom. It is high time that retailers should respond to the demands and needs of consumers if they have to

³ People born between mid-1990s and early 2000s are termed as Generation Z.

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survive and thrive in the coming years. Some points of consideration regarding the future of retail sector are:

- In the future, more brick and mortar retailers are likely to venture into omnichannel retailing. In-store retailers would give a range of options to their customers like: buying online and picking up the products in-store; facility to return in-store, products purchased online. Emerging technologies offer omnichannel solutions to provide e-commerce features in brick and mortar retail stores. Customers can view merchandise that is not on the shelf (but perhaps in the stock room) and place orders on the spot.
- Beacons, invented by Nokia (iBeacon- Apple) are devices that communicate with a smart phone in an in-store environment through a Bluetooth signal. Brick and Mortar retailers would leverage the low cost beacon technology to enhance in-store shopping experience by connecting online behavior with offline sales.
- Most branded stores are equipping their outlets with iPod, iPhone or other devices to allow for credit or debit payments in-store.
- Digital signage, virtual mirrors (that overlays the digital image on top of the normal mirror to help customers take a look at how costumes fit them), virtual mannequins and other digital technologies would be used in retail stores to enhance in-store customer experiences.
- Retailers are likely to leverage social media to: engage customers, collect valuable insights on customer preferences for merchandising decisions and even sell products.
- Big retail chains may introduce mobile apps to facilitate convenient buying of goods and services.

Example: Augmented Reality, a Future Retail Trend

Well-known retail brands like Tanishq, Bhima Jewelers, Kalyan Jewelers, Forevermark and many others have embraced 'Augmented Reality' to create an immersive and interacting shopping experience and enhance their brand image amongst customers. Using AR technology, a customer can walk through the physical store and have interactive experiences of digital version of real-life products from any location using gadgets such as laptops, mobile phones and tabs.

During the pandemic, retail stores swiftly moved into action and adopted AR so that customers could choose products from the given layout, try them virtually and using the same interactive AR tool, confirm the suitability of the product for their needs and requirements.

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The boost that AR received during the covid pandemic lockdown period was so encouraging and hence industry experts expect the AR industry to be worth \$614 billion by 2023. According to Wikitude, an Austria based mobile AR technology provider, 32% of customers worldwide used AR technology (as of 2022) and 73% of smartphone users reported that they were very satisfied with the interactive experiences that AR technology provided.

Retailers who adopted AR reported that digitized versions of SKUs (Stock Keeping Unit) saved inventory space, supported better customer management, and also enabled other cost reductions. Customers too expressed satisfaction because they could choose from a variety of options to which they did not have access in the physical store.

Leading retail brands that adopted AR also reported that after adopting AR tools their sales increased by up to 30%. The increase in sales was possible because of efficient customer engagement.

The increase in adoption rate of AR augurs well and AR would be a prominent future trend that would dominate the retail industry.

Source: Meghna Saraogi, "Augmented Reality with Omnichannel Changing Retail Business", *Times of India*, 11/9/2022

<https://timesofindia.indiatimes.com/blogs/voices/augmented-reality-with-omnichannel-changing-retail-business/> Accessed on 2/10/2022

19.10 Customer Relationship Management in Retailing

"A sound and well-rounded customer relationship management system is an important element in maintaining one's business in the retail marketing industry. Not only is customer relationship management a business strategy but it is also a powerful tool to connect retail companies with their consumers. Developing this bond is essential in driving the business to the next levels of success"—Microsoft Dynamics CRM. According to Levy, Weitz and Pundit (2012), customer relationship management refers to the business philosophy and strategies adopted by retailers aimed at identifying and building long term relationship with customers. One way to develop a strong customer relationship is the use of customer loyalty programs. Customer loyalty programs provide incentives to customers to ensure that they are committed to buying merchandise & services from their retailers and resist the activities from competitors attempting to attract their patronage. CRM is an iterative process that helps retailers effectively use customer data to develop customer loyalty programs. It involves three activities (i) collecting customer data; (ii) retail analytics; and (iii) developing CRM programs for implementation.

- i. **Collecting Customer Data:** The first step towards developing effective loyalty programs is to gather customer information related to transaction, customer contacts, customer preferences, descriptive information and their responses to marketing activities in the past.

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- ii. **Retail Analytics:** Retailers then analyze the data collected through application of statistical techniques and mathematical models. Some common techniques employed are as follows:

Market Basket Analysis: It is a statistical technique used to examine the composition of the basket or bundle of merchandise purchased by customers during their shopping trip. Using the transaction data, retailers are able to identify the combination of merchandise purchased by the consumers. It is used by retailers to get better insights on designing the store layout in a way that maximizes the cross selling opportunities.

Similarly **Customer Lifetime Value (CLV) Analysis** is used by retailer to understand the expected contribution which a customer or a segment of customers make towards retailer's profitability over their relationship with their retailers. CLV is estimated by taking into account the gross margin provided by customers from purchases, cost of customer acquisition (e.g. advertisement), the probability that a customer will continue doing business with the retailer, rate at which the value of rupee depreciates/appreciates in a given period, and the expected number of years for which a customer is likely to stay with the retailer.

RFM Analysis is often employed by retailers (especially catalogue retailers) to determine their target customers based on their recent time of purchase, frequency of purchase and monetary value of purchase in a specified time period. Based on the above data, retailers segment their customers into various groups following which they select the most profitable customer segment, i.e., customers who have made a recent purchase, frequently purchase merchandise from the retailer and make a substantial value of purchase.

The above techniques are used to observe patterns in customer purchase behavior and make recommendation for improving the effectiveness of customer loyalty programs.

- iii. **Developing CRM programs for implementation:** Having identified the most loyal customers, the retailers then develop CRM programs using following four approaches viz.
 - i. Frequent shoppers program
 - ii. Excellent customer service
 - iii. Personalized offerings
 - iv. Building brand community

Frequent shopper programs are used by retailers to not only build customer database but also to encourage customers' revisit and repurchase behavior. However, the success of such programs is subjected to following conditions: (a) the extent to which customers value the rewards given by the retailers and whether the rewards are tiered based on the volume of purchase made by customers or not;

(b) the extent to which they offer alternatives to customers with respect to rewards given by the retailers; (c) the linkage between frequent shoppers program and charitable contributions made by the retailers; (d) whether the retailer encourages repurchase behavior by rewarding all the customer transactions; and (e) the level of customer understanding about the underlying process of frequent shoppers program.

Retailers may also foster long term customer relationship by focusing on providing excellent customer service to their most loyal customers.

Availability of customer level data has enabled retailers to offer unique merchandise and personalized messages to individual customers (termed as One to One marketing). The examples include greeting the customers by their name and recommending the merchandise to them which the customers prefer to buy. The online channel has provided retailers with the opportunity to automate the process of One to One marketing. Many e-tailors use site registration as a means to personalize their offering based on customer characteristics such as demographic characteristics and their expressed interests.

A retail brand community refers to “a group of customers who are bound together by their loyalty towards a particular retailer and the activities in which their retailers engage.” Members of the brand community share common interest and actively participate in activities concerned with their retailer. They share positive word of mouth about their retailer and refer it to others including their friends, relatives and family members. They feel obligated to help other customers who are members of the community by sharing their experience and merchandise related information.

CRM also deals with identifying the underlying reasons behind customers becoming unprofitable (e.g. switching to competitors due to high level of dissatisfaction with retailer’s products & services or make excessive returns). In such cases, retailers need to provide less costly service to such customers and charge them for any abuse of service.

Example: How Publix Earns Customer Loyalty Through High-Quality Customer Support

Publix, a leading supermarket chain with over 1,253 stores in the US was placed in the top position in Newsweek’s (2021) America’s Best Customer Service list in the supermarket category. Newsweek’s ranking was based on a survey of more than 25,000 respondents who had either purchased or used retail products in the last three years. The final ranking was based on the likelihood of customers recommending the retail store to friends and family and their assessment of various retail stores on professional competence, quality of communication, range of service, customer focus and accessibility.

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Publix's dedication to superior quality is rated as the highest in the grocery business and the store had earned a reputation of playing to the community. Inputs from local customers on various aspects like stock items requested and other aspects of retail service were obtained for immediate implementation. The retail store stood for affordable pricing, quality and excellent customer service. The 'Customer Satisfaction Policy' of the company stated that certain customer service principles were meticulously followed, and this has helped the store to earn the goodwill of customers.

Publix Supermarket uses Chatbots, a live chat interface that uses Artificial Intelligence to perform customer-oriented tasks. They use Microsoft Azure CDN for efficient delivery of web content to consumers. Further the store uses Optimizely Intelligence Cloud for Marketing Analytics. The retail store whose revenue was \$38.10 billion in 2021, is expected to make huge investments in IT applications to improve customer service.

Thousands of customer service stories have been posted by happy and satisfied Publix customers. The high level of customer loyalty proves the point that the retail store's CRM strategies provided high quality customer support.

Source: "Publix Ranked No. 1 Supermarket in America for Customer Service by Newsweek", Business Wire, 14/10/2020

<https://www.businesswire.com/news/home/20201014005979/en/Publix-Ranked-No.-1-Supermarket-in-America-for-Customer-Service-by-Newsweek> Accessed on 2/10/2022

Activity 19.2

Go to two well-known E-Com websites and shop for a product, say a digital camera. What features of these sites were helpful? How do you rate and compare the shopping experiences facilitated by the two E-Com players.

Check Your Progress - 2

6. Individual customer accounts primarily help leading online retailers to increase sales by which of the following?
 - a. Seasonal promotion schemes
 - b. Diwali or festival offers
 - c. Implementing different pricing strategy like high, moderate or low
 - d. Providing value for money pricing
 - e. Customized and personalized recommendations and offers

7. Loyalty schemes have dual purposes. What are they?
 - a. Cut cost and increase customer loyalty
 - b. Build customer data and customer loyalty
 - c. Increase sales and enable cost cutting
 - d. Increase loyalty and word of mouth recommendation
 - e. Improve cross selling and increase customer loyalty
8. RIS collects data about consumer purchase and behavior trends from which of the following sources?
 - a. Historical data
 - b. Competitors data
 - c. Employee data
 - d. Absenteeism
 - e. Inventory data
9. Which of the following helps blending the ease and convenience of online shopping with the reassuring comfort and tactile experience of in-store shopping?
 - a. E-Com
 - b. M-Com
 - c. Mobile First
 - d. Omni channel retailing
 - e. Smartphone
10. Which of these is not true of a digital economy?
 - a. Extensive use of digital technology
 - b. Extensive use of customer data
 - c. Extensive use of automated systems for order processing, billing, and delivery to increase the speed of transactions.
 - d. More retail store focused than customer focused.
 - e. Online selling facilitates access to global customers.

19.11 Summary

- In the present scenario, retailers need to improve their IT capabilities for various reasons. IT systems and solutions help in collecting, aggregating, analyzing and interpreting data for retail decision making in areas like merchandising, pricing, and inventory management.
- IT applications support customer interface (CRM, bar coding, internet enabled messages and alerts to customers, loyalty schemes, etc.), Operating

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systems (inventory and supply chain logistics, ERP for efficiency in managing operations, EDI to facilitate better communications), Decision making (ERP to help take decisions on merchandising, inventory management, pricing etc.).

- Retail Information System (RIS) enables collection of historic data and provides understanding of sales trends with reference to various demographic and geographic segments. They also help predict sales of various product lines and categories.
- E-Commerce players are able to sell merchandise at much lower prices and they are also able to offer convenience as a core benefit to retailers.
- To counter the challenge posed by E-Commerce players, in-store retailers are getting digital and offering a number of in-store digital features like: digital signages, beacon technology to send alerts about discount offers to smart phone holders in in-store environment, virtual mannequins and retail apps.

19.12 Glossary

Bar Coding and Scanners: Bar codes are unique product codes (using vertical lines and numbers) to identify products. Scanners are used to read the bar code in products and are used in billing in PoS.

Digital Signage: Improvements in digital technology have enabled electronic signs that can display content, messages, pictures, price offers in an interactive way. These have replaced traditional bill boards and static print signs.

Electronic Cheque Conversion (ECC): ECC is a new innovation, which (when installed and utilized by a retailer) allows a retailer to process cheques rapidly at a much lesser cost without paperwork.

Electronic data interchange (EDI): EDI facilitates exchange of information and even exchange of documents like purchase orders, invoices, shipping orders, etc., between suppliers and retailers.

E-Retailers: Retailers who use the E-Commerce platform alone to sell their products and services.

PoS: PoS is the point of sale counter in retail shops, where products purchased by the customer are scanned for details like product code and price. Further invoice is prepared and the customer in turn makes payment and collects his purchases and departs.

RFID: It is a small chip tagged to the product which stores product related information. It prevents piracy.

Vendor Performance Analysis: The performance of suppliers on a host of parameters like timely delivery, quality of product, reliability, etc. could be analyzed.

19.13 Self-Assessment Test

1. How does EDI facilitate communication between retailers and vendors?
2. What is a loyalty program? What are the twin objectives of a loyalty scheme? Illustrate with a real life example.
3. How can PoS solutions such as scanners, cash registers and integrated computer systems enhance customer experiences and also help capture customer data.
4. What are the factors that have contributed to the growth of IT in retail?
5. What is RIS? How does it help retailers in decision making?

19.14 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.

19.15 Answers to Check Your Progress Questions

1. (a) Security

Security is the leading barrier to expanding electronic links with customers and partners.

2. (c) All the steps involved in trade, such as on-line marketing, ordering, payment, and support for delivery for all kinds of transactions.

All the steps involved in trade, such as on-line marketing, ordering, payment and support for delivery are a part of E-Com. All other options only explain a part of E-Com's functions

3. (c) Electronic Data Interchange (EDI)

It facilitates communication and transmission of sales data, purchase orders and invoices,

4. (d) PoS or Point of Sale system

Purchase data collected at the point of billing goes into PoS System.

5. (c) RFID

RFID technology is less expensive compared to other technologies.

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All options given about RFID are valid except for option 'c' which is false because RFID technology is expensive. One of the reasons why companies are slow in adopting the technology is its high cost.

6. (e) Customized and personalized recommendations and offers

Data collected from individual customer accounts carry information about the buying behavior of individual customers. Hence, they help increase sales by helping the retailer to make customized and personalized recommendations and offers.

7. (b) Customer data and customer loyalty

Customer data and customer loyalty are the twin purposes of loyalty programs

8. (a) Historical data

RIS collects historical data about consumers.

9. (a) Omni channel retailing

Omni channel retailing blends online and in-store benefits to enhance customer experiences.

10. (d) More retail store focused than customer focused

All options relating to the digital economy except for option 'd' are valid. In the modern digital economy, retailers are highly customer focused as big data analytics provides all relevant information about individual customers and customer groups.

Unit 20

International Retailing

Structure

- 20.1 Introduction
- 20.2 Objectives
- 20.3 Introduction to International Retailing
- 20.4 Growth and Development of International Retailing
- 20.5 Retail Structure in the International Market
- 20.6 Internationalization of Retail Market
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“The biggest sources of opportunity are collaboration and partnership. And today, with digital communication, there is more of that everywhere. We need to expose ourselves to that as a matter of doing business.”

- Mark Parker CEO, Nike

20.1 Introduction

Mark Parker, CEO of Nike states that to stay competitive in the international market, retailers need to consider collaboration. To fulfil customer's growing expectations, retailers need to identify their areas of weaknesses and enter into strategic collaborations to implement initiatives that are beyond the company's strengths.

Internationalization of modern retail started after the Second World War, but, this concept has received greater importance in recent times because it is happening at a very rapid pace. Better transportation facilities, improved infrastructure, lower tariffs and lesser barriers to trade and greater affluence of the people of emerging economies; appear to be the primary reasons for this 'Going global' phenomenon. Many developed nations are facing stagnation in growth rates and many countries in Europe and Japan are under the grip of severe recession. This economic trend in developed nations has compelled some of the leading retailers of those countries to move to Asian countries to pursue their expansion strategies.

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In the Indian context, global retailers have made an impact by changing the consumption behavior, shopping trends and patterns, aspirations and expectations of the Indian consumer. The younger generation in India has greater cross border connectivity and their lifestyles are far more cosmopolitan than ever before. Global retailing has also changed the way in which goods are sourced, warehoused and distributed. Rapid developments in technology have disrupted existing players and forced them to change their retail models. Given this backdrop, this unit discusses the growth of international marketing and its expansion at a global level while entering them through different modes.

20.2 Objectives

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

- State what international retailing means for boosting the stagnating domestic market share
- Explain the growth and development of international retailing for analyzing overseas market
- Analyze the overseas market structure to avoid failure and loss
- Appraise internationalization of retail marketing to chalk out the process of retail operations in the foreign market
- Point out the typologies of international expansion to gain better understanding of the overseas market before commencing expansion process
- Judge and select the market entry mode for being successful

20.3 Introduction to International Retailing

Retail growth saturation in the domestic market opens the gate of ‘survival’ in the international market. The borderless world coupled with technological advancements gives fillip and scope to expand the market boundaries. In this connection, international marketing is not a new concept. Since the late 1980s, many countries in the world which had erstwhile adopted a socialistic structure, initiated changes in economic policies to bring about liberalization, privatization and globalization of their industries. These countries that were left behind in the race of economic growth started witnessing high growth rates and increase in employment, per-capita income and consumption. In the 1990’s, a set of elite retail firms (mainly food and general retail) started expanding overseas to take advantage of the growth potential that prevailed in emerging economies. Walmart’s extensive expansion led to its becoming the world’s largest corporation in the world. Other retail giants like Carrefour and Tesco began to expand overseas and soon fashion and apparel retailers, and leading retailers in other specific categories went global to take advantage of the growth prospects in developing economies.

Internationalization of retailing in a layman's perspective is considered as setting up of overseas retail establishments. Internationalization was spurred by necessity due to reasons like stagnation in the domestic economy and better growth prospects in other countries. Advancements in technology, transportation and communication have facilitated and expedited the growth. Retail internationalization as a concept is much more than increase in the number of overseas retail units and constitutes the following other subjects:

- The various forces that drive retail internalization.
- Trends in internationalization like, in which geographic regions is internationalization taking place and in what retail formats and what categories, internationalization is occurring.
- The flow of FDI and FII and the resultant impact on employment is an aspect that would be of interest to the host country.
- The extent, to which the support functions of retail are internalized, is an aspect that would have implications on the economy of the host country.
- The transfer of retail management expertise as a result of the retail internalization process in the following areas: Management tools, store formats, design concepts (in-store design and layout, merchandising), retail technologies like EPoS (Electronic Point of Sale), RIS (Retail Information System) and EDI (Electronic Data Interchange), marketing and promotion initiatives like loyalty programs, relationship marketing etc.
- The integration of retail processes and alignment of trading partners at a global level.
- The implication of internationalization on host countries' retail industry like: change in retail models, increase in the level of competition and disruption of traditional local retail models.
- The impact of internationalization on the customers: Change in buying patterns, levels of cross border shopping, increase in consumption level etc.
- The implications of internationalization on global supply chain management and logistics. For instance, the elimination of middlemen, where global retailers have established direct links with producers, as in the case of food retail (Global retail giants have established direct links with agriculturists).

To sum up the concept of Retail Internationalization could be defined as the course of increasing involvement in cross national retail operations by committing resources and also taking strategic decisions on retail models, technologies, level of internalization and related aspects to emerge successfully in the host countries and in the global market.

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Example: Walmart Ranked No.1 Global Retailers in Annual Revenue

Walmart was ranked No.1 amongst top 25 global retailers of 2021 in terms of annual revenue compiled by 'Global Data', a data and analytics company. Walmart trailed by Amazon was ranked the top retailer in a similar ranking of top 50 global retailers (2020, 2021 and 2022) by Kantar Group, a data analytics and brand consulting company.

Stalwart leader, 'Walmart', continued to reign supreme by adopting new strategies to survive the global covid-19 pandemic and related supply chain issues. For instance, Walmart procured supplies much early through charter vessels to keep its stock ready for the holiday season to navigate the supply chain challenges.

Walmart restructured its international portfolio by divesting from Brazil (2018) and recession-hit Argentina (2020) and the United Kingdom. These divestments minimized losses. The retail giant also pursued a robust and vigorous omnichannel strategy to serve its customers. With over 10,500 retail stores worldwide, it was able to provide excellent in-store and online services. Leveraging on its logistics advantage, Walmart was able to provide a broad assortment of goods to customers across all platforms. The omnichannel service has attracted high-income shoppers and the value-priced internet access and attractive shopping deals attracted low-income shoppers.

Source: David Marcotte, Senior Vice President, Global Insights and Technology, Kantar, "A look at the 2022 Top 50 Global Retailers, NRF Feature, National Retail Federation, 23/3/2022 <https://nrf.com/blog/look-2022-top-50-global-retailers> Accessed on 7/10/2022

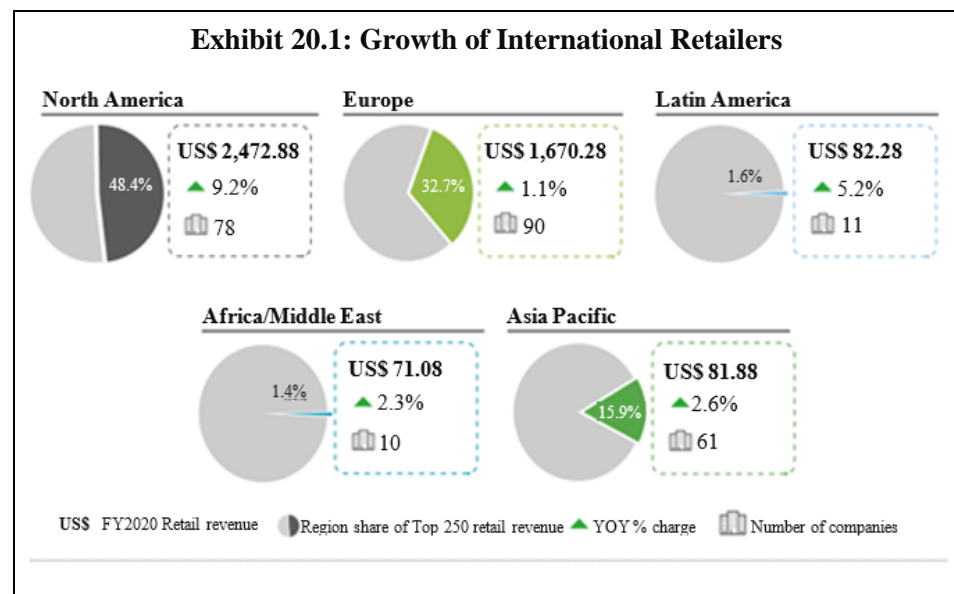
20.4 Growth and Development of International Retailing

Saturation and decline in economic growth have forced leading companies of the West to reconsider their investments in the domestic country. Out of necessity or spurred by ambitions to expand, top retailers have entered emerging markets like India, China, Indonesia, Philippines and a host of African countries to name a few. It has given them an opportunity to generate revenue. This spurt of new avenues has triggered the growth and development of international retailing.

The following observations give an idea of the extent of growth in internationalization of retail.

- A report of Deloitte⁴ on retail trends (2022), states that 250 retailers have expanded globally. The aggregate retail revenue generated by top 250 global retailers was US\$1,769 billion in 2020.
- The year-on-year retail revenue growth was significant for the following retailers (2020): Amazon.com Inc. (34.8%), The Home Depot. (19.9%), Schwarz Group (10%), JD.com (27.6%) and Target Corporation (19.8%).

⁴ Deloitte, "Global Powers of Retailing 2022", <https://www2.deloitte.com/content/dam/Deloitte/at/Documents/consumer-business/at-global-powers-retailing-2022.pdf>, retrieved in November 2022.



Source: Deloitte, "Global Powers of Retailing 2022",
<https://www2.deloitte.com/content/dam/Deloitte/at/Documents/consumer-business/at-global-powers-retailing-2022.pdf>, retrieved in November 2022.

- Exhibit 20.1 gives an idea of the international growth rate of retail in various regions in 2020 (by top 250 global retailers). It is evident from the growth trends that international stores have witnessed significant growth all over the world.

Retail markets in developed economies have become even more competitive because of the disruption caused by E-Commerce. Thus, it is evident that, spurred by a host of factors (stagnation in developed economies, retail boom in developing economies, removal of barriers to globalization, etc.), retail internationalization is taking place at a very fast pace.

Example: Amazon's Growth from an Online Bookstore to World's Most Dominant E-Commerce Company

Very few would have predicted that Amazon, which started off as an online bookstore would go on to become the world's most dominant E-Commerce company offering a range of products starting from books to groceries to high-end-fashion products. As of February 2022, Amazon offered over 350 million product items (12 million Amazon products and 338 million offered by Amazon marketplace merchants).

Amazon's growth and expansion as a dominant global E-Commerce player transpired as the world witnessed an unprecedented surge in the number of internet users.

Contd....

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While brick and mortar stores struggled to internationalize because of the huge investment requirements, Amazon was able to enter a number of countries with its selling propositions of 'low prices', shopping convenience and product variety. Amazon has effectively used advanced data analytics and artificial intelligence to understand buyer behavior and demand. Amazon has put in place an excellent logistics system to deliver goods in less than two days. With its massive warehouses and self-owned fleet of delivery vehicles and drones, it seems impossible for competitors to challenge Amazon when it comes to logistics.

As the number of internet users increase, Amazon would make its onward march and continue to grow and expand worldwide.

Sources: Ethan McAfee, "3 Reasons why Amazon will continue to gain E-Commerce marketshare", *Forbes*, 31/03/2021

i) <https://www.forbes.com/sites/forbesbusinesscouncil/2021/03/31/3-reasons-why-amazon-will-likely-continue-to-gain-e-commerce-market-share/?sh=5a17fc303ab8>

ii) <https://www.bigcommerce.com/blog/amazon-timeline-infographic/#the-amazon-timeline>
Accessed on 7/10/2022

20.5 Retail Structure in the International Market

'Lifting and shifting' domestic operations to international operations without understanding the challenges posed by each unique market could be fatal for the organization. Hence it is inevitable for a retailer to understand the prevailing market structure in the entry nation before trying to expand their operations. Some of the important elements that should be identified by the retailer as discussed below.

Retail Market Structure: The economic theory of firm defines the market structure in terms of the degree of competitiveness which in turn is determined by factors like: Entry barriers, the extent of product differentiation and buyer concentration. In the retail internationalization context, the erstwhile barriers to enter into foreign markets like high tariffs and rigid non-tariff barriers for protection of domestic industries are crumbling. Barriers like distance are getting insignificant due to the advancements in transportation and communication. In the international market, competition between retail businesses prevails at various levels: Competition between international retailers (Walmart vs. Tesco), competition between international and domestic retailers (Marks & Spencers vs. Fab India), and competition between organized and unorganized retail.

Density of Retail Markets: Casual observation of any retail market would suggest that the unorganized retail market tends towards Monopolistic Competition (relatively large number of buyers and sellers) and the organized retail market, which has few large players tends towards Oligopolistic Competition (few retail players in the market). While this observation may be true to a greater extent in the case of Indian retail markets, the same is true in the case of the retail markets in most countries.

Dominance by Big Retail Firms: In developed economies, big retail giants dominate the retail scenario, holding a big share of the retail market. These firms leverage on their size and financial strength and invest in technology and premises to better service their customers. They are also able to strike better bargains for lower prices on purchases from vendors. Their cost leadership, financial strength and size create strong barriers to free entry and have implications on density of the markets (concentration of retail outlets).

Market Concentration: This phenomenon refers to the share of the market held by one big retail firm or retail group. As big retailers become more competitive they are able to garner more market share and impact retail densities. The market structure gravitates towards less competitive market structures like Oligopoly or Monopoly.

The way in which retail is practiced has undergone significant changes because of internationalization in retail.

Example: Retail Structure in India

The Indian retail industry has a monopolistic competition like economic structure with several small-sized kirana stores catering to their retail requirements of small localities. As of 2019, the unorganized sector dominated the retail sector by accounting for 88% of all retail stores. With the organized retail and e-commerce sectors witnessing a surge in growth, by 2021, their share of the retail sector increased to 25% and that of unorganized retail reduced to 75% in 2021.

The organized sector consists of licensed retailers who have registered themselves to sales as well as income tax. The corporate hypermarkets, supermarket and other retail chains are the primary players in the organized retail category.

Foreign Direct Investment in the organized retail sector increased employment opportunities in organized retail and simultaneously lead to shrinking of employment in unorganized retail.

The e-commerce industry in India is dominated by a few players like Flipkart, Amazon, Letsbuy, etc. Customers trust reputed e-com brands due to security issues and the high possibilities of getting cheated while purchasing online. Heavy investments in logistics and the huge capital investment to build strong brands have created strong entry barriers. These factors have created an oligopolistic market structure in the E-Commerce industry.

Sources: 'Structure of the Retail Industry in India', *Economy Watch*, 18/05/2021

i) <https://www.economywatch.com/structure-of-the-retail-industry-in-india>

ii) <https://www.statista.com/statistics/719359/india-retail-industry-distribution-by-structure/>

Accessed on 5/10/2022

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Activity 20.1

A number of global retail groups have entered India during the last two decades. List out the various political, legal, economic, social and cultural factors that have encouraged the entry of global retailers into the Indian markets.

Check Your Progress - 1

1. Which of the following represents the first step in internationalization?
 - a. Joint Venture
 - b. Green field investment
 - c. Mergers and Acquisitions
 - d. Exports through distributors
 - e. Licensing
2. Out of the various options given below, which of the following is an example of FDI?
 - a. A US company purchasing shares worth USD 20,000 of an Indian steel company.
 - b. Ram depositing money in a foreign bank.
 - c. A leading US based fashion and apparel retailer setting up a joint venture with an Indian company to establish a new company.
 - d. A US company exporting goods worth USD 10,000 to India.
 - e. A US company lending money to an Indian company.
3. Which of the following is called as moving a part of the operations of a firm outside the home country to foreign markets?
 - a. Internationalization
 - b. Localization
 - c. Multi National Company
 - d. Global organization
 - e. None of the above

4. Which of the following is called as permitting foreign firms to use the firm's brand name and run the operations?
 - a. Globalization
 - b. Licensing
 - c. Franchising
 - d. Joint Venture
 - e. None of the above
 5. An Indian retail group with little experience in foreign markets wishes to enter the US market. Which of the following entry modes would be best suited for the retail group?
 - a. Franchising
 - b. Green field investments. Buying property and making investments in setting up stores in top cities in the USA.
 - c. Entering into a strategic alliance with a local partner.
 - d. Reaching out to the global customers through E-Com.
 - e. Acquisition of a retail store in the foreign territory.
-

20.6 Internationalization of Retail Market

Expanding beyond domestic country's boundaries helps a retailer in knowledge-gaining and knowledge sharing. Knowledge gaining helps in extending the benefits in the domestic market. Knowledge sharing helps in expanding the market overseas. Retail internationalization is gathering momentum and retailing is fast becoming a global industry. Retail expansion strategies need to be crafted keeping in mind a host of considerations for sustained and meaningful growth in the host countries. Recent history of retail internationalization cites many stories of failure and also errors in decision making that proved to be expensive. Thus, a retail group that wishes to expand overseas, needs to clearly chalk out the retail internationalization process which is a strategic and operational roadmap for setting up retail operations in another country.

The steps involved in the retail internationalization process are discussed below:

Understanding local market: Knowledge of the local retail market environment with reference to the competition levels, consumer expectations and behavior is a first step in the retail internationalization process. People belonging to different countries are radically different because of varied social and cultural background. It is important that a retail store desiring to internationalize must consider a few options and make the right choice. It is natural for retail groups to choose the neighbor countries because in terms of social and cultural similarity, they would be a good choice.

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Adapt the model: Adjustment of retail model, narrowing down on the most suitable format to suit local market conditions is the next logical step in the internationalization process. This calls for learning new skills to execute the plan.

Plan for sourcing and supply chain: Any retail business will be successful only if the sourcing and supply chain logistics is cost effective and efficient. Hence, a suitable plan to suit the model needs to be charted out.

Test market: The retail model and plan could be test marketed in a smaller scale in one location to study its acceptance, smooth functioning and possible initial hitches that went unidentified earlier.

Invest and commence operations: Once the project comes through successfully in the test market, the retail model is ready for full-fledged commercial launch. At this stage transfer of expertise and technology would be necessary.

Example: Kalyan Jewelers: Internationalization Strategy and Plans

Kalyan Jewelers, founded in 1993, set up its first showroom in Thrissur, Kerala. Kalyan introduced several fair practices such as BIS Hallmarking, transparent old gold exchange, rate tag, etc., at a time when the jewelry retail industry in India was plagued with quality and pricing issues. Kalyan successfully expanded in India through its localization strategy. As of 2021, it operated more than 120 stores across 21 Indian States and Union Territories.

Having established its brand in India, in 2013, Kalyan Jewelers internalized its retail business by opening six showrooms in UAE on the same day. As of 2021, the retail company operates 32 showrooms in the Middle East countries of UAE, Kuwait, Qatar and Oman. In 2019, Kalyan announced that it had earmarked ₹ 500 crores for opening 10 stores in the US market. The retail jeweler planned to raise money for US stores through internal accruals. T.S. Kalyanaraman, Chairman and Managing Director of Kalyan Jewelers also announced that all the US stores would be owned by the company. Outside India, Kalyan would go for large-format stores and would target the Indian diaspora.

Sources: Anto.T.Joseph, "Can a hyperlocal strategy push Kalyan Jewellers ahead?", *Fortune India*, 22/03/2021

i) <https://www.fortuneindia.com/enterprise/can-hyperlocal-strategy-push-kalyan-jewellers-ahead/105322>

ii) <https://www.thehindu.com/business/kalyan-jewellers-will-expand-to-the-us/article24781630.ece> Accessed on 10/10/2022

20.7 Direction and Typologies of International Expansion

A retailer must make sure that a market exists with potential customer base before attempting to globalize his business. Firms like Alibaba.com (ecommerce platform), Xonitek (Business Consulting Firm) and Cellairis (wireless accessories

retailer) had done a thorough research on language and cultural barriers, trade barriers, proximity to headquarters, and currency (exchange rate differences) before expanding overseas. In this line, retail internationalization theories have attempted to: Identify the factors that have caused internationalization, analyze the internationalization process and classify and categorize the expansion activities and also studied the modes of entry. Some important theories in these lines are as follows:

Uppasala School Model: The Uppasala School model states that internationalization should be in incremental steps. The theory that explains the internationalization process argues that retail expansion is initially directed to those countries where there are less psychic barriers. Physical distance and strong social and cultural differences create psychic barriers. A retail group intending to expand overseas is more comfortable with the idea of setting up shop in the neighbor country. This is because the perceived risks on account of distance and differences in culture are likely to be low. Geographic spread refers to the number of countries in which the retail group is present and operates. This theory argues that in the initial stages retail groups move into geographically and culturally close markets and as they learn and gain experience and acquire strengths and capabilities, they move to geographically and culturally distant markets.

Dunning's Eclectic Theory: John Dunning argues that a retail firm needs to have the following advantages in the target country:

- **Ownership advantage:** These are firm-specific advantages that refer to the knowledge the firm has acquired on: Local market conditions, local culture, local laws, understanding of the cost structure, brand image and managerial skills
- **Location advantage:** They refer to country-specific advantages (i.e. the advantage of operating from a certain home country), say USA and the advantages gained in operating from multiple locations. (Advantages in sourcing, expertise gained in understanding political and economic conditions etc.)
- **Internationalization advantage:** This advantage emanates from the diverse operations of the firm in various countries. A retail group would have a good understanding of various retail models and would be able to choose the appropriate retail model that has low risks and high profitability.

Treadgold's Three Stage Model: Treadgold classifies retailers based on geographic presence and the level of control desired. The theory argues that in the initial stages of expansion, a company may wish to have greater control at the expense of incurring high costs. As they get emboldened with learning and experience, they are willing to give up control and reduce costs. Simultaneously,

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based on geographic presence (stages: concentrated, dispersed, multi-national and global), a company may play it safe in the initial stages by having its operations concentrated in one geographic region. However, as it gets experienced in the process of expansion, it gets emboldened and invests in diverse countries and with further learning, becomes more aggressive and emerges as a Multinational Retail Company. Thus, this theory explains that retail companies traverse the stages of reluctance, caution and ambition in their process of transformation into world powers with extensively diversified operations.

Salmon and Tordjman's Model: The authors' typology is based on three dimensions of internationalization: Investment, Multinational and Global.

- **Investment:** The retail company here makes investment in an overseas retail company through the acquisition route. The acquired company has no link with the domestic company with respect to the day to day operations or communications. This strategy is less risky and the acquired company continues as an isolated from the domestic market as a standalone business.
- **Multinational:** Under this classification, the retailer, who operates in many countries, operates them as a part and continuation of his retail activities. While some adaptations in the retail model and retail format are made to suit local conditions, there are considerable similarities across various retail businesses that the retail group operates world over.
- **Global:** Under this classification, the retail group which develops a successful model replicates the same model worldwide. Thus, leveraging on the learning and experience, it standardizes retail models and formats across the various retail businesses to achieve economies of scale.

The increase in retail internationalization has attracted the attention of academics and various attempts have been made to classify and categorize the expansion activities. The classifications and typologies proposed are based on: Market entry, managerial outlook, managerial flexibility and geographic spread. Based on motives, retail expansion and internationalization could be classified into those triggered by Push and Pull factors.

Push Factors: These factors could be retail-firm specific or they could relate to the domestic compulsions prevailing in the home market like economic stagnation, declining economic growth, etc.

Pull Factors: Favorable aspects prevailing in foreign markets might appeal to retail firms. For instance, big retail firms from the developed nations are attracted to India and China due to the following pull factors: The high economic growth rate, high growth potential in the retail market, the speed of growth, the reforms initiated, the retail structure characterized by low concentration etc.

Example: Fashion Brands Internationalize at Faster Pace through the Digital Route

Sweden-based multinational clothing company, 'H&M' has effectively used the internet as a tool for internationalizing its operations. H&M, a fast fashion brand has expanded its footprints to various new markets through the E-Commerce route.

H&M's localization strategy has contributed in no small measure to the success of its internationalization. H&M customizes its homepage content to the requirements of the local markets. Product details and website information are presented in local language. The content is adapted to suit local culture, fashion preferences and traditions. Words used by people in their shopping conversations are included in the content to strike a favorable chord with customers. Celebrities who have an influence on the local audience are used to promote content. For instance, H&M's UK site provides and promotes links of interview with fashion icon 'Linda Tol', while its French site promotes an interview with Alexandra Golovanoff, France's leading journalist and fashion and style icon.

The widespread use of internet and smartphones have created new channels for communication and fashion retailers like H&M have used the digital channel for internationalization.

Sources: Leandro Ferriera Perriera et.al., "Internationalization Business Strategy via e-commerce", *International Journal of Business and Systems Research*, November 2021

i) https://www.researchgate.net/publication/356284618_Internationalisation_business_strategy_via_e-commerce

ii) https://www.researchgate.net/publication/276801908_Internationalization_Process_of_Fast_Fashion_Retailers_Evidence_of_HM_and_Zara Accessed on 10/10/2022

20.8 Market Entry Methods in International Retailing

Market entry mode is an important strategic decision in international business. Due to strong association to cultural aspects in China which was not that easy to understand, food retailers like McDonald's Corp. and KFC initially entered China on joint venture while Burger King Corp. granted a regional license to a Chinese company. While McDonald's joint venture in China turned out to be successful, it miserably failed in Jamaica and retracted completely since it did not assess the market properly. Retail groups desirous of entering into overseas markets; choose the market entry mode based on their strategic growth plans for the future and the retail marketing environment in the foreign country. The company's strategic growth plans depend on a host of factors like: Level of risk the firm is willing to take, the financial investment the given firm is willing to make, the experience and learning of the firm in retail internalization, core competencies and competitive advantages of the retail firm over that of competitors and related

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factors. The retail firm needs to consider the following factors while analyzing the marketing conditions of the host country: Macro environmental factors like economic, political, legal, social and cultural factors and factors that influence the retail industry like competitive environment, supply sources, etc. The firm's willingness to invest, availability of strategic alliances or partners, the desired level of control and the present market position of the firm are related factors that would influence the choice of a suitable market entry mode.

Based on the position of the firm in the market, the level of risk, the level of control and flexibility desired, the following basic options are available to any firm that desires to go global: Exporting, licensing, franchising, joint venture, wholly owned subsidiaries, acquisition and mergers.

- **Exporting:** This option is considered low-risk and it also requires little financial commitment on the part of the retail firms. Adopting this mode is not feasible in the case of retail. However, mail order companies and E-Retail can be cited as examples.
- **Licensing:** Under this entry strategy, the retail firm gives licenses to a foreign company to use its brand name, label and patented technology or technical know-how. This entry mode is also risk free and also involves very little financial commitment on the part of the retail firm.

The advantages of this entry mode are:

- Facilitates speedy entry into foreign markets
- Suitable for firms which do not wish to make financial commitment
- Avail local partner's expertise
- Knowledge and commitment help the firm to expand very fast.

The following risks are associated with this entry mode:

- The licensee may become a potential competitor in the future
- The licensees may not market the firm's goods or may not adhere to strict quality norms
- There is a possibility of the licensee failing to enforce the contract of license or fail to make payments as per the agreement.

Example: German furniture retailers, GarantMobel, entered into more than 3,000 license agreements with partners in Europe to popularize their furniture brand in Europe.

- **Franchising:** Under this entry mode, a retail firm (franchiser) gets into an agreement with the franchisee (overseas partner) to use the former's brand name, retail format and other concepts. This popular co-operative entry mode, allows retail firms to have greater control over foreign operations.

The greatest advantage is that the levels of capital expenditure and risk are low. This method is very popular amongst specialty shops and fast food retailers. Body Shop, Benetton, Subway, McDonalds, Mary Brown could be cited as examples of retail firms who have very successfully established a franchising network to expedite entry into many foreign markets within a short period of time.

- **Joint Venture (JV):** Under this entry mode, a new company is set up in which both the retail firm and its overseas partner have ownership. Joint ventures could be a win-win arrangement, if the competencies of both the firms turn synergic. For the internationalizing retail firm, JV, reduces the time and cost and at the same time also provides either of the firm opportunities to learn from each other. The incoming firm could learn more about the social and cultural and competitive environment in the local market, while the overseas firm could benefit from the transfer of technology and management expertise. Tesco, for instance, entered into a joint venture agreement with Samsung's distribution division, while entering into the South Korean. Carrefour, a French company adopted JV strategy to enter the Middle East markets.
- **Merger & Acquisition:** A merger involves combining of two companies to establish a new company. This strategy could be a costly one, but it ensures quick entry into foreign markets. This strategy has its own limitations. First of all, suitable target companies must be available for acquisition. Costs could escalate also because the companies which are being acquired could have faced financial difficulties.
- **Greenfield investment:** This entry strategy involves building a store network from the scratch. This strategy may not be feasible where regulatory hurdles exist. Typically incoming retail firms with strong competencies (technology, supply chain, corporate culture) may opt for this strategy because these skills would give them a clear competitive advantage in the host country's market.

Example: Tesco Adopted Acquisition Entry Mode to Expand its Operations in Ireland

On 30th November 2021, Tesco Ireland said that it had acquired ten of Joyce Supermarkets' retail stores, based in Galway, Ireland. The acquisition would be approved by CCPC (Competition and Consumer Protection Commission).

Tesco, Ireland would rebrand Joyce's stores as Tesco stores and continue to offer all services offered by existing stores and Tesco stores would employ all Joyce's store employees and it would continue to engage with their business partners. Joyce's stores' acquisition would provide Tesco opportunities to serve a larger customer base and increase market share.

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Tesco, UK's leading food retailer expanded its operations to Europe in 1978 by acquiring leading Irish retail brands like 'Quinnsworth', 'Stewart's stores' and 'Crazy Prices'. Even though the acquisition mode of entry was costly, Tesco preferred this entry mode as it facilitated the use of local Irish suppliers. Irish customers were sensitive to change and showed greater store loyalty. Tesco also wanted to have complete control over its operations. Keeping these points in mind Tesco preferred the acquisition entry mode. The acquisition of Joyce's retail shows that Tesco continued to follow acquisition strategy in Ireland.

Sources: "Tesco Ireland announces acquisition of Joyce's Supermarkets retail stores in Galway", *Tesco Ireland/ News*, 30/11/2021.

i) <https://tescoireland.ie/news/2021/tesco-ireland-announces-acquisition-of-joyce-s-supermarkets-retail-stores-in-galway/>

ii) https://www.researchgate.net/publication/241953017_Tesco's_adaptation_to_the_Irish_market Accessed on 07/10/2022

Activity 20.2

You may recollect that there was a lot of objection from farmers and unorganized retailers in India to the UPA government's decision to allow 51% FDI in multi-brand retail. What were the main objections of these groups? In your opinion, are there valid reasons for them to fear this step of internationalization of retail?

Answer:

Check Your Progress - 2

6. Duncan's Eclectic Paradigm advocates that a retail firm needs to have the following three advantages to successfully internationalize their operations. What are they?
- Ownership, cost benefits, competitive advantage
 - Ownership, locational and internationalization advantages
 - Locational, marketing and management advantages
 - Marketing, management and cost benefit advantage
 - Cost benefits and competitive advantages

7. Which of the following is called as the theory which states that internationalization needs to happen in incremental stages to minimize psychic differences?
 - a. Ricardo's model
 - b. Uppasala model
 - c. Psychic differences model
 - d. Treadgold's three stage model
 - e. Linder model
 8. What strategies did Salmon and Trodman advocate?
 - a. Global, investment, transnational
 - b. Global, local and transnational
 - c. Domestic, incremental and multinational
 - d. Incremental, multinational and transnational
 - e. Investment, Multinational and Global
 9. Under what retail format would you classify IKEA and Toy R Us?
 - a. Discount stores
 - b. Specialty stores
 - c. Category killers
 - d. Departmental stores
 - e. Retail Mall
 10. Which of the following about indirect exporting is not true?
 - a. Indirect export is less risky as compared to direct export
 - b. Manufacturer can focus on production and relieve himself from the risk of selling in unknown territories
 - c. Indirect export gives little control over operations
 - d. Indirect export does not give direct contact with customers
 - e. Indirect export results in more sales
-

20.9 Summary

- Retails firms all over the world are motivated to internationalize by various factors like: Stagnation in certain geographic regions, High growth in certain other geographic regions (Asian region) leading to rising incomes and increase in consumer spending.
- The lure of high growth potential, better infrastructural facilities and removal of tariff barriers and other favorable factors prevailing in target countries is an added stimulant.

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- Retail Internationalization is defined as the course of increasing involvement in cross national retail operations by committing resources and also taking strategic decisions on retail models, technologies, level of internalization and related aspects to emerge successfully in the host countries and in the global market.
- The growth of internationalization can be confirmed by the increase in the number of retail firms that are internationalizing. The visible change in the domestic to international revenue ratio (showing higher international revenue) of the top few retail firms in the world, highlight the level of internationalization.
- With more retail firms going global, academics have researched and studied the following aspects relating to internationalization: The retail structure, the process of internationalization, the typologies and classification of internationalization and the modes of entry into foreign markets.
- Any firm targeting a foreign market needs to understand the retail structure which constitutes the competitive market structure, concentration of market share and related aspects.
- Likewise, firms also need to follow a certain step by step process of internationalization. Based on the internationalization that has occurred, academics have further classified the expansion activities and also researched the entry strategies.

20.10 Glossary

Greenfield Investment: This entry strategy involves building a store network from the scratch.

Joint Venture: An equity partnership between two firms to create another company.

Market Concentration: This phenomenon refers to the share of the market held by one big retail firm or retail group.

Psychic Distance: Differences in language, culture, political and social systems, that could stand in the way of internationalization.

Retail Format: Retail types like super market, departmental stores, discount stores, convenience stores etc.

Retail Internationalization: Understanding and management of retail operations in foreign markets. As compared to home markets, foreign markets may have different retail structures, market environment and hence the retail models, retail formats and strategies need to be formulated keeping these in mind.

Tariffs: Duties like import or customs duty that is to be paid when goods get imported into a country. Tariffs are a tool in the hands of the host government to protect domestic companies.

Uppasala School Model: The Uppasala School model states that internationalization should be in incremental steps. Initially a retail firm enters geographic areas where social and cultural differences are the least.

20.11 Self-Assessment Test

1. What are the driving factors for retail internationalization?
2. Write a note on the various market entry strategies.
3. What challenges do international retailers face when they enter into overseas markets?
4. Do you think internationalization of retail is a huge threat to the unorganized retail in India? Substantiate your points with suitable examples.
5. Explain Treadgold's three stage model relating the stages of caution, reluctance and ambition with various levels of learning and experience.

20.12 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.

20.13 Answers to Check Your Progress Questions

1. (d) Exports through distributors

This is the first step in internationalization.

2. (c) A leading US based fashion and apparel retailer setting up a joint venture with an Indian company to establish a new company.

In a joint venture, the US company also pumps in funds to form a new company. This results in FDI.

3. (a) Internalization

The movement of the operations of a firm outside the home country to foreign markets is called Internationalization.

4. (c) Franchising

Under Franchising, a firm allows a foreign firm to use their brand name and run the company under certain given conditions.

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5. (c) Entering into a strategic alliance with a local partner

Since the retail group has little experience in working overseas, it is advisable for it to enter into a strategic alliance with a foreign partner.

6. (b) Ownership, locational and internationalization advantages

Duncan's Eclectic Paradigm advocates that a retail firm needs to have the above mentioned advantages.

7. (b) Uppasala model

This model states that internationalization needs to happen in incremental stages to minimize psychic differences.

8. (e) Investment, Multinational and Global

Investment, Multinational and Global are the three strategies advocated by Salmon and Trodjon.

9. (c) Category killers

Retailers that dominate in a particular category are category killers. Hence, IKEA and Toy R Us are examples of category killers.

10. (e) Indirect export results in more sales.

Indirect export leads to more sales. Statement in option 'e' is not true because high or low sales depend on a host of factors and not just on whether the mode of entry is direct or indirect.

Unit 21

The Future of Retailing

Structure

- 21.1 Introduction
- 21.2 Objectives
- 21.3 Key Changes in Retail Market
- 21.4 Importance of Brands, Brand Positioning and Image
- 21.5 Emerging Trends in Information Technology
- 21.6 New Age Retailing: The Physical Aspect
- 21.7 Summary
- 21.8 Glossary
- 21.9 Self-Assessment Test
- 20.10 Suggested Readings/Reference Material
- 21.11 Answers to Check Your Progress Questions\

“The store is moving closer and closer to technology. You can’t be effective on the business side if you don’t understand technology.”

- Srinivasan Rajamanickam, Senior Director-Head of Global Architecture, Digital and Omnichannel Solutions, Tapestry

21.1 Introduction

Rajamanickam of Tapestry underlines the importance of technology by stating that retailers of any size cannot be successful without understanding technology. Retailers need to know how technology works and how it can enable the retail business.

The retail world is going through a lot of transformation and the key drivers of these changes are technology, internationalization, E-Commerce and changing profile of consumers. The changing needs of the modern customer due to various global influences, their insistence of shopping experiences across online and in-store channels have forced retailers to change retail models and formats. Technology has simplified business operations in certain areas and at the same time complicated business operations in certain other areas. Online retailers are using data analytics to provide the benefits of personalization and convenience to their customers. The low prices with which they entice customers are also posing a huge challenge to in-store retailers. It is no easy time for in-store retailers

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who are still figuring out on retail strategies to overcome the challenges posed by online retailers. At the same time the continued patronage received by many traditional and modern brick and store formats, including the huge malls indicates that the future for the brick and mortar stores would continue to be good.

This unit focuses on the key changes in the retail market with special reference to brands and brand positioning. The role and growing importance of e-retailing finds a place as part of the discussion of this unit.

21.2 Objectives

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

- Describe the key changes in retail to understand the trends and patterns occurring in this sector
- Explain the importance of brands, brand positioning and brand image for establishing a retailer's connect with the customers
- Explain the emerging trends in information technology to synchronize with its advancements
- Examine the strategies to be adopted by physical stores to race alongside with their online competitors

21.3 Key Changes in Retail Market

The global retail landscape is changing in significant ways. In the present retail scenario, life has not been easy for the brick and mortar retailers who are facing multiple challenges. These retailers in turn have adapted their business models to overcome the challenges faced and this has caused key changes in the global retail scenario. The following are the key changes witnessed in the global retail landscape:

Increase in competition: While overall retail sales are still increasing, competition for retailers has increased tremendously. New retail formats are emerging and these are posing challenges to existing retail stores. There was a time when category dominant stores and specialty retailers were popular amongst customers in Western countries. But the scenario has changed with retail chains like Walmart, Tesco, Carrefour, etc., selling all product categories from food to toys to jewelry. These multi-brand retail stores have managed considerable cost reductions due to their innovative supply chain management. Hence, specialty stores are finding it difficult to face the challenge posed by these giant retail chains.

Emergence of E-Commerce: Since, 2008, E-Commerce retailers have emerged in a big way and are posing a serious challenge to brick and mortar retailers. While many of the brick and mortar retail stores report stagnating sales.

The benefits of personalization and convenience that online retailers offer are too compelling to reject and hence brick and mortar companies have been forced to come up with many retail strategies and tactics to avoid being disrupted.

Internationalization: The global economy is witnessing a situation where a majority of the developed economies are stagnating, while certain other economies, particularly the countries in the Asian region are witnessing greater economic growth. This has triggered the process of internationalization in retail. While the previous decade witnessed big retail giants expanding to neighboring countries, they are moving to countries like India and China in the present decade.

Leveraging on technology: Retailers are utilizing technology to cut costs and improve customer service by deploying IT processes in the following areas of operations of a retail enterprise: Supplies, backroom operations like stock control, logistics, accounting and financial management, HR management and in customer service operations like billing, etc. IT solutions that enable insights on customer perceptions and demand in real time are the key to crafting retail strategies that would win customers.

Social Media: Retailers are not just gathering data from the social media, but they are also engaging their customers and selling products in the social media.

Omni Channel solutions: In-store retailers are deploying omni-channel solutions to provide e-commerce features in brick and mortar retail stores. Combining online and in-store channel features provide seamless customer experiences by facilitating the following benefits: Buying online and picking up the products in-store, facility to return in-store the products purchased online, etc.

Retail consolidation: Big retail giants have been attempting to consolidate their position in the market through various measures like: Acquisition of other retail companies, internationalization, and backward integration by retailers to cut down costs.

21.3.1 Key Changes in the Indian Retail Market

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 2030⁵. The Indian retail market contribution to the national economy is growing. At present the retail industry contributes 20% to the GDP and also provides employment to about 8% of the population. Various reports predict that the propensity to consume of an average Indian is likely to increase in the future. This prediction is made based on: The predicted economic growth rate, rising incomes and standards of living and the confidence that consumers have in the strength of the economy, consumers' own personal finances and their career growth. Retailers see a huge opportunity to target India's

⁵ "Retail Industry in India", August 2022, <https://www.ibef.org/industry/retail-india>, Accessed on 19.09.2022

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rural population, which is estimated at 700 million. The following trends are apparent in the retail market in India.

- Greater affluence is driving people to buy both essential and non-essential products.
- Increasing incomes and rising aspirations of the rural population is an opportunity for retailers. Retailers are presently targeting this segment.
- There is a lot of development in tier I, II and III cities and hence big retail giants are setting up modern retail formats in these geographic regions to cash in on the growing affluence in these emerging cities.
- The relaxing of entry norms for global retailers and the surge in internationalization of retail world- wide has led to the entry of MNC retailers into the Indian retail market. These retailers have partnered with Indian companies. Notable amongst these entrants are: German retail firm, Metro Cash and Carry, US firms Walmart and Carrefour and British firm, Tesco.
- Customers are becoming technology savvy. The mobile revolution is sweeping India. Hence, retailers are using technology to enhance user experiences. Retailers are sending messages to smart phones to inform them about discount offers and also creating apps to enhance shopping experiences.
- Shopping malls are being set up in metros and tier I, II and III cities.
- Consumption culture in India is changing. Replacement demand is increasing, particularly in the case of electronic products, because consumers want to keep pace with changing technologies.
- New buying trends are evolving. Customers shop in supermarkets and are also buying products online.

Example: Retail Consolidation in India After the Onset of Covid Pandemic

Since the onset of Covid-19 pandemic, lifestyle and apparel retailers suffered revenue losses. Overall consumption decreased due to fall in discretionary spending, closure of malls, wage cuts, loss of jobs and other related causes and these factors led to retail consolidation in India.

Flipkart was acquired by Wal-Mart in 2018. In September 2020, it was reported Amazon entered into talks to buy a 9.9% stake in Reliance Retail, the retail arm of Indian conglomerate, Reliance Industries Ltd. Reliance Retail entered into an agreement with Future Retail to acquire Big Bazaar. The pharma sector too witnessed consolidation. In August 2020, Reliance Industries acquired a majority stake in Vitalic Health, which represented 60% holding in the equity share of 'Vitalic Health', and 100% direct equity ownership of the subsidiaries of Vitalic Health, which were collectively known as Netmeds.

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Post Covid, retail companies that were not agile lost out and had to collaborate with bigger retailers for survival. For retail giants looking to expand, consolidate and increase market share, the covid pandemic provided an opportunity.

Sources: Himadri Buch, Deloitte India sees consolidation in retail space, says non-essential retail growth will revive only after December, Money Control, 14/9/2020.

i) <https://www.moneycontrol.com/news/business/deloitte-india-sees-consolidation-in-retail-space-says-non-essential-retail-growth-will-revive-only-after-december-5835471.html>

ii) <https://www.indiaretailing.com/2020/09/03/retail/battle-of-mergers-and-consolidation-intensify-in-indias-retail-market/> Accessed on 11/10/2022

21.4 Importance of Brands, Brand Positioning and Image

The importance of branding is being felt in retail and retailers are cognizant of the reality that branding strengthens, reinforces and helps connect with customers and other stakeholders. A brand is much more than just a name, symbol or logo. A retail brand like 'IKEA' or 'Carrefour' stimulates one's perceptions and invokes associated memories of consumer experience. Brand experience to the consumer can occur as a result of multiplicity of service attributes and factors like: Store design, store location, hundreds of retail outlets located wherever the customer goes (a consumer may prefer a Starbucks coffee experience, wherever he travels), standardized service in all retail outlets, the courtesy and friendly attitude of the service staff, the flexibility offered by combining online and in-store features (omni-channel), innovative sales promotion schemes, pricing, merchandising, loyalty schemes, etc. A strong brand brings to retailers the following long term benefits:

Differentiation: By incorporating distinct attributes and service features, a retailer makes his store appealing to the customers, giving them valid reasons to buy from the given retailer's shop rather than just any shop. The retailer needs to communicate the differentiating features of his brand very clearly so that consumers too perceive the difference. The effectiveness of the communication would get the consumers to talk about the uniqueness.

Halo effect: Consumers tend to attribute additional positive features and attributes to a strong brand.

Simplifies purchase process: Consumers respect well established brands, because of their high service standards and consistency in delivery of service quality. This credibility reduces the need for information search and the risk associated with purchase is considerably reduced.

Status symbol: Shopping in certain retail outlets could help consumers project a certain image because of the characteristics, traits and values associated with the retail brand. Shopping in Fab India or Provogue would help consumers project a certain self-image for themselves and the society.

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Facilitate expansion: A strong brand lays the foundation for future expansion. Established brands like McDonalds, Burger King have reaped the benefits of a strong brand and rapidly expanded by opening new outlets through franchise route. Consumers tend to transfer the same attributes, values and traits to all the new outlets opened under the same brand name.

Diversification: A strong brand enables diversification into new categories and related product ranges.

To sum up, it needs no emphasis that only retail stores with a strong brand identity can succeed and sustain in the future in the retail industry. Consumers are overloaded with a number of marketing and communication messages and the highly competitive retail market environment offers them a plethora of choices. Strong brands serve as orientation points for the customer and simplifies the decision making process.

21.4.1 Brand Positioning

Brand Positioning involves creating a compelling brand offer that is distinct and unique as compared to what is offered by competition and enable consumers to understand what the brand means for them. If target customers are interested in the differentiating features and the remarkable products that a retail brand offers then the brand becomes a talking point amidst customers. Tanishq's successful positioning strategy could be cited as a relevant example in the Indian context. Tanishq, India's largest and fastest growing jewellery brand has positioned 'brand Tanishq' to mean the following to their customers: National retail store with uniform and transparent retail practices and standards across all its retail showrooms, specialized design collections created by their international award winning team, certification (in writing) and guarantee of purity of gold, quality of diamond and exclusive retail showrooms that provide a unique buying experience. A carefully planned differentiation and positioning strategy and well defined personality form the foundation of strong brand. Brand Tanishq stands tall in the retail world because it has successfully integrated all the three aspects. When purchase of gold was considered risky because of the rampant cheating of customers on purity of gold and quality of diamonds, the transparent retail practices of Tanishq instilled confidence in the minds of customers. For the modern Indian women, the range of gold, platinum jewellery and innovative designs of Tanishq are aspirational and a medium of self-expression that exemplifies her personality.

The concrete service attributes and benefits that the store offers to customers defines the positioning of the retail brand. The range of product categories and depth and variety of products offered, the prices, the retail format, store ambience, convenience and flexibility in purchase and store experience are the functional

attributes based on which a brand can be different from the competition. Functional attributes may not sustain as positioning attributes in the long run because they are relatively easy to imitate. The purchase decisions of consumers are motivated by rational and emotional factors. Retailers often communicate rational reasons and this may result in sales transactions, but may lack the substance to sustain a relationship with the customer in the long run. An emotional connect that creates a bonding could lead to strong brand loyalty. People choose to buy apparel, shoes and other accessories from Zappos as against other online stores because of the excellent service and the efforts that go in to convert functional positioning attributes into emotional benefits. In the future the emphasis is likely to shift from functional to emotional aspects. At a higher level retailers would develop retail brands with distinct personality and consumers may choose the retail brands whose image and personality matches with their desired self-image.

Example: Flipkart's Brand Positioning Strategy Helps it Retain the No.1 Position in the Indian E-Commerce Industry

Judith McKenna, President and CEO of Walmart (which acquired Flipkart in 2018) appreciated Flipkart's resilience after the initial setback it faced in 2020 due to the pandemic and reposed confidence in the brand's future performance.

Flipkart's GMV (Gross Merchandise Value) declined in 2020 due to covid-19 lockdown. However, it more than made up for the lost sales and its resilience speaks volumes of the customer goodwill that it enjoyed. Flipkart's market-leading position in categories like electronics, appliances and fashion products gave the company an edge over its formidable and powerful rival 'Amazon'.

Flipkart strategically positioned itself as an online retailer for the mass market. By focusing on value products and low-priced products, it reached out to customers in tier 2 and tier 3 markets. Flipkart entered into partnerships with manufacturing brands to increase the portfolio of its low-priced products and it also tied up with manufacturers to jointly develop private labels at affordable prices. The e-com player's marketing campaigns featured local celebrities and the ads were presented in regional languages.

To sum up aggressive pricing, brand positioning, and market campaigns have helped Flipkart retain its top position.

Sources: Peerzada Abrar, "Flipkart is positioned to win India's E-commerce Future: Wal-Mart's McKenna", *Business Standard* 19/02/2021

i) https://www.business-standard.com/article/companies/flipkart-is-positioned-to-win-india-s-e-commerce-future-walmart-s-mckenna-121021801566_1.html

ii) <https://kr-asia.com/decoding-flipkarts-strategy-that-gives-it-an-edge-over-amazon> Accessed on 12/10/2122

21.5 Emerging Trends in Information Technology

Retailers today are facing the challenges of disruption created by technologies like social media and smart phones. The modern digitally equipped, savvy and demanding consumer wants to purchase products through multiple channels. He prefers the flexibility and convenience of ordering online and at the same time also likes to visit the traditional in-store retail channel for certain purchases. He demands efficient service and enhanced shopping experiences at multiple touch points. Under these difficult circumstances, retail firms are leveraging on advancements in Information and Technology applications to cope with challenges. Modern retail firms have deployed IT based ERP, CRM and CEM solutions to enhance efficiency in operations and improve retail service. With a strong focus on innovation, retail firms are using multiple selling channels like: In-store, online, kiosks, call center, mail catalogues, etc. The following IT based trends are apparent and these IT based trends are expected to gather momentum and make paradigm changes in retail industry.

Point of Sale (PoS) technologies: PoS technologies have replaced the cash register in many retail firms. Retail firms have fully understood the efficiency, performance and functionality of Cloud-based Point of Sale Systems and Solutions. In the future, PoS is expected to replace cash registers in a majority of the retail firms.

Omni channel customer experience: Brick and mortar stores now have to compete with E-Commerce websites. The Generation Y (Gen Y) customers are digitally savvy and use multiple digital equipment like smart phones, laptops, tablets etc. The word ‘omni’ means universal. Omni channel is all about providing continuous and memorable retail experiences. Emerging technologies offer Omni channel solutions to provide e-commerce features in brick and mortar retail stores. In-store retailer gives a range of options to their customers like: buying online and picking up the products in-store, facility to return in-store, products purchased online. This trend is likely to gain momentum in the future to provide continuous shopping experiences across brands, using various devices and accessing various retail channels.

Mobile Services: The key point that needs to be remembered is that Gen Y consumers are using smart phones for research about products. For these customers, smart phones have become a shopping assistant even while inside the store as they traverse in their purchase journey across various touch points. That is the reason why most retail firms have made their website mobile compatible and have also incorporated features like mobile ordering and payment through mobile wallets, etc. Thanks to IT solutions like Mobi2Go, even small and medium sized businesses could incorporate these convenient mobile features and services. In the future, more businesses are expected to use the mobile wallet solutions of Google, Soft card, Current C and Apple.

Retailers would gain greater control over value chain: In order to win and compete successfully over competitors in providing compelling and memorable shopping experiences, retail firms are trying to gain greater control of their value chain. Greater control over manufacturing, supply chain, marketing and distribution, would enable retailers to reduce costs, provide better quality, manage customer loyalty by providing customized products and services. The private label initiatives of leading retail chains has been well received by customers. The other competitive advantages that retailers would gain by having greater control over value chain are: Greater creativity and personalization in fulfilling customer orders, speedy execution of consumer orders and adoption of practices like same-day-delivery, click-and-collect, etc.

Augmented Reality (AR): Retail firms have successfully found ways to use augmented reality to gain attention and improve consumer experiences. By downloading an app, consumers can view product reviews, watch videos and order online. In addition virtual fitting rooms, interactive window displays, etc. are the other AR features that are used by well-known apparel retailers.

Cashless Payment: The Gen Y consumers prefer not to carry cash and hence retail firms who do not provide the convenience of cashless payment face the grave danger of losing business to competitors. In India, big retail firms accept both cash and cashless payment. With all the reassurance that technology has made cashless payments faster, safe, secure and convenient, Indian customers too are shifting to credit, debit cards and mobile wallets. Retail firms in the Western countries are investing in technology and other initiatives that make cashless payments more secure. For instance, Apple Pay assigns a unique Device Account Number (DAN) to every mobile phone. The DAN and transaction-specific security codes are used to ensure that cashless payments are secure and risk free. In the future more of these initiatives may be introduced so that even risk averse consumers don't perceive any risk in shifting to cash free payment.

Beacon technologies will gain momentum: Beacons are devices that communicate with a smart phone in an in-store environment through a Bluetooth signal. Beacon sensors embedded in various digital touch points in a retail store could interact with smart phones and send messages about discount offers, competitions, sweepstakes, etc., to customers, while they are shopping in-store. The use of beacon technologies, which is low cost, will gather momentum in the future.

Advanced data analytics: Advanced data mining and analytics will play a key role in all aspects of the retail: Pricing, merchandise planning, design and development of new products, demand forecasting, etc. Retailers will go for advanced solutions to collect data from various sources and mine out information to cut costs and take optimal decisions. Most retail firms are perhaps already using the PoS data and web analytics data for decision making. But the data that is available to retail firms would get bigger exponentially when social media is

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integrated. Since the bulk of the data available is unstructured, retailers face a major challenge in understanding and interpreting the data. More retail firms are expected to leverage on the available data for various retail applications in the future.

Loyalty programs: Loyalty programs have become so commonplace that earning points on purchases is not attractive to customers anymore. In the future, in addition to points on purchases, retail firms may reward customers for their actions and engagements like: Exercising, walking, holidaying with family, etc. Similarly, retail firms also understand the hardships faced by consumers in carrying the loyalty cards every time they visit the shop. Loyalty schemes may in the future be monitored and traced using the smart phones of loyal consumers using mobile apps.

The impact of Information Technology on buyers is evident from the following changes that can be observed in their behavior: Consumers are well informed, digitally savvy and socially connected; they browse research and purchase products at any place and at any time, consumers demand continuous and seamless experiences across multiple channels. For retail firms these are challenging times. Disruptive technologies have impacted consumer behavior and have forced retail firms to change. Retail firms are leveraging on technology to analyze big data and use it for the following applications: Understand consumer behavior, predict sales, manage demand, enable swift movement and management of inventory to cater to demand and integrate in-store, online and mobile channels to provide seamless and continuous retail experiences.

Example: Kroger Leverages on Technology to Improve Efficiency and Customer Experiences

Kroger, ranked as one of world's largest retailers installed 2,200 smart shelves in its supermarkets in USA. These smart shelves equipped with RFID (Radio Frequency Identification, a wireless system with tags and readers) appear to be like normal shelves to customers. These product-packed shelves display digital prices, product details like nutritional content and allergy details, deals of the hour and much more. Shoppers can access all the information by touching the shelf below the chosen product item. Kroger can use the system to gather information about products that need to be refilled. This data can be stored, formatted, and analyzed by the retailer to gain insights on product performance.

Kroger's smart shelves can be integrated with customers' mobile grocery lists. When a product in the customers' digital grocery lists is nearby, the shelves light up. Kroger dumped printed price tags, cardboard promotions and even opted for dim lighting to make the customers shopping experience convenient. Customers perceived the new shelves as cleaner and environmentally efficient.

Contd....

Kroger's investment in technology has enabled the company to provide personalized digital shopping experiences to gain customer loyalty and reduce energy consumption.

Sources: "Kroger's smart shelves ditch the paper, drop the lights and delight the shoppers", Login Systems, 17/04/2021

i) <https://www.loginsystems.biz/en/post/kroger-s-smart-shelves-ditch-the-paper-drop-the-lights-and-delight-the-shoppers-1>

ii) <https://news.microsoft.com/transform/kroger-smart-shelves-ditch-paper-drop-lights-delight-shoppers/>

iii) https://www.business-standard.com/article/companies/flipkart-witnesses-over-1-billion-customer-visits-during-festive-sale-tbbd-122093001146_1.html#:~:text=E%2Dcommerce%20firm%20Flipkart's,visits%2C%20according%20to%20the%20sources. Accessed on 11/10/2122

Activity 21.1

Referring to various reliable sources, list out top two countries in Asia those are attractive for retailers for the purpose of internationalization. State reasons as to why retailers may find them attractive from the following perspectives: Size of the market, economic, political, social, and cultural environment.

Check Your Progress - 1

1. There are many factors that have witnessed a key change in global retail market. Which among the following does not belong to this category?
 - a. Retail Consolidation
 - b. Increase in Competition
 - c. Emergence of E-Commerce
 - d. Social Media
 - e. Retail Fragmentation
2. Multi-channel retailing provides greater scope for a firm to promote and build its brand because of which of the following?
 - a. Better positioning of the brand is possible.
 - b. Better segmenting of customers is possible.
 - c. Better differentiation of brand is possible.
 - d. Exposure to brand through different channels increases brand awareness. Even before the consumer enters the store, he is familiar with the brand.
 - e. Consumers would become loyal to the brand when a brand promotes its products through multiple channels.

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3. Which of the following is not true or does not relate to augmented reality (AR)?
 - a. AR can put life and liven up an image, product label or website window.
 - b. AR deceives the customer by creating an illusion.
 - c. AR designs are generally creative and innovative and attract attention.
 - d. Virtual fitting room is an example of AR.
 - e. A consumer buying jewelery can through a camera find out how different gems would look in certain lights and color background.
4. Which of the following are Generation Y customers?
 - a. The millennials who grew up using modern gadgets and hence are digitally savvy. They expect to be served through multiple channels.
 - b. Highly demanding customers.
 - c. Highly challenging for retailers because they are troublesome.
 - d. The group of customers whose consumer behavior is likely to change in the future.
 - e. The group of customers who patronize online retail because they think online is trendy.
5. Which of these is a suitable reason because of which small retail firms may not encourage cashless transactions?
 - a. Enhancing the security environment to prevent frauds would require investment in technology.
 - b. Majority of the consumers are still averse to using credit or debit cards.
 - c. Small firms sell low value goods and consumers prefer to pay cash.
 - d. Consumers do not expect small retail firms to provide this facility.
 - e. Only rich consumers opt for cashless transactions and such persons don't patronize small retail firms.

21.6 New Age Retailing: The Physical Aspects

The emergence of E-Commerce is considered disruptive for brick and mortar retail stores. It is reported that many physical stores have closed down in various parts of the country on account of dwindling sales and losses. Retail experts opine that physical stores still dominates the retail scenario forms the foundation of retailing. Physical stores still continue to be the favorite of retail consumers with a little more than 90% of the sales still being transacted through this channel. However, online retailers are able to sell at a lower price and the convenience and flexibility that they offer could pose a serious threat to physical stores. New age physical retail firms need to adapt and reinvent new strategies to overcome this

threat and stay relevant to their customers. Given below is a snapshot of the new age retail store and the strategies that they are likely to adopt to reaffirm the enthusiasm and loyalty that consumers had reposed in physical stores in the past.

- The Gen Y customers are digitally savvy. In India, for instance, the bulk of the population would fall under the 14-45 age group and these customers with a high propensity to consume, would be the focus of retail firms. Physical stores need to incorporate new age technology and offer virtual in-store experiences to these customers who have grown up using mobile, internet tools.
- The millennials or new gen customers are well connected in the social media and it is important that retail firms engage with their customers in various social media channels.
- The following advantages of physical stores would give them an advantage over online stores: People can feel, touch, see and try a product or merchandise in a physical store. Big retail stores are further experimenting with digital tablet kiosks, mobile apps and other self service solutions to enhance the shopping experience of customers. With the added advantage of virtual trial rooms and other augmented realities, physical stores may continue to be the preferred channel of purchase.
- Big retailers would try and engage with customers in creative ways rather than just depending on sales promotion offers that are detrimental to the financial health of retail firms. Omni channel engagement enables retail firms to stay connected and engaged with customers in both the physical and digital space. The modern customer wants seamless customer experience across multiple channels. He wants access to products 24 hours, at any place and at his preferred channel.
- Big retail firms are also vertically integrating and trying to gain control over manufacturing, marketing, distribution and other activities in the value chain. This would help them compete with online retailers in terms of price.
- Certain retail formats where high quality goods are delivered straight from the warehouse to the customer's door step (significantly lower prices), have also captured the imagination of the consumers. Such formats have been successful in food retailing because of the freshness factor. Thus, physical stores could stay relevant by experimenting to evolve and cater to the changing interests, requirements and expectations of customers. To provide this kind of flexibility and convenience, retail firms must integrate the various processes by deploying state of art IT solutions and retail technologies.
- The following physical and online retail formats may co-exist to serve the customers in the future: Brand stores that promote brand values and beliefs, product showrooms, specialty stores,

Block 5: Retail Marketing

- Big retail stores may prefer to open smaller format stores to remain relevant, cost effective and flexible.
- Big malls would have restaurants, cafeterias, coffee shops, ice cream parlors and fast food chains in them to attract customers and present their retail outlet as a fun place to hang out.
- Big retail chains may close down stores in certain locations and optimize performance in other locations where sales is high.

While retail firms may adapt, restructure and embrace technology to face the threat posed by online retailers, certain core elements of their corporate strategy would constitute the following: a clear vision as to what experience they plan to deliver to their customers across various channels, a nimble retail model with in-built flexibility to adapt.

Example: Lenskart's Omnichannel Strategy to Enhance Customer Experiences in the Digital Era

Lenskart, an optical prescription eyewear chain, operates over 750 physical stores (2021) in 40 cities across India. Executing an omnichannel strategy, the retail company provides customers the option to purchase from offline (physical stores) or online channels without friction.

Lenskart's omnichannel strategy provides the option of purchasing and returning the products from any channel of their choice. Customers can check stock availability of a particular lens or frame in real-time from any channel.

Lenskart effectively uses technology to provide integrated solutions. Consumers discover products on digital platforms such as mobile apps, mobile or desktop website, assisted channels or marketplaces. Once the customer places the purchase order, the order is registered in the company's order management system. The order processing stages of picking the frames and lenses from warehouses, lens cutting and fitting, quality check, packing and dispatch are done efficiently.

Lenskart's brick and mortar stores play a critical role in execution of the omnichannel strategy and the technology's role in integrating all customer touchpoints is key to providing a memorable customer experience. Using the omnichannel strategy, the company has also successfully expanded to Singapore, the USA and Middle East.

Sources: Riya Pahuja, "How Lenskart is trying to solve the Omnichannel Connundrum?", ETCIO.com, *Economic Times*, 15/11/2021

i) <https://cio.economictimes.indiatimes.com/news/big-data/how-lenskart-is-trying-to-solve-the-omnichannel-conundrum/84366060>

ii) <https://blog.lenskart.com/the-building-blocks-of-lenskart-omnichannel-part-1-aa59c1ec66cf>
Accessed on 12/10/2122

Activity 21.2

Let us say, you want to buy cosmetics. You have the option of buying the same from a drug store, departmental store or a specialty store like health and glow or even just buy the product online. Which channel would you choose to purchase and why? In the future, which of these store formats may be the preferred for purchase of cosmetics?

Answer:

Check Your Progress - 2

6. Big retail firms are trying to gain control over the various activities of the value chain. Which of these may not be a suitable reason?
 - a. To reduce cost
 - b. To increase efficiency and enable speedy delivery of products to consumers
 - c. To better service the customers
 - d. To improve the quality of products sold and service rendered
 - e. To become powerful
7. Mobi2go is an online service that can be embedded into a retail or hospitality firm's website. Which of the following is enabled by it?
 - a. Customer experiences
 - b. Online ordering
 - c. Digital experiences
 - d. Augmented reality
 - e. Flexible ordering
8. A strong brand lays the foundation for future expansion. Which of the following aspects that the consumers tend to transfer to all the new outlets opened under the same brand name?
 - a. Qualities and values
 - b. Attributes and traits
 - c. Attributes and values
 - d. Qualities and attributes
 - e. Qualities and traits

Block 5: Retail Marketing

9. Which of the following is not an advantage to the customers of Ocado supermarket, which enjoys a high level of customer satisfaction?
 - a. Personalized service
 - b. Speedy delivery of food products
 - c. Freshness of food delivered
 - d. Appealing ambience of their physical stores
 - e. Low price
 10. Which of the following about multi-channel shoppers is true?
 - a. Multichannel shoppers may browse in one channel and shop in another channel
 - b. Multichannel shoppers are very rich
 - c. Multichannel shoppers are generally very young
 - d. Multichannel shoppers are spend-thrifts
 - e. Multichannel shoppers love shopping
-

21.7 Summary

- Retail is a multi-faceted industry, which consists of varied business processes. In the dynamic retail world, the key drivers of change are technology, internationalization, E-Commerce and changing profile of consumers.
- The disruptive technologies (social media, mobile, analytics and cloud) and changing profile of the new generation of customers (who are digitally savvy) have emerged as a serious threat to physical stores which are re-inventing strategies and adapting to remain relevant.
- Their strategies to combat the disruption of online retailers include the following: Deploying IT solutions to integrate various processes to monitor and control performance, cut costs, use analytics to predict and understand customer behavior for decision making, use beacon technologies to communicate and engage with smart phone users, use technologies that enable augmented realities like virtual fitting rooms, engage customers through multiple channels (physical, online, social) to provide seamless omni channel experiences, gain greater control over activities (like production, marketing, distribution) in the value chain to enhance efficiency and enable cost reduction.
- While online retail sales are witnessing faster growth in terms of sales, physical stores are still dominant in the retail scenario by facilitating 90% of the total retail sales.

- Physical retail stores will continue to be the back bone of the retail industry. Retail experts foresee that brick and mortar retail stores with a clear vision and a nimble retail model with in-built flexibility to adapt would continue to remain relevant and successful in the future.

21.8 Glossary

Beacons: Beacons are devices that communicate with a smart phone in an in-store environment through a Bluetooth signal

Brick and Mortar Stores: Retail firms that operate from a physical store as against an online retail store

Digital Signage: Electronic signs that give instructions or display marketing communication to target consumers in an appealing and interactive way.

Kiosk: A free standing structure erected on a short term basis to interact with customers and also designed to support selling activities

Omni Channel: Using both physical and online channel to provide seamless and continuous service to consumers

Point of Sale (PoS): The retail space where sales transactions takes place. Most retail firms use it to refer to the technology used at the point of sale for billing purposes. Sophisticated integrated computer systems have replaced the manual and electronic cash registers.

Specialty Store: Retailers that focus on a limited range of merchandise category and provide a very high level of service in those areas and categories.

Visual Merchandising: An artistic design of presenting the merchandise in a visually appealing way to increase sales.

21.9 Self-Assessment Test

1. What is omnichannel retailing? How will going omni channel help brick and mortar retail firms overcome the threat posed by online retailers?
2. How has IT changed the face of retails? What are the future IT trends in retail?
3. What in your opinion would be the future of brick and mortar retail?
4. What is the role of business analytics in retail decision making?

21.10 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.

20.11 Answers to Check Your Progress Questions

1. (e) Retail Fragmentation

All options except option 'e' have witnessed sea change in the retail landscape.

2. (d) Exposure to brand through different channels increases brand awareness. Even before the consumer enters the store, he is familiar with the brand

Through multiple channels consumers get exposure to the brand. This brand awareness works positively for the firm.

3. (b) AR deceives the customer by creating an illusion

The option 'AR deceives the customer by creating an illusion' is not correct. Since all other options are either examples of AR or elaborate on the functionality of AR, option b, the odd one is the correct answer.

4. (a) The millennial who grew up using modern gadgets and hence are digitally savvy

They expect to be served through multiple channels.

5. (a) Enhancing security environment to prevent frauds would require investment in technology.

Small firms need to invest a lot to enable safe and secure cashless payments.

6. (e) To become powerful

The option 'To become powerful' is not a suitable reason that could drive retail firms.

7. (b) Online ordering

The online service 'Mobi2go' when embedded into a retail or hospitality firm's website, enables online ordering of the firm's products or services.

8. (c) Attributes and values

A strong brand is the foundation for all future expansions made by the retail store. This is because all new retail branches that are opened in the future would benefit by acquiring the attributes and values and image of the store brand.

9. (d) Ocado

Ocado is an online supermarket that delivers straight from their warehouses. They do not have physical stores.

10. (a) Multi channel shoppers may browse in one channel and shop in another channel

All other options relating to multichannel shoppers are not true.

Retail Management

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