RETAIL MANAGEMENT - 22MBA0313

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UNIT-1
RETAIL MANAGEMENT
INTRODUCTION

Customer buying needs bring them into the market. The market is complex places there are too many vendors standing to meet customers. But the customer has only one option from whom they could buy products/services. Here comes the importance of retail management take on.

The various processes which help the customers to procure the desired merchandise from the retail stores for their end use refer to retail management. Retail management includes all the steps required to bring the customers into the store and fulfill their buying needs.

Retail management makes shopping a pleasurable experience and ensures the customers leave the store with a smile. In simpler words, retail management helps customers shop without any difficulty.

Retail Management is the study of promoting and selling products and services while increasing customer satisfaction and brand loyalty.

It examines the entire customer journey, from window shopping to entering the store, and buying a product.

Definition of retail management

Retail management is a process that estimates all the elements involved in a retail sale to increase positive results.

It is a set of actions and techniques employed to increase the retail environment and structure to make great customer satisfaction. So, it is a process of promoting greater sales and customer satisfaction. Retail management involves all the steps required to bring the customers into the business and fulfil their buying needs.

In simple words, retail management benefits customers to shop without any difficulty. To achieve more sales, you must know what the market needs. Once you know what is required, and then making sales becomes significantly less difficult since needs have to be met.

Definition: Retail management is a process that evaluates all the elements involved in a retail sale to increase positive results. It is a set of procedures and techniques employed to enhance the retail environment and structure to create great customer satisfaction.

Retailing goes as back as time goes and the best part of it is that the concept of retailing hasn't changed for centuries. But before we move on to elaborating retail definition or its concept, you should be clear of these two terminologies –

Good: Product offered in the market in exchange for money.

Distribution Channel: Is the path or route decided by the company to deliver its goods to the customers.

What Is Retail?

Retail is the final channel of distribution where small quantities of goods (or services) are sold directly to the consumer for their own use.

Two key phrases in this definition that separate retail from wholesale are –

Small quantities of goods: Unlike manufacturing or wholesale, the number of goods involved in a retail transaction is very less.

Directly to the consumer: Retail stores are the last channels of distribution where the actual sales to the customer happen.

What Is Retailing?

Retailing is the distribution process of a retailer getting the goods (either from the manufacturer, wholesaler, or agents) and selling them to the customers for actual use.

In simple terms, retailing is the transaction of small quantities of goods between a retailer and the customer where the good is not bought for resale purpose.

What is A Retailer?

A retailer is a person or a business that sells small quantities of goods to customers for actual use.

SO–

Retail is a channel of distribution

Retailing is a business process

Retailer is a business or person

Meaning of retail management

Retail Management is one of the most modern branches of sales management. It is largely focused on increasing the customer's experience through different techniques to create every impetus possible for a purchase to be made.

Retail managers attention on developing a likeable environment through the use of color , sizes, variety, room condition, shelve height and width, product placement or package offerings, among many other strategies, are employed to set up the best stage possible for more sales to take place. Accessibility and availability is also a vital element addressed by retail management.

Arrangement of products will ease both vendor and customer to see the product they want. Stores should put a lot of work to guarantee that everything the client needs is accurately displayed and customer service representatives should be capable to provide whatever the customer is asking for swiftly. This exercise has proven to be very lucrative for companies and it is now widely applied.

Big brands that sell retail products negotiate certain places with retail establishments to get better visibility and enough place to show the produce appealingly. Also, they employ people to manage the way products are placed, to make sure they look as attractive as possible to serve as elements of encouragement for consumers passing by.

The Origins and Evolution of Retail

1. The word"retail" comes from the Old French word "retaillier" which literally means "to cut back, cut off, reduce". Since the early 15th century, the term has been used to describe the "sale of commodities in small quantities or parcels".
2. However, the history of retail goes beyond the Middle Ages (5th-15th century) because its birth can be traced back to the Age of Antiquity (3200 BC-476 AD).
3. From the barter system, or the old method of directly exchanging goods or services before money existed, to primitive shops, trade centers, and open-air, public markets in ancient Persia, Assyria, and Babylonia, retail has been a practice since the beginning of recorded human history.
4. From standardized coinage as a mode of payment (around 600-500BC) to the development of banknotes or paper money during the Song Dynasty (12th century), the lucrative business of retailing contributes much not only to a nation's economy, but to the global market as well.
5. Merging into the Renaissance (12th-15th century) and the Age of Discovery (15th-17th century), retail flourished in Medieval Europe, where traders set up permanent shops in major cities and periodically sold goods in countryside fairs or market towns. Trademarks, or any visible sign used to identify a merchant's goods and distinguish them from others, began to take on a greater importance during this period.
6. Transitioning from booth-like shops with dark interiors to general merchandising stores with glazed windows, display cases, and service counters, significant retail innovations, including the invention of price tags, occurred during the Industrial Revolution (18th-19th century).
7. Emerging multi-vendor spaces operating under covered roofs called "shopping arcades" paved the way for retailing in the modern era—department stores, warehouse shops, and retail outlets.
8. At the dawn of the contemporary age (1945-present), shopping malls shaped the retail experience to be easily accessible and comfortable for people to spend more time in the facility and increase their likelihood of making purchases.
9. However, the continuous rise of technological advancement established e-commerce, or buying and selling products through online services or over the internet, as a necessary platform of doing business in today's retail industry.

The process of retail management

Retail management itself is a process. However, there are too many steps that enable the vendor to attract their customers. These steps or stages are called the process of retail management. These steps are what decide the way the business will be run and how lucrative it will be.

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Planning

A plan is a projected method of doing or realizing something. It specifics the steps to be followed so as to ensure resources are well exploited and misuse avoided or at least minimized.

In retail management, planning is what sets the business moving. It is the first phase of running the business. At this point, a lot of work is done to set the phase for the ending and most visible part of the process—selling.
Planning goes through several steps that are given below:

1. **Market research**

If you are decided to enter the retail industry, then you have to make detailed studies on market and understand how your product will perform with the existing competition. Firstly, you have to decide what to sell? Where and how to sell it? These are some of the questions that you require to answer at this phase. For example, if you want to sell fast-moving consumer products, like what hypermarkets sell, then you need to research that. If aiming to sell two-wheelers, then you also need to do some homework.

Planning process including the questions such as what are the products available on the market? Who are the providers? What is the growth of the industry? How fast does it grow? What are the earnings? What are the usual expenditures?

Being has direct contact with the customers, a retail venture can easily know the requirements of their clients. Therefore, retail businesses can arrange the products they want to buy. Even if you want to deliver wants, ensure there is a ‘need’ for them. This is the kernel of market research.

2. Logistics

This stage includes the in-depth organization of how products will move from the supplier to your stores in the event that you are the one collecting them. This has to do with the carrying options which you have obtainable, seeing the relevant costs. Apart from conveying, time is also crucial in this phase. It is not enough to recognize where to get things from. It is equally significant to understand what time it will usually take to get them to your stockpile.

Logistic managers should know the space available for accommodating stocks. Both store managers and logistic managers should have a better connection to place the products. It would be difficult having more products than can fit in your room area.

3. Expenses

No business can make any profit without making a cost-benefit analysis. Your budget essentially defines how many purchases you make. If you are spending more than allocated, you will lose the rhythm of your retail business. Consider the salaries to be paid, operating costs, bills to be settled etc. Estimate the expected costs in terms of rent, marketing, computer systems to be installed and whatever else you will spend money on.

4. Profit margins

To make a profit in business, you have to plan for. The business aims to make a profit. However, many of them seem to be failed because of the lack of proper planning on profit margins. So, you have to estimate how much profit that you expect from a business. After your market research and engaged different suppliers on possible quantitates and discounts, you should have decided on how much profit and income you want to run a business.

The market cannot standstill. There will be fluctuations in prices. So your profit margins should decide on a percentage rather than a fixed amount. Then you can adjust your prices easily. The issue of margins can be a complicated one to handle at times, especially if you are absolutely new in the industry. Since you may want to rapidly entice customers, you may decide to considerably lower your prices compared to your opponents. You can apply different types of pricing strategies according to the domain of your business.

Remember, your competitor not always sitting on the chair when you start to lower prices or using other pricing strategies to munch their market share. Prepare to face a counter-attack by deepening your pocket. Or you have managed to secure some strategic contracts with suppliers. Some of these contracts can be about you being the only accredited retailer of certain fast-moving products. You could also be the only approved provider of a specific in-store service.

This can confirm more trust gets built with your clients as they seek licensed and certified services.

You can negotiate discount percentages on the basis of massive quantities being purchased. As long as the products do not have a short shelf life, you can for example buy 3 months' merchandise at once so that you get higher reductions.

Staffing and Inventory management also be part of planning. When staff are appointed in the early stages of planning, they form relations that will help form the team spirit. You can start with the least number of employees then increase as you see the requirement.

The important thing is the retailer should try to hold the initial employees tightly because they are the foundation stone of your retail store. Your staff will typically be aware or think they are aware, of your company's profitability. When they think you are making much cash but not endowing in their good, and then they can leave for the competitor or worse, deceive you. This means that you need to provide great incentives to your employees.

The inventory is the spine of any retail business because the stock is what is making the business stand. Minus the goods, there is no business. This means that the inventory is your company's main asset. Set up a good supervising team to avoid pilferages. Pilferage causes many companies to suffer great losses. If unnoticed or not tackled effectively, then you could as well end up shutting down.

Buy

This is the process of purchasing the products which you will sell. Although it may seem like an easy step, it is best to know its importance. Without careful consideration, you may not be able to maximize some great opportunities. Remember that dealings are not just built with your customers but your suppliers as well. These are the people who simplify your business. If you don't have the merchandise then you will have nothing to sell.

Move

This stage refers to the processes involved in getting the bought goods ready and available for selling. Receive goods, storage, pricing, and shelf and product management is part of the move.

Sell

Selling involves in-store assistance, customer service, and handling complaints.

In retail management, market research recognizes whether there is a demand for a product/ service, and how big that demand is. It also involves researching potential customers and their profiles.

IMPORTANCE OF RETAILING

Retailing is important for the creators, customers, as well as the economy.

Retail stores are the places where most of the actual sales to the customers take place. They act as both a marketing tool for the brands and a support tool for the customers to exchange and communicate important information.

Besides this, retailing is a great asset to the economy. It provides jobs, adds to the GDP, and acts as a preferred shopping channel during the holiday season.

How Retail Works?

Retail works on a simple revenue model of markup. The retailers buy the goods at a cost price, add up the cost of labour, equipment, and distribution to it along with the desired profit margin, and sell it at a higher price.

Retailing Types

Retailing can be divided into five types. Here are the types of retailing that exists today –

Store retailing: This includes different types of retail stores like department stores, speciality stores, supermarkets, convenience stores, catalogue showrooms, drug stores, superstores, discount stores, extreme value stores etc.

Non-store retailing: Non-store retailing is a type of retailing where the transaction happens outside conventional shops or stores. It is further divided into two types – direct selling (where the company uses direct methods like door-to-door selling) and automated vending (installing automated vending machines which sell offer a variety of products without the need of a human retailer).

Corporate retailing: It involves retailing through corporate channels like chain stores, franchises, and merchandising conglomerates. Corporate retailing focuses on retailing goods of only the parent or partner brand.

Internet retailing: Internet retailing or online retailing works on a similar concept of selling small quantities of goods to the final consumer, but they serve a larger market and don’t have a physical retail outlet where the customer can go and touch or try the product.

Service retailing: Retailers not always sell tangible goods; retail offerings also consist of services. When a retailer deals with services, the process is called service retailing. Restaurants, hotels, bars, etc. are examples of service retailing.

CHARACTERISTICS OF RETAILING

Retailing can be differentiated from wholesaling or manufacturing because of its certain distinct characteristics, which include –

- **Direct contact with the customer** – Retailing involves direct contact with the end customer and retailers act as a mediator between the wholesaler and the customer or the manufacturer and the customer depending upon the distribution channels used.
- **Relationship with the customers** – Retailers form a bond with the customers and help them decide which products and services they should choose for themselves.
- **Stock small quantities of goods** – Retailers usually stock small quantities of goods compared to manufacturers and wholesalers.
- **Stock goods of different brands** – Retailers usually stock different goods of different brands according to the demand in the market.
- **Customers' contact with the company** – Retailers act as the company's representatives to the end customers who give them their feedback and suggestions.
- **Have a limited shelf space –** Retail stores usually have very limited shelf space and only stock goods which have good demand.
- **Sells the goods at maximum prices –** Since retailing involves selling the products directly to the customers, it also witnesses the maximum price of the product.

Functions Of Retailing

Retailers have many important functions to perform to facilitate the sale of products. These functions include –

Sorting

Manufacturers produce large quantities of similar goods and like to sell their inventories to a few buyers who buy in lots. While customers desire many varieties of goods from different manufacturers to choose from. Retailers balance the demands of both sides by collecting and assorting the goods from different sources and placing them according to the customers' needs.

Breaking Bulk

Retailers buy goods from manufacturers and wholesalers in sufficiently large quantities but sell to the customers in small quantities.

Channel Of Communication

Since retail involves direct contact with the end consumers, it forms a very important communication channel for companies and manufacturers. The manufacturer tries to communicate the advantages of their products as well as the offers and discounts through retailers.

Retail also acts as a mediator between the company and the customer and communicates the feedback given by the customers back to the manufacturer or wholesaler.

Marketing

Retail stores are the final channels where the actual decisions are made. Hence, they act as important marketing channels for the brands. The manufacturers execute smart placements, banners, advertisements, offers, and other strategies to increase their sales in retail stores.

Retailing Examples

The most common examples of retailing are the traditional brick-and-mortar stores like Walmart, Best Buy, Aldi, etc. But retailing isn't limited to them. It also includes small kiosks at the malls, online marketplaces like Amazon and eBay, and even restaurants which sell food and service.

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RETAILING PRINCIPLES

1. Clear definition of objectives and policies:
According to this principle of retail organization, each employee must understand the objectives and policies of the store. If the objectives are not clearly defined, the employees in the retail organization shall not be in a position to understand what is expected from them and in what type of activities the organization engage itself.

2. Duties and Responsibilities:
According to this principle, the duties and responsibilities of each and every employee, working at various levels in the retail store should be clearly defined. The line of authority must be clear from the highest to the lowest positions. All employees must be well informed of their respective position, responsibilities in the retail organization and the persons to whom they are answerable and who reports to them.

3. Unity of Command:
According to this principle, one employee working at junior level should be responsible to one direct supervisor. The purpose is to avoid any conflict regarding responsibilities of employees receiving orders from more than one supervisor.

4. Supervision and Control:
According to this principle, even after delegating the authority, the supervisor still will be responsible for a manager's or employees' mistakes. He cannot get rid of the mistake done by his juniors or those who are to achieve the goal.

5. Interest in employees:
According to this principle, the retail organization should show continuous interest in its employees, job promotion, employees' participation in management, internal promotion, efforts/job recommendation, job enrichment, induction and so on; improve employee's morale and efficiency.

6. Monitoring of Human Resource:
According to this principle, issues related to employees like attendance, employee turnover, punctuality and absenteeism should be regularly monitored otherwise they can create problems for the whole organization.

7. Rule of Simplicity:
According to this principle, simplicity in all sorts of operations is must for running a retail organization properly. There should be a limit to the number of employees a manager could directly supervise.

8. Responsibility and Authority:

According to this principle, assigning duties without any authority will not work in a retail organization. Therefore, responsibilities should be associated with proper authority. An employee who is responsible to achieve some retail organization's objectives needs the power to achieve it.

9. Division of Labour:
According to this principle, in order to achieve organizational objectives, the work should be divided among subordinates properly. It means dividing the retail organization's work in various departments into various components and then assigning the same to each employee of the organization. It enables the management to fix up the responsibilities on each employee concerned.

SALES GOALS OF RETAIL

1. **Exceptional Customer Service**
   Great customer service is essential for your retail business as it helps generate constant income and retain customers. Satisfying your customers is the primary goal of your business. The way you interact with your employees and make them satisfied with your services and products impacts how they will serve your clients.
   It might help to understand Marcus Lemonis net worth and how he got there. You need to come up with a customer-centric goal that makes your service process exceptional and easy to handle customer complaints. Also, incorporate social media practices into your customer service process. This will help you reach out to more customers and learn about their reviews about your business. Do not forget to ask for their feedback as it helps you identify what works better in your business.
2. **Establish A Productive Community**
   One of the easiest ways to look unique from your competitors is to establish a focused mindset community. This can mean establishing a community near your business (brand loyalty) or creating a relationship with the neighboring community (localized strategy). Your goal is to create an amazing community that gives maximum benefit to your retail business.The best way to create relationships with the neighboring community is to

develop products of their interest and enhance personal relationships with all customers. You can also incorporate a local organization to come up with special events for your local customers.

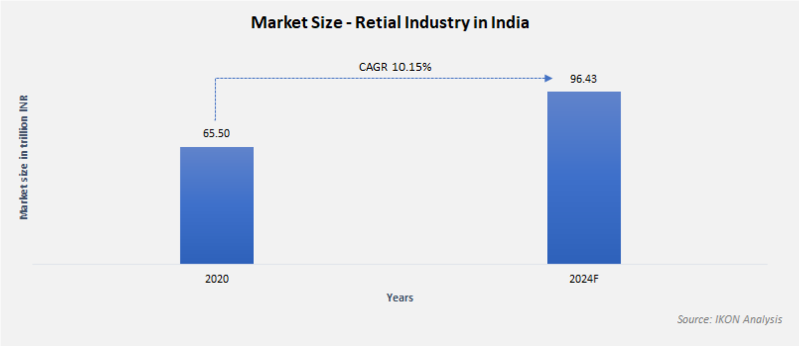
3. **Enhance Brand Awareness**
   If you want to stand out from the competition, you have to make extra effort to appear at the frontline of your potential customers constantly. You should make people aware of your brand, and make sure it is interesting according to their preferences and desires to make them want to purchase the products. The best way to do it is through consistency and retargeting.
4. **Create Brand Loyalty**
   Customer acquisition is not a cheap process. It needs effort, time, and some spending to gain new customers. The possibility of people who make the first purchase to become potential and constant clients depends on what you offer. Loyal customers are the group to market your product as they often purchase from you. Brand loyalty is not limited to customers who make repeat purchases; you can come up with other positive wins to your loyal customers as they become your product ambassadors.
   You need confidence and your customers' trust to attain this goal. The most important of all is the ability to offer quality products and services as advertised. Give value to your customers to get them back.
5. **Create An Omnichannel Presence**
   If no idea how to become an omnichannel retail business, now is the time. The most important thing is convenience, and it plays a vital role in creating constant customers. Omnichannel trading is the customers' ability to shop in multiple selling channels, including mobile, online, or brick and mortar. As a retail business, you should establish both a digital and physical presence. Ensuring you have a presence where customers are is essential in this era as it boosts your current business sales now and in the coming years.

The Retail Industry in India is segmented as;

- Organised Retail
- Unorganised Retail

Retail in India

The retail industry in India ranks 4th in the world in terms of size and accounts for 10% of the overall GDP of the country. The industry's market size in 2020 was approximately INR 65.50 trillion and is expected to reach INR 96.43 trillion by 2024. The retail industry is estimated to grow at a CAGR of 10.15%.



Competitive Landscape

India’s retail industry is highly competitive as it is majorly dominated by unorganised retailers. There are approximately 13 million kirana stores and neighbourhood stores that sell food & groceries. Organised retail segment consists of supermarkets or convenience stores, Hypermarkets, Departmental stores, Cash & carry stores and Specialty stores. Reliance Retail Limited leads the retail industry in India with over 12,000 offering various products. Other leading players include Future group, Aditya Birla Fashion and Retail, Avenue Supermarts Limited and Shoppers Stop.

Growth Drivers for Indian Retail Industry

Increase in Income Level

An increase in income level generally means people have more purchasing power. With rising income levels, a greater number of households are being added to the consumption class. This leads to an increase in demand for retail goods.

Increasing Awareness

As a result of increased literacy levels in the country, exposure to the western culture, foreign magazines, newspapers and other factors, there has been an increasing customer awareness among Indians. Today’s customers are more selective over the brand and quality of the products they purchase.

Brand Consciousness

The major portion of India’s population comprises Millennials making around 35% of the total population. This set of customers are more conscious about brands and willing to spend more to satisfy their needs.

Growth of Shopping Malls

The major portion of India’s population comprises Millennials making around 35% of the total population. This set of customers are more conscious about brands and willing to spend more to satisfy their needs.

Availability of Consumer Credit

Consumer credit in terms of consumer durable loans or credit cards, offer customers to pay the price of a product in several installments at a minimum rate of interest. As this option provides the convenience of not paying the full amount in advance, this may create demand for certain products in the retail sector.

Challenges for Indian Retail Industry

Lack of Technology Adoption

One of the major challenges is the availability, feasibility and adoption of technology in the retail industry. Retailers use technology in payments, scanning the products etc. but the scope is wider.

Softwares to understand the customer's preferences based on their buying habits, CRM tools and so on can be adopted for efficient functioning of the retail outlets.

Competition from Unorganized Retail

Unorganized retail consists of small retailers including mom-and-pop and kirana stores. They operate near to or in the residential areas. These stores do not pay taxes and almost negligible real estate & human labour costs. They also offer free home deliveries to attract customers. These stores pose a major challenge for retail outlets in India.

Operational Cost

Retailers in India incur high cost of operations. Expenses such as store rents, utilities, labour cost, warehousing costs, taxes etc. cannot be transferred to the customers as the majority are looking for low cost goods.

Impact of Covid-19 on Indian Retail Industry

The coronavirus pandemic has forced governments all around the world to shutdown the country for weeks to curb the spread of the deadly virus. Immediate closure of retail outlets and manufacturing units caused an immediate fall of sales to an all time low. The organised retail sector reported a loss of INR 90,000 Crore in the first two months of the lockdown period. Retailers in the country witnessed a sales degrowth of 60-80% across high street outlets and malls during the four months lockdown period from April to July, 2020. According to a survey conducted by Retail Association of India(RAI), Home Furnishings and Jewellery categories sales declined by 73% and 72% in 2020 when compared to the previous year. Food & Groceries sales were down by 31%. The pandemic not only impacted the retailers but also had a huge influence on brand perseverance. As supply chains were distracted, well established brands were not able to meet the demand causing local brands to gain more attention from customers.

Future Outlook

The retail industry in India is currently undergoing a major transition from an unorganized sector to a more organised one. The ongoing covid19 pandemic has fueled this shift as most of the retailers in the country are forced to adopt technology to move their business forward. Retailers are expecting a surge in revenge shopping as most people were confined to their homes with many losing their jobs in 2020. As a result the sales numbers for the retailers have plunged and we expect a v-shaped recovery for the industry in 2021.

GLOBAL RETAILING

Definition: Global retailing is the concept of selling products (i.e., goods and services) across the geographical boundaries of a country to the consumers available in the different parts of the world to attain global presence and recognition and to capture the opportunities prevailing in the potential overseas markets.

The concept of global retailing is widely adopted today by many big brands and organizations to capture the potential markets in multiple countries.

Some of the well-known examples of the companies operating on a global level are 'Intel', 'Facebook', 'Toyota', 'IBM', 'L'Oreal', 'PepsiCo' and 'Domino's'.

Global Retailing Trends

To enter the new markets and avail the business opportunities, the organizations need to understand the presently prevailing flow of global retailing.

Following are some of the most recent trends of global marketing adopted by business entities:

- **Internationalizatio**n: The companies these days are preferring international markets due to the saturation of the domestic markets and seeking expansion and economies of scale.
- **Improvising Service Offerings**: In today's highly competitive market, global retailers are also focusing on adding value to the consumer experience by providing some assistance or services with their products.
- **Boutiques**: The business organizations are moving towards speciality stores concentrating on a single product line or category to get global recognition for their expertise in a particular product or service.
- **Mass Merchandizers**: Also, some of the large retail organizations are expanding globally by selling a variety of products or services and having a diversified product line to target high volume of sales at minimal margin or profit.
- **Retail Format Migration**: There has been a massive transformation in the retailing sector due to the emergence of **e-commerce**. Therefore, it has become a necessity for companies to adopt e-retailing for creating a global presence.
- **Private Brand Expansion**: It has become an essential platform for private companies to introduce their products to consumers spread across the globe and also to gain global recognition.

Global Retailing Strategies

Before entering the global market, the organization needs to plan and decide on a suitable business model or strategy by adequately analysing the potential market.

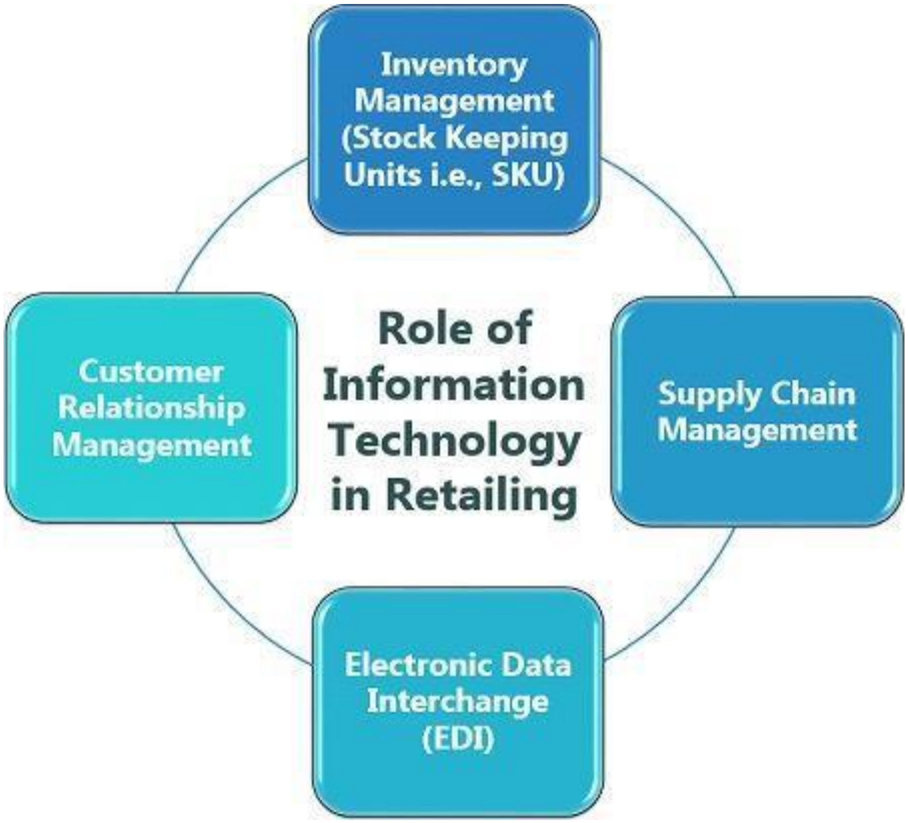
Following are four significant plans of action to select from:

1. **Organic**: The companies planning for global retailing may go with organic strategy, i.e., to open up their stores in different countries. It is a useful strategy if the potential market is culturally close and easy to enter.
2. **Chain Acquisition**: The organizations may purchase an existing company which has multiple stores in the potential market or country. In this strategy, the organizations target markets which are complex and difficult to enter but have a close cultural presence.
3. **Franchise**: One of the most common strategies of global retailing is franchising the business model, brand, procedures, copyrights, etc. and establishing the franchise outlets in different countries. It is a suitable strategy for culturally distant and accessible to enter markets.
4. **Joint Venture**: The organization sometimes collaborate with the already existing companies around the world to enter those markets which posses a high level of entrance difficulty and culturally distant.

Role of Information Technology in Retailing

Whether domestic or global retailing, information technology plays a significant role in simplifying business operations and enhancing the competitiveness of the organizations.

Let us now understand the various ways in which technology supports retail organizations:



Inventory Management (Stock Keeping Units, i.e., SKU)

The management of stock is essential for the organizations which are today done with the help of stock-keeping units (SKUs). It is a system that assigns a unique identification code to every product to identify its price and manufacturer details through scanning of the bar code.

Supply Chain Management

Another essential function of information technology is the supply chain management to streamline the supply of goods or services to the potential and existing markets.

Electronic Data Interchange (EDI)

The introduction of the electronic data interchange has facilitated the trading partners to exchange the business and corporate documents via an electronic medium. Thus, saving time and efforts required for the physical exchange of documents and eliminating distance barriers.

Customer Relationship Management

Information technology has also facilitated the tracking of customers data related to the past buying experience and history, to enhance customer satisfaction and build consumer loyalty.

Challenges Faced by Global Retailers

When an organization moves from domestic to the global market, it has to deal with many problems and complexities.

Given below are some of the global retailing challenges commonly faced by the companies:

- **Coping Up with Changing Technology**: The organizations today are judged more based on their efficiency receiving and transmitting information. Therefore, the companies operating on an international level need to depend upon the technology and e-retailing platforms.
- **Language and Communication Barriers**: While selling goods or services overseas, the organization faces difficulty to connect with locals or potential consumers. This is due to the difference in language, preference of **communication** modes, translation errors, etc.
- **Consumer Empowerment**: With the rapid change in technology, lifestyle and demand has lead to consumer empowerment and thus, made it difficult for the companies to generate customer loyalty.
- **Cultural Complexities**: Every market is culturally diverse, and the consumers' values define their priorities for the goods or services, purchasing power and modes of shopping and making payments. Understanding the culture of the potential market is a complicated task.
- **International Shipping Policies**: The overseas trading policies like licence, excise duty, taxes and rates, import-export policies, exchange rates, etc. act as a considerable challenge for the companies going global.

Emergence of Global Retailing

In the present era of globalization, every company is trying to create its footprints in different countries of the world.

Global retailing has emerged as a profitable opportunity for the large companies which were earlier operating in the domestic markets. They have now come out of their traditional business models to gain global recognition.

Trading across the geographical boundaries have gained significance due to increasing consumer awareness, preference and purchasing power. Also, the barriers of international trade and policies have been eased out by the government of many countries to promote global trade practices.

Retail Business today is one of the quickly growing channels & playing an important role in emerging economic growth of the country. In the recent times customers are getting more & more attracted towards Retail Markets. Change in income structure, consumer tastes & preference, demographic & geographic profile are some of the key factors that are driving towards growth in Retail Business.

Some other main factors responsible for the growth in Retail Industry are as follows:

- **Growth of Consumers –** Nowadays there is tremendous growth in number of consumers in India, especially the middle class. Consumer demand & income structure has also increased further raising their expectations for quality products at reasonable prices. Retail outlets offer a wide variety of products & services to the customers to meet their demands thus resulting into the growth of Retail Sector.
- **Working Population –** In recent times the graph of working population has seen a steep increase in urban as well as rural areas thus changing their spending habits & income structure. It becomes very difficult for the working people to spend enough time in shopping at different locations. This enables a retailer to provide them various products at one place, creating a platform for development.
- **Value for Money –** Big & organised retail outlets basically deal in volumes & can offer a good range of products at reasonable price thus attracting customers at a very large scale. This in return also creates a good opportunity for retailers to get more profits & enables new business groups to enter into this sector.
- **Rural Market –** Today's Indian Retail market has entered in rural areas creating a big competition, as the rural population has become more literate & quality conscious. These high potential rural populations have thus enabled the retailers to enter rural market & develop new products & strategies to meet their demands. Also it has created employment opportunities for the rural people thus heading towards growth & development.
- **Corporate Sector –**Corporate sectors have also entered into the retail business to cater the customers demand & provide them better quality products at reasonable price. This is one of the reasons that have brought revolution to the retail sector thus driving it towards the growth.
- **Foreign Retailers –** Rapid expansion & the race to cater the demand of every customer is catching the interest of foreign retailers to enter the market &provide good quality products & services through joint ventures or franchising. This will further boost the retail sector & will help in developing economy of the country.

- **Technological Impact –** Advance technology has made it easier for the retailers to handle large scale business & cater the needs of consumers. With the introduction of computerized billing system, electronic media & marketing techniques, barcode system has changed the face of retailing in providing products & services to customers. Also the use of online market has driven the retail sector towards advanced growth structure.
- **Income Structure –**Increase in the number of working population has resulted in increase in the income structure in cities as well as remote areas. This has further led to increase in the demand for quality products & services. People nowadays tend to try new things & improve their look thus increasing the spending habits & giving an opportunity to grow & expand their business.

RETAIL TRENDS

The world is witnessing **digital** transformation at a tremendous scale and **e-commerce**, like any other industry, is expected to move past the hype of QR codes, coupons, and checkout-free stores to provide a more holistic experience to the customers.

With the onset of the pandemic, as online buying skyrocketed, the pressure on the supply chain also intensified. There were a lot of inefficiencies because of obsolete supply chain processes or systems. The lack of real-time visibility of the operations and systems prompted many retailers to optimize their supply chains. The solution to all these challenges emerged in the form of MFCs, last-mile delivery, supply partner integration, and many other factors.

As retail trends continue to jump on the Metaverse bandwagon, below are some of the key trends in the retail industry that will be a focus area for the retailers trying to adopt a digital system:-

1. **Micro Fulfillment Centers: The Hub -** As the volume of goods purchased online increases, it is imperative to adapt to changing customer needs. Many retailers have turned their attention to MFC's to solve the rising challenges. With some e-commerce promising super-fast delivery under 10 minutes, retailers are catching on to the 'instant' trend with MFCs, dark stores, last-mile delivery, effective product assortment center management, and robotics-based automation.

   Once the lockdown measures eased and people started coming back to stores, retailers faced new expectations from consumers: touchless, safe shopping experiences with minimal social interaction. Retailers rushed to start optimizing their shelves and improving safety.

   Personalizing in-store experience based on past behavior, purchasing trends, etc. became essential. There was a lot of data collected by retailers, but many did not use it properly to create tailored journeys for the customers. However, more and more retailers understood the positive impact of data and started using customer data to drive personalized experiences.

2. **Focus on Omnichannel Strategy -** With shoppers returning to the stores, retailers revamp their stores with omnichannel transformation.

Retailers act on the insight from past purchase behavior to enhance the experience with smart integrations. For example, retailers could direct the customer to a physical store nearby while browsing for a product. This not only gives a hands-on experience but also helps customers make better purchase decisions. To make this possible, it is essential to have a real-time inventory availability analysis that is integrated with mobile channels to provide a transparent and seamless experience for the customers.

3. **Intelligent Supply Chain -** Customer expectations are higher than ever and to compete in a multi-channel world an intelligent supply chain system is the prerequisite. Improving supply chain agility by leveraging smart infrastructure can reduce costs, help manage inventory better, and deliver operational efficiencies. In order to provide a seamless experience to the customers, it is essential that the backend is strong with in-store and online retailers having the right products in stock, in the right location, and at the right time.

   This could function like clockwork only if the supply chain is optimized with online customer orders, stores, fulfillment options, and inbound logistics across borders and time zones. The key is to utilize data across every point in your supply chain and apply ML and AI to better understand how each element is correlated to the others.

4. **AI in Retail Operations -** Retailers use a large amount of data to deliver online product recommendations or optimize demand forecasting. Many retailers use solutions that rely on high-definition video streams that are fed to cloud edge services in a store that runs on a customized AI vision model. The AI model processes these HD videos in real-time to detect empty shelves and notify employees to refill the stock. Again, this process forms a part of the inventory planning across stores.

   Retailers could make use of these next-gen AI solutions that are integrated with cloud providers like Azure Cloud to level up their customer experience. These technologies supported by AI and IoT ensure a smooth operation with companies no longer having to depend extensively on manual labor.

UNIT-2
DELIVERING VALUE THROUGH RETAIL FORMATS

1. Formats of Retailing

The word retail is derived from French words "re" and "tailer" whose meaning is to "cut again". retail store works exactly as their name describes. Goods are sold in small pieces to make a profit. Retailing involves various activities to sell to end consumers for their non-business and personal use.

The meaning of retailing is to sell goods from a fixed location such as from kiosk, departmental store, or by post. Goods are sold to consumers in small portions so that consumers can consume them.

A retailer purchase goods from an importer or manufacturer directly or through a wholesaler to sell small portions of goods to final-consumers. Retail stores are also referred to as stores or shops. Retailers are the last element of the supply chain.

The process of retailing is considered as one of the most important parts of their complete distribution strategy.

The role of the retailer in the distribution channel

1) Retailers

A retailer is different from the rest of the elements of the supply chain because only the retailer directly interacts with the end-consumers and sell them goods. You must have observed while shopping that there are different types of retailers. The difference can be made on the basis of the shapes and sizes of the retail stores. Therefore, retailers can be grouped together on the basis of one of the following categories.

2) Ownership

The retail store which is made of brick and mortar irrespective of its size and shape can be categorized as a national chain store, regional chain store, or a franchise.

3) Pricing Philosophy

Retail stores can be classified on the basis of their pricing style. For example, there can be stores which sell products at discounts and there are some stores which sell products at full prices. The stores which sell products on discount have several categories such as consignment stores, factory outlets, specialty discount stores, dollar stores, warehouse membership clubs, etc.

4) Product assortment

The product lines sold by a store depends on the ownership of the store. take the example of an Ann Taylor store. this store sells branded clothes. There are not many types of clothes sold in the store. but it sells the extensive style of products in existing categories. On the other hand, Kmart sells clothes from different brands but it does not have a various variety of clothes of all brands.

5) Service Level

Exclusive and specialized stores provide more types of services such as store-named credit cards, liberal return policies, on-site alterations to their loyal customers.

Functions performed by retailers

1. Offers Two-ways communication.
2. Offers personal services to customers.
3. Commence physical movement and storage of goods.
4. Facilitates grading and standardization.
5. Stock goods to supply to customers on immediately.
6. Assembles goods from various sources.
7. Create demand by the window display.
8. Extend credit facility.

Different formats of Retailing

1) Department Stores

Department stores are large stores which sell different types of products under one roof in different departments. Each department has an individual specialization of merchandise. Each store is handled separately in accounting, management, and location.

Therefore, a department store handles different business units and deals with a variety of merchandise and are organized in different departments for the purpose of accounting control, sales promotion, and store operations.

The latest trend in department stores is to add departments for sports and recreational equipment and automotive along with providing services like travel advice, insurances, and income tax preparations, etc. Department stores can also be referred to as shopping centers.

Different classifications of department stores

Department stores can be classified on the basis of income groups or ownership.

1. **On the basis of ownership –** There are three types of a department store on the basis of ownership
2. **The ownership Group –** Ownership group stores are dependent formally but are combined.
3. **The independent –** This type of department stores is owned by the financial interest which does not own any other similar stores.

Types of Department stores

1. **Chain Department Stores –** This type of stores is owned and managed centrally.
2. **On the basis of income groups –** These stores are designed to serve people with high- and middle-income groups. These stores sell high-quality goods and provide first class services to its customers. there are also stores which are designed to cater to people with low income such as dollar stores.
3. **Leased department stores –** The stores whose operations are given out on lease are called leased department stores.

Various features of Department stores:

1. Merchandises are arranged in different departments in the same store.
2. Department stores are integrated stores which perform operations.
3. department stores are distinguished by the nature of goods sold by them, not by the variety of goods sold by them like drug and variety store.
4. Department stores are designed horizontally in order to provide different merchandises under the same roof.

Location of Department stores

Special consideration should be taken into consideration before choosing the location of a department store. the store should not only provide merchandises only but it also should provide various amusement facilities, facilities in dine-in, and parking, etc.

Advantages of Department stores

1. Department stores usually buy products in bulk which gets considerable discounts. in addition to this, department stores buy directly from the manufacturer therefore, it eliminates any middleman charges results in high profits.
2. Department stores were a big business are in a position to pay for goods being purchased. In this way, quality goods can be purchased on much cheaper rates and also merchandise of the latest style and design can be obtained to be sold in stores.
3. Department stores attract customers because of the convenience offered by them for people of all classes.
4. Because of its large scale of business expert supervision can be provided for each department. In addition to this, various services like liberal credits, expert assistance for shopping, and delivery services can be provided to customers.
5. Department stores can afford to spend on advertising to lure customers to buy more. For example, within department stores, various discount and offer advertisements are placed to make customers purchase more than they plan to buy.

Limitations of Department stores

1. It is very expensive to run a department store as it includes various expenses. For example, a large number of salespersons are needed to handle different departments and cash counters.
2. Because of its large size, personal touch and interaction with customers are missed. Which is not a problem in single line stores.
3. As area required to establish these stores is large, they are usually set up on the outskirts of a city. Hence, these are not much beneficial for the customers as they have to buy urgently required goods from the nearby traders.
4. As the whole control is in the hands of employees such as store managers there are high chances of leak and loss.
5. Many times customers take advantage of “customers are always right” policy.
6. it has been observed that in many stores poor salesperson service is provided because of the low payments given to them.

2) Super Markets

Supermarkets are self-service stores that sell a wide range of food as well as non-food products. supermarkets have at least four basic departments such as self-service grocery, dairy produce, meat, and household department.
These stores can be either entirely operated by owners or they are given on lease to others to operate.

Features of supermarkets

1. Goods are displayed in bulk.
2. Supermarkets are located in nearby housing areas so that people have easy access.
3. These stores offer a wide range of products, low prices, nationally advertised brands, and also convenient parking.
4. It follows the "cash and carry" policy.
5. Minimum customers service is provided in these stores as these stores work on the basis of self- service.

Advantages of Supermarkets

1. The supermarket sells a wide variety of merchandises.
2. The supermarket offers convenient shopping to customers as they can buy everything under one roof.
3. supermarkets offer low-profit margins, high discounts, and convenience of buying everything under one roof.
4. Customers don't have to spend a lot of time.

Disadvantages of supermarkets

1. Fewer customers services.
2. Products which require instruction to use are difficult to purchase from supermarkets as there is no one to assist you.
3. High administrative expenses required to run a supermarket.

3) Chain Stores or Multiple Shops

In this format of retailing, a chain store consists of four or more stores sell the same kind of merchandises and are owned and managed by a single owner. The supplies are stocked in chain stores are provided by one or more warehouses owned by the chain store owner.
This retail format is known as "Chain Stores" in America and known as "Multiple Shops" in Europe. In chain stores, customers are approached to provide them assistance and not forced to make purchases. More than one store can be opened in one city to magnet more and more customers.
The appropriate examples of chain stores are Wal-Mart, subway, Bed Bath and Beyond, and Body Shop, etc. Chain stores work on the basis of "Centralized buying with decentralized selling".

Features of Chain stores

1. When one or more shops are run under one name are called chain stores.
2. There is centralized control over all the shops.

3. Chain stores are integrated stores.

Advantages of Chain Stores:

1. Chain stores offer low selling prices.
2. Low advertisement cost as the advertisement is done on a central basis.
3. Chain stores work on a cash basis. Therefore, there are fewer chances of bad debts and less accounting process required.
4. No need to look for costly and centralized locations.

Disadvantages of Chain Stores:

1. People believe that merchandises are sold at a low price which is clearly a false claim.
2. Chain stores lack flexibility. As it does not offer wide varieties of products.
3. There are high chances of a problem because there are several problems associated with the large scaled business.
4. Chain stores do not provide facilities like Door delivery and credit facility. Therefore, it has a poor bad image.

4) Discount Houses

Discount house is a type of retail format which operates at low cost and almost no customer's service. These stores are large in size, open for public and advertised heavily. They sell a wide range of products of well-known brands, housewares, appliances, sporting goods, house furnishing, toy and automotive services, and clothing, etc.

These stores operate on a self-service basis and no customer service is provided in them. Discount houses can be of different types such as small store, Full line limited service, catalogs type order offices. The stocks in discounts houses are bought from both wholesalers as well as manufacturers.

So far, you have learned about "In-store retail stores". In the next section, you will learn about various types of "Non-store retail stores". Almost 80% of transactions are made in stores. However, with the increase in the non-physical transaction the concept of non-store retail stores came into existence.

Hence, the rest 20% of trading transactions take place in non-store retail stores. There are five types of non-store retail trading formats such as telemarketing, direct selling, automatic vending, online retailing, and direct marketing.

5) Direct Selling

Direct selling is when customer and seller have direct contact with each other away from the store. direct selling is also referred to as home selling. The total volume of direct selling has been growing in India since the beginning of the 21st century.

Direct selling is not only popular in India but it is also utilized in many other countries. In Japan, approximately 35% of total selling is done by direct selling and in the United States of America, this number is 30%. There are two types of direct selling such as door to door and Party Plan.

There are a thousand big direct selling companies. Companies like Creative Memories, Amway, and Excel Communications are a few popular companies which make their business through direct selling.

These companies market various types of product through direct selling. Direct selling is the best-suited way to sell products which require extensive demonstration.

Features of direct selling:

1. The whole business is controlled centrally.
2. There is no building to display products.
3. The seller needs to establish a relationship with the customers to gain their trust.
4. Direct selling does not require heavy initial investments.

Advantages of direct selling:

1. Customers can contact salesperson personally and can buy the product from the comfort of their home or at the non-store location.
2. Customers can ask for a demonstration of how a product work before making investments to buy it.
3. No expenses of maintaining or renting a building, stocking inventory, or hiring accountants and sales person to handle customers.

Disadvantages of Direct Selling:

1. Even if there is a high sales commission on selling but this a salesperson will only get paid when he makes any sales.
2. There are chances that your salesperson turns out to be fraudulent.

6) Telemarketing

Telemarketing is also known as telephone selling. In telemarketing, a salesperson initiates a sale over the phone to a prospect and close it over the phone only. It consists of cold canvassing from a phone directory. There are various products such as magazine subscriptions, pest control devices, club memberships, and credit cards which can be sold without seeing are usually sold over the phone. There are several problems associated with telemarketing also.

Telemarketing people sometimes encounter with hostile people on the telephone and receive many more rejections than close deals. Therefore, many sales person don't last even for a week in this job and some telemarketers opt for unethical or questionable ways to somehow get a deal closed, for example, some firms call people at any time no matter day or night.

This method of selling is sometimes criticized for violating consumers' right to privacy. Some states have put strict rules to limit the activities of telemarketers. Despite these limits, the sales over telephones have increased tremendously in the past few decades.

There are some people who like the convenience of shopping over the phone really appreciate telemarketing even though it is loathed by many people. The cost of selling through telephone has reduced drastically after the introduction of computers, as computers can dial automatically, deliver recorded messages, and even record information provided by the buyer.

The future of telemarketing clearly depends on the way the above-mentioned problems will be handled.

7) Online Retailing

Online retailing is when a firm offers products on their website and people and organizations from this company. In this way, both entities engage in the online transaction also known as internet marketing or electronic transactions.

In online marketing, there are one or more businesses involved and the buyer is an ultimate consumer. The number of online retail firms are rapidly increasing such as Pets Mart, Busy.com, CDNow.com, Amazon.com, etc. Some online retailers launch general products form retailers such as Wal-Mart and Target.

On the other hand, there are some firms like “Amazon” which uses different methods broaden their business. it takes some investments to set up online operations. Online retailers use attractive advertising to attract shoppers and retain them. sometimes, online marketing proves to be expensive and unprofitable because of the offers and discount offered by online marketers.

Even with these challenges online marketing has a bright future and is expected to grow in the foreseeable future. according to a survey in 2005, people like to buy products like music, videos, books, apparel, computer hardware and software, and travel, etc. but at present time, many more categories such as toys, groceries, health aids, beauty products, pet supplies, and auto parts.

8) Automatic Vending

A sale is made without the slightest contact between a seller and a buyer through automatic vending. The idea behind selling through automatic vending is to provide convenient purchase. Products from well-known brands and those have great turn-over are usually sold through automatic vending machines.

Most of the selling from automatic vending comes from “4 Cs”: Coffee, Cold Drinks, Cigarettes, and candies. A vending machine is an appropriate way to expand business by reaching customers to such locations where there are no stores nearby or when they can’t come to a store.

The vending machines are installed in places like schools, colleges, workplaces, public facilities, etc. However, it is expensive to operate vending machines as they are required to replenish frequently.

In addition to replenishment cost, there are other costs of repairs and maintenance. The above-mentioned difficulties could be a reason for less scope of vending machines in the future. moreover, frequent vending-related scams scare entrepreneurs spending in this retail format. However, various innovations are made to make vending machine business more lucrative for customers such as purchase using debit cards.

The amount of purchase is deducted from the cardholder’s card. Technological advancement made it easy to monitor vending machines from distance and reducing the chances of out-of-stock, out-of-order, and theft incidences.

9) Direct Marketing

Direct marketing consists of all Non-store retail formats except telemarketing, direct selling, online retailing, and automatic vending. Direct marketing is a way of contacting customers through broadcasting or print media.

The products are advertised on these media and customers buy products online without even going to retail stores. The different platforms to contact customers through direct selling are Television, radio, magazines, newspapers, mailing, and catalogs, etc.

Direct marketing can be of two types such as general merchandise firms which offers various types of products and other is specialty firms which offers one of two lines of products for example Beauty and books.

This format of retailing includes

1. **Catalog Retaining** – Catalogs are mailed to consumers or made provided to them in retail stores.
2. **Direct Mail** – Samples products, brochures, and mail letters are sent to consumers and ask them to make a purchase through telephone or email.
3. **Tele-shopping** – Various lines of products are sold on different television channels where people can learn about the features of the products and can place orders over the phone instantly.

Direct marketing also offers shopping convenience to consumers and it is also less expensive than owning a physical store as a seller don't have to run store to sell. Often liberal return policies are given to consumers like the product without touching and seeing the product physically.

This can be a drawback for the seller as many people take advantage of this policy. Moreover, it is expensive to prepare catalogs and they are required to be prepared a long time ago before sending to the customers.

Therefore, additional supplement brochures or catalogues are required when new products are launched. The future of direct marketing is not sure on the basis of the present customer's preferences.

10) Franchising

In this retail format, a businessman who owns the business (known as a franchise) and a company who offers business (known as franchiser). A businessman can use the name of already well-established business's name to run their business under a certain condition set up franchiser. The conditions vary from business to business however, a franchiser decides certain areas like site selection, location, training, management, marketing, financing, promotions, and record-keeping, etc. in addition to this, he also has rights to decide standard operating procedures and trade name of the business. A franchisee has to agree to follow conditions set by the franchiser.

Different benefits of franchising:

1. Conserve capital.
2. Low marketing costs.
3. Easy to establish a distribution system to a short period of time.
4. Cost of fixed expenses cut down substantially.

Franchising business exists for various products like automobiles and parts, soft drinks, dry cleaning, and business services, etc.

A Franchisee is required to do the following things before investing in any kind of franchising business.

Role of Franchise

1. Do a reference check with a financial institution.
2. Invest sufficient time and take measured risks.
3. make enough enquires regarding the product such as its quality, exclusiveness, appeal, effectiveness, and competitiveness to get repeated business.
4. Secure enough capital to buy a franchise because it is usually expensive.
5. Bear in mind that you will be supervised and you will be required to take orders to run your business in a particular way.

6. Take consultation from experienced for legal matters.

11) Mom and Pop stores

Mom and Pop stores are types of retail format which is a small, independent, family-owned business. This type of stores usually faces tough competition from big well-established businesses who can lure customers to buy more with their heavy advertising and marketing methods.

Mom and Pop stores can be different types of establishments such as bookstores, restaurants, insurance agencies, and automotive repair shops, etc. nowadays, mom and pop businesses have a high scope of success because more and more people demand personalized products and services.

In addition to this, with the invention of the internet, these small stores also take their business online and orders from customers irrespective of their geographical location.

Moreover, this type of stores is also supported by people of local communities as they want to invest their money in local businesses over foreign businesses.

12) Speciality Stores

Specialty stores are small in size and they generally offer limited products categories but provides a high level of service. The specialty stores can be a drug store, DIY stores, Category Killers, etc.

Classification of Retail Formats, Key Features, Advantages and Disadvantages

Store Based: Store based formats can be further classified into two formats based on the basis of Ownership or Merchandise offered.

Non Store Based Classification: Non Store retail organizations focus on establishing direct contact with the consumer. This may be both personal (direct personal selling) and nonpersonal TV, the Internet, mail, catalog or phone).

Service Based Classification: Such retailers specialize in providing different kinds of services to the end consumer. The services can be classified as Banking Services, Rentals, Electricity, cooking gas, etc. Various factors like quality of service, how much customization can be provided for meeting the client specific requirements, the uniqueness of the service and delivery within the timelines, usage of innovative technology, etc, are given importance for determining the success of service.

Classification of Retailers on the Basis of Ownership

1. **Sole Proprietorship:** This constitutes the majority as many small business ventures start on a sole proprietorship basis only. In the case of sole proprietorship, the ownership of the business exists with a single person, usually the one who is responsible for the day to day affairs of running the business.
2. **Partnership:** This is also one of the most common business formats in India. In Partnership form of business, the ownership is shared between two or more people for running the business.
3. **Joint Venture:** A Joint venture involves the creation of a third or a new entity due to collaboration between two or more than two parties, with an agreement to manage the business operations in a particular area by combining their resources and sharing their profits as per the well-defined terms and conditions of the contract.

Key Features of Chain Stores: When 4 or more than four stores manage the same merchandise under the central ownership and usually receive their supplies from a central warehouse. The Chain stores in Europe are equally called as Multiple Shops, unlike America where it is regarded as Chain Stores. The main objective of Chain Store system is to approach the maximum number of customers by expanding operations across a larger territory, but with a concentration on selling the same merchandise.

In Indian context organizations such as BATA and Usha Lexus operate chain stores across the country. These organizations offer varieties or various model variants of a single product, and the buying is centralized, but selling is decentralized.

Salient Features are given below

- A retail system to be considered as a Chain store should have more than 1 retail store engaged in the same merchandise and being operated with a moderate degree of centralization.
- The focus is on horizontal expansion by establishing multiple stores for reaching maximum customers across various geographies.

Advantages of Chain Stores

- Chain Stores enjoy cost advantages due to the economy in purchase operations, low advertisement expenditures and low selling prices of the products.
- The risks are distributed as a result of which the possibility of losses is minimized.
- Delinquency, bad debts and the complexities in the processes of accounting can be avoided since the chain stores operate on the basis of cash.
- Chain stores need not be established in costly or prime locations and enjoy flexibility in their style of operation.

Limitations of Chain Stores

- The claim that the products in chain stores are sold at lower prices is false.
- Practically chain stores are inflexible as the chain stores specialize in offering standardized products only.
- Chain stores face a lot of personnel issues due to the complexities of a large-scale business operation.
- Chain stores run a perennial risk of losing the brand image because various customer-centric initiatives are not being given that much importance. But the customers in the present scenario look for several other benefits regarding services.
- Chain Stores enjoy cost advantages due to the economy in purchase operations, low advertisement expenditures and low selling prices of the products.
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Features of Departmental Stores

Departmental Stores can be either classified on the ownership basis or income groups. The key features of Departmental Stores are given below:

- Departmental stores perform operations in an integrated manner all under the single roof.
- Departmental stores are multi leveled retail outlets operating on a large scale at the international level, national level and locally as well, offering a variety in their merchandise. In India, the major national players operating departmental stores are Westside, Shoppers Stop, Lifestyle, etc. While the local players Meena Bazaar of Hyderabad and Ebony in Delhi.
- The key criterion which determines the success of a departmental store is the location in which it operates and also other factors like store size, space availability, the area which is being targeted and crucial issues such as the potential of the store in attracting the customers.

Advantages of Departmental Stores

- Departmental stores enjoy the benefits of economies of scale and also cost advantages due to its large scale operation. Usually, the purchases are done in bulk or large quantities as a result of which special concessions can be availed on the purchases.
- Departmental stores usually have ready availability of cash in liquid form, which provides an advantage of procuring quality goods at affordable prices along with special discounts/concessions and keeping a reserved stock for meeting the growing demands of the customers and enjoying a business advantage.
- Customers usually get attracted towards the departmental stores for their buying requirements due to the availability of a variety of products under a single roof.

Disadvantages of Departmental Stores

- The overall costs and expenses involved in the operation of the departmental stores are very high.
- The element of personal involvement or maintaining client relationship is found to be lacking in the case of departmental stores.
- The departmental stores always run the perennial risk of incurring heavy losses or damages.
- The staff members are usually poor qualified and lack the requisite competencies or the training for dealing with the day to day business affairs or addressing the challenges involved in the business.

Features of Super Markets

- Supermarkets operate on a large scale basis and are the self-service kind of stores which may be entirely operated by the owner or may lease some of the departments on concessional rates.
- These stores are usually located in prime shopping locations where facilities for the parking are available.
- The key hallmarks of supermarkets are the availability of a variety of merchandise and branded products, affordable prices and availability of parking facility.

Advantages of Super Markets

- Supermarkets offer convenience in shopping, and the customers enjoy the benefit of buying their preferred products by selecting from a variety.

- The supermarkets sell products at affordable prices.
- The customer’s shopping time is considerably reduced.

Disadvantages of Super Markets

- Supermarkets incur heavily on administrative and maintenance expenses.
- Service aspects are usually ignored in this model of retail.
- The store operation costs are very high.

Advantages of Direct Selling

- Direct selling also called as home selling involve an element of a personal touch as the customers can establish a contact with the sales representative and discuss their buying requirements or clarify their queries.
- The consumers enjoy the benefit of purchasing the products as per their convenience either at home or any other location of their choice.
- The role of the seller is very crucial in case of direct selling as the seller can personally demonstrate the products before the consumer and influence them for the purchase by trying out persuasive skills.

Limitations of Direct Selling

- Managing the administrative requirements, determining the sales commissions for the sales agents, determining the terms and conditions of work (part time or full time) may involve heavy costs.

2. Retail Sales by Ownership in India

The term ‘retail sales by ownership’ refers to the basic system or basic format of doing business. In India, around 12 million retail outlets are covered under this format. Under this format, proprietor is responsible for the success and failure of the store. It is a type of format, which legally has no separate existence from its owner. Opportunities in retail ownership are in plenty. From market positioning and operating perspectives, each ownership format serves a particular market and has its own advantages and disadvantages.

Over Ninety percent retail firms / outlets in India are independent and hence unorganized. With the globalization and borderless economies, this percentage is coming down but still unorganized stores (mom and pop stores) are in plenty. This number may be because of ease of entry. Ownership pattern has its own competitive advantages and disadvantages. Among independent competitive advantages, main are flexibility, low investments, less interference, quick decisions, direct strategic control, image, consistency, personal attention and entrepreneurial spirit.

Among disadvantages, common are limited finance, less bargaining power, labor intensity, reduced media access, few economies of scale, less expertise, over-dependence on the owner, excess workload and limited planning and supervision due to individual’s limitations.

The retail sale by ownership is classified as under:

(1) Independent Retailer

(2) Chain stores

(3) Franchising

(4) Leased department stores

(5) Vertical Marketing system
(6) Consumer co-operatives

Independent Retailer:

An Independent Retailer usually is a small retailer (always not true) and is found in all lines of trade and in all communities. He may be a young man, fresh graduate just starting his own business or he may be a man of advanced years with many of them spent in the field of retailing. In India, many of the independent stores tend to be passed on from one generation to another. In either case he has a business of his own. He is independent in-fact as well as in name. The high numbers of independent retailers is associated with the ‘ease of entry’ into the market place. The entry and growth of independent retailers in India is a big reason in the high rate of new retail outlets failure.

Merits:

1. The independent retailer has no restrictions on who, how or where the business to be set up. He is free to do what he wants and to select a convenient location.
2. The independent retailer takes all decisions related to the store functioning. It drastically saves the time that usually exist between decision-making and the implementation process. Therefore, an independent retailer can respond quickly to the environmental changes and adopt proper strategies.
3. The independent retailer can concentrate on a local area to achieve its business goals.
4. To serve the local demand, a retailer can decide the trading hours, merchandise to be sold / removed and prices as and when desired.
5. It avoids duplication of work, ambiguity of role and excess stock due to clarity of role, thus resulting in increased productivity and time utilization.
6. To start an independent store is comparatively an easy task as it requires low investment, modest fixtures and merchandise.
7. The independent store by providing limited but deep merchandise can act as a specialized store to serve a particular consumer segment.

Demerits:

1. Due to limited exposure and small investments, in most of the cases, they don’t stand in competition with the emergence of giant retailers and international store outlets.
2. As independent stores are dependent on labor intensive techniques, they find themselves difficult to improve store-productivity when it comes to stock-keeping, ordering, merchandising, displays, accounting and dispatching.
3. Undoubtedly, the bargaining power of independent retailers is comparatively less as they offer limited merchandise. On the other hand, big retailers (like supermarkets, hypermarkets and chain stores) due to bulk buying, negotiate vendors effectively and offer less prices, better quality goods and great service at short notice or in small lots create problem for independent stores.
4. Due to limited operations, less working capital, improper logistic arrangements, retailers are not able to have benefits of economies of scale.
5. Independent retailers due to limited funds cannot go for mass sales promotion programs resulting in limited target market and geographical coverage.

(2) Chain Store/Chain Retailer:

A chain retailer or a chain store is a group of two or more outlets carrying the same sort of merchandise assortment, owned and controlled jointly and usually supplied from one or more central warehouses. The main advantage of such a retail format is to make retailer enable to bargain well with the suppliers. Another advantage is cost effectiveness in advertising and sales promotions. Thus, a very small number of stores constitute a chain-store system.

Merits of Chain stores:

i. Good bargaining power with suppliers
ii. Cost effectiveness due to centralized operations
iii. Ease of managing store operations
iv. Use of advanced technology increases their working efficiency

Demerits of Chain stores:

i. The establishment cost to set up such chain of outlets requires huge money and expertise.
ii. Difficulty in managerial control due to geographically dispersed branches/outlets
iii. Due to centralized decision-making, some outlets may have difficulty in adapting to local needs.
iv. Due to huge network of outlets, it is difficult for management to monitor their day to day activities resulting in communication gap, inefficiencies, and delay in decision making.
v. Expense on safety stock remains high.

(3) Franchising:

A Franchise is a contractual agreement between the franchiser and the franchisee that allows the franchisee the right to supply its brand (goods and services) exclusively within a defined area, as per a particular format for a specified period of time. In return, franchisee pays a fixed fee in advance and a monthly percentage of gross sales made by him under franchiser name and fame in the form of royalty. In India, franchising business is becoming very popular and growing rapidly.

The small businesses find it convenient by being a part of large, multinational firm because franchiser provides great assistance to franchisee for locating and constructing the retail store (including interiors, and exteriors), developing the goods and services for selling, hiring employees, training, advertising and administering the store effectively.

Key franchisers in India:

a. Aptech
b. Chabbra 555
c. Coke
d. Domino’s Pizza
e. Koutons
f. McDonald’s
g. NUT
h. Pepsi
i. Pizza’s Hut
j. Priknit
k. Reliance Fresh
l. Sagar Ratna’s
m. Store 99
n. Vishal Mega Mart

Types of Franchising:

In commerce, franchising structure can vary according to the goods and services provided. In most of the agreements, the franchisee is prohibited from selling goods and/ or services of other brands from the same retail outlet in any circumstances.

The franchising may be of three categories:

(a) Product or a trademark franchising:

In this sort of franchising, a franchisee with mutual consent acquires the name and identity of the franchiser by agreeing to sell the franchiser's goods and services exclusively made and supplied by him under his name. In actual, under such an arrangement, franchisee use the franchiser's business methods, selling techniques, standardized product lines and advertising on co-operative basis.

Although, franchisee adheres to certain operating rules and regulations, but still is independent in their day-to-day operations. In consultation with the franchiser, franchisee can decide the store hours according to the locality needs. Archie's Gallery, Hallmark stores, which are spread all over India, is the best suitable examples of a product/ trademark franchisee.

(b) Business Format Franchising:

In business format franchising, there is a more synergetic relationship between a franchiser and the franchisee. The franchisee receives assistance on the issue of site location, building the store, quality control, accounting practices, training to store employees, and the problems faced in conducting the store.

Besides these services, a franchisee enjoys the benefits of prototype stores, standardized product lines, selling and presenting skills and co-operative advertising. McDonald's outlets, Domino's, Pizza Hut are the best suited examples of business format franchising. In India, since 2000, most growth has been observed under this type of franchising format.

(c) Area Development Franchising System:

In an area development franchisee system, the franchiser grants development rights of a particular area to the franchisee in turn for a front-end development fee. The franchisee on his part is responsible for developing a certain number of units within a given period of time. Excel InfoTech EIIT has adopted this unique mode of franchising.

(4) Leased Department Stores:

A leased department which is also known as shop-in-shops or store-in-store, is a section of a department in a retail store in the form of specialty/discount store given to any outside party on monthly rental basis. The person who provides the store space to outside party is known as lessor, and the person who takes the shop/store space is known as lessee.

The payment made by lessee to lessor for the use of store space is decided in a contract in the form of monthly rent. The lessee (the proprietor) is usually responsible for all aspects of business such as managing fixtures and furniture. In order to maintain the overall consistency and co-ordination, the store has some operating and administrative restrictions for each lessee in a uniform manner. For a lessee (retailer), the main reason to have rented premises is the property price that usually is so high that buying the premises is beyond the reach of the retailer.

4. Leased Departments in India:

In India, leased departments are an emerging trend in the field of retail business. Most of the renowned retail chain stores set up their outlets or extension counters in commercial complexes of residential areas, malls, PVR multiplexes, public places like bus terminals, railway stations, metro stations, airports and on national highways. The reason behind their popularity is the business and marketing philosophy of the retail chains that insures the availability of their brands to the consumers near their place of work or home.

Advantages and disadvantages of leased departments:

Following are the advantages of having leased departments from stores' point of view:

i. It provides one-stop shopping experience.
ii. Leased stores pay for property, personnel and other expenses resulting in fewer burdens on lessor.
iii. Lessor gets regular monthly income in the form of rent.
iv. Employees' management, merchandise displays and arrangement, reordering of items, complaint handling and so on are handled by individual lessees.

Disadvantages:

i. Operating hours may vary from store to store on the basis of goods and /or services sold.
ii. Items sold /business lines are restricted.
iii. If lessees are performing well, the store owner may increase the rent or lessees themselves can create problems by changing /not obeying agreements' rules and regulations.
iv. The bad image of one lessee can spoil the image of entire store.

(5) Vertical Marketing System:

A Vertical Marketing System (VMS) is a system in which almost all the members of distribution channel such as manufacturers, wholesalers and retailers work together to satisfy human needs and wants by facilitating the smooth flow of goods and services from manufacturer to ultimate consumer.

In traditional marketing system, manufacturers, wholesalers and retailers are separate entities that try to maximize their own profits. The philosophy behind developing vertical marketing system is that when one member of distribution channel tries to maximize its profits on the expense of rest of the members, it will create conflicts resulting in decline in profits for the whole channel of distribution. To avoid these conflicts, now retail firms have started forming vertical marketing systems. Three types of VMS are in existence through which goods and services are usually distributed to customers.

These are:

(i) Independent firm VMS
(ii) Partially integrated VMS
(iii) Fully integrated VMS

(i) Independent firm VMS is a marketing system where manufacturers play vital role to provide goods and services to customers. This is the case where retailers are very small and therefore, manufacturers have to reach the whole market. Also when firm's financial resources are limited and channel members are not in a position to share risks and expenses, therefore, they want manufacturer to come forward and lead the retailing efforts. Independent retailers on the other hand, target their customer base and build loyalty by becoming friendly retailer and mouth advertisement.

Examples:

i. Campbell
ii. Coke
iii. GE
iv. JC Penney
v. Kellog
vi. McKesson Corp
vii. P&G
viii. Pepsi
ix. Toys R Us

x. Wal Mart

(ii) Partially integrated VMS is a marketing system in which two independent, financially strong firms along a channel of distribution perform all manufacturing and distribution functions without the involvement of any intermediary. This is the case where involvement of wholesalers may be expensive and/or unaffordable. The example of such system is where manufacturers and retailers divide all the retailing activities like production, storage and distribution without any independent wholesalers.

Partially integrated VMS is most suitable where:

(i) Wholesalers are costly to afford,

(ii) Company has ample resources,

(iii) Both manufacturers and retailers are large,

(iv) Unit sales are moderate, and

(v) Strict control over channel is required.

(iii) Fully integrated VMS is a system where one member of the distribution channel for say manufacturer performs all production, storage and distribution functions without the involvement of any channel member.

This is the case where manufacturer being resource sound wants direct interaction with its customers. Earlier throughout the globe, this system was usually employed by manufacturers of repute but now due to ease of finance facilities and retailing being a significant contributor to any nation's economy, retailers are also moving upward in the chain. Vishal Mega Mart and Reliance Fresh work on the principle of integrated marketing system and provide efficient customer service, wider assortment without increasing the price of commodities. In short, fully integrated system is based on the concept of 'manufacturing to retailing'.

Other examples are:

a. Banana Republic

b. Gallo

c. Giant Foods

d. Hallmark

e. Oil Companies

f. Sears

g. Sherwin Williams

h. The Gap

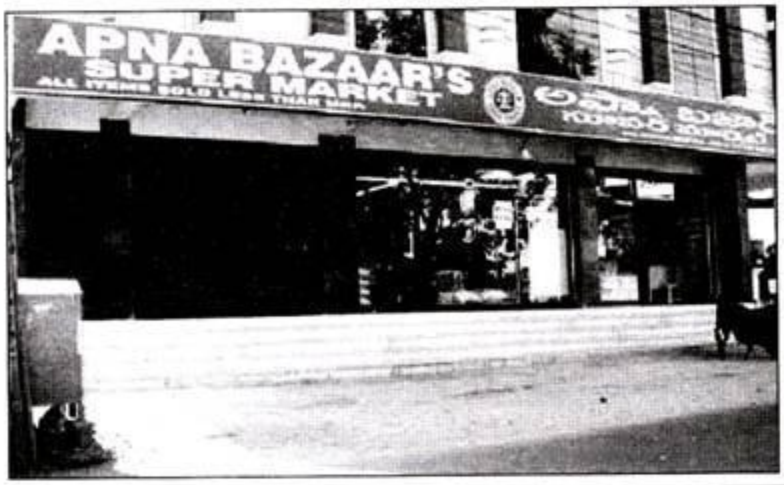
(6) Consumer Cooperatives:

Consumer Cooperatives are retail outlets owned and managed by its customer members. A group of interested customers (members) start retail operations by investing money, receive stock certificates, elect members to run day to day activities and share the profits on the basis of investment made or certificates held.

The reason to setup consumer cooperative is that local retailers are not able to satisfy consumers' needs (whatever the reason may be). Therefore, consumers are left with no option but to open their own store. Examples of cooperatives in India are the 'Kendriya Bhandaars', owned and managed by government, 'Apna Bazaar' shops in Mumbai and 'Super Bazaar' stores in Delhi. In some cases, these stores are run by the local residents of society/colony/apartment residents.

Figure 2.3

Apna Bazar: Biggest Chain of Supermarkets in India



An outside and inside view of Apna Bazar Super Market, Ashok Nagar, Mumbai

About Apna Bazar

Apna Bazar is the biggest chain of supermarkets in India operating with more than 500 outlets throughout the Mumbai, selling more than 6,000 essential commodities. It is the only biggest supermarket chain that keeps in view the development of consumer association, indirectly cooperates with every activity and supports consumer rights to acquire quality products without compromising on quality. It also possesses one of the best and biggest warehouse facilities and provides direct employment to more than 1,000 volunteers and indirect employment to more than 10,000 people. In this way it has been a good job creator and sustainer. Their outlets are well spaced to display the vast range of products at easy view angles, with ample room for people's movements. Each and every outlet covers an average plinth area which is said to be a better space for this sort of retailing format.

Courtesy: *Company Website (www.apnabazar.org)*

State Consumer Cooperative Organizations:
In a few States, where the central stores and the local traditional stores have not made much progress, the State Federations have come forward to provide merchandise by establishing supermarkets. Assam, Madhya Pradesh, Karnataka and Assam are the leading states having such kind of cooperatives stores.
Janata Bazar owned and run by Karnataka Federation with an annual sale of more than one crore rupee is one of the biggest retailers of the Karnataka state. Similarly in Madhya Pradesh, Pridarshani super market at Bhopal is the leading retailer of Madhya Pradesh with an annual turnover of rupee five crore.

Some of the leading State Consumer Co-operatives are:

1. Karnataka Cooperative Consumers Federation Ltd
2. Maharashtra State Cooperative Consumers Federation Ltd.
3. Gujarat State Cooperative Consumers Federation Ltd. and
4. Pondicherry State Cooperative Consumers Federation Ltd. (CONFED).

Characteristics:

1. Limited expansion
2. Profit is shared by its members
3. They sell usually essential commodities at reasonable price
4. Main purpose is social service not to earn profit, and
5. Average customer service

Types of Merchandise

The Indeed Editorial Team comprises a diverse and talented team of writers, researchers and subject matter experts equipped with Indeed's data and insights to deliver useful tips to help guide your career journey.

Companies typically rely on merchandise to generate profits and develop or expand as a business. Different types of merchandise typically affect both companies and consumers differently depending on the type of item. Sales and marketing professionals may benefit from learning about these types when creating or planning pricing and business strategies. In this article, we discuss what merchandise is, 10 types of merchandise and descriptions of each one that may help you understand them in a business environment.

What is merchandise?

Merchandise is any item or good that a business sells to consumers or other businesses. This includes both personal and commercial items and even free items that companies give away during promotions and big events. Free items may include keychains, plastic cups, water bottles, shirts, bracelets, bottle openers and similar small and minimally valuable items. Companies often use different types of merchandise to target specific markets and consumers. For example, free merchandise may assist the company with attracting potential customers and building brand awareness. Merchandise can also refer to a company's stock level in its store.

4 types of basic merchandise

Here's a list of four basic types of merchandise and descriptions of each one that may help you differentiate between goods:

1. Convenience goods

Convenience goods are necessary items that people require for basic survival and health. This may include food, clothing, basic medicine, toothpaste, soap and cleaning products. People purchase convenience goods with little effort and decision-making because they can typically find these readily-available items in many different places. Convenience goods also may have multiple variations. For example, consumers may buy a different brand when they don't find their first choice brand.

These goods often have inexpensive prices, but this also means they may have a higher price sensitivity. Their low opportunity cost often means businesses sell large quantities of these goods at a faster pace than other goods. Companies often monitor the price and demand of convenience goods so price increases don't affect the quantities of items that customers buy.

2. Impulse goods

Impulse goods are items that customers buy without originally planning to when they entered the store. Customers may enter a store with a shopping list and a budget, but they may also add an extra item or two after seeing it on a shelf. Customers often see these goods and pick them up without significantly thinking about them.

Stores often rely on the display and location of these items to successfully sell them. Well-displayed impulse items often attract customers. Some examples of impulse buys include candy, refrigerated drinks and magazines. A company may place these items near a checkout counter or the front of the store so customers may buy them while they're already buying their other goods.

3. Shopping products

Shopping products are items that customers typically research or want to learn information about before buying. Many different companies may produce the same type of shopping product, so customers often compare prices and features before buying them. They may also compare quality, content, appearance, and other aspects along with weighing the emotional satisfaction of owning the product. This also means that customers may buy this type of item less than other types of merchandise. Some examples of shopping products include smartphones, furniture, clothing, other electronics and vehicles.

4. Specialty goods

Specialty goods are items that may be in limited stock, possess luxury associations or come from particular companies that may not have many convenient locations. Customers often travel long distances, perform thorough research and pay a higher price for a specialty item. Specialty items' high prices often mean customers are highly selective and don't accept substitutions or alternative brands. Customers may not compare these items with other companies' similar items because of the original item's status or value. Some examples of specialty goods include luxury items such as cars, clothing, specially-made furniture or imported alcohol.

Merchandise that enhances customer experiences

These types of merchandise specifically increase the profitability of stores and often enhance customer experiences in different ways depending on the type of item. Here's a list that explains six of these merchandises and how they affect both stores and consumers:

1. Destination merchandise

Destination merchandise is an item that motivates customers to visit a store and disregard other stores or competitors' similar items. These are often items that remain the most desirable when customers compare them to other brands. Destination merchandise may include limited edition items, items that other stores don't sell or even regular stock items that outperform competitors. A store may also include desirable pricing when selling these items. Examples of destination merchandise may include specialty products and brands or location-specific items.

2. Image enhancers

Image enhancers are items that impress and entice customers but don't necessarily invite customers to buy them. These items act as visual aids that invite customers deeper into the store and may inspire conversation. Image enhancers also may generate free advertising for the company through word-of-mouth advertising by store visitors. Companies typically keep a low stock of these items since many customers don't buy them. Examples of image enhancers may include expensive and luxury items or unusual items.

3**. Transaction builders**

Transaction builders are main items that require the additional purchase of other items for the main item to work. Stores may offer discounts on the main product but still make a profit when customers buy the additional items and accessories as well. Sales associates often employ add-on sale techniques when selling these products. Stores may also strategically place these items next to each other so customers may easily access them. An example of a main product may include pet food. Additional items may include a food bowl, a water bowl, a nonslip mat on which you can place the bowls, pet toys and similar items.

4. Traffic builders

Traffic builders are items that attract customers repeatedly and may assist in retaining customers. These items may invite a customer to stay in the store for longer periods of time. For example, a gas station may also sell a small selection of hot food, clothing or lottery tickets. Traffic builders may also include interactive product displays that don't always generate a sale but invite customers to return to the store.

5. Profit generators

A profit generator is an item that sells with high margins, which means large profits even after calculating business expenses. Stores often include these items throughout the general selection of items they sell. They may also offer discounts to customers without facing a highly reduced profit. For example, a grocery store's deli might be the location where they sell the most profit generator items. Other profit generator items may include cosmetics or premium alcohol.

6. Turf protectors

Turf protectors are items that bring customers to a store but don't necessarily align with the company's preferred type of product. For example, a company may prefer selling high-quality cosmetics, but they also include cheaper or average quality cosmetics in their product selection to maintain a constant customer base. Companies may reduce or alter prices to these items when adapting to market changes. Turf protector items may also help businesses develop a pricing strategy that outperforms competitors or maintains a specific market share within their target market.

3. On the Basis of Merchandise Offered (Food Based Retailer and General Merchandise Retailers).

INTRODUCTION

Customer satisfaction is a growing concern among business throughout the world. Two customers may not have identical likes and preferences and hence their expectations differ. Delivering value and narrowing down the zone of tolerance is a tight rope walk for marketers in any sector. An in-depth knowledge of customer expectations is the key to satisfy the customer in the current scenario.Today, manufacturing and service organizations, large and small, use satisfaction research to determine the critical product and service attributes that provide customersatisfactions.

The importance of customers has been highlighted by many researchers and academicians. According to Zari (2000) customers are the purpose of what we do, we very much depending on them rather than they depending on us. Satisfying customer’s needs is the most essential responsibility of any marketer. That is the main reason why most of the retail organizations today are focusing on customer satisfaction.

1. Definitions on customer satisfaction

Customer satisfaction used primarily to mean an option that has the greatest anticipated value among a number of options. This is an economic definition and does not tap into ‘wishes’ or ‘dreams’ but for all practical purposes is an appropriate definition. Satisfaction and acceptance can in certain circumstances mean the same thing but it is useful to keep the distinction in mind with satisfaction tending to indicate choices among neutral or more valued options with acceptance indicating a willingness to tolerate the status quo or some less desirable option.

Customer satisfaction is defined as a customer's overall evaluation of the performance of an offering to date (Johnson and Fornell 1991). This overall satisfaction has a strong positive effect on customer loyalty intentions across a wide range of product and service categories, including telecommunications services (Fornell 1992; Fornell et al. 1996). As an overall evaluation that is built up over time, satisfaction typically mediates the effects of product quality, service quality, and price or payment equity on loyalty (Bolton and Lemon 1999; Fornell et al. 1996). It also contains a significant affective component, which is created through repeated product or service usage (Oliver 1999).

RETAILING:

The distribution of customer products begins with the producer and ends at the ultimate customer. Between the producer and the customer there is a middleman-the retailer, who links the producers and the ultimate customers. Retailing is defined as a conclusive set of activities or steps used to sell a product or a service to customers for their personal or family use. It is responsible for matching individual demands of the customer with supplies of all the manufacturers. The word 'retail' is derived from the French word retailer, meaning 'to cut a piece off' or 'to break bulk'.

A retailer is a person, agent, agency, company, or organization which is instrumental in reaching the goods, merchandise, or services to the ultimate customer. Retailers perform specific activities such as anticipating customer's wants, developing assortments of products, acquiring market information, and financing. A common assumption is that retailing involves only the sale of products in stores. However, it also includes the sale of services like those offered at a restaurant, parlor, or buy car rental agencies.

Retailing has become such an intrinsic part of our everyday lives that it is often taken for granted. The nations that have enjoyed the greatest economic and social progress have been those with a strong retail sector. Why has retailing become such a popular methods of conducting business? The answer lies in the benefits a vibrant retailing sector has to offer-an easier access to a variety of products, freedom of choice, and higher levels of customer service. Retailer's cost and profit vary depending on their type of operation and major product line.Their profit is usually a small fraction of sales and is generally about9-10%. Retail stores of different sizes face distinct challenges and their sales volume influences business opportunities, merchandise purchase polices nature of promotion, and expense control measures.

Retailing Formats

Usually retail formats are classified under three categories as under:

(1) On the basis of ownership

(2) On the basis of merchandise offered and

(3) Non-store retailing

Retail Stores on the basis of Merchandise offered

Under this category, retailers are broadly divided into two categories:

(i) Food based Retailers

After the launch of New Industrial policy, 1991 the Indian economy has re-energized itself in terms of capital invested and number of new ventures started. One such development that has become topic of each debate and conference is the organized food retailing. India is not only the country of ‘kirana’ stores but has a biggest population of working middle class. Food stores are becoming popular as even better quality goods they are offering in low cost under hygienic and attractive ambience outlets with dining arrangements. Food stores in India are divided into four categories:

1. Convenience Store

There are small retailers that offer a limited variety of merchandise at small scale but convenient locations ranging from 2,000-3,000 sq.ft. These outlets are modern versions of the traditional kirana stores. The future of this category is better as they enable shoppers to shop quickly with a speedy checkout. The convenience stores are becoming popular in metro cities where generally both husband and wife are employed and have no spare time to shop. Secondly, convenience stores as per their name are located alongside busy roads, parking areas or at petrol filling stations. These stores usually have long shopping hours and are spreading near densely populated colonies and residential societies. As compared to other types of stores usually charge higher price.

2. Conventional super market

A conventional supermarket is departmentalized grocery store with a wide range of dairy products and household items. A supermarket offers a large retail facility with huge range of merchandise under same roof at low prices by shrinking margins. Supermarkets usually rely on high inventory turnover and built either near a residential area or on the outskirt of the city. Due to cost effective and CUSTOMER survey conventional supermarkets are facing intense competition from traditional ‘kirana’ stores and other types of food outlets.

1. **Food based Super stores**

Superstores are usually large supermarkets that have space area ranges from 20,000 - 50,000 sq. ft. These stores as the very name implies, sell grocery items and offer customers the ability to buy fill-in general merchandise.

4. Non-Store Retailing – Meaning, Types, Examples, Pros & Cons

The **retail industry** is the oldest but still a common form of business. Traditional retailing involves selling products at a physical (brick and mortar) store. Common examples include franchises, hypermarkets, supermarkets, malls, etc.

However, the advent and the evolution of the internet has also revolutionized business practices. New business concepts have evolved with time, and selling products without a traditional retail store is becoming a new common.

Hundreds and thousands of firms are now operating without on-store retailing. They sell their products on online platforms such as their websites, social media accounts, etc. In business terms, this concept is termed as non-store retailing.

What is Non-Store Retailing?

Non-store retailing is a form of retailing in which a firm sells its products without a physical retail store/space. The firm sells its products via online platforms and delivers the product to customer's doorstep.

Although companies have been doing non-store retailing for the past three or four decades, it rose to prominence during the 21st century. However, non-store retailing is not an average line of business by any means. Firms nowadays are switching to non-store retailing because of its "unlimited" benefits.

Importance of Non-Store Retailing

With the changes in customer's preferences, the non-store retailing business has grown immensely during the 21st century. A lot of non-store retailing brands have established themselves as trustable sellers. Therefore, more and more people now prefer to shop without physically visiting the brick-and-mortar stores.

Moreover, non-store retailing has now taken a significant share of the retailing business. In fact, one of the world's largest retailers, Amazon, is a perfect example of non-store retailing. The company has massive warehouses but no physical store. Customers buy the products online, and Amazon delivers the products at the customer's mentioned designation anywhere in the world.

But, does that mean non-store retailing means selling products over the internet? Well, there are many other forms of non-store retailing, and we are going to have a detailed look at all of them.

Types of Non-Store Retailing with Examples

Generally, non-store retailing is classified into six further types:

- Direct selling
- Telemarketing
- Online retailing
- Automatic vending
- Direct marketing
- Electronics retailing

Direct Selling

Direct selling is the oldest form of non-store retailing. Door-to-door selling is one of the most common practices in direct selling. Salesmen usually do cold calls to homes or offices to sell the products. Some salesmen prefer making an appointment with a potential client and then visit later. Salesmen also use other options such as promotions, standees, etc.

However, a firm needs highly trained salespeople for direct selling. It is not easy to persuade a customer unless you have the right skills. Therefore, companies spend heavy budgets on training such a workforce.

On the other hand, direct selling has a lot of benefits too. For instance,

- Direct selling allows a firm to interact directly with a customer.
- A customer can have a better demonstration of the related product.
- It reduces overhead costs for a business.

Direct selling also has further subcategories such as:

One-to-one selling

One to one selling includes targeting a single or multiple customer directly. They may visit different homes and offices to sell the products. Moreover, sometimes, the salesman finds a host who invites his/her friends or neighbors to one place, and then the salesmen demonstrate the product in front of a small gathering.

Multi-level Marketing

Multi-level marketing is a large-scale form of direct selling. Amyway.com is a common example of multi-level marketing. The firm started this mode of selling in 1994 when they used to hire independent businesses as their distributors. The company generally targeted the Asia Pacific region and Japan.

Telemarketing

Telemarketing is another traditional mode of non-store retailing and was very common in the late 1990s and early 2020s. It involves selling a product via telephone. However, this non-store retailing channel has almost diminished over time.

Telemarketing is still a common practice in stockbrokers; they often approach their potential clients through telephones, etc. Moreover, bankers often sell their promotional offers, credit/debit cards, etc., via telemarketing.

Online Retailing

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For instance, beverage companies such a coca-cola, Pepsi, Nescafe, etc., install their vending machines at public places such as stadiums, banks, roads, or even private offices. In fact, pizza sellers are now selling their products via vending machines.

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As of now, email marketing has become one of the most effective sources of direct marketing. Companies offer regular email subscriptions mostly free of cost. Potential customers are regularly updated about the latest offerings from the companies.

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Advantages of Non-Store Retailing

Lower Business/Overhead Costs

The best thing about non-store retailing is you can start a business with little resources. If you go for a traditional brick-and-mortar store, you will need a physical store, and that can be very expensive. But, It requires a warehouse and a digital platform where you can connect to your customers.

Better and Easy Access to the Market

Non-store retailing has made it easier for businesses to access the market. You can set up a simple online shop and start selling. Amazon, eBay, and Alibaba started as simple online stores, and now they are the leading retailers across the globe.

Market Growth

Non-store retailing is now booming. It is not easy to capture or serve a bigger market with on-store retailing. However, with this type of retailing, you can access local as well as international markets. The potential for market growth is immense in this retailing. You just have to develop effective marketing strategies.

Customer Intelligence

Non-store retailing requires customers to submit some necessary personal details to buy a product. This way, companies can keep a record of their customers, can access them with promotional offers, and evaluate customers' needs in a better way.

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Customers' Trust

One of the most challenging things for non-store retailers is to attract customers and gain their trust. In fact, it can be more difficult for those new entrants who don't have any prior market reputation. A firm without any physical presence may find it very difficult to get the business going.

Advertising Costs

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Security and Legal Requirements

Websites and other digital channels are always exposed to hacking. If a hacker gets into your business website or social media profiles, things can become very messy for you. Besides, you must be aware of and comply with eCommerce laws related to run a non-store retailing business.

2. **Combination stores or Super Centers**

   Combination stores basically are food-based retailers that combine their supermarkets and general merchandise sales at one place. In a combination store, general merchandise sales usually accounts for 30-40% of total store sales. As economies of scale are higher in a combination store, therefore, these stores offer low pricing policy and make profits on account ofimpulse sales.

(ii) General Merchandise Retailers

General merchandise retailers usually sell all non-food items such as house wares, furniture, customer electronics etc. General Merchandise category classified as:

1. Discount stores
2. Specialty stores
3. Factory Outlet Store
4. Hyper Markets
5. Departmental Stores
6. Membership Club
7. Parasite Store
8. Destination Store

SPECIALTY STORES IN INDIA

Specialty Stores of India and its subsequent successful operation is credited to India Economic System reform earnest in July 1991. Specialty Stores of India is at its nascent stage and heading for a stupendous growth in the near future. The Central Government has ultimately realized the need to remove the insulation out of the Indian retail sector. Skeptics opine that opening up of the Indian retail industry would jeopardize the way of income for the poor small retailers. In fact,the actual story is quite heartening for the small time retailer and its vendors. Both, Indian and international market leaders are pouring into the Indian market to en cash on the specialty stores retail boom. In fact, some industry leaders operating in other sectors are also diversifying into **specialty stores sector**

Non-Store Retailing – Meaning, Types, Examples, Pros & Cons

The **retail industry** is the oldest but still a common form of business. Traditional retailing involves selling products at a physical (brick and mortar) store. Common examples include franchises, hypermarkets, supermarkets, malls, etc.

However, the advent and the evolution of the internet has also revolutionized business practices. New business concepts have evolved with time, and selling products without a traditional retail store is becoming a new common.

Hundreds and thousands of firms are now operating without on-store retailing. They sell their products on online platforms such as their websites, social media accounts, etc. In business terms, this concept is termed as non-store retailing.

What is Non-Store Retailing?

Non-store retailing is a form of retailing in which a firm sells its products without a physical retail store/space. The firm sells its products via online platforms and delivers the product to customer’s doorstep.

Although companies have been doing non-store retailing for the past three or four decades, it rose to prominence during the 21st century. However, non-store retailing is not an average line of business by any means. Firms nowadays are switching to non-store retailing because of its “unlimited” benefits.

Importance of Non-Store Retailing

With the changes in customer’s preferences, the non-store retailing business has grown immensely during the 21st century. A lot of non-store retailing brands have established themselves as trustable sellers. Therefore, more and more people now prefer to shop without physically visiting the brick-and-mortar stores.

Moreover, non-store retailing has now taken a significant share of the retailing business. In fact, one of the world’s largest retailers, Amazon, is a perfect example of non-store retailing. The company has massive warehouses but no physical store. Customers buy the products online, and Amazon delivers the products at the customer’s mentioned designation anywhere in the world.

But, does that mean non-store retailing means selling products over the internet? Well, there are many other forms of non-store retailing, and we are going to have a detailed look at all of them.

Types of Non-Store Retailing with Examples

Generally, non-store retailing is classified into six further types:

- Direct selling
- Telemarketing
- Online retailing
- Automatic vending
- Direct marketing
- Electronics retailing

Direct Selling

Direct selling is the oldest form of non-store retailing. Door-to-door selling is one of the most common practices in direct selling. Salesmen usually do cold calls to homes or offices to sell the products. Some salesmen prefer making an appointment with a potential client and then visit later. Salesmen also use other options such as promotions, standees, etc.

However, a firm needs highly trained salespeople for direct selling. It is not easy to persuade a customer unless you have the right skills. Therefore, companies spend heavy budgets on training such a workforce.

On the other hand, direct selling has a lot of benefits too. For instance,

- Direct selling allows a firm to interact directly with a customer.
- A customer can have a better demonstration of the related product.
- It reduces overhead costs for a business.

Direct selling also has further subcategories such as:

One-to-one selling

One to one selling includes targeting a single or multiple customer directly. They may visit different homes and offices to sell the products. Moreover, sometimes, the salesman finds a host who invites his/her friends or neighbors to one place, and then the salesmen demonstrate the product in front of a small gathering.

Multi-level Marketing

Multi-level marketing is a large-scale form of direct selling. Amyway.com is a common example of multi-level marketing. The firm started this mode of selling in 1994 when they used to hire independent businesses as their distributors. The company generally targeted the Asia Pacific region and Japan.

Telemarketing

Telemarketing is another traditional mode of non-store retailing and was very common in the late 1990s and early 2020s. It involves selling a product via telephone. However, this non-store retailing channel has almost diminished over time.

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Traditional Retailing: Direct Marketing, Selling and Vending Machines

1. Direct Marketing/Direct Response Marketing:

It is the branch of marketing by which an organization directly communicates to its customers to generate revenue producing response, transaction or sale through leaflets, pamphlets, brochures, print ads mailed or catalogs distributed directly to its existing and potential consumers.

In other words, direct marketing is a form of retailing under which a potential customer is first exposed to a product or service through any form of non- personal communication and then orders by phone, fax, courier or email.

According to Direct Marketing Association "Direct marketing is an interactive system of marketing that uses one or more advertising media to affect a measurable response at any location."

The response can be in the form of:
1. An order (direct order)
2. An inquiry (lead generation)
3. A visit to a store or other place of business for purchase of a specific product (s) or service(s) traffic generation)
4. Most important, it usually results in the creation of a DATABASE of respondents.

Direct order includes all direct response advertising communications — trough any medium (mail, print, TV, radio, electronic media (such as the Internet) —that are specifically designed to solicit and close a sale. All of the information necessary for the prospective buyer to make a decision to purchase and complete the transaction (product description, price, a response mechanism (phone number, toll free number, or order form) is provided in the advertisement.

Lead Generation includes all direct response advertising communications (through any medium) that are designed to generate interest in product or a service and provide the prospective buyer with a means to request and receive additional information about the product or service. The advertising message prompts the customer to follow-up to get further information (from a phone number or address information) or qualify as a lead.

Traffic Generation includes all direct response advertising communications conducted (through any medium) that are designed to motivate the prospective buyer to visit a store, or other business establishment to buy an advertised product or service. The advertising message includes pricing and product information, information about a particular sale, local store location, hours of operation, sometimes a telephone number or coupon, but usually not an order form.

A direct relationship with the consumer is the basis of direct marketing. In direct marketing, customers become aware of the products/services offered through a non- personal medium like TV, internet, mail, phone or catalogue etc.

These are discussed as follows:

(i) Catalogue/Mail Order Retailing

It is a form of retailing in which retail outlets communicate about their merchandise through a catalogue. This retail format is comparatively new to Indian retail industry. On the other hand, mail order retailing is a retail format in which retailers communicate with their customers using mails/letters or brochures.

(ii) Television Shopping:

In India, Asian Sky Shop was among the first few retailers who introduced the concept of television shopping. In this form of retailing, a product is advertised on television with its demonstration and features followed by opinions of those who have used the same product and are satisfied with its performance.

Other aspects like mode of payment, delivery time, guarantee and warranty are also discussed. For each city, phone numbers are continuously displayed. The buyer can call in and place the order by giving address details. The product is then delivered at home through courier/VPP(Value Paid on Postage).

(iii) Electronic Shopping/Electronic Retailing:

Today, most of the big size retailers have their own website, which allows a retailer to conduct a targeted business twenty four hours a day and seven days a week. Providing retail business offers the retailer not only a modern way of getting business but also cost effectiveness. This one time small investment in creating and registering the website on World Wide Web is accessible to everyone irrespective of location, time zone, income level or computer system.

The internet also provides the fuel and information about the goods and services through digital images, visual and audio effects. Electronic brochures provide three-dimensional aspects of the goods and services which a shopper can explore any time before having buying decision.
One of the well known and oldest examples is Amazonbooks.com. Amazon is the largest and the maximum accessible bookshop in the world. According to Amazon sources, today, 30% of its sales come from cyber retailing only. Dell, a well known computer company, claims to sell more than $ 1 million of its personal computers everyday on the internet.
The distinguishing feature of these retailers is that they sell their products through internet and as such do not have any physical store. Under retailing through internet concept, customer visits a website of the store, checks the shown items with regard to its size, colour and related features. Having convinced with some items, customer fill up the form and after entering credit/debit card details and postal address completes the transaction. Once the transaction is complete, the goods are delivered directly to the customer at his/her doorstep.

2. Direct Selling:

It is a retail format where salesperson makes a personal contact with the ultimate consumers at his home or at his/her place of work. In this format, usually salesperson invites some friends or neighbours at his home, office or club and demonstrates the product after formal lecture/briefing. Buying and selling is done on the spot. In India, direct selling concept came in mid 1990s with the entry of so-called Modicare and went through a bad phase before attaining a significant contribution to Indian economy for worth Rs. 2000 crore today.

Features:

(i) Mainly handled by housewives comprising up to 70% of total sales people in India.
(ii) Highly interactive in nature
(iii) Sales depend on communication and way of demonstration
(iv) Non-store retail format
(v) Absence of intermediaries

Reasons for increasing popularity:

(i) This system is free from long checkout lines
(ii) Ease of payment facility
(iii) Salesperson is known to customer
(iv) People have no time to shop everything
(v) Free from traffic congestion, parking problems etc.
(vi) It may appoint other people to work with/ for them as distributors. The master distributor earns a commission on the basis of quantity sold and through recruiting other distributors and receiving a portion of the income earned by these distributors because of their own efforts.

Advantages of direct selling approach:

Following are the advantages of the direct selling approach:

(i) Reduction in marketing cost
(ii) Reduced cost for seller
(iii) Lower prices for buyer
(iv) Source of earning
(v) Convenience for customers
(vi) Free from business formalities

3. Vending Machines:

Vending machines are automatic machines that serve the purpose of selling general merchandise like soft drinks, burgers, snacks etc. to customers in the absence of any retailer. The concept of vending machine is very popular in European countries like USA. In India, it is of recent origin and is found in areas of high traffic to sell newspapers, magazines, beverages etc. The objective behind use of vending machines is that it reduces cost on human resources. It is believed that the very first vending machine was designed and implemented by Hero of Alexandria, which used to accept a coin and then dispense a fixed quantity of 'holy water'.

Vending machines work either on the basis of inserting metal coins or card swipes. Some vending machines have inbuilt refrigeration units or heating outlet to keep the eatables ready to use. Vending machine operations are usually hasselfree but need regular maintenance and service to keep machine working and full of stock.

Features, advantages and limitations of public corporation – at a glance

Features:

1. Special Statute
2. Separate legal entity
3. Capital provided by Government
4. Financial autonomy.
5. Management by Board of directors.
6. Own staff
7. Service motive
8. Public accountability

Advantages

1. Bold management due to operational autonomy.
2. Legislative control
3. Qualified and contented staff
4. Tailor-made Statute
5. Not affected by political changes
6. Lesser likelihood of exploitation
7. Reasonable pricing policy

Limitations

1. Autonomy and flexibility, only in theory
2. Misuse of monopolistic power
3. Rigid constitution
4. Low managerial efficiency
5. Problem of passing a special Act
6. Clash of divergent interests.

raditional Retail Versus Non -Traditional/ Modern Retail

This is an attempt to differentiate between Traditional Retail channel and Non-Traditional or Modern Retail. Before spotting the difference, its important to understand what exactly are the two channels?

Traditional Channel comprises of the regular trade partners like

1. **Direct Dealers:** Companies sell directly to them and in turn they directly sell to the end consumer or user. Number of outlets owned by them may vary anywhere between 1 to 10 in any specific location/ city. Their presence is limited to specific geography – within a city or a region

2. **Distributors:** Companies sell directly to them and they in turn service the smaller retail shops (known as sub-dealers) in the area designated to them by the company. The sub-dealers then sell to the end consumers

3. **Wholesalers:** This one is a disorganized channel. Either companies or a bigger direct dealer will sell them the products in bulk and they in turn sell to the smaller retailers comparatively at a lower cost than the distributor. They run like a parallel channel to distribution and at times may lead to market imbalances.

4. **Brand Shops:** These are company owned or franchised retail outlets selling products of only one company. They act as usually the place to showcase the entire range of the products sold by the company.

Non-Traditional or Modern Retail Channel refers to all other formats of retail stores like Hyper markets, Department Stores, Discount Stores, Electric Multiple stores, Cash and Carry Stores, Specialty Stores, Online, Direct selling

Now let us make an attempt to differenciate between the two on certain parameters as mentioned below:

1. **Presence:** Usually Traditional channel has limited geographical presence say within a city or a specific region while Non-Tradtional or Modern Channel has national presence.

2. **Service:** Traditional channel (Example: say a neighbourhood Kirana store) has high involvement with the consumer during the sale is made. It can be even to the level of free home delivery of small value goods bought. However the expectation of the consumer is low in terms of service standards at the time of sale. On the other hand in Modern Retail usually there is low involvement with the consumers on the shopfloor. Usually consumers are free to roam around and choose on their own what they wish to buy. Not much personal attention given. At the same time consumer expectations are high.

3. **Delivery:** There are no strict norms for the delivery of goods from the company to the retailer where as in Modern Retail there are defined delivery norms such as specific time schedule for deliver, barcodes, delivery to happen before expiry of PO etc

4. **Volumes:** Traditional trade usually sells/ buys consistent volumes with increase during the season/ festivals while on the other hand modern trade sells/ buys higher volumes throughout the year due to promotions and regular expansions.

5. **Margins:** Traditional trade demands higher margins while retention is low. Modern Trade however demands high margin and also there is fixed percentage of retention.

6. **Merchandise:** High visibility is ensured in traditional trade with a slight cluttered display. Whereas modern trade has innovative merchandising.

7. **Promotions:** Promotions in traditional channel are usually seasonal while modern retail channel believes in monthly and daily promotions on products.

8. **Training of staff:** There is a moderate focus on training of staff in traditional trade while modern trade ensures high level of training of their staff.

9. **Credit terms:** Companies usually give lower credit periods to traditional trade while modern trade enjoys higher credit limits and periods.

10. **Relationships:** Traditional trade is managed usually on personal relationship of the sales personnel with the owner while the relationship of modern trade with companies is professional and legal

Emerging Retail

Some of the important emerging retail formats are listed below

1. Van/Mobile Van Retailing:

This is a compromise between door to door selling and store selling. In this type of retail business, retailer keeps one day stock of his merchandise and goes to an area to serve its permanent customers. Sometimes retailers visit some areas which are totally new to them to attract new customers. The kind of products sold in Van retailing can range from everyday household products to different kinds of eatables. The various van goods include soaps, detergents, kitchen appliances, scrubbers, and several other cleaning products.

There are some vans which designed to operate at extremely low temperatures. In these types of van customers will find all kinds of in frozen food such as vegetables, meat, dairy products, and ice. In the rural areas this kind of selling of goods still exists though it is not quite popular in metropolitan cities. In some states van retailing may be subject to regulations and entail licensing. State regulations determine the area that van sales can cover and the products that are allowed to be sold.

Van retailing is usually found in remote/rural areas and is of two types:

(a) Static retailing: Under this sort of retailing, such vans are parked in public areas where customer traffic is usually high. The items sold under static retailing are snacks and junk food.

(b) Raving retailing is where retailer takes his van to one house to another, selling merchandise to customers at their doorstep.

2. Conference/Party/Event Retailing:
In this sort of retailing, retailer invite people from nearby localities and after describing positive aspects of the merchandise, sells it. These types of get together/events are organized by the franchisor (retailer) belonging to a big organization. The products sold under such form of retailing vary from cosmetics from small household items that are of low cost.

In order to attract customers, retailer usually distributes sample merchandise or gives some demonstration regarding effective use of his items offered on sale. Event retailing usually takes place on national or regional level events such as Valentine Day, Mother's Day, Father's Day, Diwali, etc. Gold retailing on the day of 'Akshaya Tritiya' in most of the parts of the country is one of such example of event retailing.

Some events are food related like Annual Mango festival at Pragati Maidan, Delhi organized by Delhi Tourism in collaboration with Delhi Government. Further food festivals, special food offers being offered on the occasion of 'Karva Chauth and Navratra in India are none other than event retailing.

3. Distant Retailing:
As the very name suggests, under distant retailing, a customer place the order from a remote location by telephone, SMS, internet, pager etc, instead of visiting a store. Retailers who provide such home delivery facility may/may not have physical stores. The leading global retailers who follow such practice are Amazon, Wal- Mart, Arkay Hygiene.

The main advantage of such sort of retiling is that any type of item can be supplied by the retailer on demand. The range of items offered depends on the customers' demand, and retailers' resources and the infrastructure of the concerned region.

4. Forecourt Retailing:
A new emerging concept in retailing is the establishments of stores in front of large buildings of high traffic areas. This concept caught public attention with oil companies trying to allow private companies to set up convenience stores at their fuel station outlets. The aggressive players in this area are HPCL, IOC, BPCL and Reliance.

According to a Business Standard report, Vishal Mega Mart has tied up with Hindustan Petroleum Corporation Ltd (HPCL) for opening forecourt retail stores chain, which has been branded as "Vishal Corner Mart" will set up convenience stores at fuel station outlets of HPCL. These marts besides offering convenience goods and services would also provide travel solutions and other facilities as a 'one stop solution'.

Previously, Apollo Pharmacy had tied up and set up ‘convenio’ stores at Indian Oil Corporation (IOC) petrol pump outlets for supplying groceries and medicines. This experiment was well appreciated by business critics but it did not succeed, perhaps, on account of problems in revenue sharing model. Similarly Kishore Biyani-led Future group had also tied up with IOC to set up fuel pumps in Big Bazaar premises and Big Bazaar stores in IOC premises. However, nothing seems to have emerged so far.

5. Trade Parks:

Retailing through trade parks is a recent retail practice and is practiced only in metres and big cities. Under this concept, business complexes are being set up for promotion of retail trade especially the international trade. Some of the examples are India Exposition Mart set up by Handicraft Export Promotion Council in Greater Noida, International Home Deco Park (IHDP) set up by a group of private investors in Noida and World Trade Park coming up in Jaipur. IHDP plans to provide International buyers ready access to approximately sixty world class Indian exporters belonging to Home Furnishings segment.

This effort of IHDP would be beneficial to buyers as they would not have to go to remote towns to see the designs and samples of exporters. Exporters apart from getting increased visibility will also get other facilities such as design library, design studio, forwarding services and so on. The parks are built to promote trade and are open to international buyers and buying houses only.

Figure 2.8

A View of India Exposition Mart Limited

About Indio Expo Mart

The India Expo Mart is a state of the art exposition center, encompassing over 2.5 million square feet of built up area. It is currently the largest and only one of its kind in India. Located in Greater Noida and easily accessible from the capital, New Delhi, the India Expo Mart aims to be the one-stop shop for Indian cottage industry products. The fairs & exhibitions organised by India Expo Mart is extremely encouraging for various buyers and sellers across the globe. The main objective of the India Expo Centre & Mart is to provide the cottage industry, within India, an infrastructural requirement of international standards for exhibitions, conventions and seminars.

Courtesy: *Company Website and wwwfairwoodindia.com*

UNIT III

DECIDING LOCATION

Choosing a Retail Store Location

What is retail location decision?

Retail location decisions refer to **a variety of activities related to changing the physical store footprint**, including: opening or closing single stores. Acquisition or disposal of groups of stores. Expanding the store network in international markets. refascias and the development of new store concepts

Where you choose to locate your retail business will have a major impact on your public presence, walk-in traffic, the potential for future income, and other elements. Choosing a location that does not account for such factors may limit the business's ability to succeed and grow.

Before choosing a retail store location, define how you see your business now and in the future.

- What are the demographics of your core customers?
- Can you visualize your building?
- Do you know what you want to sell and what you want your business to be known for?
- Have you determined how much retail space, storage area, or the size of the office you need?

If you do not answer these basic questions, it will be hard to find the perfect location for generating the maximum amount of profit for your retail store.

1. Type of Goods Sold

Examine what kind of products you sell, as some goods will require certain types of locations. Would your store be considered a convenience store, a specialty shop or a shopping store?

Convenience goods require easy access to let the customer quickly make a purchase. These products are also of general interest among consumers. A mall might not be a good location for convenience goods because this product type may be priced on a different scale compared with other retailers on the property. Consumers might be inclined to patronize convenience stores located on the path of their daily commutes. This can mean occupying space situated in or near a transit hub or along heavily trafficked routes.

Specialty goods fulfill more unique needs than general purpose products. Customers generally won't mind traveling out of their way to purchase this type of product because they cannot procure them through convenience or general goods retailers. This type of store may perform well near other shopping locations because their offerings may complement each other.

A big-ticket shopping store usually sells items at a higher price that are bought infrequently by the customer. Furniture, cars, and upscale clothing are examples of goods found at a big-ticket shopping store. Because the prices of these items are higher, this type of customer will want to compare prices before making a purchase. Retailers in this segment will do well to locate their stores far away from their rivals.

2. Population and Your Customer

When choosing a city or state to locate your retail store, research the area thoroughly before making a final decision. Read local papers and speak to other small businesses in the area. Obtain location demographics from the local library, chamber of commerce or the Census Bureau. Specialty research firms that cater to retailers could also provide demographic information. Any of these sources should have information on the area's population, income brackets, and median age. You know who your customers are, so make sure you find a location near where your customers live, work and shop.

3. Accessibility, Visibility, and Traffic

Don't confuse a lot of traffic for a lot of customers. Retailers want to be located where there are many shoppers but only if those shoppers meet the definition of their target market. Small retail stores may benefit from the traffic generated by nearby larger stores. There are several aspects retailers should consider along these lines.

- How many people walk or drive past the location?
- How well is the area served by public transportation?
- Can customers and delivery trucks easily get in and out of the parking lot?
- Is there adequate parking?

Depending on the type of business, it would be wise to have somewhere between 5 to 8 parking spaces per 1,000 square feet of retail space.

When considering visibility, look at the location from the customer's viewpoint. In many cases, the better visibility your retail store has, the less advertising is needed. A specialty retail store located six miles out of town in a free-standing building will need more marketing than a shopping store located in a mall.

4. Signage, Zoning, and Planning

Before signing a lease, be sure you understand all the rules, policies and procedures related to your retail store location. Contact the local city hall and zoning commission for information on regulations regarding signage. There may be limits on the size and imagery used in signs that advertise your business. Ask about any restrictions that may affect your retail operation and any future planning that could change traffic, such as highway construction.

5. Competition and Neighbors

Other area businesses in your prospective location can actually help or hurt your retail shop. Determine if the types of businesses nearby are compatible with your store. For example, a high-end fashion boutique may not be successful next door to a discount variety store. Position it next to a nail or hair salon, which tend to draw the same demographic of customers, to more optimal results.

6. Location Costs

Along with the base rent, consider all location-based costs involved when choosing a retail store location.

- Who pays for lawn care and security?
- Who pays for the upkeep and repair of the heating/air units?
- Will you need to do any painting or remodeling to have the location fit your needs?
- Will the retailer be responsible for property taxes?

The location you can afford now and what you can afford in the future may vary. It is difficult to create sales projections for a new business. One way to determine how much rent you can pay is to find out how much sales similar retail businesses generate and how much rent they pay.

7. Personal Factors

If you plan to work in your store, think about work-life balance issues such as the distance from the shop to home and other personal considerations. If you spend much of your time traveling to and from work, the commute may overshadow the benefits of being your own boss. Also, many restrictions placed on a tenant by a landlord, management company, or community can hamper a retailer's independence.

8. Final Considerations

Your retail shop may require additional handling when it comes to choosing a location. Make a list of any special characteristic of your business that may need to be addressed.

- Will the store require distinct lighting, fixtures or other hardware installed?
- Are restrooms for staff and customers available?
- Is there adequate fire and police protection for the area?
- Is there a sanitation service available?
- Does the building have a canopy that provides shelter if raining?
- Are there (blue laws) restrictions on Sunday sales?

Don't feel rushed into making a decision on where to put your retail store. Take your time and research the area. If you have to change your schedule and push back the date of the store's opening, then do so. Waiting to find the perfect store location is better than just settling for the first place that comes along.

Retail Management - Business Location

Silicon Valley is a mindset; not a location.

− Reid Hoffman (Co-Founder, LinkedIn)

Before visiting a mall or a shop, the first question that arises in consumers' mind is, "How far do I have to walk/drive?"

In populous cities such as Mumbai, Delhi, Tokyo, and Shanghai to name a few, consumers face rush-hour traffic jams or jams because of road structure. In such cases, to access a retail outlet to procure day-to-day needs becomes very difficult. It is very important for the consumers to have retail stores near where they stay.

Trade Area: Types of Business Locations

A **trade area** is an area where the retailer attracts customers. It is also called **catchment area**. There are three basic types of trade areas −

Solitary Sites

These are single, free standing shops/outlets, which are isolated from other retailers. They are positioned on roads or near other retailers or shopping centers. They are mainly used for food and non-food retailing, or as convenience shops. For example, kiosks, mom-andpop stores (similar to kirana stores in India).

Advantages − Less occupancy cost, away from competition, less operation restrictions.

Disadvantages − No pedestrian traffic, low visibility.

Unplanned Shopping Areas

These are retail locations that have evolved over time and have multiple outlets in close proximity. They are further divided as −

- Central business districts such as traditional "downtown" areas in cities/towns.
- Secondary business districts in larger cities and main street or high street locations.
- Neighborhood districts.
- Locations along a street or motorway (Strip locations).

Advantages − High pedestrian traffic during business hours, high resident traffic, nearby transport hub.

Disadvantages − High security required, threat of shoplifting, Poor parking facilities.

Planned Shopping Areas

These are retail locations that are architecturally well-planned to provide a number of outlets preferably under a theme. These sites have large, key retail brand stores (also called **"anchor stores"**) and a few small stores to add diversity and elevate customers' interest. There are various types of planned shopping centers such as neighborhood or strip/community centers, malls, lifestyle centers, specialty centers, outlet centers.

Advantages − High visibility, high customer traffic, excellent parking facilities.

Disadvantages − High security required, high cost of occupancy.

Factors Determining Retail Locations

The marketing team must analyze retail location with respect to the following issues −

- **Size of Catchment Area** − Primary (with 60 to 80% customers), Secondary (15 to 25% customers), and Tertiary (with remaining customers who shop occasionally).
- **Occupancy Costs** − Costs of lease/owning are different in different areas, property taxes, location maintenance costs.
- **Customer Traffic** − Number of customers visiting the location, number of private vehicles passing through the location, number of pedestrians visiting the location.
- **Restrictions Placed on Store Operations** − Restrictions on working hours, noise intensity during media promotion events.
- **Location Convenience** − Proximity to residential areas, proximity to public transport facility.

Steps to Choose the Right Retail Location

A retail company needs to follow the given steps for choosing the right location −

Step 1 - Analyze the market in terms of industry, product, and competitors − How old is the company in this business? How many similar businesses are there in this location? What the new location is supposed to provide: new products or new market? How far is the competitor's location from the company's prospective location?

Step 2 – Understand the Demographics − Literacy of customers in the prospective location, age groups, profession, income groups, lifestyles, religion.

Step 3 – Evaluate the Market Potential − Density of population in the prospective location, anticipation of competition impact, estimation of product demand, knowledge of laws and regulations in operations.

Step 4 - Identify Alternative Locations − Is there any other potential location? What is its cost of occupancy? Which factors can be compromised if there is a better location around?

Step 5 – Finalize the best and most suitable Location for the retail outlet.

Measuring the Success of Location

Once the retail outlet is opened at the selected location, it is important to keep track of how feasible was the choice of the location. To understand this, the retail company carries out two types of location assessments −

Macro Location Evaluation

It is conducted at a national level when the company wants to start a retail business internationally. Under this assessment, the following steps are carried out −

- Detailed external audit of the market by analyzing locations as macro environment such as political, social, economic, and technical.
- Most important factors are listed such as customer's level of spending, degree of competition, Personal Disposable Income (PDI), availability of locations, etc., and minimum acceptable level for each factor is defined and the countries are ranked.
- The same factors listed above are considered for local regions within the selected countries to find a reliable location.

Micro Location Evaluation

At this level of evaluation, the location is assessed against four factors namely −

- **Population** − Desirable number of suitable customers who will shop.
- **Infrastructure** − The degree to which the store is accessible to the potential customers.
- **Store Outlet** − Identifying the level of competing stores (those which the decrease attractiveness of a location) as well as complementary stores (which increase attractiveness of a location).
- **Cost** − Costs of development and operation. High startup and ongoing costs affect the performance of retail business.

Importance of Location in Retail Business
What is the importance of store location?

It's commonly believed **good location is the key element to attracting customers**. A well-located store also makes supply and distribution easier. Location can influence a retailer's ability to market itself, and to deal with the competition it faces from other businesses.

Retail store location is also an important factor for the marketing team to consider while setting retail marketing strategy. Here are some reasons −

- Business location is a unique factor which the competitors cannot imitate. Hence, it can give a strong competitive advantage.
- Selection of retail location is a long-term decision.
- It requires long-term capital investment.
- Good location is the key element for attracting customers to the outlet.
- A well-located store makes supply and distribution easier.
- Locations can help to change customers' buying habits.

What is demand density?

What is Demand Density? Demand density, in its simplest terms, is **the aggregate of the income and people or households in your facility's trade area**. It's the basic details and statistics that a facility needs to make location decisions.

Selection of Location of a Retail Store – Demand Density

Demand density is the evaluation of how the probable demand for retailer's offerings (goods and services) is concentrated or isolated in the different target markets. It is an appropriate measure that must be considered before selecting a particular site. Demand density concept is also applicable in marketing and advertising fields where the effectiveness of an advertisement or marketing campaign is evaluated on the basis of consumers' demand coming from a particular geographical segment.

It involves understanding of demand potential in a target market. It means the demand of all the consumers in a particular demand market at a particular price. Let's consider an example of a magazine. To estimate the market demand potential of that magazine in a particular market, retailer has to know about the house holders, libraries and other concerned establishments. If we are interested to know about the market potential of the household sector only, we can assume that each household will subscribe a copy of the magazine each. Thus, we can assume/predict that the demand potential is equal to the number of households in a particular target market.

Again, if we assume that five members constitute a household in that particular target market, we have say 1700 households. Ideally speaking, this is the potential market for a magazine. Further, we know that 25% population is below poverty line and therefore, will not be in a condition to buy a magazine. Besides, almost 35% of Indians fall under the low income group and given the prices of magazine, they too may not be able to purchase it. So, a retailer is left with only 40% of the total population, which is the actual demand potential that requires to be targeted.

In the world of retailing, demand density relate to following aspects:

1. Traffic Flow:

While selecting an exact site within particular locality, a retailer must analyze the local traffic flow – i.e. searching for most desirable side of a road or street. Sometimes in order to open a store before the competitor makes retailer ignorant about the traffic flow pattern.

As with many locations in big cities like Delhi, Mumbai or Chandigarh, if a retailer chooses the wrong side of the road, no customer will prefer to visit that store. Therefore, the way the traffic is increasing in most parts of the country especially in metros, and cities are becoming congested, analyzing traffic flow is most crucial measures of a site location decision.

It involves the following:

(1) The direction of traffic flow: e.g. from south to west or east to north or left to right of the road. It also includes one-way/two-way traffic patterns. Other things being same, a site with the highest pedestrian traffic is often most suitable.

(2) Movement of vehicular traffic

(3) Parking facilities

(4) Distance to store

(5) Access from major roads

(6) State of traffic congestion, and,

(7) Ease of deliveries.

2. Vehicular Traffic:

A retailer before finalizing a site should consider the quantity and characteristics of movements of vehicles including customers' vehicles who will drive in there. The site must have substantial number of vehicles per lane but not too much that create congestion near the store. To know the level of vehicular traffic pattern in the area, where a retailer is interested to buy a site, he may obtain data from regional planning commission including public welfare departments, municipal corporations or city's civil engineer.

Further, a retailer should consider the presence of large places of employment like corporate offices, schools, religious places, community centers that are always booked for marriages and religious ceremonies, playgrounds etc. Retailers must analyze carefully that the presence of these places will be a blessing to them or will make shopping experience miserable for the customers.

Supply Density and Selection of Location of a Retail Store

Supply density refers to the measure of how the potential requirements for a particular product are fulfilled by existing retailers irrespective of any size. Retailer is interested to know what gap exists between the market demand and market supply. Higher the gap between demand and market supply (it means supply is less than market demand), higher the chances/opportunities exist for new comers. Measuring supply density is a must exercise for each retailer undergoing site location decisions.

Retailers always wish to set up their stores in the most attractive and best possible locations. This makes the site location decision even more critical. Selecting inappropriate site can lead to insolvency, huge losses and even closure. The importance of selecting best possible site is a major cost factor because it involves huge capital investments and has effect on transportation and human resources cost.

Besides this, site location affects the amount of customer traffic and volume of business. Therefore, while considering other location factors, supply density factor should be considered as it plays a significant role in selection of a particular site or relocating an existing store.

Drivers of Supply Density:

In retailing business, usually five chain drivers are in practice.

These are as follows:
1. Procurement:
This issue is related to the following retailing aspects:

(i) What to buy?

(ii) When to buy?

(iii) How to buy?

(iv) Where to buy? And

(v) From whom to buy?

2. Merchandise Management:
The issues may be related to how much to display and how much to store as reserve stock and where to store the merchandise (in the retail store itself or in the warehouse).

3. Store location:
A number of issues regarding location such as where to set up a store, where to locate a warehouse facility, how many stories to construct, may have significant bearing on the dynamics of the supply chain, and in turn may affect the overall budget of the retail store.

4. Transportation:
Under transportation, a retailer is concerned with the following aspects:
How to move a product from one store to another? For example, in case of centralized retailing, delivery takes from common warehouse to different stores located in different areas at varied

distance. Here retailer is always worried about mode of transportation because on one side, he is concerned with economies of scale as desired level of customer satisfaction on the other hand.

5. Information:
Information is an integrating force that has critical implications for the whole supply chain. For a retailer, information (Data) acts as basis for making various decisions in the supply chain. If information is not understood properly, it can disrupt the whole supply chain and consequences may be fatal for retailer's fate.

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Market Supply Factors:

The market supply of a commodity is the amount of commodity a manufacturer decides to fix up in a market at a particular time and at a given time.

The factors affecting market supply are:
1. The price of the commodity: it implies that higher the price of a commodity, higher the supply and less the price of the commodity, less the supply will be.

2. The price of the alternative goods: it refers to changes in the price of a related product due to changes in the supply of a related product (which could be a substitute or complementary).

3. The state of technology used: Better the technology, better the supply and poor the technology, poor the supply.

4. The efficiency of the firm to produce things: it means how many machines, men are efficient to work.

5. The price of factors of production: it means the cost of inputs used to produce a particular commodity. Higher the price of factors of production, less the supply and lesser the price of production, more the supply.

Site Selection Mistakes Retailers Should Avoid

Retail site selection is not just a matter of available real estate. It's an analytical challenge that requires sophisticated statistical modeling and a thorough understanding of the market potential of a location. Devon Wolfe, managing director of Americas Strategy & Analytics, Troy, N.Y.-based Pitney Bowes Business Insight, discusses the Top 10 most common mistakes that seem to repeatedly plague businesses and hinder their success:

1. Assuming you can build a model for all situations

Retailers often make the mistake of trying to develop a "one size fits all" mold for their new location, but the key to good store performance modeling is to know when a separate model is necessary. As an example, many chains have stores in a variety of shopping types: regional malls, strip centers, and street-front locations. Developing separate models for each of these location types allows the retailer to account for the specific locational factors that are present in each situation.

2. Failing to understand the limitations of a model

Retail models cannot directly replicate situations that aren't present in a database of stores that already exist. For example, a retail concept with an entirely suburban real estate strategy will be hard pressed to accurately model the first entry into an inner-city market. It is unsafe to assume that a model will be able to adjust for atypical situations.

3. Failing to verify store location

While rapidly improving technology means tools like commercial geocoders become more accurate with every release, it is not uncommon to find that -- due to factors such as address errors -- a geocoder returns a location that is ¼ mile, ½ mile or even several miles from the true location. Yet, many companies continue to make multi-million dollar decisions based on these technologies without any further verification. While it may be time consuming, physically verifying your site's location can make an enormous difference in the results you get from your predictions.

4. Using inadequate or undersized samples

Many retailers either have no data at all on their customers or they have partial data such as a limited-period customer survey, a database of in-store returns, comment cards, mailing lists, etc. Although some of these databases may be representative of the overall customer database, some may reflect a significant bias. Developing a customer database that is adequate in size and free from bias can prevent retailers from being mislead into making costly commercial property mistakes.

5. Using inappropriate variables

Retailers should remember that statistical techniques like correlation measure association, not causation. Also, variables that describe a very small portion of the population are much more likely to produce false correlations than variables that are well represented in the population. Use the common sense check -- if it doesn’t make sense that pet ownership and Rolls Royce ownership should be highly related, it’s probably not a good idea to use that relationship in a model.

6. Overfitting statistical models

While there are many complex factors that influence sales performance, many retailers may not recognize that overfitting a statistical model can do more harm than good. A model with a certain number of variables may do a good job of explaining the data from which it was drawn, but would likely do poorly in new situations.

7. Inadequately measuring competition

Many models in the location industry look only at the radius counts of competition without considering how store performance is affected by the positioning of competition in the catchment. Some retail concepts benefit from nearby competition; others don’t. For example, a fashion boutique would benefit from a location close to similar stores that will attract recreational shoppers. A model that hasn’t considered such issues has not adequately addressed the competition.

8. Using the wrong base for the customer profile

Segmentation systems can be powerful tools in helping to understand the customer base. However, these tools are often misused when retailers attach a segmentation code to a list of customers and then profile with the national average as the base. The national average is not an appropriate base for a brick-and-mortar retailer, since it makes sense that only people within a reasonable distance of a store are eligible to shop there. If a retailer can limit the base for the profile to only those eligible to shop at the stores, they’ll obtain a much more accurate customer profile.

9. Failing to recognize non-linear relationships

Every retailer knows that there is a one-to-one relationship between adding square footage to a store and increased sales, right? Not so. In fact, most retailers experience the opposite to be true. Despite that, countless models use a linear equation for square footage or other factors that are clearly not linear relationships. Using curve estimation techniques or non-linear regression can help to fit the model more accurately to the data.

10. Using inexperienced modelers

Some modelers say they can build a database of store information and create an adequate model using statistical techniques -- without the benefit of having training in spatial concepts, retailing concepts, catchment patterns or markets. While a modeler certainly doesn't need to visit every store and market in the model database, he or she does need to know how to evaluate the retail landscape, site considerations and catchment patterns or, at the very least, review the model with someone with firsthand knowledge of these factors.

Building reliable and actionable site models is an entirely achievable goal, but it is one that requires care and diligence throughout the modeling process. "Too often, easily avoidable mistakes like these create obstacles for businesses and their success," said Wolfe. "With the added value of location intelligence solutions, many companies are seeking to make their forecasting process more scientific and accurate. Armed with the knowledge of common site modeling mistakes, retailers will know what to watch out for, whether they are building their own model or hiring someone else."

Recent Trends in the Store Selection Decision

The recent trends in the store selection decision:

1. Preference to Suburban areas:

Today, most of the retailers prefer retail/suburban area for setting up a new store for the following advantages:

(a) No separate permission for conversion for non-agricultural use is required.

(b) Clear title of land is assured.

(c) Speedy clearance issue of construction license, occupancy certificate, etc.

(d) Water and sewage supply is provided and distributed to the units directly by local areas authority without charging additional cost. Alternative arrangements are made whenever necessary.

(e) No shortage of electricity.

(f) Plots are carved out to accommodate small, medium and large scale retail units with various amenities, in a well planned layout and congenial atmosphere and as per the needs of the stores.

(g) Strong institutional network with regard to easy availability of loan.

2. Increased government interference:

In order to maintain regional retailing balance and to stop migration of people from rural to urban areas, in search of better jobs and living conditions, government provides several incentive packages to retailers ready to set up stores, industries in rural or remote areas. On the other side, through its persuasive and restrictive measures, does not allow further commercialization in already developed and congested areas.

3. Establishment of commercial estates/areas/parks:

Commercial and retail estates have become common features of the global landscape and play a significant role in the production and distribution of goods and services. Retail estates are designed to meet the often compatible demands of different communities within one location.

Figure 4.6
Escalating Attractiveness of Commercial Estates

Ansal Plaza, a part of HUDCO Place built on 35 acres of land, is a shopping complex situated near South Extension, one of the posh markets in New Delhi. The Plaza complex competes with the best ***commercial estates*** in the world in its architectural splendor, aesthetic details and shopping experience. It provides comfort and variety to the customers. One of the finest malls in India today, has made shopping much more enjoyable than before. It offers a climate-controlled environment that removes the fatigue usually associated with shopping. Careful employment of modern technology has created well-lighted, spacious and customer-friendly shopping spaces. Complete with an amphitheater, a shopping complex, twin level parking and best of the brands under one roof, it offers a complete family experience.

Courtesy: *Company Website (www.shipraworld.com)*

A retail estate, in its simplest is an area, located on the outskirts of a city and zoned for a group of retail industries and businesses. While retail parks are usually located close to transport facilities, especially where more than one transport modality coincides: highways, railroads, airports, and navigable rivers. Today, in India, retail estates are the very seat of the breathtakingly-fast commercialization process and greatly affect the location of retail stores.

4. Decentralization of retail stores:

In order to avoid concentration of retail stores in a particular area which already has become congested, government through licensing policy has not been allowing new retailing activities. New retailers now cannot set up their selling units in some specific congested areas without prior approval. Similarly in case of expansion, existing stores either establish their extended units in less developed areas or in some cases relocate the entire operations in such areas in order to have balanced regional development.

5. Competition between government and private real estate developers:

These days what has been observed that like government initiatives, some local organizations, in order to attract retail stores in their areas, offer several incentives like cheap land, rebate in local taxes, cheap merchandise produced in such areas, etc. Consequently, the government objective regarding location of objectives clashes with such offerings made by local real estate developers.

Retail Supply Chain Management

Retail Supply Chain Management – Introduction

Retail organisations are using SCM to control inventory levels, product quality, expenses, and timing. An effective supply chain strategy differentiates delivery terms and service offerings which are vital for optimising the customer service and balance of cost. A cohesive approach considering production, supply, operation, service, and transportation, is vital for designing a competitive retail logistics concept for a retail organisation.

Supply chain management (SCM) concept is revolutionizing the trade and business scenario across the globe.

In the present era of networked organizations and interdependencies across organizational boundaries, an organization's competitiveness, perhaps its survival is derived from its ability to influence external/third party resources and capabilities. It is said that – "Competition today is not among individual businesses but among their networks. The winner is the company with the better network."

No longer can any organization viably "go it alone" when it comes to building and delivering its offerings, no matter how strong its core competencies and products. The extended enterprise and the networked organization have become the organizational models for the future.

Organizations are narrowing their focus on their core competencies and outsourcing or eliminating non-core activities. This trend is driven by ongoing efforts to deliver new, innovative and more convincing products/services. Firms are increasingly turning to external providers that can deliver many of these services better, faster, and cheaper. Collectively these resources comprise its service chain.

Key to success in any organization is developing the ability to adopt the technology to improve their profitability. With the advent of technology, retailers can achieve higher levels of effectiveness in their efforts of giving better customer services.

No longer, are the organization's competitiveness constrained by its own internal resources, intellectual capital and capabilities as the skills pool become almost limitless. The major constraint that remains is the capability to procure and manage those external services.

Successful business operations revolve around getting the right amounts of the right products to the right markets at the right time in the most economical ways. SCM is one of the ways to achieve this.

A supply chain is a business process that links manufacturers, retailers, customers, and suppliers in the form of a chain to develop and deliver products as a single virtual organization of pooled skills and resources.

Within each organization the supply chain includes all functions involved in receiving and filling a customer request. These functions include new product development, marketing, operations, distribution, finance, and customer service.

Supply chain management (SCM) is the process of synchronizing the flow of physical goods and associated information from the production line of low level component suppliers to the end consumer. This results in the provision of early notice of demand fluctuations and synchronization of business processes among all cooperating organizations in this supply chain.

Effective SCM results in the significant reduction of both cost and time in the procurement process, as well as reduction in inventory levels, thus enabling significant gains in the organizational productivity.

Retail Supply Chain Management – Meaning and Definitions

Supply chain management (SCM) is the oversight of materials, information, and finances as they move in a process from supplier to manufacturer to wholesaler to retailer to consumer. Supply chain management involves coordinating and integrating these flows both within and among companies.

It is said that the ultimate goal of any effective supply chain management system is to reduce inventory with the assumption that products are available when needed. As a solution for successful supply chain management, sophisticated software systems with Web interfaces are competing with Web-based application service providers (ASP) who promise to provide part or all of the SCM service for companies who rent their service.

Supply chain management refers to the management of material and information flow in a supply chain to provide the highest degree of customer satisfaction at the lowest possible cost. It requires the commitment of supply chain partners to work closely to coordinate order generation, order taking and order fulfillment.

Some of the Formal Definitions of a Supply Chain are:

It is a network of autonomous or semi-autonomous business entities collectively responsible for procurement, manufacturing, and distribution activities associated with one or more families of related products.

A supply chain is a network of facilities that procures raw materials, transforms them into intermediate goods and then final products, and delivers the products to customers through a distribution system.

A supply chain is a network of facilities and distribution options that performs the functions of procurement of materials, transformation of these materials into intermediate and finished products, and the distribution of these finished products to customers.

The management of supply chains is, however, a complex task. The rapid adoption of lean manufacturing techniques such as Just-In-Time (JIT) and flexible manufacturing systems (FMS) has made the timeliness of the materials delivery extremely critical.

Today, each company in the chain must be internally ‘lean’ and must operate in a ‘seamless’ environment in which all the information relevant to the efficient operation of the total system is available. In this supply chain, the vendor or the supplier assumes a prime position, as organizations are dependent on them.

The average manufacturing firm spends over 50 per cent of its revenues on purchased inputs. However, this percentage is rising because companies continue to increase the volume of outsourced work across industries.

Consequently, suppliers will have a greater impact on the cost, quality, technology, and delivery of a company’s products and services, and, thus, on its profitability. The direct effect of supplier performance on the buyer’s bottom line highlights the importance of optimizing the supply chain performance.

The global trends that were predicted to impact careers of logistics professionals as per Lambert et al. (1998) were—the growth of information technology, supply chain management, and globalization. All of these have proved to be correct.

As per Braithwaite and Wilding (2004), the experience of applying SCM is that improved visibility and synchronization leads to some or all of these—improved customer service, reduced inventories, lower operating costs, and improved use of fixed assets. In future, companies will increasingly compete on the basis of their total supply chains.

A supply chain "is a network of facilities and distribution options that performs the functions of procurement of resources, conversion of these resources into halfway and finished merchandises and the supply of these merchandises to the consumers".

Quinn defines the supply chain as "all of those activities associated with moving goods from the raw-materials stage to the end user. This includes sourcing and procurement, production scheduling, aider processing, inventory management, transportation, warehousing, and customer service. Importantly, it also embodies the information systems so necessary to monitor all of those activities".

The concept of SCM actually comes from the logistics management. The study of SCM basically involves different concepts such as marketing concept, production concepts, relationship marketing concepts, etc. Thus, SCM cannot be studied alone. Rather they are indistinguishably knotted.

Supply chain in the actual sense comprises of three activities – buy, manufacture, and fulfil. That is, at every step in the SCM goods are produced by an investor, items bought from the previous investor and fulfilled to the next investor. The SCM has been an area of interest as it involves competitiveness which resulted in internal efficiency as well as good management for external relationships.

One can summarise from these definitions that the objectives of SCM to confirm that "the right product of right price reaches at right place on right time, and importantly, profit for the retail organisation".

SCM keeps track of effective and efficient movement of raw material to finished goods which at last reach the end consumer; this outstanding concept has changed the traditional way of buying, producing, and selling the commodities. The concept of supply chain exists in both the industry type that is manufacturing and service industry, although the situations and practice types may vary according to organisational types.

The main objective of the supply chain is to integrate all the activities, that is, from raw material to finished goods supply to the end consumer. By integrating all the activities a merchandiser can efficiently and effectively take the decision regarding anything in value chain and thus can predict the sells targets by setting the production time close to the selling period.

Retail Supply Chain Management – Need

Not long ago, retail stores existed to cater to the needs of local markets. When one needed bread and eggs, one visited the local grocery store. To buy garments, one simply either bought fabric or had it tailored or bought what was available in the market. Buying from a retail organisation was a much simpler task then. It meant dealing with a few products and a limited number of suppliers.

However, gradually the market expanded and so did the retailers business and due to the technological innovation product offerings were increased drastically. Growing population and good economic conditions grew up the demand and due to high demand, suppliers' number also improved. This also increased pressure on profit margins. Retail organisations are targeting to reduce the product cost. They found the solution through the supply chain; at first, they eliminated as many intermediaries as possible to cut down the extra cost.

Nowadays, retailers are operating in a dynamic environment. The technological innovation has reached such a stage that all the products falling under one category are more or less same if we compare the features and benefits. As consumers' spending habits are changing constantly, competitors are improving their product offerings. The continuous change in the demand means shorter life span of the product and it also means making inventory decisions are very critical.

Keeping inventory is costlier so companies are following "Just In Time" rules in inventory, wherein Just-In-Time refers to zero inventory. This means that when there is a need then the required product will arrive in the facility but in retail it is difficult to follow but companies like Walmart has set an example by implementing just in time rules in the retail and this became one of the success factors for Walmart to become the biggest retail player in organised retail.

The process of SCM refers to the tracking of production, manufacturing, information, as well as finances that move from one place to another. It involves the record keeping of all the materials from all supply chain partners including consumers, retailers, wholesalers, and manufactures. The traditional supply chain is basically concerned with the operational cost incurred in calculation of customer demand. But as the time passes situation has been changed and it helped in increasing organisations visibility across the SCM and making better decision that will be beneficial for the company.

With the advent of technologies, the need for SCM is so essential, and it became strongly a need to keep the track for the different operational system in an updated and accurate manner. The system software organises the data and also keeps a track record of all the information which is of vital importance for the company. SCM acts as a knotted chain for the different departments and also acts as linkages among warehouse management system, communication software as well as distribution management.

It assembles all the information from different departments and provides a user-friendly environment which can be assessed and worked upon. Thus, SCM acts as a key to success for increasing overall output of the company. It also provides solutions to the problems wherever it occurs as well as maximum utilisation of resources available to the company.

SCM plays an important role in controlling of product flow, information flow as well as financial flow. This not only resulted in better management, but also in effective implementation of the running organisations. Thus, SCM tailors the needs for the growth of the business at large and provides a global platform to expand and develop.

Another reason for importance of supply chain is amounting pressures on the profit margins which the retailers earned. Retailers are becoming more conscious and they know that they have to consider bigger picture and they just only do not have to look after features because technological innovations have left nothing with regard to the features so they need to strengthen the other part of the value chain. Last but not the least the world is technology driven and everything is just a touch away so information is the key to everything in the organisation including SCM.

Retail Supply Chain Management – Basic Components:

- **Plan,**

- **Source,**
- **Make,**
- **Deliver and Return**

The following are five basic components of SCM:

1. Plan:

This is the strategic portion of SCM. Companies need a strategy for managing all the resources that go toward meeting customer demand for their product or service. A big piece of SCM planning is developing a set of metrics to monitor the supply chain so that it is efficient, costs less and delivers high quality and value to customers.

2. Source:

Companies must choose suppliers to deliver the goods and services they need to create their product. Therefore, supply chain managers must develop a set of pricing, delivery and payment processes with suppliers and create metrics for monitoring and improving the relationships.

And then, SCM managers can put together processes for managing their goods and services inventory, including receiving and verifying shipments, transferring them to the manufacturing facilities and authorizing supplier payments.

3. Make:

This is the manufacturing step. Supply chain managers schedule the activities necessary for production, testing, packaging and preparation for delivery. This is the most metric-intensive portion of the supply chain one where companies are able to measure quality levels, production output and worker productivity.

4. Deliver:

This is the part that many SCM insiders refer to as logistics, where companies coordinate the receipt of orders from customers, develop a network of warehouses, pick carriers to get products to customers and set up an invoicing system to receive payments.

5. Return:

This can be a problematic part of the supply chain for many companies. Supply chain planners have to create a responsive and flexible network for receiving defective and excess products back from their customers and supporting customers who have problems with delivered products.

Retail Supply Chain Management – Main Principles

Seven principles of SCM lay down a solid foundation to an effective value chain in any retail organisation.

If a retailer follows these principles with the practical situation then no doubt the retail organisation attains excellence in SCM:

1. Integration of Supply Chain and Customer's Needs:

Supply chain managers and business people are skilled to concentrate on the customer's needs. Retail organisations follow the process of segmentation to understand a customer better. This process involves dividing customers into different groups according to their needs. ABC analysis is the most primitive way of segmentation. In this process, retail organisations divide customers according to their sales volume or profitability. Other ways of segmentation include industry, product and trade channel.

Therefore, any customer should be categorised according to their service needs and product needs. It is a fact that every retailer should primarily focus on the needs of the customer but due to technological advancement the functional attributes of any service or product are the same. So, it is not enough to only cater to the needs of the consumer but also to make them aware about the additional benefits involved with the product. Obviously, this alone can provide the retailer an additional advantage over his or her competitors.

2. Customise Logistics Network:

If segmentation of customers is done on the basis of their service needs, then a retailer has to adjust his or her network of logistics in order to cater to the different segments of the customer but this strategy cannot be applicable in every situation.

For the design of logistic network, monolithic approach has been taken by companies traditionally for the purpose of inventory organising as well as transportation and warehouse management activities that help in meeting common objectives. There are many logistic network designs, some are designed to meet the toughest need and some for average need. Both philosophies are inadequate to meet the segment specific logistics accommodating and asset utilisation of superior category that are needful in managing supply chain excellently.

3. Demand Planning Alignment across Supply Chain:

The professional workforce in supply chain is very informative as they share the digital data of demand raised by customers with the trade partners of the retail organisation so that excess stocks and their storage can be minimised. This concept is practically feasible, however, only Walmart follows the practice of sharing the data regarding customer demand with their trading partners. There should be alignment in supply chain and forecasting since it can help in the synchronisation in different departments of retail organisation as well as it helps in developing co-ordination within the retail organisation.

4. Product Differentiation:

Dell follows the practice of keeping components and assembling them after receiving order from consumers to increase product variety. Generally, this practice works, but there is principle of "standardisation" which is totally opposite to "Differentiation". There should be product differentiation and the product that is closer to consumer should be separated from the product whose conversion speed is high. For the purpose of reducing error in the differentiated product that is not readily available, the stockpiling of inventory is made by manufacturers.

5. Strategic Outsourcing:

According to this principle, retailers should not outsource their core competency. There should be outsourcing in supply chain and this process should be strategic as it helps in finding the core and peripheral activities. This requires that the relationship of supplier cannot be warmly cultivated with the manufacturer, though the manufacturer may be pre-planned to pay less price for the products. An enlightened brain is required for good management of supply chain. And the strategic management of supply chain helps minimise the cost of services and materials.

6. Technological Infrastructure to Support Decision-Making:

Retailers should develop information technology (IT) infrastructure which supports decision-making at multiple levels and provide flow of information, which creates a clear picture regarding the demand of products and services. Information technology of such kind is to be developed that it makes integration of capabilities of different kinds.

The information system should be such kind that within a small period of time the technology can manage daily transactions. There should be facilities of decision making and planning by the system that support master production schedule, shipment planning, and demand supporting that may be needed for efficient resource allocation.

7. Financial and Service Metrics Adaptation:

Performance measures should be set at every stage for the collective success in reaching out to the customer in an effective way. The excellent supply chain management derives good amount of benefits from various financial and costing techniques, and for it proper implementation, sophisticated, and latest technology as well as data warehousing facilities should be available. The account char provides a pattern that is followed in data organising in general ledger. The easy as well as readily access of any type of data is made available by data warehouse by maintaining data in discrete and standard units.

Retail Supply Chain Management – Factors Responsible for Effective SCM

To make an efficient SCM, a retailer should have-

(i) Inventory perspective,

(ii) Single entity,

(iii) Doing what one can do best,

(iv) Strategic decision-making, and

(v) A systems approach.

Usually a single entity controls planning and control activities of the complete supply chain. This improves efficiency and reduces administrative delays of supply chain. In advanced markets, retail organisation takes responsibility of a major part of supply chain process. However, in developing countries like India, retail organisation still could not achieve critical size, thus largely manufacturers manage this process. In some markets, intermediaries hold control of this process.

Supply chain mangers mostly focus on consumers' needs. In order to comprehensively understand consumer behaviour, consumers are divided into different segments, and the process is known as "segmentation". Anderson et al. mentioned that consumers should be segmented according to their "service needs", "sales and merchandising needs" and "order fulfilment needs".

In order to understand customers, we should know the consumers properly. For example, Amazon in 2011 launched Amazon Prime which has free shipping in two days and discounted shipping in a single day. People are still debating the success of this programme.

A supply chain system is embedded with systems that help in creating a leaner organisation. The focus is to reduce lead times and improve quality and flexibility. This minimises the impact due to the uncertainties also.

These strategic decisions have vital impact on operational activities. These decisions have to be brainstormed at the top management level and cannot be left for the lower level employees only. One common practice in retail firms is that they create teams of senior managers who plan the inventory management since it affects companies' profitability. To achieve this, the help of technology is being taken so that the information flows smoothly across the system.

SCM has been understood as an interactive process that demands top management commitment, empowerment and support for effective implementation. It focuses on delivery of value to the consumer comprehensively. Retail organisations deliver these values through already defined business activities including smooth flow of goods and services, cash and information. This flow of value exhibits movement of goods and services between manufacturer and consumer via retailer. Sometimes movement can be reversed due to returns, recycling, or rework. In these situations, role of an efficient supply chain gets increased.

Retail Supply Chain Management – Main Benefits

Various benefits of supply chain management are as follows:

1. Profitable Growth:

Supply chain management contributes to profitable growth by allowing assembly of "perfect orders," supporting after-sales service and getting involved in new product development.

The bottom-line numbers give the answer. According to A.T. Kearney's research, inefficiencies in the supply chain can waste up to 25 percent of a company's operating costs. With profit margins of only 3 to 4 percent, the consultants point out, even a 5-percent reduction in supply-chain waste can double a company's profitability.

2. Working-Capital Reductions:

Increasing inventory turns, managing receivables and payables, minimizing days of supply in inventory, and accelerating the cash-to-cash cycle all are affected by supply chain execution. Thompson cites the case of a consumer products company that took 20 minutes to make a product and five and a half months to collect payment for it.

3. Fixed-Capital Efficiency:

This refers to network optimization for instance, assuring that the company has the right number of warehouses in the right places, or outsourcing functions where it makes more economic sense.

4. Global Tax Minimization:

There's a ton of money here," Thompson says, if companies look at assets and sales locations, transfer pricing, customs duties, and taxes.

5. Cost Minimization:

This largely focuses on day-to-day operations, but it also may involve making strategic choices about such issues as outsourcing and process design.

Retail Supply Chain Management – Push or Pull View of Supply Chain

Major portion of the chain of supply consists of the primary marketing institutions that perform one or more of the eight marketing functions. But how are these functions and institutions arranged into a supply chain?

The chain of supply can be indirect or direct. The division is formed by the institution involved primarily. Direct channel or supply chain is formed when producer sells products to the ultimate customer directly.

In these rare cases, the involvement which is limited by mid-parties moves the producer to do many of the functions of marketing (e.g., transporting is often performed by facilitating institutions or even the consumer). The supply chain becomes indirect once independent members (or retailers) get attached between customer and manufacturer.

This channel is described as being indirect because it goes from manufacturer to retailer to consumer. Sometimes, the length of a supply chain is hard to determine. For example, when a consumer purchases cosmetics from a manufacturer's website and that manufacturer mails the merchandise directly to the consumer, then the chain is said to be a direct manufacturer-to-consumer channel.

However, if the consumer makes a purchase from a different manufacturer's website, such as Avon, and an Avon sales representative delivers the merchandise to the consumer from her own inventory, then the channel would actually be indirect—manufacturer-to-retailer (remember that the Avon lady is an independent businessperson) to consumer. Length and wideness which are desired are formed by factors like consumer needs, size of purchase (average), frequency of purchase, and geographic dispersion.

In addition, the nature of the product—such as its bulk and weight, perishability, value, and technical complexity—is important in determining supply chain length. For example, expensive, highly technological items such as home entertainment systems will generally use short channels due to perishable nature and requirement of extra care.

Push or Pull View of Supply Chain:

The supply chain can be categorised into a push or pull type. Although these terms originated in supply chain but their use has been most frequent in marketing. Pull term is used for consumers who demand a product for their needs and push is used for suppliers when they push the product towards the consumers. Thus, if it is conducted on the basis of a customer order then it would be categorised as "pull" but on the other hand if it is in anticipation of a customer order, then it would be categorised as "push".

1. Supply Chain Push View:

The customer's demand speculation is dependent on push view. Many types of merchandise are pushed into the market. To adapt to the market, it takes a much period of time. In the push view, vital role is played by forecast. Maximum product level manufacturing is helped by forecasting of long-term duration. When the push process is speculative, there is much inventory cost, production cost as well as cost of transportation since firms prefer buffer at this situation.

Integration of Supply Chain (Push View):

There is an inability to meet the demand pattern change for manager which is based on push view. A good example is of a company involved in textile production producing huge quantities of apparel with the hope that the same fashion would remain much long and they tried pushing the same fashion in apparel market. Abruptly the fashion become out-dated and customer preferred latest fashion.

The required data is provided to the institution after some time which causes large time delay (lead). There are chances of large batch size and large inventory in push process. There is tendency of companies of forgetting responsiveness and reducing down the supply chain cost. The difficulties of transportation and demand management are posed by push view.

2. Supply Chain Pull View:

There is a real demand and reaction to demand by a firm in the process of pull in supply chain. In the production of good number of merchandise, this system helps. There is loss of opportunity cost in pull system when a company has less capacity and customer demand is high. In the pull system, the chances of lead time are low.

Integration of Supply Chain (Pull View):

There is dependence of distribution and production on the effective demand. There is supply chain of reactive nature in this view of the firm. There is less variability and low products in this view. In the entire process, there is reduction of lead time. In this view the biggest limitation is that there is no possibility of cost reduction by operation and production scaling.

Retail Supply Chain Management – Value Chain Concept: Explained!

Supply chain strategies sub serve competitive strategies of a company. A company's competitive strategy defines the set of customer needs that it seeks to satisfy through its products and services. Competitive strategy targets one or more customer segments and aims to provide products and services that satisfy these customers' needs.

The value chain begins with new product development linked to Marketing and Sales, Operations, Distribution and Service. These are core functions that must be performed for a successful sale. Finance, accounting, information technology, and human resources support and facilitate the functioning of the value chain. To execute a company's competitive strategy, all these functions play a role and each must develop its own strategy.

i. A product development strategy specifies the portfolio of new products that a company will try to develop. It also dictates whether the development effort will be made internally or outsourced.

ii. A marketing and sales strategy specifies how the market will be segmented and how the product will be positioned, priced, and promoted.

iii. A supply chain strategy determines the nature of procurement of raw materials, transportation of materials to and from the company, manufacture of the product or operation to provide the service, and distribution of the product to the customer, along with any follow-up service.

From a value chain perspective, supply chain strategy specifies what operations, distribution, and service will try to do particularly well. Additionally, in each company, strategies will also be devised for finance, accounting, information technology, and human resources. The value chain emphasizes the close relationship between all the functional strategies within a company.

The strategic fit requires that a company achieve the balance between responsiveness and efficiency in its supply chain that best meets the needs of the company's competitive strategy. The Table 10.7 makes a comparison of efficient and responsive supply chains.

Table 10.7: Comparison of Efficient and Responsive Supply Chains

Aspect	Responsive supply chain	Efficient suppiy chain
Primary goal	Supply demand at the lowest cost	Respond quickly to demand
Product design strategy	Maximize performance of minimum product	Create modularity to postponement of product differentiation
Pricing strategy	Lower margins : price is a prime customer driver	Higher margins because price is not a prime customer driver
Manufacturing strategy	Lower costs through high utilization	Maintain capacity flexibility to buffer against demand/supply uncertainty
Inventory strategy	Minimize inventory to lower cost. Maintain buffer inventory to deal	with demand/supply uncertainty
Lead time strategy	Reduce but not at the expense of costs	Aggressively reduce even if the costs are significant
Supplier strategy	Select based on cost and quality	Select based on speed, flexibility, reliability and quality

To understand how a company can improve supply chain performance in terms of responsiveness and efficiency, one has to examine the four drivers of supply chain performance-facilities (warehouses), inventory, transportation, and information. These drivers not only determine the supply chains performance in term of responsiveness and efficiency, they also determine whether strategic fit is achieved across the supply chain.

For each of the individual drivers, supply chain managers must make a trade-off between efficiency and responsiveness. The combined impact of these drivers then determines the responsiveness and efficiency of the entire supply chain. Table 10.8 shows the logistics-mix for responsiveness and efficiency.

Table 10.8: Logistics–Mix of a firm for Different Responses

Elements	Responsiveness	Efficiency
Warehouses	More and distributed	Fewer and concentrated
Inventory	High level	Low level
Transportation	Faster mode, high cost	Slow mode, low cost
Information	information needs and costs are high	Information needs and costs are less

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Retail Supply Chain Management – Evolution

Peter Drucker highlighted the importance of SCM in his article on distribution, published in Fortune Magazine in 1962. Year after year, the roles of distribution, logistics, and the integration of all the activities have increased. The concept of SCM developed from focusing on very simple labour industry to the engineering and management of global networks. The roots of both the industrial engineering and operation research have taken from logistics. Fredrick Taylor (1911) "father of industrial engineering" in his research concentrated on improving the process of manual loading.

Between 1970 and 1980 a large number of companies began to consider their operations seriously and started to cut their costs. In the early stages, focus was on adjusting the levels of raw material, work in progress and finished goods. Companies started to focus on improving efficiency in various areas like procurement, manufacturing and logistics, etc., according to their industry characteristics. From this various techniques for production and operations control like inventory management model, total quality management, and just-in-time have emerged.

The focus of these models was improving various components of SCM in isolation. The orientation of every model was towards optimising subparts of the supply chain system. But after some time companies started to look at the complete supply chain to enhance the efficiency of the complete supply chain and not the individual parts. From this, SCM has developed. Early adoption of the SCM can be found in the US-apparel industry. In 1980s, when the US-textile industry was facing tough, intense competition, their industry leaders together formed the "Crafted with Pride in the USA Council" in 1984.

In their study on supply chain analysis, they found that the delivery time was 66 weeks long out of which 40 weeks were used for transit. This caused huge losses in the industry. Most of the loss is financing cost of inventory. To avoid this problem, quick response (QR) was created. The main use of QR is in information sharing. Suppliers and retailers worked together to respond more efficiently to customers' needs. Supply chain in the actual sense comprises three activities, buy, manufacture, and fulfil.

That is, at every step in the SCM goods are produced by an investor, items bought from the previous investor, and fulfilled to the next investor. The SCM has been an area of interest as it involves competitiveness which resulted in internal efficiency as well as good management for external relationships. The information sharing through electronic data interchange and the installation of the point-of-sale scanning systems became the new industry standards.

The industry also uses the Universal Product Code. QR stores information regarding discounts, forecasts and promotions into the production and distribution plan. This enhances the availability of the product and simultaneously reduces the inventory investment. It also ensures that the right product is in the right place, at the right time and at the right cost.

Retail Supply Chain Management –Main Drivers: Production, Inventory, Location, Transportation and Information Technology

In today's growing global economy, it has become crucial to recognise, understand and analyse the impact of certain business drivers on retailers supply chain and their business growth.
Each driver should be understood for an effective SCM operation. Supply chain of a retailer is going to get affected by each driver. Therefore, they should analyse the results that can be achieved by using various combinations of these drivers.

We now discuss these drivers in detail:

1. Production:

It refers to the supply chain capacity to manufacture and store products in factories and warehouses. The trade-off between supply chain responsiveness and efficiency is the most important factor for any operations manager. If manufacturing plants have excess capacity, then the plant is highly responsive and flexible and product demands can be met effectively. If all the capacity of a manufacturing plant is being used then they cannot respond effectively to changes in demand. However, building manufacturing capacity involves money and excess capacity, if idle, does not generate any revenue.

2. Inventory:

Inventory is universal across all the activities of supply chain, ranges from raw material to finished goods and from manufacturer to retailers. In such a time, it becomes important for managers to decide how they want to trade-off between efficiency and responsiveness. A firm can attain higher responsiveness by holding large amounts of inventory but then it would increase its storage and maintenance costs. On the other hand, holding too less of inventory may lead to under stocking and thus dissatisfied customers.

3. Location:

It refers to the "where" or positional setting of the SCM facilities. It has got a significant impact from convenience as well as supply chain point of view. The location of a retail store affects the choice of consumers in a big way. Location decides the kind of activity that needs to be done in a facility.

During the selection of a location the management has to consider several factors such as the cost of facilities, availability, and cost of human resource, infrastructure conditions, laws, and regulations of that place, tariffs, and taxes, and distance between suppliers, and consumers. Locational decisions are generally capital intensive and therefore strategic in nature. In relation to retail stores a lot of research has been done on store location. Factors such as type of products being sold, availability of space, facilities, accessibility, genital ambience, etc., are taken into consideration.

4. Transportation:

It refers to the movement of products and materials from one place to another. It has a large bearing on the responsiveness versus efficiency trade-off. To achieve a responsive supply chain, faster modes of transportation such as airplanes are used but they are very costly.

On the other hand slower modes such as ship are preferable for achieving efficiency but they tend to consume more time. Moreover transportation can largely effect the entire supply chain in terms of delay and negligence and to avoid those problems marketers are outsourcing such activities to third-party vendors and also ensure that proper tracking mechanisms are used.

5. Information Technology:

It connects all the activities and operations in a supply chain. An efficient information system ensure proper and timely inventory, accurate data and new market trends. Nowadays, firms are investing heavily to get correct and time information. The role of information is not only to connect the firm with its suppliers but it also plays a role in handling its products and reducing its material handling costs.

The biggest role of information is that it helps in reducing transaction costs. Concept like VMI where the supplier manages the inventory of the buyer is just not possible to conduct without the help of information. Today, firms are working on collaborative planning where they make forecasts along with their vendors.

The role of IT has still improved with the introduction of online retailing. It has helped in behaviour tracking, managing the warehouses and tracking the logistics.

Retail Supply Chain Management – Integration of Supply Chain

Integration of supply chain means the integration of demand and supply management and resource management. Let us take a case of a retailer, the marketing team does extensive research on the data available on the customer. Then the team analyses the data and after analysis the sales targets, strategies regarding sales which may be quarterly or annually are set. In the same way, in purchase department analyses, the data regarding the demand and supply and make their targets about what product to buy and how much quantity should be bought in a particular period.

Product design team works on the new designs suitable to the arising needs of customer by analysing the behavioural data of the customer. As we can see that each department is doing their own work to achieve departmental targets but overall these departments represent the retail outlet. So, if each individual’s goal is met, then the organisational goal will be met automatically.

Situational variables of the operations facility also influence the supply chain decisions. Nowhere is this more apparent than in the apparel and grocery industry. The technological innovation has reached such a stage that all the products falling under one category are more or less same if we compare the features and benefits. Customers' buying habits are constantly changing and competitors are continually adding and improving their product offerings. The continuous change in the demand means shorter life span of the product and this effectively means that making inventory decisions is very critical.

The process of SCM refers to the tracking of production, manufacturing, information, as well as finances that move from one place to another. It involves the record keeping of all the materials from manufacturers to final consumers including wholesalers and retailers. The traditional supply chain is basically concerned with the operational cost incurred in calculation of customer demand. But as the time passes situation has changed and it helped in increasing organisations' visibility across the SCM and making better decision that will be beneficial for the company.

With the advent of technologies, the need for SCM is so essential and it became strongly a need to keep the track for the different operational system in an updated and accurate manner. The system software organises the data and also keeps a track record of all the information which is of vital importance for the company.

SCM acts as a knotted chain for the different departments and also acts as linkages among warehouse management system, communication software as well as distribution management. It assembles all the information from different departments and provides a user friendly environment which can be assessed and worked upon.

Thus, SCM acts as a key to success for increasing overall output of the company. It also provides solutions to the problems wherever it occurs as well as maximum utilisation of resources available to the company. SCM plays an important role in controlling of product flow, information flow as well as financial flow. This not only resulted in better management as well as effective implementation of the running organisations. Thus, SCM tailors the needs for the growth of the business at large and provide a global platform to expand and develop.

The second point of reason is the increase in domestic and international competition. Customers have multiple choices from which they are going to choose to satisfy demand; so, the product location in the whole distribution channel for which can produce maximum customer accessibility and that too at a minimum cost becomes very crucial.

1. Time-to-Market:

By this we mean the time duration taken by the organisation to recognise and find an opportunity to stay in the market and translate this opportunity into merchandise and bring it to the market for consumption.

Markets have a lower life cycle and are now able to spot market trends and patterns quickly. So, in this case the pre-requisite for success is to translate these trends into an effective commodity. So the organisations who are slow in the marketing will have to face economic losses as they will miss a sales opportunity. One good example in this regard can be given of footwear retail.

Let us say that one design of shoes is becoming popular and if the shop does not have the stock then he or she will miss the sales opportunity but if the retailer can spot the trend, then he or she can encash a lot of money by huge sales. Trends are easy to identify by looking at consumer habits and observing any changes in it.

2. Time-to-Serve:

By this we mean the time duration of taking an order from a customer and to deliver the required service or product to the retail customer which will enhance his or her desired level of satisfaction.
In retail industry any retailer has to wait for months to get the orders from the suppliers. It has demerits as the risk of high stock outs and obsolescence and increased cost of inventory are an extra economical burden for the retailer. It is not necessary that due to the only process of manufacturing causes the long lead times but the logistics facilities and huge documentation may also be other causes.

3. Time-to-React:

By this we mean the time duration taken to adjust the business output in response to the competitive markets' volatile demand.
Ideally, a retailer, whether he or she belongs to any city (tier-I, II, or III), will always wants that he or she will fulfil the demands of the consumer whenever there is a need from the consumer's side. Real market demand is what any customer is buying for. The supply chain is driven by the orders, and these are combined with the forecasts and inventory replenishments. In supply chain, the individual parties will have no real visibility of the final market place.

4. The Lead Time Cap:

The lead time gap means the difference between logistics pipeline and the customer's order cycle. Practical meaning of the term is that there is a huge gap between the final product preparations which includes sourcing materials and then converting them into end products and the time duration the customer is prepared to wait. The thing is that this gap is very huge. Therefore, the challenge in the logistics management is to close this gap and if possible reduce it.
Successful retailers have been able to forecast the imagination of the shopper with their retail products, but these retailers are also often defined by their agility. Many retailers have found that by reducing the logistics lead time and to predict the consumer demand by analysing the data will make significant improvement to business.

Retail Supply Chain Management – Innovations:

- **VMI and Collaborative**
- **Planning,**
- **Forecasting and Replenishment**

1. VMI:

In the VMI approach, the vendor takes the responsibility of undertaking the inventory management of the retail stores, this is also known as the QR inventory system. Lead time reduction has a direct benefit of Efficient Consumer Response, QR inventory system eliminates the need for paper transactions. Using technological innovativeness like email and cell phone messages helps in reducing lead time.
The electronic system of vendor takes the data automatically in the system, and there is no need to enter the input manually which saves the extra time required and also eliminates the vendor's wrong data feeding in the system. It lowers down the inventory expenditure and increases the product availability. It also helps in redlining logistics expenses.

With the QR inventory system, retailers can come to an agreement with the vendor which offers direct store delivery. In this system the vendor delivers the product to each store of the retailer in the area rather deliver the product to their central facility. So, the retailer can save the transportation cost. In a vendor-retailer partnership, the vendor makes the main decisions regarding the inventory replenishment for the shopper.

The vendor role can be played by any of the following- manufacturer, distributor, or a reseller. These suppliers monitor the inventory levels for shoppers' and they effectively take decisions regarding the timing, order quantity, and other supply decisions.

2. Collaborative Planning, Forecasting and Replenishment:

Collaborative planning, forecasting, and replenishment (CPFR) is a new concept very much suitable in the supply chain context. CPFR aims to enhance supply chain assimilation by taking and supporting joint practices. CPFR enhances the visibility and manage the replacement of products and thus management of inventory enhances. It is a very good tool in enhancing profit margins, because it helps in reducing inventory levels.

This technology helps in forecasting due to available data analysing techniques on internet. If the forecasting does not match, then it alerts the management about the same and the management tries to resolve the problem by deciding several factors like, what to be sold, how it will be shipped and promoted.

Retail Supply Chain Management – Significance and Importance (Efficiency of Supply Chain in Retail Business)

In the Indian context, the efficiency of supply chain in retail business is not so of high importance as the vast retail market is much away from the so-called modern or organised retailing. But for the success of retail the management of supply chain is very crucial. Because the whole Indian retail market is going through the phase of globalisation which is applicable in the context of Indian retail also. Efficient management of retail supply chain serves as a source of competitive advantage for a retailer in competitive environment.

Amul is the best example in this context. Good SCM reduces cost and increases profitability for the retailer. In foreign context, its importance was earlier recognised. In foreign context, Walmart is the best example. Supply chain technique can be vertical or horizontal but the purpose is the one and same. Nowadays, businesses are hiring supply chain experts or professions in the management of supply chain in retail. This is mainly done to keep pace with the present competitive environment.

(i) Supply chain management is the management of material and information flow in a supply chain to provide the highest degree of customer satisfaction.

(ii) It supports to inventory management.

(iii) It helps for transportation service procurement.

(iv) It assists for customer service performance monitoring.

(v) It helps for operational analysis and design materials handling.

(vi) It ensures the operational improvements and distribution management.

(vii) It helps to reduce working capital.

(viii) Supply chain management accelerates cash-to-cash cycles.

Retail Supply Chain Management – Basic Patterns of Control: Vertical Marketing Channel and Conventional Marketing Channel

Many chains consist of independent business firms who, without the proper leadership, may lookout solely for themselves, to the detriment of the other members. For this reason, experts agree that no supply chain will ever operate at a 100 % efficiency level. Supply chain members must have as their goal "to minimise the sub optimisation" of the supply chain.

The two basic patterns that supply chain follows are vertical marketing channel and conventional marketing channel.

Conventional Channel of Marketing:

It is an orientation in which supply chain members are aligned loosely having orientation of short term.

It is the distribution channel which is the most common form of distribution channel. All working independently, it involves retailers, wholesalers and producers. It becomes very difficult in making coordination among the three. The chances of conflict in channel are common among the three and it leads to distribution disruption. Due to this reason, the companies are transforming themselves into integrated channel of marketing.

In addition, members are unable to see the possibility of shifting or dividing the marketing functions among all the participants.

Channel of Vertical Marketing:

Like the marketing channel of conventional type, marketing (vertical) is a channel in which merchandise moves in a series of steps to the end customer from the producer. The main set of differences is that they are planned and strategised by a system of central programming.

There is network of levels which is coordinated in the channel of vertical marketing, in which all level works in coordination to reach merchandise to the ultimate consumer. With many levels of channels of marketing, companies can reach this by owing and branding in cooperative agreement. Mainly the types of channel of marketing are of three distinct types— administered, contractual, and corporate. In the last half-century, it has improved significantly.

i. Corporate Channels:

Vertical Channel of Marketing (Corporate):

The first type includes the manufacturer Polo Ralph Lauren which formed their own outlets of retail and own warehousing, or internet selling sites. An example of the second type includes Holiday Inns, which for years was vertically integrated to run motels, carpet mills, etc.

In corporate channel it is not difficult to programme the channel for productivity and profit goals since a well-established authority structure already exists. Independent retailers that have aligned themselves in a conventional marketing channel are at a significant disadvantage when competing against a corporate vertical marketing channel.

ii. Contractual Channels:

Contractual vertical marketing channels, which involve the groups which are wholesaler sponsored, retail programme (franchised), and cooperative (retailer- owned) which make use of agreement that regulates the relation among the retail members. All of the changes cause for much regulated and coordinated, which is wider than marketing channel which is conventional.

However, they are more difficult to manage than corporate vertical marketing channels because the authority and power structures are not as well defined. Supply chain members must give up some autonomy to gain economies of scale and greater market impact. Voluntary groups sponsored by wholesaler are formed at the time when the wholesale businessman brought together the community of retailers which are independently owned.

Independent retailers is a term embracing anything from a single mom-and-pop store to a small local chain grocers and offers them a coordinated merchandising programme (store design and layout, store site, and location analysis, inventory management channels, accounting, and bookkeeping channels, insurance services, pension plans, trade area studies, advertising and promotion assistance, employee- training programmes) as well as the programmes of buying which can give advantage to the micro-retail business that is same as those enjoyed by the retail chain outlet rival.

In return, the independent retailers agree to concentrate their purchases with that of the wholesaler. It is a voluntary relationship; that is, there are no membership or franchise fees. The independent retailer may terminate the relationship whenever he or she desires, so it is to the wholesaler's advantage to build competitive merchandise assortments and offer services that will keep the voluntary group satisfied.

In the past, local food wholesalers got practically all of their business from independent grocers. Recently, however, as transportation costs have risen, major chains operating over a wide geographic area have also started using local or regional wholesalers. While welcoming this new business, wholesalers have attempted to keep their independent retailers happy (since they still account for more than 40% of their business) by offering them additional services.

Retailer-Owned Cooperatives:

Another common type of contractual vertical marketing channel is retailer-owned cooperatives. These channels are wholesale operations organised by retailers and owned by retailers. For example, True Value offers the economies of scale and services to the retailers and its related members, which helps in competition of small retail with giant retail organisation.

It should be pointed out that, in theory, wholesale-sponsored groups should be easier to manage since they have only one leader, the wholesaler, versus the many owners of the retailed-owned group. One would assume that in retailer-owned cooperatives, individual members would desire to keep their autonomy, and be less dependent on their supplier partner for support and direction.

In reality, however, just the opposite has been true. A possible explanation is that retailers belonging to a wholesale co-operative may have greater transaction-specific investments in the form of stock ownership, vested supplier-based store identity, and end-of- year rebates on purchases that combine to erect significant exit barriers from the cooperative.

Franchises:

The third type of contractual vertical marketing channel is the franchise.

Franchise is such type of business in which license is provided to other business people who can use identity or brand of parent company and pays royalty or fees to the franchisor in return.

There is a franchisee and franchisor associated with any franchise. Franchisor authorise the franchisee to set up a franchise in the name of franchisor. The franchisee then after authorisation by franchisor can sell the products and goods under the name and supervision of franchisor or as per the agreement clause between the franchisor and franchisee. The franchisee maintains the level of quality standards set by the franchisor. The consumer might never know that each location is independently owned.

Franchising is an economic and convenient means of fulfilling an individual's desire for independence. Considering the benefits of franchising is that it permits a franchisee to select a location in a somewhat sophisticated manner based on the various professional forecasting models that use data from earlier units. Another advantage is in the purchasing of key items. Holiday Inn, for example, knows more about how to buy mattresses, and furniture than most of its franchisees.

However, the relationship of franchisor and franchisee is required to have active communication from both the sides because active communication eliminates the misunderstandings and strengthens the relation as well as helps in achieving organisational objectives. In those cases where a franchisee-franchisor relationship does not work, it usually happens when there is a communication gap between the franchisor and franchisee due to lack of knowledge of policies or less training or the difference in expectations from both the sides.

Remember that a franchise gives up some freedom in business decisions that the other non-franchisee avails as part of their domain. The most common franchise mistakes result from a franchisee's incorrect perception of him or herself as a traditional entrepreneur. In order to maintain uniformity of operations and to make sure that each of the operational units are catering to the vision and mission of the organisation as a whole, the franchisor must exercise the degree of control over the franchisee to maintain the reputation and qualitative standards of the brand.

iii. Administered Channels:

The final type of vertical marketing channel is the administered channel. Administered channels, although not new in concept, have grown substantially in recent years. Frequently, administered channels are initiated by manufacturers because channel members have historically relied on manufacturers' administrative expertise to coordinate the retailers' marketing efforts.

Suppliers with dominant brands have predictably experienced difficulty in securing strong support from retailers and wholesalers. However, many manufacturers with "fringe" items have been able to elicit such cooperation only through the various concessions provided by manufacturers, financial assistance and flexible distribution policies. These policies protect the resellers from risk which is involved in business operations.

Some of the concessions manufacturers are offering these days to retailers are as follows-return policies, in store use of material display, allowances on advertising, payment liberality on product, training programmes of employee, store layout assistance, and design, maintenance of inventory, technological support, and even free merchandise.

The 3 Levels Of Supply Chain Management !

Supply chain management is the process of planning, organizing, and coordinating the flow of materials and information among the various stages of a business to meet customer demand. It is a critical element of any company that wants to grow and maintain its competitive edge.

The 3 Levels of Supply Chain Management: Strategic, tactical and operational

The three levels of supply chain management are strategic, tactical and operational.

1. Strategic Planning

This level of supply chain management is responsible for developing long-term plans that outline the company's overall objectives and goals. It includes identifying and assessing the company's strengths and weaknesses, making strategic decisions about where to focus resources, and creating a vision for the future.

This level of planning looks at the big picture and focuses on long-term decisions. This includes decisions such as:

1. Single sources vs multiple suppliers
2. Technology sharing
3. Location decisions

2. Tactical Planning

Tactical planning involves developing specific plans to achieve specific objectives within the scope of the strategic plan. These plans may include setting targets, establishing priorities, and designing strategies to achieve those targets.
Tactical planning is focused on specific goals and objectives. This includes:

1. Purchasing strategies
2. Transportation
3. Warehouse locations and distribution centers
4. Distribution channels

3. Operational Execution

Operational execution is responsible for implementing the tactical plans into action to achieve them. This includes coordinating with various departments within the company, setting up systems and procedures to support execution, and ensuring that all stakeholders are kept informed of progress throughout the process.
Operational planning is focused on day-to-day tasks and details how these tasks should be carried out to achieve the company's objectives. This includes:

1. Setting schedules
2. Maintaining inventory levels
3. Coordinating resources
4. Ensuring quality, on-time delivery and cost

Effective supply chain management is essential for any business. By understanding the three levels and how to implement them, you can ensure your company's success. Each level has its own set of challenges and priorities, which must be balanced to achieve success. Failure to do so can lead to wasted resources and lost profits.

What is warehousing? A guide to logistics

Warehousing is the process of storing physical inventory for sale or distribution. Warehouses are used by all different types of businesses that need to temporarily store products in bulk before either shipping them to other locations or individually to end consumers.

For instance, many ecommerce businesses will purchase products in bulk from their suppliers, who ship them to their warehouse for storage. When an end customer then places an order from the ecommerce site, the business — or its third-party fulfillment provider — picks and packs the product from the warehouse and ships it directly to the customer.

Ecommerce has driven rapid growth throughout the warehousing industry. In fact, the market has doubled in the last decade as businesses around the world invest heavily in their supply chains to get goods to consumers and businesses faster and more efficiently.

This isn't only limited to ecommerce businesses. Most physical retail businesses have limited space in their stores to hold inventory but still need to keep up with demand. Having additional inventory available in nearby warehouses helps ensure they are always able to restock their stores during high volume times like the holidays, even if their suppliers are in other countries and are slow to produce and ship new product.

Warehouse vs. distribution center

While a warehouse is technically any building that stores physical products regardless of the purpose, a distribution center is more specifically a type of warehouse designed for fulfilling orders for the purpose of distribution to other businesses or consumers. Distribution centers, therefore, need to be designed for not only compact storage but also efficient picking, packing, and shipping.

Why is warehousing important?

Warehousing is an essential part of the supply chain for most types of businesses that deal in physical goods. This could be consumer businesses holding a product that eventually makes its way to an end retail customer, or it could be business to business (B2B) companies storing products that eventually make it to business customers.

For retail and ecommerce businesses, warehousing allows the purchase of wholesale goods in bulk that may not fit in a physical retail store or yet be purchased by an end consumer online. Large bulk orders allow these businesses to negotiate lower prices with their suppliers, thus improving their margins when selling to customers. They can also keep inventory available as demand fluctuates to ensure products stay in stock.

In addition, warehousing allows businesses to store products in strategic geographic areas to reduce delivery times and shipping costs. For example, if a business is selling a product directly to consumers across the US, they may want to store inventory in multiple different regions of the country. Similarly, if they're selling to consumers around the globe, they'll want to strategically place warehouses in different countries to speed up deliveries and minimize shipments that have to go through customs.

With over 20,000 warehouses around the US and consumers now very accustomed to same-day delivery, this is becoming an ever more important aspect of businesses shipping directly to customers.

The elements of warehousing

While warehousing may seem simple since it mainly involves leaving products in storage, there are a number of processes involved to ensure it's done efficiently and inventory can be moved in and out quickly, including:

1. **Capacity planning**
   Space is the key resource. Therefore, when a shipment of products is expected, staff need to plan for where the products are going to be stored to make the most efficient use of the space.
2. **Receiving inbound shipments**
   When products arrive at the warehouse, staff will need to receive the items and carefully move them to a staging area for processing.
3. **Tracking inventory**
   As items flow in and out of the warehouse, they need to be registered in the warehouse inventory management system to ensure administrators can track what's currently in inventory and plan for future changes.
4. **Storing products**
   After products have been received and processed, they need to be stored. This can involve putting the products in bins and pallets and then using moving equipment to transport them to their appropriate storage space.
5. **Controlling climate**
   Depending on the nature of the products, factors like temperature, humidity, or pressure may need to be kept constant. For example, frozen goods will need to be stored in areas where the temperature is below freezing. These requirements will affect how and where products are stored within the facilities to ensure proper quality.
6. **Reorganizing**
   As new products are brought in, existing inventory may need to be moved to make sure the whole space is being most efficiently utilized. Any changes need to be tracked and updated in the inventory management systems.
7. **Retrieving and outbound shipping**
   Finally, when products need to go out of the warehouse for shipment, staff needs to retrieve, process, package, load them, and then release them from inventory to allow space for new inbound products.

Warehousing and the supply chain

Warehousing is an integral piece of the broader supply chain for physical products. Warehouses do not only serve as intermediary storage facilities — they also provide the ability for supply chain managers to reduce costs by optimizing inventory purchases, saving shipping costs and speeding up delivery times.

Warehousing even permits things like repackaging products for marketing purposes or to optimize the package for last mile delivery. These are important steps in ensuring products get through the supply chain to the end customer, ensuring they have the best possible experience with your company.

Warehousing and an integrated ecommerce stack

Warehousing provides a valuable tool for businesses to temporarily store products, often for storing inventory and optimizing shipping to their customers. If warehousing is an essential part of your business, you'll need to make sure your ecommerce platform can integrate with your warehousing systems to keep track of inventory, place orders, coordinate fulfillment, and more. Adobe Commerce makes it easy to synchronize your web store with both internal warehouse systems and third-party fulfillment centers.

The Eight Components of Supply Chain Management

Simple bread and butter with which we eat each day, actually gets to us through several processes. In this instance, bread begins its journey with the farmer who sows the seeds and sells the wheat to the businessman, who in turn sells it to the baker who bakes the bread. This is a description of supply chain management in a nutshell. In other words, supply chain management is a network of those businesses that are interconnected with each other in either the manufacturing of products, or delivering services, that are required by consumers.

It is very important for businesses to ensure two things for their supply chain to be effective, one is the supply chain should be cost effective and second it should deliver the results on time. We began with the description of supply chain management of bread. It is a very simple one. There are many complicated supply chain management processes that differ with the size of the business as well as the complexity of the chain and the number of products involved at each step. Thus, supply chain management begins at the origin of the product or service, and ends at the delivery and consumption of the same by the end user.

There are a million things which we use or consume in our everyday lives, and supply chain management weaves through it all, creating a harmonious and efficient environment. Any break in this chain can actually result in disruption of the system with a domino like effect. Supply chain management is made up of a few components that are very important as well as critical to the system. We shall discuss each of the components in brief.

1. Planning

This is one of the most important stages. Before the beginning of the entire supply chain, it is essential to finalise the strategies and put them into place. Checking the demand for the product or service, checking the viability, costing, profit, and manpower etc., are vital. Without a proper plan or strategy in place, it will be well-nigh impossible for the business to achieve effective and long term benefits. Therefore, enough time has to be devoted to this phase. Only after the finalisation of the plans and consideration of all pros and cons, can one proceed further. Every business needs a plan or blueprint or a roadmap based on which the strategies are made. Planning helps to identify the demand and supply trends in the market and this, in turn, helps to create a successful supply chain management system.

2. Information

The world today is dominated by a continuous flow of information. In order to be successful, it is essential that a business stays abreast with all the latest information about the various aspects of its production. The market trends of supply and demand for a particular product can be best understood if the information is properly and timely disseminated through the many levels of the business. Information is crucial in a knowledge-based world economy, and ignorance about any aspect of business may actually spell doom for the prospects of the business.

3. Source

Suppliers play a very crucial role in supply chain management systems. Products and services sold to the end user are created with the help of different sets of raw materials. It is therefore necessary that suitable quality raw materials are procured at cost effective rates. If a supplier is unable to supply on time, and within the stipulated budget, the business is bound to suffer losses and gain a negative reputation.

It is crucial that a company procures good quality resources so it can create good quality products and maintain its reputation in the market. This necessitates a strong role for suppliers in the supply chain management system.

4. Inventory

For a highly effective supply chain management system it is essential that an inventory is kept and thoroughly maintained. An inventory means the ready list of items, raw materials and other essentials required for the product or service. This list has to be regularly updated to demarcate available stock and required stock. Inventory management is critical to the function of supply chain management, because without proper inventory management the production, as well as sale of the product, is not possible. Businesses have now started to pay more attention to this component simply because of its impact on the supply chain.

5. Production

Production is one among the most important aspects of this system. It is only possible when all the other components of the supply chain are in tandem with each other. For the process of production to start it is essential that proper planning and supply of goods, as well as the inventory, are well maintained. The production of goods is followed by testing, packaging and the final preparation for delivery of the finished product.

6. Location

Any business, that wants to survive as well as flourish, needs a location which is profitable for the business. Take for example, a carbonated drink factory is set up in an area where water supply is scarce. Water is a basic necessity of such business. The lack of water could hamper the production as well as affect the goodwill of the company. A business cannot survive if it has to share an already scarce raw material with the community. Hence, a suitable location, which is well connected, and very close to the source of essential resources for production is vital to a business' prosperity. The requirement and availability of manpower must also be considered while setting up a business unit.

7. Transportation

Transportation is vital in terms of carrying raw materials to the manufacturing unit and delivering the final product to the market. At each stage, timely transportation of goods is mandatory to sustain a smooth business process. Any business which pays attention to this component, and takes good care of it, will benefit from the production and transportation of its goods on time.

It is essential that a company works towards a safe and secure transportation process. Be it in-house or a third-party vendor, the transportation management system must ensure zero damage and minimal loss in transit. A well-managed logistics system along with flawless invoicing are the two pillars of secure transportation.

8. Return of goods

Among the various components that create a strong supply chain is the facility for the return of faulty/malfunctioning goods, along with a highly responsive consumer grievance redress unit.

No one is infallible. Even a machine may malfunction once in a million times if not more. As a part of a strong business process, one may expect the return of goods under various circumstances. Even the best quality control processes may have unavoidable momentary lapses. In the case of such lapses, inevitably followed by consumer complaints, a business must, instinctively, recall the product/s and issue an apology. This not only creates a good customer bonding, but also maintains goodwill in the long run.

UNIT-4

Merchandise Buying Systems

As we end this module our last discussion will focus on the differences between staple and fashion merchandising systems. First let's look at table 1, which shows the primary differences between the two systems:

Staple Merchandise	Fashion Merchandise
predictable demand	unpredictable demand
accurate forecasts	inaccurate forecasts
continuous replenishment	open-to-buy

Table 1. Staple versus fashion merchandising systems

We can think of **staple merchandise** as those items that are basic and essential. Remember the example above regarding replenishment items? These are basic items that don't change in seasonality or fashion. If you look back at the defining feature of staple merchandise in Table 1, you can probably think of a few items you have in your own closet that fit this category, whether it is socks, underwear, and even basic ribbon bows. For a grocery store, staple items might be bread, butter, eggs, and milk. Retailers will often carry what is known as safety stock or back-up stock for staple inventory. Some retailers will provide long-term forecasts (up to a year) to vendors to help them understand future forecast needs and plan production accordingly. Typically staple merchandise is controlled by a continuous replenishment buying system.

Fashion merchandise is often difficult to forecast as it is seasonal in nature and has unpredictable demand. The demand for these items can differ based on factors that may or may not be controllable, such as weather or changes in consumer tastes. There might be limited selling history on these items and to understand how much inventory to invest, retailers will sometimes have to extrapolate a sales estimate from a like item from prior years. It is both a science and an art to buy fashion merchandise in just the right quantity to maximize sales and prevent excessive inventory which will lead to unprofitable markdowns. Most retailers rely on an Open-To-Buy system to control fashion and seasonal merchandise. We will discuss this in more detail in an upcoming section.

Both staple and fashion merchandise is planned in the overall merchandise budget plan and sometimes in separate buckets. A retailer must understand what percentage of the business is generated by both staple and fashion merchandise to fulfill the plan for the entire season.

Merchandise Buying Systems: Two Types (Staple and Fashion)

Retailers throughout the globe usually employ two types of buying systems:

(i) Staple merchandise buying system

(ii) Fashion merchandise buying system

Sales forecasting, which is essential for all types of products, is straightforward in case of staple merchandise buying system but more complex for those with fashion and seasonal merchandise. Efficient buying systems ensure the balance between sales, stock levels, quantity ordered and account for influences on availability of merchandise. There are several steps in the buying process, which when followed systematically ensure retail success.

Buying systems significantly influence these factors:

1.Sales Volume:

Providing right merchandise in right quality in the right price and at right place.

2.Gross margins:

Buying systems influence not only the price (cost) of merchandise but also the pricing policy and the extent of the markup.

3.Markdowns:

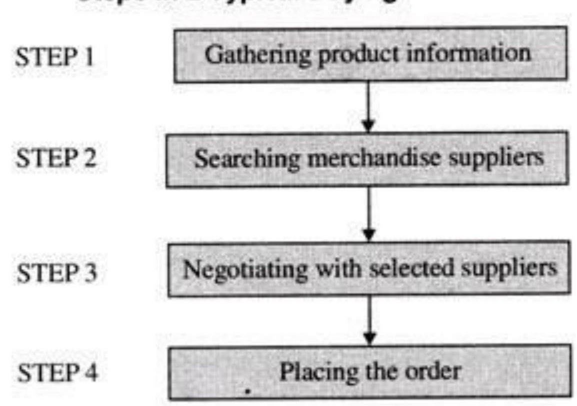
Buying systems influence the markdowns as they regulate the quantity, lead time, price and the type of merchandise ordered.

4.Stock Levels:

Buying systems have impact on the balance of inventory (inventory in stock). Further, buying system balances the inventory levels to achieve high sales targets with low level of inventory.

Following are the steps in a typical buying process:

Figure 10.1
Steps in a Typical Buying Process



1. Buying System for Staple Merchandise:

Staple merchandise consists of the items that are regularly purchased, displayed and sold by the retailers. For a grocery store, staple merchandise will be bread, butter, milk, salt, eggs, tissues and so on. Similarly, most of the merchandise at sports store and home improvement centers are staple.

For a departmental store, staple merchandise is camera rolls, stapler pins, pens, notebooks, briefcase, gift items and house wares.

The reason behind forecasting demand for staple merchandise easily is that these are the items of daily/regular use and are not influenced by season and other factors. A retailer can easily predict the quantity required for these items. Usually for this purpose, retailers prepare a ‘basic stock list’ that clearly outlines the inventory levels, size, colour, style, packaging, fragrance and so on for various staple items.

Following are the features of a staple buying system:

(i) Easy and straightforward method

(ii) Can predict demand easily

(iii) Provides accurate forecasts comparatively

(iv) Easy to administer

(v) Necessary adjustments can be made to ensure availability of stock

(vi) Monitors and measures present sales for the items at the SKU level

(vii) Guides the ordering sequence for re-stocking of merchandise

ADVERTISEMENTS:

Maintaining backup stock in staple merchandise system:

Backup stock, commonly known as a ‘safety stock’ or ‘buffer stock’ or ‘not for general use’ is the stock that is kept for unwarranted orders for the purpose to avoid ‘out of stock’ situation.

The size of the backup stock depends upon following factors:

(i) Size of the product availability, a retailer wish to have

(ii) Time taken to acquire merchandise

(iii) Suppliers’ quickness and product availability

(iv) Fluctuations in consumer demand – higher the fluctuation, more the backup will be

(v) Availability of funds

(vi) Retailer’s re-order level

2. Buying Systems for Fashion Merchandise:

Fashion merchandise consists of the items those usually have unpredictable demand and limited sales record. Demand forecasting as discussed earlier, in the absence of any sales history for specific fashion store keeping unit (SKU) becomes difficult.

The reason behind this is that these items have cyclical sales and become outdated very easily with the changes in customers’ taste and preferences, liking and disliking. Therefore, for few seasons, the demand for such merchandise is high, become outdated for a while and then again becomes fashion of the day.

For instance, ‘Yoga and meditation’ that was part and parcel of Indians’ lives before seventies, was replaced by gym, spa and health centers, has again entered in Indians’ lives and becoming popular among youths too.

Following are the features of Fashion merchandise:

(i) Unpredictable and unstable demand

(ii) No/limited sales history (record)

(iii) Relatively difficult to forecast sales

Seasonal Merchandise:

It consists of items those change season to season but relatively have good demand over non-consecutive time periods. Items such as room coolers, desert coolers, air conditioners, sweaters, umbrellas have excellent demand during one season annually.
Since most of the sales of such items take place at the same time every year, it becomes easy to forecast the demand. Further, previous years' sales record may be helpful to predict demand and therefore, sales revenue.

Merchandise Budget Plan: Objectives and Components

A merchandise budget plan, as the very name implies, is a forecast of particular merchandise related activities designed for a particular period of time, say, one year or six months. Under this plan, rather than physical control of items, stress is given towards their financial planning.

Merchandise Budget Plans usually are made for one season and then broken down into shorter periods like monthly & weekly plans.

In an effective merchandise Budget Plan, a retailer forecasts and plans about five fundamental variables, namely, sales level, stock levels, purchases, reductions (markdowns) and gross margin.

1. Objectives:

The primary objective of having a merchandise budget plan is that a retailer would like to have a proper balance between:

(a) What will be paid to suppliers for purchase of merchandise and making it available to customers; and

(b) The cash inflow that will come in the business from sales to customers.

Though in practice, there are several accounting practices that allow some flexibility (for example extended credit terms or easy payment options), this balance is vital to maintain the firm's liquidity. For the effective accomplishment, the firm's internal records, past years experience must be carefully considered instead of relying on historical data alone that will lead to repeating previous mistakes, including previous missed opportunities.

2. Components of Merchandise Budget Plan:

The various components of a merchandise budget plans are as follows:

(1) Planned Sales and Stock levels:

Planning sales and stock levels is the first step in preparation of a sales forecast for a particular period (say one season) and for each month in that particular season for which a retailer wish to prepare a budget plan. After this, retailer should determine the beginning of month (B.O.M.) inventory in order to specify the desired rate of stock turn for each month of the season under study.

For example, a retailer's stock sales ratio for the month of February is six and predicted sales during February is Rs.80,000 then the planned BOM stock would be Rs.4,80,000.

Note: For the purpose of making budgeting effective, it is always suggested to calculate End-of-Month (E.O.M. stock), which is same as B.O.M. stock for the following month. Thus in this case, retailer's EOM stock for January will be same (Rs.4,80,000) to February's BOM stock.

(2) Planning for Reductions:
Planning for reductions is the third step in a merchandising budget plan which involves deciding about markdowns, employee discounts and shortages. Reducing prices is critical because the degree of reduction will have exactly the same effect on the value of stock as an equal amount of sales for that period. Markdown is used to push retail sales that offer particular merchandise at a price less than the merchandise marked price (normal price).

Shortages result from pilferage (in retailing it is known as shop lifting), accounting frauds, vendor theft and employee theft. Employee discount is also provided by some retail firms in order to build public image and employees' welfare by extra rebate and inviting them to buy merchandise before offering to general public by the way of sales.

(3) Planning For Purchases:
After planning sales and stock levels, opening stock (BOM), closing stock (EOM) and reductions, next step under merchandise budget plan is to plan for purchases in Rupees.

It is calculated as under:
Purchase Planning = Planned Sales + Planned Reductions + EOM – BOM

Suppose for example, the planned E.O.M. stock for February was Rs 5, 60,000 and that reductions for February were estimated to be Rs 10,000.

Therefore, planned purchase will be calculated as under:

Planned Sales (Feb 1 – Feb 28)	=	Rs. 80,000
Planned Reductions	=	Rs. 10,000
Planned EOM stock (Feb 28)	=	Rs.5,60,000
Total:		Rs.6,50,000
Less: Planned BOM stock (Feb 1)	=	Rs.4,80,000
Therefore, planned purchases	=	Rs.1,70,000

The planned purchases figure usually is based on retail prices rather than at cost. In order to determine the financial resources required to procure merchandise, it becomes imperative on the part of retailer that he should determine planned purchases at cost.

The underlying gap between planned purchases at cost and at retail denotes the initial mark up goal for the merchandise under consideration. This objective is achieved by calculating by the amount of operating expenses required to attain the estimated sales volume, the profit expectations, and adding it with the reduction figure. Therefore,

$$\text{Initial Mark Up Goal} = \frac{(\text{Expenses} + \text{Profit} + \text{Reductions})}{(\text{Net Sales} + \text{Reductions})}$$

Sometimes, term Open-to-Buy is used synonymously with planned purchases where forecasts concur with actual results.

(4) Planning For Gross Margin and Operating Profit:
The gross margin usually is the initial mark up attuned for price variations, reductions, shrinkage and other stock shortages. The gap between gross margin and expenses needed to create sales will either contribute to profit or a net profit (i.e. profit before taxes), depending on retailer's accounting practice and the thinness of merchandise budgeting.

3. Evaluation of Merchandise Budget Plan:
Merchandise budget plan is used by retailers to determine how much money to allocate in each month on a particular merchandise category, considering the firm's sales forecast, inventory turnover and profit margins.

After developing a merchandise budget plan, retailer purchases the inventory for the upcoming season in advance and when season comes, retailer sells the merchandise. After the selling season, the retailer should determine how actually the category has performed against the plan forecasted. If the actual turnover and GMROI are greater than the forecasted, then the performance is better than retail's expectations and vice versa.

Evaluating the merchandise budget plan aims to balance the money outflows (for supplies) and inflows (received from customers by selling merchandise) for the next financial year or upcoming season. Is there any need to pre-order for some stock or the
budget provided was sufficient to meet customers' demand, may be determined through evaluation only.

What is Open to Buy?
(Definition, Formula, Examples)
Inventory management is a fundamental ingredient to the success of today's retailers – it can even make or break a retail business.

For example, retailers carrying too much inventory or too much of the wrong product will tie up cash flow restricting them from ordering products their store needs. In these situations, they are often forced to implement markdowns to move excess inventory reducing profits and lowering GMROI.

In contrast, buying insufficient inventory quantities can result in lost sales, and reduced profits and drastically influence the overall customer experience and brand perception.

Stocking the right amounts of the right products at the right times requires a dynamic and data-driven approach that must incorporate open-to-buy plans.

So, what is open-to-buy, how is it calculated and what benefits can it provide for today's retailers?

What is Open-to-buy?

Open-to-buy is an inventory management strategy which helps retailers understand how many products they need to buy.

Using an OTB formula, retailers create a plan in which they can calculate the money required to purchase future inventory orders for a specific sales period. Or, open-to-buy (OTB) planning lets retailers control inventory and stay cash flow positive.

Other benefits of OTB management include:

- More flexible inventory.
- Optimal stock levels.
- Less overspending.
- Fewer markdowns.
- Spotting trends earlier.

Let's take a look at the technical definition below.

Open-to-buy Definition

Open-to-buy definition: a financial budget for retail merchandise planners.
Essentially, OTB is a purchasing plan which takes into account current inventory levels and projected sales for a set time period.

Who uses open-to-buy: OTB can be used at all levels — company-wide, sales channels, departments, product categories, and sub-categories.
Why use open-to-buy: Calculate the optimal inventory quantity to purchase, in order to meet customer demand for a set sales period.

What is the open-to-buy formula?

Open-to-buy is the difference between where you expect to finish a sales period and where you started. Where you started is simple: it is the planned inventory at the beginning of the sales period. Where you expect to finish is your closing inventory plus your planned sales and markdowns.

The open-to-buy formula looks like this:

The inventory numbers should include store stock, distribution center inventory, and anything in transit. There is one exception: sold but undelivered products are not counted as Beginning of Month Inventory.

You can calculate OTB on a monthly or weekly basis. Other sales periods, such as promotional seasons, are also useful. Although the open-to-buy formula can be unit-based, it is typically done in dollars — either retail value or cost.

Open to buy example calculation

Let's look at how to calculate open to buy:

Open to buy process

Naturally, OTB budgeting is more than running a formula. It's part of a three-step open-to-buy process:

Step 1 – Know your inventory turnover

Turnover rates impact OTB. You need to have a clear picture of your current inventory levels and an accurate demand forecast for your OTB strategy to succeed.

Step 2 – Run your financials

Create your budget using the OTB formula. A granular OTB planning approach – by store, by week at the lowest product sub-category or SKU – generates the most accurate budgets.

Step 3 – Tracking & Adjusting

Your OTB process must account for the hundreds of factors impacting demand and inventory as they happen. It needs to be agile enough to adjust quickly when needed.

OTB management

Small shops can use quarterly OTB spreadsheets. However, more complex assortments need better capabilities:

1. Good OTB management starts with good forecasting

AI-powered demand forecasts can account for more variables on a more granular level than spreadsheet-driven analysts enabling you to purchase optimal inventory quantities.

2. All forecasting needs to be dynamic

Unexpected changes in inventory availability or supply chain breakdowns derail the plan. A dynamic forecast should automatically adjust the OTB budget to reflect the most current situation.

3. Automate as much of your OTB budgeting as possible

Replenishment processes should automatically optimize purchases and allocation based on the latest budgets. Advanced OTB analytics tools can provide proactive next-step recommendations and generate purchase orders.

4. Ensure OTB is unified across all retail divisions

Everyone from your buyers and planners to your finance team should be on the same page. There needs to be clear visibility across the entire business to facilitate accuracy and efficiency.

OTB Planning Software

Retalon's unified merchandise planning suite includes an Open to Buy system. Using AI and advanced analytics, it dynamically calculates granular OTB budgets to recommend optimal purchases and automatically generate purchase orders.

Inventory Allocation (Definition, Methods, Tips)

Effective inventory allocation has never been more important than it is today. With recent supply chain shocks, unpredictable consumer demand swings, and economic uncertainties looming, retailers need to ensure their inventory is in the right place at the right time.

Moreover, if you're poorly balancing inventory across your sales channels and locations you risk:

Losing sales due to out-of-stocks

- Losing customers to competitors
- Reduced margins due to unnecessary markdowns
- Packed shelves that prevent you from building a guest-relevant assortment

And, if these issues continue, you may face an overall loss of market share.

So, how do you avoid these landmines without breaking the bank?

What is inventory allocation?

In the simplest terms, inventory allocation describes where in the supply chain an organization's inventory is. In other words, how many units are present in which stores, warehouses, and distribution centers.

However, when enterprise retailers talk about "planning and allocation" or "initial allocation," they're usually describing specific processes within their organizations.

"Planning and allocation" definition

Planning and allocation is a pre-season planning process retailers use to decide how much of each SKU needs to go to each location and sales channel in order to meet customer demand.
"Planning" is the key word here. Planning where inventory will be allocated takes place in advance of a sales season.
Don't let the simplicity of our planning and allocation definition fool you. Allocation will make or break a sales season. The right amount of each product needs to be in each location (and enough safety stock needs to be present in warehouses to buffer demand swings).

Customers can't buy products that aren't there and they won't buy more than they need.

As such, retailers need to accurately forecast sales demand for a particular SKU at each sales location.
To avoid costly consequences of poorly distributed inventory, retailers employ a variety of allocation methods.

"Initial allocation" definition

While "allocation" can refer to the location of any SKUs across your channels, when retailers use the term "initial allocation," they're typically referring to how **new products** will be distributed across their sales channels. Basically, how many units of a new SKU will go to which store, warehouse, or DC?

Allocation and planning vs. replenishment – what's the difference?

While allocation and planning seeks to map out the quantity of inventory at every location before the selling season starts – replenishment is the process of re-ordering inventory once the selling season has started.
Both are important processes (and most retailers will need to take advantage of both at different times). For example, a fashion retailer with new designs every season will need to plan the initial allocation of the new SKUs, and then rely on replenishment to keep popular items in-stock during the season.

Most popular inventory allocation methods

The way a retailer allocates inventory is dependent on the scale of its operations. Small retailers with limited assortments often use traditional manual allocation methods. But when faced with thousands of SKUs across multiple sales channels retailers need more advanced allocation techniques.

1. Manual allocation

Manual allocation involves reviewing past sales data from spreadsheets or ledgers to figure out potential buyer behavior in the coming sales season. An allocation plan can then be made on Excel (or comparable software) – with planners either using (a) statistical calculations, (b) intuition and expertise from veteran planners, or (c) some combination of both – to predict the number of units required for each SKU at each location.

This is fine for a small retailer with a handful of locations. A single planner can have a standardized allocation plan (and have a handle on all of the inventory across the company).

As the number of stores and SKUs increases, however, this manual Excel-based approach becomes much more time-consuming and error-prone. So, instead of one planner making these calculations for the entire organization, larger retailers are forced to break planning up into departments or categories. And this comes with its own challenges.

For example, when dealing with multiple category-level plans, someone still has to reconcile all of the information and translate it to high-level financial / budget plans. And someone else has to create purchase orders (and combine orders from multiple plans when ordering from the same vendors). This quickly becomes either (a) a highly inefficient, siloed approach where every department is doing their own thing, or (b) a confusing, unauditable mess – with dozens of different spreadsheets with different formats and styles and versions passing through dozens of hands.

This is not only incredibly labor-intensive to deal with, it is also very error-prone.

2. Algorithmic and rule-based allocation

Once a retailer grows beyond the point where they can manually manage and plan their allocation one SKU at a time, they often turn to using a series of rules and formulas ("algorithms") to simplify the process.

A hardware retailer, for example, might have rules based on historical sales patterns like this:

Seasonal air conditioner sales in Arizona start in March and end in October.

- Seasonal air conditioner sales in Minnesota start in June and end in August.
- Suburban stores sell more central air conditioners than window air conditioners.
- Urban stores sell more window air conditioners than central air conditioners.

These patterns can be turned into rules, formulas, and macros. So instead of manually cross-referencing historical performance of every SKU at every location, planners can run an algorithm to automatically allocate inventory based on these rules.

Moreover, retailers can build rules around everything from SKU variations (colors, sizes, etc.) and categories to store-clusters (assortments in A-stores vs. outlet stores). Each level of the hierarchy can have its own set of rules – allowing planners to eliminate a considerable amount of manual work.

But although rule-based allocation is better than doing everything by hand, it has some major limits.

Firstly, analyzing the performance of complex assortments to come up with foolproof rules is a very difficult task. Doing this well requires looking at dozens of variables – not just historical sales.

For example, if you made allocation rules by looking at last year's sales alone – you'd miss every instance of out-of-stocks. Perhaps Store X only sold 50 units last year because you only allocated 50 units. What you don't know by looking at just the sales figures, is that Store X would have sold 100 units – if only it had enough inventory allocated in the first place. Secondly, it's unreasonable for retailers to have a rule for every SKU (especially if they introduce new SKUs every season). More likely than not, retailers have rules for their A-products (best-sellers), and category-level (and perhaps attribute-level) rules for the rest of their assortment.

While this definitely simplifies the process of allocation, the low-resolution approach to B and C products often leads to everything from out-of-stocks and lost sales to overstocks and unnecessary markdowns.

Lastly, allocation algorithms are only as smart as their rules. Analysts can't possibly turn every possible factor impacting sales into a rule. Our hardware retailer, for instance, may not have a rule for El Niño weather patterns. Without that rule, the algorithm will mistime the summer sales season and allocate inventory to the wrong stores.

3. AI-based inventory allocation

The most sophisticated retailers plan their inventory allocations using AI-based demand forecasting.

Instead of merely looking backward through sales histories, AI-based demand forecasting uses real-time analysis to determine true customer demand – accounting for factors like the seasonality of each individual SKU at each individual store, cross-product cannibalization, lost sales, etc.

Software like Retalon's AI-powered Smart Allocation solution can evaluate hundreds of such interrelated variables at the same time and calculate the optimal allocation store-by-store, SKU-by-SKU.
Because AI-based methods rely on forecasting demand, retailers' allocations are more accurate. Stores get enough product to maximize revenue while minimizing overstocks and understocks.

Allocation strategies

Retailers have several allocation strategies to choose from. The simplest strategies are easy to execute. At the same time, they create the most risk because stores do not get the optimal allocations for every SKU. More refined strategies will bring allocations closer to meeting customer demand.

Here are the 5 most common strategies retailers use to allocate inventory:

1. Equal or universal allocation

Retailers that rely on manual or algorithmic allocation methods have to prioritize. Only the most important SKUs will get detailed allocations. The least important SKUs will just get distributed equally across the retailer's sales channels. That means thousands of SKUs get shipped in the wrong quantities. Retailers that accept the lost sales and extra markdowns may not have a sustainable business.

2. Tier based allocation

Rather than treating every location the same, retailers may group stores into tiers based on sales volume. "A" stores get more inventory than "B" stores which get more inventory than "C" stores. The biggest problem with tiered allocation is that it creates a self-fulfilling prophecy: C stores don't sell as much so they don't get as much – which means they can't sell as much. On top of that, tiering ignores the possibility that some C stores may sell certain products better than some A stores.

3. Cluster-based allocation

Store clustering is a more refined approach than tiering. Retailers allocate product to stores with shared characteristics. For example, format clustering puts flagships, outlets, and popups into their own groups. Climate clustering, on the other hand, would treat southern stores differently from northern stores. The trouble is, you can't define a store by a single property. Northern flagship stores may have more in common with local outlets than with southern flagships.

4. Demographic-based allocation

Another nuanced strategy uses each store's demographic trends. Apparel retailers, for example, can skew allocations to reflect the younger demographics at stores near universities. Retailers have to keep their fingers on the pulse of demographic trends for this strategy to work. Getting caught off guard by a change — like the shift away from on-campus learning — will throw off their allocation decisions.

5. Demand-based allocation

The trouble with these strategies is their reliance on top-down classifications that don't reflect how each store's customers actually buy. Retailers make the best allocations when customer demand drives their decisions. The right allocation is the amount of product each store needs to meet its unique customer demand — no more and no less. Out of these allocation strategies, demand-based allocation is the most accurate. But it is also the most complicated.

Next steps for creating an inventory allocation system

By now, it should be clear that relying on blunt instruments like historical sales analysis and rule-based allocation leads to sub-par results. These tools simply can't account for all the critical factors impacting demand across your channels and stores. Factors like::

- Store size
- Store format
- Store location
- Regional climate
- Regional demographics
- Individual SKU seasonality
- Product families
- Substitutive products
- Product cannibalization
- Etc.

While it's possible (but unlikely) for a small retailer with a handful of locations to account for all of these variables in their planning and allocation – the chances of success decrease dramatically as the number of stores and SKUs go up. This is because each unique SKU at each unique store will have its own demand profile. 10 SKUs at 10 stores means that analysts only need to account for 100 different demand profiles. But if you have 1,000 stores with 1,000 SKUs, your analysts will need to contend with 1,000,000 unique demand profiles.

No retailer can hire enough analysts to make these calculations. Furthermore, developing a demand-based allocation system requires data science expertise, machine learning technology, and other resources that retailers won't often find in-house.

But this is an important problem to solve, because a well-balance allocation will have a myriad of benefits, including:

- Improved customer loyalty because your customers always find what they're looking for
- Increased revenue from a reduction of lost sales
- Improved margins with a lower rate of overstocks and unnecessary markdowns

This is why the most sophisticated retailers turn to solutions like Retalon's smart allocation software. Powered by retail's most accurate forecast, Retalon's allocation solution measures true customer demand for every SKU in every location, and automatically generates the optimal allocation.

With experience in more than a dozen retail verticals, Retalon's retail allocation experts can configure a smart allocation solution for your company's unique business needs. See it for yourself with a demo..

Merchandise Management

> Advertising moves people toward goods; merchandising moves goods toward people.
>
> **− Morris Hite (American Advertising Expert)**

In the fierce competition of retail, it is very crucial to attract new customers and to keep the existing customers happy by offering them excellent service. Merchandising helps in achieving far more than just sales can achieve.

Merchandising is critical for a retail business. The retail managers must employ their skills and tools to streamline the merchandising process as smooth as possible.

What is Merchandising?

Merchandising is the sequence of various activities performed by the retailer such as planning, buying, and selling of products to the customers for their use. It is an integral part of handling store operations and e-commerce of retailing.

Merchandising presents the products in retail environment to influence the customer's buying decision.

Types of Merchandise

There are two basic types of merchandise −

Staple Merchandise	Fashion Merchandise
It has predictable demand	It has unpredictable demand
History of past sales is available	Limited past sales history is available

It provides relatively accurate forecasts	It is difficult to forecast sales

Factors Influencing Merchandising

The following factors influence retail merchandising:

Size of the Retail Operations

This includes issues such as how large is the retail business? What is the demographic scope of business: local, national, or international? What is the scope of operations: direct, online with multilingual option, television, telephonic? How large is the storage space? What is the daily number of customers the business is required to serve?

Shopping Options

Today's customers have various shopping channels such as in-store, via electronic media such as Internet, television, or telephone, catalogue reference, to name a few. Every option demands different sets of merchandising tasks and experts.

Separation of Portfolios

Depending on the size of retail business, there are workforces for handling each stage of merchandising from planning, buying, and selling the product or service. The small retailers might employ a couple of persons to execute all duties of merchandising.

Functions of a Merchandising Manager

A merchandising manager is typically responsible to −

- Lead the merchandising team.
- Ensure the merchandising process is smooth and timely.
- Coordinate and communicate with suppliers.
- Participate in budgeting, setting and meeting sales goals.
- Train the employees in the team.

Merchandise Planning

Merchandise planning is a strategic process in order to increase profits. This includes long-term planning of setting sales goals, margin goals, and stocks.

Step 1 - Define merchandise policy. Get a bird's eye view of existing and potential customers, retail store image, merchandise quality and customer service levels, marketing approach, and finally desired sales and profits.

Step 2 – Collect historical information. Gather data about any carry-forward inventory, total merchandise purchases and sales figures.

Step 3 – Identify Components of Planning.

- **Customers** − Loyal customers, their buying behavior and spending power.
- **Departments** − What departments are there in the retail business, their subclasses?

- **Vendors** − Who delivered the right product on time? Who gave discounts? Vendor's overall performance with the business.
- **Current Trends** − Finding trend information from sources including trade publications, merchandise suppliers, competition, other stores located in foreign lands, and from own experience.
- **Advertising** − Pairing buying and advertising activities together, idea about last successful promotions, budget allocation for Ads.

Step 4 – Create a long-term plan. Analyze historical information, predict forecast of sales, and create a long-term plan, say for six months.

Merchandise Buying

This activity includes the following −

- **Step 1 - Collect Information** − Gather information on consumer demand, current trends, and market requirements. It can be received internally from employees, feedback/complaint boxes, demand slips, or externally by vendors, suppliers, competitors, or via the Internet.
- **Step 2 - Determine Merchandise Sources** − Know who all can satisfy the demand: vendors, suppliers, and producers. Compare them on the basis of prices, timeliness, guarantee/warranty offerings, payment terms, and performance and selecting the best feasible resource(s).
- **Step 3 - Evaluate the Merchandise Items** − By going through sample products, or the complete lot of products, assess the products for quality.
- **Step 4 - Negotiate the Prices** − Realize a good deal of purchase by negotiating prices for bulk purchase.
- **Step 5 - Finalize the Purchase** − Finalizing the product prices and buying the merchandise by executing buying transaction.
- **Step 6 - Handle and Store the Merchandise** − Deciding on how the vendor will deliver the products, examining product packing, acquiring the product, and stocking a part of products in the storehouse.
- **Step 7 - Record the Buying Figures** − Recording details of transactions, number of unit pieces of products according to product categories and sub-classes, and respective unit prices in the inventory management system of the retail business.

Vendor Relations

Cordial relationship with the vendor can be a great asset for the business. A strong rapport with vendors can lead to −

- Purchasing products when required and paying the vendor for it later according to credit terms.
- Getting the latest new products in the market at discount prices or before other retailers can sell them.
- Having a great service of delivery, timeliness of delivery, returning faulty products with exchange, etc.

Merchandise Performance

The following methods are commonly practiced to analyze merchandise performance −

ABC Analysis

It is a process of inventory classification in which the total inventory is classified into three categories −

- **A – Extremely Important Items** − Very crucial inventory control on order scheduling, safety, prompt inspection, consumption pattern, stock balance, refill demands.
- **B – Moderately Important Items** − Average attention is paid to them.
- **C – Less important Items** − Inventory control is completely stress free.

This approach of segregation gives importance to each item in the inventory. For example, the telescope retailing company might be having small market share but each telescope is an expensive item in its inventory. This way, a company can decide its investment policy in particular items.

Sell-Through Analysis

In this method, the actual sales and forecast sales are compared and the difference is analyzed to determine whether to apply markdown or to place a fresh request for additional merchandise to satisfy current demand.

This method is very helpful in evaluating fashion merchandise performance.

Multi-Attribute Method

This method is based on the concept that the customers consider a retailer or a product as a set of features and attributes. It is used to analyze various alternatives available with regard to vendors and select the best one, which satisfies the store requirements.

Global Sourcing

Global sourcing refers to buying the raw materials or components that go into a company's products from around the world, not just from the headquarters' country. For example, Starbucks buys its coffee from locations like Colombia and Guatemala. The advantages of global sourcing are quality and lower cost. Global sourcing is possible to the extent that the world is flat—for example, buying the highest-quality cocoa beans for making chocolate or buying aluminum from Iceland, where it's cheaper because it's made using free geothermal energy.

When making global-sourcing decisions, firms face a choice of whether to sole-source (i.e., use one supplier exclusively) or to multisource (i.e., use multiple suppliers). The advantage of sole-sourcing is that the company will often get a lower price by giving all of its volume to one supplier. If the company gives the supplier a lot of business, the company may have more influence over the supplier for preferential treatment. For example, during a time of shortage or strained capacity, the supplier may give higher quantities to that company rather than to a competitor as a way of rewarding the company's loyalty.

On the other hand, using multiple suppliers gives a company more flexibility. For instance, if there's a natural disaster or other disruption at one of their suppliers, the company can turn to its other suppliers to meet its needs. For example, when Hurricane Mitch hit Honduras with 180-mile-per-hour winds, 70 to 80 percent of Honduras's infrastructure was damaged and 80 percent of its banana crop was lost. Both Dole Food Company and Chiquita bought bananas from Honduras, but Dole relied more heavily on bananas from Honduras than from other countries. As a result, Dole lost 25 percent of its global banana supply, but Chiquita lost only 15 percent.Yossi Sheffi, The Resilient Enterprise (Cambridge, MA: MIT Press, 2005), 216–17. In the aftermath, Chiquita's revenues increased, while Dole's decreased.

Sole-Sourcing Advantages

- Price discounts based on higher volume
- Rewards for loyalty during tough times
- Exclusivity brings differentiation
- Greater influence with a supplier

Sole-Sourcing Disadvantages

- Higher risk of disruption
- Supplier has more negotiating power on price

Multisourcing Advantages

- More flexibility in times of disruption
- Negotiating lower rates by pitting one supplier against another

Multisourcing Disadvantages

- Quality across suppliers may be less uniform
- Less influence with each supplier
- Higher coordination and management costs

Whichever sourcing strategy a company chooses, it can reduce risk by visiting its suppliers regularly to ensure the quality of products and processes, the financial health of each supplier, and the supplier's adherence to laws, safety regulations, and ethics.

Counting the costs of global sourcing

The world's economy has been growing steadily for at least fifty years. Figures from the World Trade Organisation show that since 1950, the world's GDP has increased more than sevenfold. At first sight this figure might seem substantial; however, it is modest when compared to the 25-fold increase in global exports of merchandise and the 50-fold increase in global exports of manufactured products during the same period.

There is no doubt that these trends will continue – at least for a while. However, there is an increasing concern that the total impact of global sourcing may not always be positive. Cranfield's Centre for Logistics and Supply Chain Management has recently produced a report for the UK Department for Transport which suggests that the true cost of global sourcing may be significant – not just for the company but for the environment and society.

The true costs

This research revealed that whilst the main motivation for offshore sourcing was the need to reduce costs, it was often the case that the true costs of those decisions were not always fully recognised.

Interviews with managers indicated that typically most companies take a very narrow view of cost. The main focus seems to be on the actual purchase cost or manufacturing costs plus transport and customs duties. Often the INCO terms that are applied to the transactions will further disguise the component cost elements. Rarely, for example, will these sourcing decisions take account of the additional inventory financing cost, the cost of lost sales and/or obsolescence as a result of longer lead-time or the risks of supply chain disruption.

The importance of managing risk across the business is now widely recognised and in many cases is a legal requirement. However, our research suggests that when decisions to move manufacturing and/or sourcing offshore have been made, the impact of those decisions on the supply chain risk profile may not always have been factored into the equation.

There are a number of ways that global sourcing decisions can impact supply chain risk.

Firstly, longer lead-times are inevitable when moving from domestic to offshore sourcing. According to research conducted by Accenture indications are that for a typical business the end-to-end lead-time might actually double. This is not just because of longer transit times but also because there is an increased likelihood of delay at both ends of the pipeline due to the need for freight consolidation, customs clearance, port congestion, etc.

Clearly those longer lead-times are reflected in the additional inventory now required – every day of lead-time requires at least a day of inventory to cover that lead-time. Furthermore, the likelihood is that as well as lead-times being longer they may also be more variable. This implies more safety stock to buffer that variability. As a result the working capital requirement of the business increases and thus the financing costs.

A further source of risk is that as markets become more turbulent and product life-cycles continue to shorten, the chance of obsolescence increases. Mark-downs and even write-offs are more likely when demand volatility and longer lead-times coincide.

It is interesting to note that Asda, the UK supermarket business owned by Wal-Mart, has recently announced that it is switching some of its sourcing for its successful ‘George’ range of clothing back to the UK. This reflects the need in markets where demand is volatile – and clothing is a case in point – the need is for agility and responsiveness to enable supply and demand to be matched more accurately.

Managing critical stages

Additional risks that attach to the global sourcing decision are the problems of managing critical stages in a supply chain that may be many thousands of miles away. With local sourcing or manufacturing if a problem arises with a supplier in a factory it can often be resolved with a visit the same day – obviously this is not possible when that problem arises on the other side of the globe. There may also be the risk of the loss of Intellectual Property (IP), quality management issues, and a lack of visibility.

Often, too, there is the risk of cost over-runs and the consequent erosion of margins when global sourcing is involved. A study by the Aberdeen Group highlighted the most frequent sources of variances from budgeted costs as being transportation, raw materials costs and additional supplier charges.

Finally, of course, there are the wider geo-political risks associated with off-shore sourcing. Whilst these can be monitored and, to a certain extent, mitigated through contingency planning it is still a source of further uncertainty and cost.

Because these multiple sources of risks can be critical to business continuity, it is important that they be reflected in the calculation of the true cost of global sourcing. In effect, the requirement is to assess the ‘Risk Adjusted Total Cost of Ownership’.

There has been considerable concern for some time amongst many academics, businesses and government and non-governmental organisations about the so-called ‘carbon footprint’ of supply chains. However, it is only recently that the debate over the environmental impact of extended supply chains has really taken off.

Carbon accountability

There is now a growing realisation that in the not-too-distant future, organisations and even individuals will probably have to pay for the carbon impact of their activities. For the business sector, this penalty may take the form of taxes, levies or the capping of allowable emissions under carbon trading regimes. Potentially, these additional costs may bring the commercial viability of their operations into question. Hence the argument is starting to be heard that companies should review their current carbon footprint and identify strategies for its reduction. For any organisation, it is not just the carbon impact of its in-house activities that needs to be understood, but rather the total carbon effect of its wider supply chain. With the current trend to off-shore sourcing continuing apace, the implications for total carbon impact are significant. To understand the true carbon footprint of a supply chain for any product requires the ability to conduct a 'Through Life' analysis of the emissions generated from cradle to grave: what is the total environmental cost from raw material sourcing through manufacturing and distribution to consumption and disposal? This new focus on carbon has served to bring the supply chain into greater prominence – in particular, the decisions that organisations are taking regarding manufacturing and sourcing locations. The significant trend to low-cost country sourcing over the last 10 years or so has transformed the shape of many supply chains, particularly through the creation of longer and more transport-intensive pipelines.

Because transport represents such a large proportion of total worldwide greenhouse gas emissions – about 20 per cent and growing – it is inevitable that supply chains will be under increasing scrutiny in the future. Put very simply, the search is on for ways to make supply chains less transport intensive.

The global sourcing model developed as part of the Cranfield research has been designed to help practitioners make better sourcing decisions by allowing them to estimate the impact of different sourcing decisions and compare the differences between local and global sourcing options. The model looks at four main elements of the sourcing decision:

- Costs: the model helps the user to capture the key costs of sourcing decisions. It includes both costs that are clearly visible, such as the cost of manufacturing and international shipping, and the hidden costs such as interstate and cross border taxes, quota costs and inventory holding costs (including financing and opportunity costs).
- Time: the model estimates the total time for both local and global sourcing. This provides a measure of agility to respond to sudden changes in the market.
- Risks: The model enables the capturing of the different types of risks that affect the sourcing decision and assessing their impact and probability of occurrence. This provides the user with a profile of the risks involved and their priorities.
- Environment: As we have seen, global sourcing can have substantial environmental implications. The model focuses on the impact on one key environmental indicator which is the emission of carbon dioxide into the environment. The model assists the user by estimating the impact of sourcing decisions on CO_2 emissions.

The model has been developed based on research in different industries and it can be adapted to different circumstances and industrial contexts. It is not meant to replicate all of the complexities of a specific situation but to compare and contrast the most important variables of the sourcing decision, thus providing a strategic perspective.

Our research has highlighted the fact that few companies understand or seek to measure the true costs of global sourcing. One reason for this, it would appear, is that because of internal organisational 'silos', rarely are all the costs transparent and available to decision makers. Hence the lack of 'joined-up thinking' that seemed to emerge as we interviewed managers for the research project.

It is clear that there are many situations where global sourcing does make good sense but equally there are occasions when it does not. The challenge is to put in place appropriate decision - making procedures which are supported by detailed assessments of true cost and the impact on the supply chain risk profile.

To make this happen we suggest that there are a number of priorities for action:

1. The underlying sourcing philosophy should move from 'opportunistic' to 'strategic'. In other words, rather than viewing sourcing decisions purely in cost terms, the impact of those decisions on the company's ability to compete in volatile markets should be paramount. Perhaps the exemplar here is the Spanish retailer Zara who will source standard, more predictable products from low cost locations, but where lines are more fashion-oriented and available for sale for only a limited period they will source or manufacture them much nearer to their markets.
2. Because off-shore sourcing decisions can have a big impact on the risk profile of the business as well as involving a total cost of ownership that goes well beyond the purchase price, it follows that these decisions need to be well-informed. We would advocate the use of tools such as the Cranfield cost model as described above. The very process of gathering the data necessary to calculate the risk-adjusted total cost of ownership is in itself an enlightening experience.
3. To make existing global sourcing arrangements more cost-effective a greater emphasis needs to be placed on reducing the transport-intensity of the supply chain. Often the true transport costs may be obscured by the INCO terms that are used in the transaction. Equally, if the transport arrangements are the suppliers' responsibility, then when multiple vendors are involved there will be a wasted opportunity for consolidation. The customer needs to be in control of in-bound logistics if the transport-intensity is to be reduced. Again, the opportunities for 'postponement' should be explored. If standard or semi-finished products can be shipped in bulk for localisation at a later stage, then significant opportunities for transport cost reduction, coupled with less inventory, can be achieved.
4. Increasingly, as the carbon-related costs of supply chains start to be a charge against those who incur them, there will be a need to recognise what some have called the 'Triple Bottom-Line'. In other words as well as understanding the real economic impact of global sourcing on the company's profits, the environmental and social effect of those decisions will need to be factored into the decision-making process. These are early days in terms of our understanding of supply chain footprints, but the likelihood is that in the future this factor as much as anything will determine global sourcing decisions.

Merchandising Issues

1. **Overall shelf health:** If there are out-of-stock products creating holes in shelves or displays this will likely lead to an unattractive presentation for customers. Low inventory levels could have a negative impact on potential sales and brand perception. This is especially important if you have a lot of variety in your product breadth and depth. As more products are out of stock, fewer sales can be made.

2. **Frequency and consistency of restocking:** Similarly, replenishment is also an issue. In regard to restocking products, we have two very important questions. How often are you restocking your products; and how often should you be restocking your products? The word "should" is a small distinction, but the answers to these questions can make a big difference in your merchandising plans. Some stores may need more frequent restocks while others do not. Creating replenishment plans based on the needs of individual stores will save money and ensure there are products on the shelves when needed instead of leaving some stores and customers without the products they want.
3. **Competitive or conflicting signage:** Unfortunately, you can't control where a competitor's products, advertisements, signage, or displays are located in-store, but you can control where and how your products are displayed. Ensuring you have adequate signage and enough products to fill your shelves will help you thrive in the in-store product placement battle. Competitive issues can also come into play if your signage is missing or if other products are covering yours. Competitive or missing signage can deter customers from finding and buying your products in-store.
4. **Broken Displays:** Do you have displays that are battery-operated or require maintenance to ensure they work properly? It is imperative that all displays are operating correctly, as long-term fixtures will not last forever. Video content that isn't playing, burnt-out light bulbs, and more can be part of broken display features that could be missed opportunities to draw in new customers. Additionally, unforeseen design issues like ripped displays can lead to stocking issues, disorder on the shelf, or create a negative brand image for shoppers. Tears through your brand name, logo, or any sales and discounts offered on the damaged signage or display will impede sales and could potentially deter customers from purchasing those products.
5. **Display Compliance:** Many times, we find that displays have been set up with missing signage or missing parts. What's more? There could be incorrect products or products from a completely different (and likely competing) brand located on the display. The lack of signage, and/or conflicting products can be confusing for consumers, lead to a lack of brand awareness and potentially result in the display or promotion not being as effective as intended.

These and many other merchandising issues can be found in stores every day. Whether you know about and can act on these issues is the most important piece of the puzzle.

Avoiding Drawbacks

How do you know which locations are impacted by merchandising issues? Utilizing mobile in-store crowdsourcing is the best and fastest way to check in on your stores and ensure your retail plans are executed as you expect. How can you avoid these issues? With near real-time data, you'll know which merchandising issues are impacting you at specific store locations and can take immediate action.

Unfortunately, there isn't any way to completely avoid display compliance issues, but you can find and act on these issues much faster using in-store crowdsourcing. The sooner you learn about any damaged, altered, or impeded displays, the sooner you can take the necessary steps to resolve those issues. Seeing what the shoppers see and knowing how they're reacting to your displays and products is invaluable information that can be used to help you increase your sales and improve display compliance.

Standing Out In-Store

As shelf space shrinks due to increased products in the market, it's becoming more important to stand out. Shelves have become cluttered, promotions are not executed well, and brands are struggling to stand out. To create the best strategy retail strategy, you'll need to gather and use insights from your consumers. Sometimes, getting your products and displays noticed can begin by changing the available products, redesigning promotions, or adjusting your product placement.

With a focus on placement and accurate execution, you'll likely be able to attract the attention of consumers. Pairing that with shopper feedback and insights will help you create a tactical marketing and product placement plan that can't be beaten.

Closing Thoughts

Merchandising issues can be seen in stores across the country, but that doesn't mean they need to impact you. Knowing what potential issues could impact you and understanding if you need to act are the keys to successfully creating an in-store merchandising plan. Taking advantage of near real-time data to uncover merchandising issues has never been easier or more beneficial

Counterfeit Merchandise

The production and trafficking of counterfeit goods poses a significant health and safety threat to consumers. It also impacts the economic growth of legitimate businesses and consumers through lost revenue, downtime, and replacement costs. To mitigate these threats and help ensure public safety, agents with U.S. Immigration and Customs Enforcement (ICE) Homeland Security Investigations (HSI) National Intellectual Property Rights Coordination Center (IPR Center), work alongside federal, state and local law enforcement partners across the country to dismantle counterfeit operations and hold individuals involved in them accountable.

"Law enforcement has identified a trend of counterfeited products that is growing at an alarming rate."— Steve Francis, Assistant Director for HSI's Global Trade Investigations Division and Director of the IPR Center

“Counterfeit products not only attack the name and value of a known business, but, in many cases, can cause harmful, and sometimes fatal, consequences for the unsuspecting buyer,” said Mark Zito, Deputy Special Agent in Charge for HSI Los Angeles. “These fakes have no place in a fair, legitimate marketplace. The public should be assured that HSI is committed to targeting the unscrupulous vendors of substandard merchandise year-round. They are the ones who may pay the steep price.”

Operations to combat the manufacture and distribution of counterfeit goods help ensure public safety and national security by preventing dangerous and harmful goods from entering the market and promoting the integrity of legitimate trade systems.

"Law enforcement has identified a trend of counterfeited products that is growing at an alarming rate," said Steve Francis, Assistant Director for HSI's Global Trade Investigations Division and Director of the IPR Center. "At best, these products will not perform as well as authentic products. At worst, they can fail catastrophically."

Some of the most dangerous counterfeit products involve automotive parts, electronics, safety equipment, prescription drugs, and cosmetics due to the potential threats they present to public safety and public health:

- Counterfeit airbags and their components can cause severe malfunctions ranging from non-deployment, under inflation, over inflation to explosion of metal shrapnel during deployment in a crash.
- Counterfeit lithium-ion laptop batteries pose significant risk of extreme heat, self-igniting, and exploding.
- Counterfeit helmets and baby carriers can break.
- Counterfeit prescription drugs may not contain the active ingredient or could lead to accidental overdose.
- Counterfeit cosmetics can cause severe skin reactions.

These counterfeit goods usually bear the trademark of a legitimate and trusted brand, but they were produced by another party and are not made to the specifications of the original manufacturer. They're often produced illegally and sold at a profit to fund other criminal activities. This makes the production and trafficking of counterfeit goods a transnational crime, commonly linked to transnational criminal organizations (TCOs). As such, related commercial fraud violations are also investigated by HSI's Border Enforcement Security Task Forces (BESTs).

arket segmentation is the natural result of vast differences among people.

− Donald Norman (Director, The Design Lab)

Market segmentation gives a clear understanding of the retail customers' requirements. With the clear understanding of market segmentation, the retail managers and marketing personnel can develop strategies to reach out to the customers with specific needs and preferences.

What is a Market Segmentation?

It is a process by which the customers are divided into identifiable groups based on their product or service requirements. Market segmentation is very useful for the marketing force of the retail organization to create a custom marketing mix for specific groups.

For example, Venus is in the business of retailing organic vegetables. She would prefer to invest her money for advertising to reach out to working and health conscious people who have monthly income of more than say, $10,000.

Market segmentation can also be conducted based on customer's gender, age, religion, nationality, culture, profession, and preferences.

Types of Retail Markets

There are two types of retails − Organized Retail and Unorganized Retail.

Organized Retail

Organized Retailing is a large retail chain of shops run with up-to-date technology, accounting transparency, supply chain management, and distribution systems.

Unorganized Retail

Unorganized Retailing is nothing but a small retail business conducted by an owner or a caretaker of the shop with no technological and accounting aids.

The following table highlights the points that differentiate organized retail from unorganized retail −

Parameter	Organized Retail	Unorganized Retail
Scale of Operations	Large	Small
Scope of Operations	Nationwide, Worldwide	Local
Employees	Professional, skilled, and trained	Unprofessional
Number of Stores	Chain of multiple stores	Maximum 2-3 outlets of the same owner within a city or across nearby cities
Ambience of Store	Pleasant, attractive	Lack of good ambience
Range of Products	Wide range of products across the nations	Only a range of local products

Shopping experience	Excellent, memorable, engaging	Average
Bargaining	Not possible. Pricing doesn't depend on relationship	Possible. Pricing varies according to personal rapport
Source of merchandise	Directly from manufacturer/producer	Mostly from wholesaler
Convenience of choosing products	Very high. Customer can walk around and choose the product	Very less
Examples	Walmart, HyperCity, Big Bazar	Standalone shops

What is Retail Strategy?

It is a plan designed by a retail organization on how the business intends to offer its products and services to the customers. There can be various strategies such as merchandise strategy, own-brand strategy, promotion strategy, to name a few.

A retail strategy includes identification of the following −

- The retailer's target market.
- Retail format the retailer works out to satisfy the target market's needs.
- Sustainable competitive advantage.

Strategies for Effective Market Segmentation

For effective market segmentation, the following two strategies are used by the marketing force of the organization −

Concentration (Niche) Strategy

Under this strategy, an organization focuses going after large share of only one or very few segment(s). This strategy provides a differential advantage over competing organizations which are not solely concentrating on one segment.

For example, Toyota employs this strategy by offering various models under hybrid vehicles market.

Multi-segment Strategy

Under this strategy, an organization focuses its marketing efforts on two or more distinct market segments.

For example, Johnson and Johnson offers healthcare products in the range of baby care, skin care, nutritionals, and vision care products segmented for the customers of all ages.

Strategies for Market Penetration

Market penetration strategies include the following −

Price Penetration

It is setting the price of the product or service lesser than that of the competitor's product or service. Due to decreased cost, volume may increase which can help to maintain a decent level of profit.

Aggressive Promotion

Increasing product or service promotion on TV, print media, radio channels, e-mails, pulls the customers and drives them to view and avail the product or service. By offering discounts, various buying schemes along with the added benefits can be useful in high market penetration.

High Product Distribution

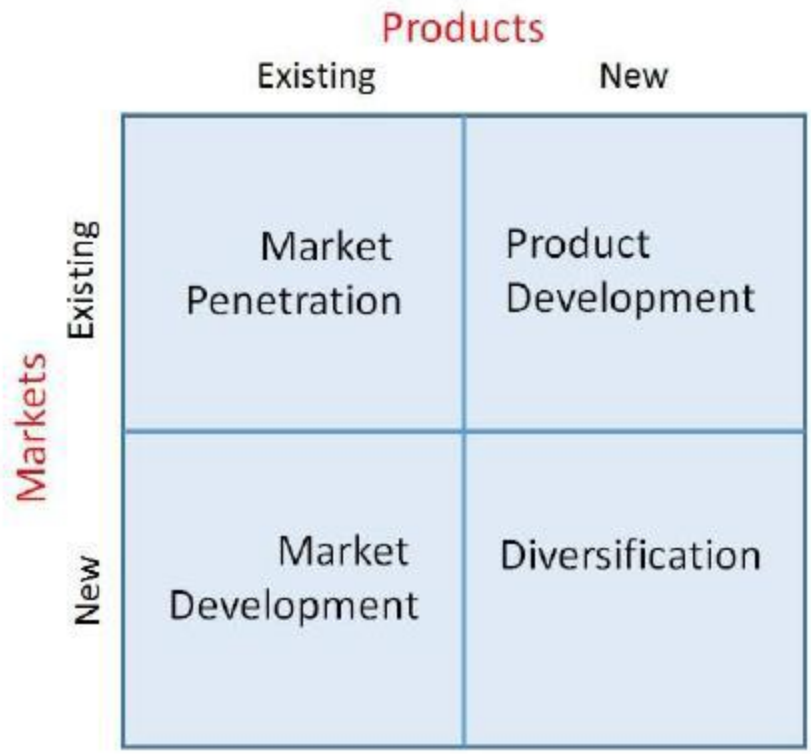
By distributing the product or service up to the level of saturation helps penetration of market in a better way. For example, Coca Cola has a very high distribution and is available everywhere from small shops to hypermarkets.

Growth Strategies

If a retail organization conducts **SWOT Analysis** (Strength, Weakness, Opportunity, Threat) before considering growth strategies, it is helpful for analyzing the organization's current strategy and planning the growth strategy.

Ansoff's Matrix

An American planning expert named Igor Ansoff developed a strategic planning tool that presents four alternative growth strategies. On one dimension there are products and on the other



is markets.

This matrix provides strategies for market growth. Here is the sequence of these strategies −

- **Market Penetration** − Company focuses on selling the existing products or services in the existing market for higher market share.
- **Market Development** − Company focuses on selling existing products or services to new markets or market segments.
- **Product Development** − Company works on innovations in existing products or developing new products for the existing market.
- **Diversification** − Company works on developing new products or services for new markets.

Target Market: Definition, Purpose, Examples, Market Segments

What Is a Target Market?

A target market is a group of people that have been identified as the most likely potential customers for a product because of their shared characteristics such as age, income, and lifestyle.

Identifying the target market is a key part of the decision-making process when a company designs, packages, and advertises its product.

KEY TAKEAWAYS

- A target market is a group of customers with shared demographics who have been identified as the most likely buyers of a company's product or service.
- Identifying the target market is important in the development and implementation of a successful marketing plan for any new product.
- The target market also can inform a product's specifications, packaging, and distribution.

How Do I Define My Product's Target Market?

Part of creating a new product is envisioning the consumers who will want it.

A new product must satisfy a need or solve a problem, or both. That need or problem is probably not universal unless it reaches the level of indoor plumbing. More likely, it is needed by a subset of consumers, such as environmentally-conscious vegetarians, or science nerds, or outdoor enthusiasts. It may appeal to a teenager or a middle-aged professional, a bargain-hunter or a snob.

Envisioning your likely target market is part of the process of creating and refining a product, and informs decisions about its packaging, marketing, and placement.

What Are the 4 Target Markets?

Marketing professionals divide consumers into four major segments:

Demographic: These are the main characteristics that define your target market. Everyone can be identified as belonging to a specific age group, income level, gender, occupation, and education level.

Geographic: This segment is increasingly relevant in the era of globalization. Regional preferences need to be taken into account.

Psychographic: This segment goes beyond the basics of demographics to consider lifestyle, attitudes, interests, and values.

Behavioral: This is the one segment that relies on research into the decisions of a company's current customers. New products may be introduced based on research into the proven appeal of past products.1

What Is an Example of a Target Market?

Each of the four target markets can be used to consider who the customer for a new product is.

For example, there are an estimated 100,000 Italian restaurants in the U.S. Clearly, they have enormous appeal.2

But a corner pizza joint might appeal mostly, although by no means entirely, to a younger and more budget-conscious consumer, while an old-fashioned white tablecloth place might be dominated by older folks and families who live in the neighborhood. Meanwhile, a newer place down the street might cater to an upscale and trend-conscious crowd who will travel a good distance for the restaurant's innovative menu and fancy wine list.

In each successful case, a savvy business person has consciously considered the ideal target market for the restaurant and has tweaked the menu, decor, and advertising strategy to appeal to that market.

Why Are Target Markets Important?

Few products today are designed to appeal to absolutely everyone. The Aveda Rosemary Mint Bath Bar, available for $23 a bar at Aveda beauty stores, is marketed to the upscale and eco-conscious woman who will pay extra for quality.3 Cle de Peau Beaute Synactif Soap retails for $110 a bar and is marketed to wealthy, fashion-conscious women who are willing to pay a premium for a luxury product.4 An eight-pack of Dial soap costs under $5 on Amazon, and it is known to get the job done.5

Part of the success of selling a good or service is knowing to whom it will appeal and who will ultimately buy it. Its user base can grow over time through additional marketing, advertising, and word of mouth.

That's why businesses spend a lot of time and money in defining their initial target markets, and why they follow through with special offers, social media campaigns, and specialized advertising.

What Are Market Segments?

Dividing a target market into segments means grouping the population according to the key characteristics that drive their spending decisions. Some of these are gender, age, income level, race, education level, religion, marital status, and geographic location.

Consumers with the same demographics tend to value the same products and services, which is why narrowing down the segments is one of the most important factors in determining target markets.

For example, people who fall into a higher income bracket may be more likely to buy specialty coffee from Starbucks instead of Dunkin' Donuts. The parent companies of both of these brands need to know that in order to decide where to locate their stores, where to stock their products, and where to advertise their brand.

A business may have more than one target market—a primary target market, which is the main focus, and a secondary target market, which is smaller but has growth potential. Toy commercials are targeted directly to children. Their parents are the secondary market.6

Target Market and Product Sales

Identifying the target market is an essential part of a product development plan, along with manufacturing, distribution, price, and promotion planning. The target market determines significant factors about the product itself. A company may tweak certain aspects of a product, such as the amount of sugar in a soft drink or the style of the packaging, so that it appeals more to consumers in its target group.

As a company’s product sales grow, it may expand its target market internationally. International expansion allows a company to reach a broader subset of its target market in other regions of the world.

In addition to international expansion, a company may find its domestic target market expands as its products gain more traction in the marketplace. Expanding a product's target market is a revenue opportunity worth pursuing.

How Detailed Should a Target Market Be?

It depends. Broadly speaking, a product may be designed for a mass market or a niche market, and a niche market can be a very small group indeed, especially in a product's early introductory phase.

What Is an Example of a Target Market?

Consider a casual apparel company that is working to build its distribution channels abroad. In order to determine where its apparel will be most successful, it conducts some research to identify its primary target market. It discovers that the people most likely to buy their products are middle-class women between the ages of 35 and 55 who live in cold climates.

It's reasonable for the company to focus its advertising efforts on northern European websites that have a strong female audience.

But first, the company may consider how its apparel can be most attractive to that target market. It may revise its styles and colors and tweak its advertising strategy to optimize its appeal to this new prospective market.

What Is the Purpose of a Target Market?

A target market defines a product as well as vice versa.

Once a target market is identified, it can influence a product's design, packaging, price, promotion, and distribution.

A product aimed at men won't be packaged in pink plastic. A luxury cosmetic won't be sold in a pharmacy. An expensive pair of shoes comes with a branded cloth drawstring bag as well as a shoebox. All of those factors are signals to the target audience that they have found the right product.

The Bottom Line
Identifying the target market is part of the process of creating and refining a new product.

A target market can be translated into a profile of the consumer to whom a product is most likely to appeal. The profile considers four main characteristics of that person: demographic, geographic, psychographic, and behavioral.

What Is a Target Market

Your target market sets the tone for your entire marketing strategy — from how you develop and name your products or services right through to the marketing channels you use to promote them.

Here's a hint before we dig in: Your target market is not "everyone" (unless you're Google). Your task in defining your target market is to identify and understand a smaller, relevant niche so you can dominate it. It's all about narrowing your focus while expanding your reach.

In this guide, we'll help you learn who's already interacting with your business and your competitors, then use that information to **develop a clear target market as you build your brand**.

What is a target market?

A target market is the **specific group of people you want to reach with your marketing message**. They are the people who are most likely to buy your products or services, and they are united by some common characteristics, like demographics and behaviors.

The more clearly you define your target market, the better you can understand how and where to reach your ideal potential customers. You can start with broad categories like millennials or single dads, but you need to get much more detailed than that to achieve the best possible conversion rates.

Don't be afraid to get highly specific. This is all about targeting your marketing efforts effectively, not stopping people from buying your product.

People who are not included in your targeted marketing can still buy from you—they're just not your top focus when crafting your marketing strategy. You can't target everyone, but you can sell to everyone.

Your target market should be **based on research, not a gut feeling**. You need to go after the people who really want to buy from you, even if they're not the customers you originally set out to reach.

What is target market segmentation?

Target market segmentation is **the process of dividing your target market into smaller, more specific groups.** It allows you to create a more relevant marketing message for each group.

Remember — you can't be all things to all people. But you can be different things to different groups of people.

For example, as a vegetarian, I've eaten plenty of Impossible Burgers. I'm definitely a target customer. But vegetarians are a surprisingly small target market segment for Impossible Foods: only 10% of their customer base.

That's why Impossible Foods' first national advertising campaign was definitely not targeted at me:

The target market segment for this ad campaign was "meat eaters who haven't yet tried Impossible products."

Vegetarians and meat eaters have different reasons for eating plant-based burgers and want different things from the experience. Target market segmentation ensures the company reaches the right audience with the right message.

How to define your target market

Step 1. Compile data on your current customers

A great first step in figuring out who most wants to buy from you is to identify who is already using your products or services. Once you understand the defining characteristics of your existing customer base, you can go after more people like that.

Depending on how someone connects with your business, you might have only a little information about them, or a lot.

This doesn't mean you should add a lot of questions to your order or opt-in process just for audience research purposes — this can annoy customers and result in abandoned shopping carts.

But do be sure to **use the information you naturally acquire to understand trends and averages**.

Your CRM is a goldmine here. UTM parameters combined with Google Analytics can also provide useful information about your customers.

Some data points you might want to consider are:

- **Age:** You don't need to get too specific here. It won't likely make a difference whether your average customer is 24 or 27. But knowing which decade of life your customers are in can be very useful.
- **Location (and time zone):** Where in the world do your existing customers live? In addition to understanding which geographic areas to target, this helps you figure out what hours are most important for your customer service and sales reps to be online, and what time you should schedule your social ads and posts to ensure best visibility.
- **Language:** Don't assume your customers speak the same language you do. And don't assume they speak the dominant language of their (or your) current physical location.
- **Spending power and patterns:** How much money do your current customers have to spend? How do they approach purchases in your price category?
- **Interests:** What do your customers like to do, besides using your products or services? What TV shows do they watch? What other businesses do they interact with?
- **Challenges:** What pain points are your customers facing? Do you understand how your product or service helps them address those challenges?
- **Stage of life:** Are your customers likely to be college students? New parents? Parents of teens? Retirees?

If you're selling B2B products, your categories will look a little different. You might want to collect information about the size of businesses that buy from you, and information about the titles of the people who tend to make the buying decisions. Are you marketing to the CEO? The CTO? The social marketing manager?

Step 2. Incorporate social data

Social media analytics can be a great way of filling out the picture of your target market. They help you understand who's interacting with your social accounts, even if those people are not yet customers.

These people are interested in your brand. Social analytics can provide a lot of information that might help you understand why. You'll also learn about potential market segments you may not have thought to target before.

You can also use social listening to help identify the people who are talking about you and your product on social media, even if they don't follow you.

If you want to reach your target market with social ads, lookalike audiences are an easy way to reach more people who share characteristics with your best customers.

Step 3. Check out the competition

Now that you know who's already interacting with your business and buying your products or services, it's time to see who's engaging with the competition.

Knowing what your competitors are up to can help you answer some key questions:

- Are your competitors going after the same target market segments as you are?
- Are they reaching segments you hadn't thought to consider?
- How are they positioning themselves?

Our guide on how to do competitor research on social media walks you through the best ways to use social tools to gather competitor insights.

You won't be able to get detailed audience information about the people interacting with your competitors, but you'll be able to get a general sense of the approach they're taking and whether it's allowing them to create engagement online.

This analysis will help you **understand which markets competitors are targeting and whether their efforts appear to be effective** for those segments.

Step 4. Clarify the value of your product or service

This comes down to the key distinction all marketers must understand between features and benefits. You can list the features of your product all day long, but no one will be convinced to buy from you unless you can **explain the benefits**.

Features are what your product is or does. The benefits are the results. How does your product make someone's life easier, or better, or just more interesting?

If you don't already have a clear list of the benefits of your product, it's time to start brainstorming now. As you create your benefit statements, you'll also by default be stating some basic information about your target audience.

For example, if your service helps people find someone to look after their pets while they're away, you can be pretty confident that your market will have two main segments: (1) pet owners and (2) existing or potential pet-sitters.

If you're not sure exactly how customers benefit from using your products, why not ask them in a survey, or even a social media poll?

You might find that people use your products or services for purposes you haven't even thought of. That might, in turn, change how you perceive your target market for future sales.

Step 5. Create a target market statement

Now it's time to boil everything you've discovered so far into one simple statement that defines your target market. This is actually the first step in creating a **brand positioning statement**, but that's a project for another day. For now, let's stick to creating a statement that clearly defines your target market.

For example, here's Zipcar's brand positioning statement, as cited in the classic marketing text Kellogg on Marketing. We're interested in the first part of the statement, which defines the target market:

"To **urban-dwelling, educated, techno-savvy consumers who worry about the environment** that future generations will inherit, Zipcar is the car-sharing service that lets you save money and reduce your carbon footprint, making you feel you've made a smart, responsible choice that demonstrates your commitment to protecting the environment."

Zipcar is not targeting all residents of a particular city. They're not even targeting all the people in a given city who don't own a car. They're specifically targeting people who:

- live in an urban area
- have a certain degree of education
- are comfortable with technology
- are concerned about the environment

How to Research Market Demand

While ecommerce businesses often begin as passion projects, the laws of supply and demand are still very much in effect. To ensure that a great idea has the potential to sustain itself, the market demand needs to be evaluated.

What is market demand?

Definition: Market demand describes the demand for a given product and who wants to purchase it. This is determined by how willing consumers are to spend a certain price on a particular good or service. As market demand increases, so does price. When the demand decreases, price will go down as well. Market demand is the total of what everyone within a specific industry desires and can help guide merchants when building an ecommerce site.

How to research market demand

Knowing market demand can help inform future online businesses what industry is most profitable to enter into. Therefore, many business owners will have to conduct market demand research. Marketing research involves seeking out studies, data and general information about an industry or sector. It often requires several different approaches, an organized method of accumulation figures, careful interpretation and detailed reporting. However, that doesn't mean new entrepreneurs need an entire marketing department to find out about market demand. There are three methods they can use when conducting research:

- Surveys: Social media networks are excellent places to post surveys about products, industries and services. Find out what friends and family have to say about a particular need or idea. Send out a survey in an email, asking everyone to forward it to three additional people. The greater scope a business owner can use, the better their market research will be. There are also many surveys and case studies available for download online. If making business decisions based on these documents and reports, be sure to check the sources and look into how the data was acquired. Some surveys are geographical or target a specific audience, which can both skew results.
- Experiments: Designing experiments is time consuming and expensive, but can be beneficial to an ecommerce store. For example, offering a new product at a discounted price for a limited time is a good way to experiment with it and find out how customers like it. This requires a lot of customer interaction and a steadfast commitment to tracking results over time.
- Observations: Simply looking around – both in the physical and the digital worlds – can give huge clues about market demand. Observing trending topics and products on sites like Twitter and Pinterest can lend insight into almost every industry. This can also include reading local newspapers or publications within the region in which an ecommerce store owner would like to see his or her products.

Data types

Keep in mind that different data types require unique analytical approaches. Primary data accounts for any new information gleaned specifically for the purpose of the research. This includes any feedback entrepreneurs receive from online fans after making a direct ask for input. Secondary data refers to any information available already to the business owner. This includes any previously completed studies, past questionnaires or information collected from another source for a similar scenario. Both types of data are valid to use toward market demand research, though it's necessary to note the dates on past documents. On one hand, markets change quickly and anything outdated could be detrimental to the research. On the other hand, they can provide an insightful analysis of how the market has evolved over time. This would allow ecommerce merchants to better predict future trends and align their business procedures accordingly.

Major Factors Responsible for the Growth of Organised Retailing in India

The major factors responsible for the growth of organised retailing in India are as follows:

Organised retailing is a recent development. It is the outcome of socioeconomic factors. India is standing on the threshold of retail revolution.

Retail Industry, one of the fastest changing and vibrant industries that, has contributed to the economic growth of our country. Within a very sport span of time, Indian retail industry has become the most attractive, emerging retail market in the world.

Healthy economic growth, changing demographic profile, increasing disposable incomes, changing consumer tastes and preferences are some of the key factors that are driving growth in the organised retail market in India.

Some of the factors responsible for the growth of organised retailing are as under:

1. Growth of middle class consumers:

In India the number of middle class consumer is growing rapidly. With rising consumer demand and greater disposable income has given opportunity of retail industry to grow and prosper.

They expect quality products at decent prices. Modern retailers offer a wide range of products and value added services to the customers. Hence this has resulted into growth of organised retailing in India.

Growing consumerism would be a key driver for organized retail in India. Rising incomes and improvements in infrastructure are enlarging consumer markets and accelerating the convergence (meeting) of consumer tastes.

2. Increase in the number of working women:

Today the urban women are literate and qualified. They have to maintain a balance between home and work. The purchasing habit of the working women is different from the home maker.

They do not have sufficient time for leisure and they expect everything under one roof. They prefer one-stop shopping Modern retail outlets therefore offers one store retailing.

3. Value for money:

Oganised retail deals in high volume and are able to enjoy economies of large scale production and distribution. They eliminate intermediaries in distribution channel.

Organised retailers offer quality products at reasonable prices. Example: Big Bazaar and Subhiksha. Opportunity for profit attracts more and more new business groups for entering in to this sector.

4. Emerging rural market:
Today the rural market in India is facing stiff competition in retail sector also. The rural market in India is fast emerging as the rural consumers are becoming quality conscious.

Thus due to huge potential in rural retailing organised retailers are developing new products and strategies to satisfy and serve rural customers. In India, Retail industry is proving the country's largest source of employment after agriculture, which has the deepest penetration into rural India.

5. Entry of corporate sector:
Large business tycoons such as Tata's, Birla's, and Reliance etc. have entered the retail sector. They are in a position to provide quality products and entertainment.

As the corporate – the Piramals, the Tatas, the Rahejas, ITC, S.Kumar's, RPG Enterprises, and mega retailers- Crosswords, Shopper's Stop, and Pantaloons race to revolutionize the retailing sector.

6. Entry of foreign retailers:
Indian retail sector is catching the interest of foreign retailers. Due to liberalisation multinationals have entered out country through joint ventures and franchising. This further is responsible for boosting organised retailing.

7. Technological impact:
Technology is one of the dynamic factors responsible for the growth of organised retailing. Introduction of computerization, electronic media and marketing information system have changed the face of retailing. Organized retailing in India has a huge scope because of the vast market and the growing consciousness of the consumer about product quality and services.

One of the major technological innovations in organised retailing has been the introduction of Bar Codes. With the increasing use of technology and innovation retailers are selling their products online with the help of Internet.

8. Rise in income:
Increase in the literacy level has resulted into growth of income among the population. Such growth has taken place not only in the cities but also in towns and remote areas.

As a result the increase in income has led to increase in demand for better quality consumer goods. Rising income levels and education have contributed to the evolution of new retail structure. Today, people are willing to try new things and look different, which has increased spending habits among consumer.

9. Media explosion:
There has been an explosion in media due to satellite television and internet. Indian consumers are exposed to the lifestyle of countries. Their expectations for quality products have risen and they are demanding more choice and money value services and conveniences.

10. Rise of consumerism:
With the emergence of consumerism, the retailer faces a more knowledgeable and demanding consumer. As the business exist to satisfy consumer needs, the growing consumer expectation has forced the retail organizations to change their format of retail trade. Consumer demand, convenience, comfort, time, location etc. are the important factors for the growth of organised retailing in India.

The retail industry is divided into organised and un-organised sectors. Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc.

These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Un-organised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors.

It is important to understand how retailing works in our economy, and what role it plays in the lives of its citizens, from a social as well as an economic perspective. India still predominantly houses the traditional formats of retailing, that is, the local kirana shop, paan/beedi shop, hardware stores, weekly haats, convenience stores, and bazaars, which together form the bulk.

We have learnt that if we provide people with an occasion and an excuse to shop, they will come.

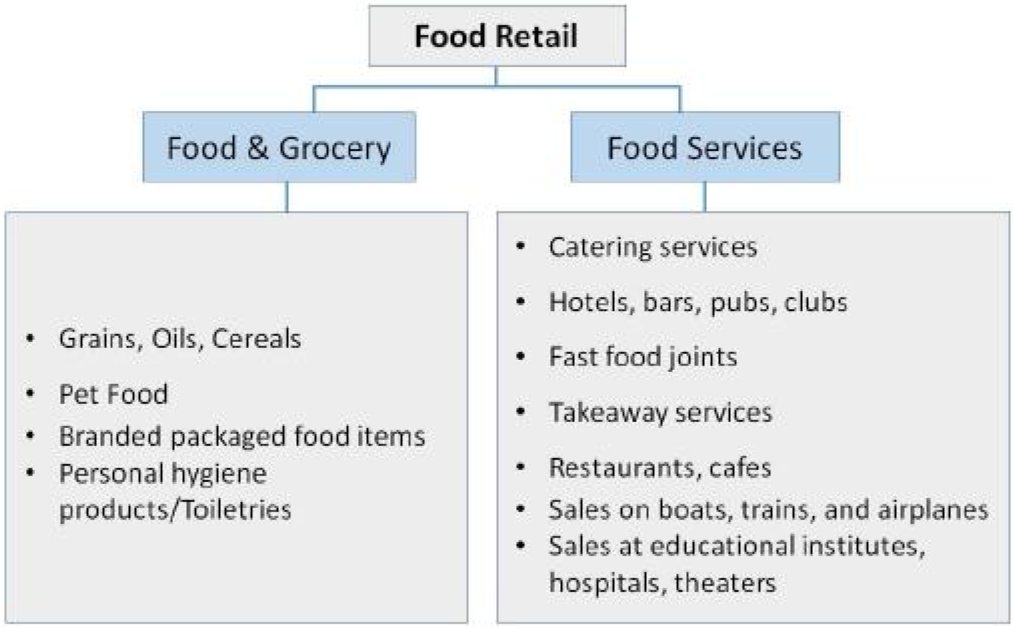
− Kishore Biyani (CEO Future group)

Today's retail market is satisfying diverse needs of its consumers. The consumer's needs range from as basic as food & food services to as luxurious as jewelry items. In this chapter, we analyze prominent retail sectors around the world, their structure, and the key players in that sector.

The retail sectors are prominently divided into Food, Clothing & Textiles, Consumer Durables, Footwear, Jewelry, Books-Music-Gift Articles, and Fuel.

Food

It comprises of food and grocery, and food services. The consumers buy packaged food, ready-to-eat food, and avail food services at workplaces. Visiting a restaurant is no more a luxury in today's busy life. The retail food industry is growing rapidly with the pace of lifestyles around the world.



Key Players − Food and Grocery retail: Food Bazar by Pantaloons, More by Aditya Birla, Haldiram's (India), Tesco (UK), Walmart (US), Carrefour (France).

In food services retail − KFC, McDonalds, Pizza Hut, Barista, Café Coffee Day.

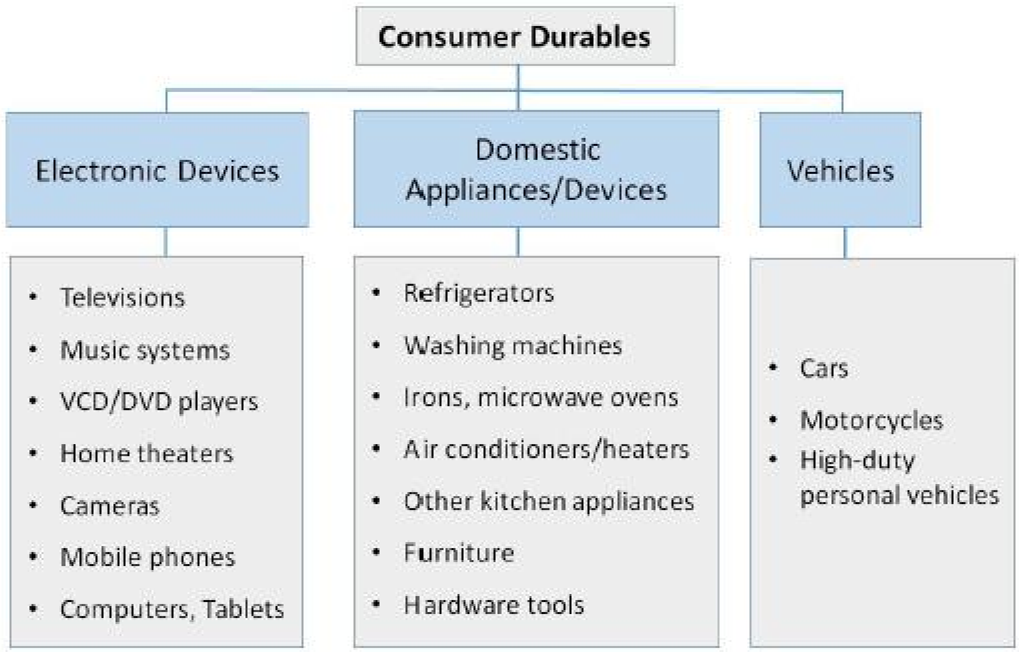
Clothing & Textile

Similar to food, clothing is one of the basic needs of humans. The textile industry includes manufacturing of fabrics such as natural fibers, synthetic fibers, looms, and various blends. Clothing is mainly seen as ready-to-wear apparels such as shirts, T-shirts, trousers, jeans, ladies wear, kids wear, baby clothes and hosiery garments such as socks, gloves, and inner wear.

Key Players − Arrow by Arvind Mills, Park Avenue by Raymond, Century Textiles (India), Lee, Wrangler, Nautica, and Kipling, all by VF Corp (US), Bonito Deco Inc. (Taiwan).

Consumer Durables

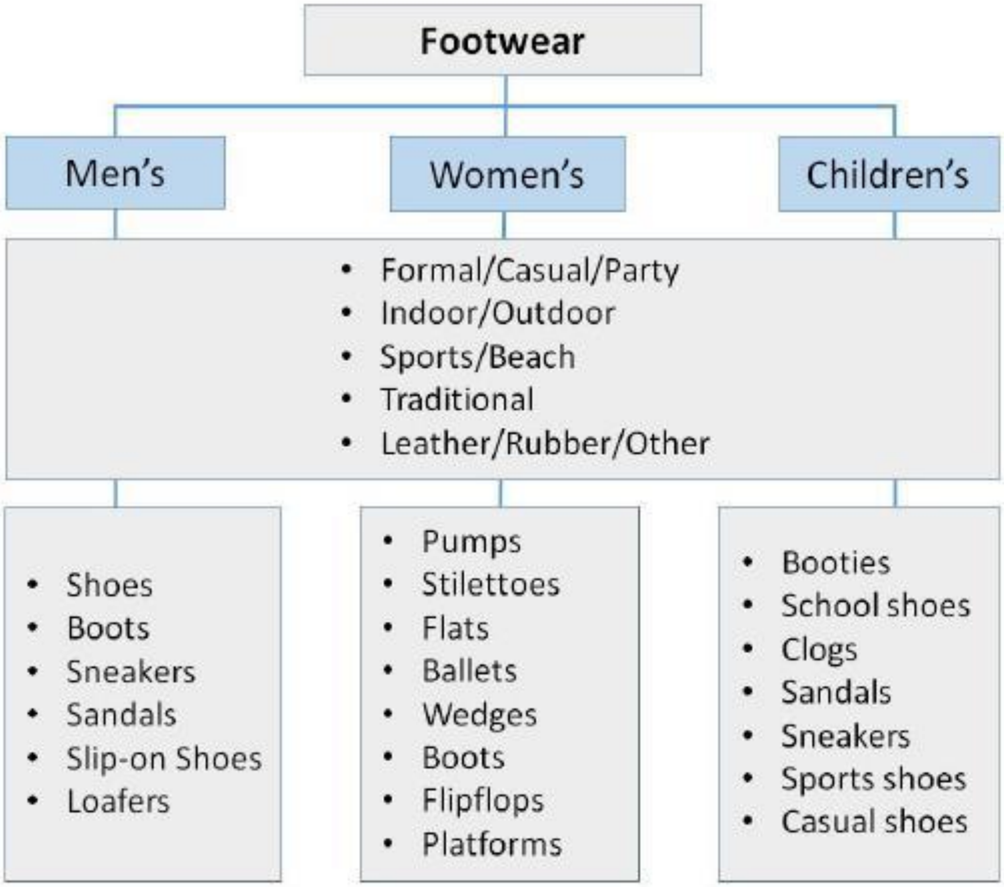
The consumer durables are expected to have long life after purchase and are not purchased frequently. It comprises retailing cars, motorcycles, and home appliances.



Key Players – Vijay Sales, Croma by Tata, Maruti-Suzuki (India), Honda Motors (US), Samsung Electronics (Korea).

Footwear

Footwear is categorized according to the consumer's gender, raw material of product, and design as shown in the diagram.

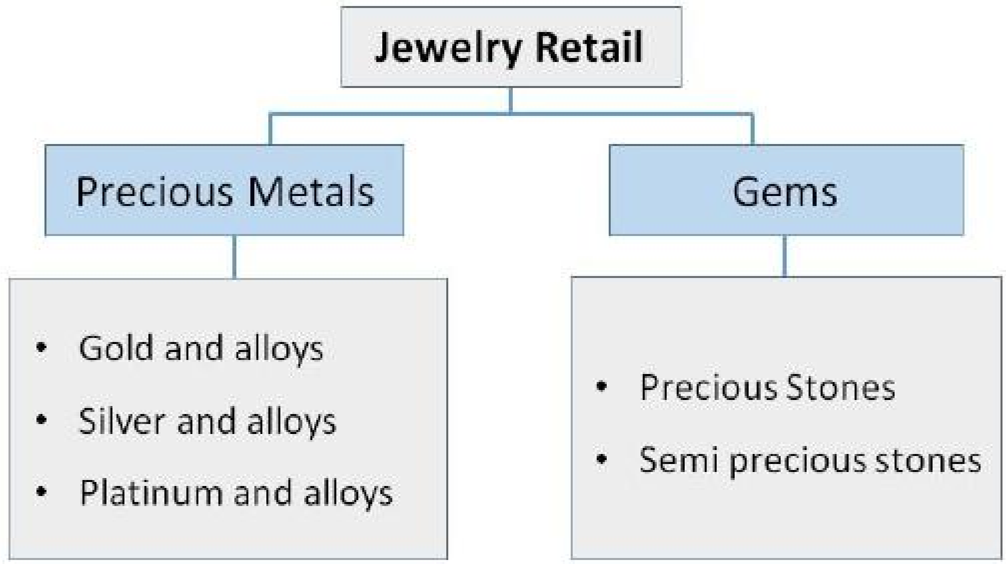


Key Players − Bata, Liberty Footwear, Metro Shoes Ltd. (India), Reebok International Ltd.(UK)

Jewelry

Two major segments in this retail sector are precious metal jewelry and gemstones. Out of the precious metals, Indian jewelry market forms 80% of gold jewelry, 15% of gemstone studded jewelry, and 5% of other metal jewelry.

Regional festivals, special days, and customs drive the demand in this retail sector.



Key Players − Tanishq by Tata, Gili by Gitanjali Group.

Books-Music-Gift Articles

This includes assorted books, movie or audio CDs, gift articles, and souvenirs. These retail shops are often found near residential areas, tourist places, and historical monuments. Festivals and celebrations are main driving factors for sale in this sector. These items are not very frequently purchased and consumer's emotional factor is attached to the products than its benefit.

Key players − Landmark bookstore by Tata enterprise (India), Paperchase (UK).

Fuel

The highest five fuel consuming countries in the world are the US, China, Japan, India, and Russia. This retail involves activities such as production, refining, and distribution. Fuel companies tie up with other retailers such as pharmacies, food & food service, gift article retails to enter into petrol pump convenience business.

UNIT-5

What is meant by internet retailing?

E-retail, also known as e-tail, internet retail or online retail, stands for electronic retail. In e-retail, **a business or individual sells retail products and services through online stores**. An e-retail company can be a purely digital presence, meaning there is no physical store for a customer to enter.

What is the role of internet technology in retailing?

The use of IoT in retail industry is tightly connected to GPS and RFID technologies that **help brands track products through the entire supply chain process**. It gives retailers the visibility they need to monitor product movement, conditions and track location as well as predict a precise delivery time.

What is online retailing example?

Electronic retailing is the sale of goods and services through the internet. E-tailing can include business-to-business (B2B) and business-to-consumer (B2C) sales of products and services. **Amazon.com (AMZN)** is by far the largest online retailer providing consumer products and subscriptions through its website.

What is different about retailing on the internet?

Electronic retailing (e-tailing) is an internet-based sales platform where **consumers are able to buy and sell goods online directly from a business without physically inspecting the goods**.

Electronic Retailing

Definition: The **Electronic Retailing** also called as e-tailing or internet retailing, is the process of selling the goods and services through electronic media, particularly the internet. Simply, the sale of retail goods and services online is called as electronic retailing.

It follows the B2C business model wherein the business interacts directly with the customers without the involvement of any intermediaries.

The e-retailers can be of two types:

- **Pure Play e-retailers** such as Amazon, that emerged as the online bookseller. It is present only online and do not have any physical outlet for the customers.
- **Brick and click e-retailers** such as Dell, that sells computers through the internet as well as has the physical store front for the customers.

Advantages of Electronic Retailing

1. Through electronic retailing, customers can save both the efforts and time.
2. The wide range of products is available online, so the comparison can be made easily before the purchase.
3. The customer can shop anytime and from anywhere, the facility is available 24*7
4. The huge discounts can be availed while shopping online.
5. The detailed information about the product is available online; that helps the customer to make the purchase decision.
6. The electronic retailing offers the easy payment terms such as payment on delivery that instigate the customer to shop online.

Disadvantages of Electronic Retailing

1. The customers may not be sure of the quality of the products offered online.
2. It is the tendency of every individual to bargain before making the final purchase, but this quotient is missing in electronic retailing.
3. Also, the customers may not trust on the payment gateways and fear the misuse of credit cards or any other mode of payment.
4. Every customer wants to see and feel the product that he purchases, but it is not possible in case of electronic retailing where the customer makes the decision just by looking at the image.
5. The product is not readily available; the customer has to wait for some time to get the product in his hands.
6. The customer misses the emotional attachment with the seller that leads to less faith on the offerings.

The electronic retailing is the subset of E-Commerce that means, E-commerce is the **principle domain** that includes the e-tailing operations.

Factors that Influence Customer Buying Behaviour Online

Now is an era where customers take the center stags influencing business strategies across industries. No business can afford to overlook factors that could either break the customer experience or even pose a risk of any disruptions. This becomes a vital fact influencing your eCommerce business too.

In fact, for an eCommerce business enhancing the customer experience becomes the top priority, especially, when you look around and find your competitors strategizing towards their growth at an equally fast pace. Within that, your first step towards delivering a compelling customer experience is understanding the customer's buying behavior. To make it easier to estimate the influence of customers I’ve identified the top 10 factors that potentially influence your online shoppers' buying decisions

Quality of Product Description

For instance, the information about the product's dimensions, weight, material answer every question that comes the buyer's mind immediatelyYour Customers are highly informed. They are accustomed to going deep into your product details once they like it. Here, your responsibility is to and quality, etc should be readily available.

Shipping Costs

It may often turn out that a customer would decide not to buy your product after seeing the final payable amount. Remember, the customer has nothing to do with the shipping that you bear with. So, its better they see the minimum shipping costs or rather a free shipping.

Return Policy

Easy returns make the backbone of an online shopping business. In fact, a number of customers prefer buying stuff online considering the easy returns. Amazon, for instance, has managed to size up its sales by running a fantastic return policy. It asks the customers no questions, allows 30 good days to decide about returns.

Convenience in Searching Products

Your app's user interface plays a crucial role in influencing the buying prospects of your customers. A customer will likely leave your page or app if he is unable to find the relevant product within two search attempts.

Ease of Navigation via Categories

Again, this is about a good user interface. The more convenience a customer finds in your page or app, the better are his chances of converting or buying your product. A good navigation helps him know where he currently is and what is the direction to move. The well designed interface is a crucial part of web-development and you need thinks as your client with the purpose to create a convenient platform.

Complexity Levels in Checkout Process

If your checkout process is too cumbersome asking for too many efforts and involving several page redirection, your customer is likely to abandon you. Customers are accustomed to faster services.

Relevance of Product Recommendations

Product recommendation is a crucial strategy in eCommerce and it can lead to impulse buying too. However, too many irrelevant recommendations can divert the attention of your customers and even sometimes put them off.

Categorization of New Products

Even though you change the content on the homepage every day, customers will still get bored of seeing it regularly and end up overlooking the newer stocks. But, if they see a special icon for new products, they are much likely to land there straight and purchase.

The inclusion of Special Product Category

This works quite similar to the above. You must always have this category of special products where you place your most sought-after products and grab the attention of your customers quickly.

Customer Reviews

This is a really important factor affecting your customers' buying decisions. Given the fact that customer reviews are genuine, your new customers are much likely to consider this peer to peer feedback. Make sure you earn maximum good reviews amid a few poor ones. Now that you know a lot about what matters to the customers while making a purchase, its time you look back at your processes and interface and maximize your sales.

Differences between Traditional Marketing vs. Cyber Marketing

All businesses must implement marketing strategies to attract customers, create a brand image and remain competitive in the marketplace. Marketing tools range from traditional mediums, such as print, billboard and broadcast advertising, to high-tech options such as web-based, interactive and email marketing strategies. The approach that works best for your business depends on your budget and your target audience.

1. **Cost**

   One of the most notable differences between traditional and cyber marketing is pricing. Traditionally, print ads in newspapers and magazines, road-side billboards, and radio and television commercial spots all carry price tags that reflect both the quality of the ad and the market the advertisement reaches. Likewise, printed marketing materials, including brochures, signs, sales fliers and business cards, all carry a price associated with paper quality, design and printing. Cyber marketing venues can also carry a cost, though there are currently numerous forms of cyber marketing that are virtually free. Email marketing campaigns and newsletters, business blogs, Facebook business pages and websites often start with no- or low-cost options, making them a viable alternative to traditional marketing, especially for small businesses with limited marketing budgets.

2. **Immediacy**

Print and broadcast marketing techniques require time to go from concept to finished product and delivery. Drafts must be completed, mock-up or demo advertisements reviewed and tweaked and then advertising time slots and placement determined. Even when the message is in place, broadcast materials do not reach the full intended audience all at one time, and mailed marketing materials take days to arrive at their destinations. Cyber marketing, on the other hand, is instantaneous. While you still put time and thought into the content and design process, marketing campaigns can be implemented at the click of a mouse.

3. **Tracking**

Cyber marketing is easy to track. Software email marketing programs can tally the number of people who view a message, and with the case of online sales, track the number of ads that lead to purchases. Traditional advertising is more difficult to track unless a marketer conducts focus groups and surveys to gauge which marketing vehicles generate the most leads.

4. **Audience**

Traditional marketing may be more effective in reaching target demographics that don't utilize the Internet on a regular basis or conduct their commerce through cyber means. For example, a senior citizen who prefers to get her news through the daily newspaper will be easier to reach via print ads, while a young child who watches afternoon cartoons will be easier to reach through television ads. On the flip side, demographics that are never without technology at their fingertips, such as teenagers and Millennials, may be easier to each through mobile cyber marketing campaigns.

Retail Technology: 6

Retail technology

Despite the “retail apocalypse” we’ve been hearing about for the last couple of years, the truth is that retail isn’t going anywhere. By 2024, experts predict that 72% of U.S. retail sales will still occur in brick-and-mortar stores.

But that’s not to say the retail industry will look the same. COVID-19’s impact on in-store commerce, along with other trends, means malls are reinventing themselves to stay relevant.

Meanwhile, we’re in a world of constant digital transformation. Shoppers are becoming less hands-on and more tech-enabled. While you don’t have to go as far as JD.com’s robotic stores, investing in retail technology can pay dividends. Customer satisfaction increases—as does the time your retail team spends on higher-impact tasks.

There’s no better time to start investing in retail technology than now. If you’re not sure where to begin, see below for a guide to auditing your current tech stack, plus six retail tech trends you need to be aware of.

The importance of technology in retail

Making technology a bigger part of your brick-and-mortar store is an intimidating idea for many store managers. Let’s look at why it’s worth the investment.

Streamline store operations

The quicker you can complete mundane tasks, the more time you have to spend on higher-impact activities. For example, a self-checkout process leaves retail store associates more time to engage with shoppers who have pre-purchase questions.

In addition to freeing up time, cost savings are a natural byproduct of these efficiencies. Surveys show that 10% of retailers using automation throughout the buy online, pick up in-store (BOPIS) process cut costs due to faster delivery of orders. Another 8% saw cost savings from implementing technology that avoided stockouts.

Pre-pandemic, technology certainly played a big role in retail; but now it’s clear that technology is the heart of the future of the entire industry.

Damien Tampling, Global Chief Strategy Officer at Xero

Gather valuable data

Technology is powered by data. It creates opportunities to collect information about your customer base—something retailers struggle to do when three-quarters of consumers are becoming increasingly concerned about their privacy.

Email address

Enter your email address

QR codes, for example, are a relatively simple way to collect information about shoppers. When customers scan a coupon QR code on their smartphone, they’re taken directly to your newsletter subscription page. You get their email address, and the customer gets a coupon to redeem in-store. It’s a win-win for everyone involved.

Connect with customers

Whether because of privacy concerns or the lingering effect of the pandemic, consumers are becoming increasingly standoffish. Technology that doesn’t require close contact (or any interaction with human store assistants) is preferred by some.

In addition, the majority of consumers (66%) believe that automation can improve their shopping experience. It’s seen as a solution to common challenges—particularly long queues at the payment desk.

But it’s not just in-store customer experiences that are affected by retail technology. Successful brands meet customers where they are—be that in-store, online, or via their mobile devices. Some point of sale (POS) systems let store staff send email shopping carts to indecisive shoppers to prompt them to complete their purchase at home.

Overall, almost six in 10 consumers would prefer to shop in-store with a retailer that uses technology to make the experience more fun and engaging.

The best thing about technology is that it allows you to connect your offline and online worlds. Customers expect a complete shopping experience, which you can give with the help of technology.

Daniel Foley, SEO Specialist at UNAGI Scooters

Retail technology trends

As we said, a big difficulty with implementing new tech is knowing where to start. After studying the available research, talking to experts, and keeping a close eye on what retailers are doing to improve in-store experiences, we’ve identified six retail tech trends we’re expecting to hear a lot more about this year:

- QR codes
- RFID technology
- Augmented reality
- NFTs
- Smart checkout

- Store management

QR codes

Quick response (QR) codes are small, barcode-like combinations of black squares that retrieve information when scanned using a smartphone camera.

While they might seem outdated, social distancing rules means QR codes are coming back into fashion: 59% of US shoppers expect them to be a regular part of their retail experience in the near future.

We mentioned these earlier in regard to coupon redemption and data gathering. Here are some other retail use cases for QR codes:

Place Shopcodes next to product shelving so in-store shoppers can complete their purchase via your website or social media storefront. (This endless aisle approach appeals to the 74% of shoppers who consult their smartphone while shopping in-store.)

Add QR codes to paper receipts, and direct shoppers towards completing a survey or leaving a review.

When your store hits capacity, encourage shoppers to scan a QR code and join the virtual queue. They'll get a text when it's their turn to enter.

Create interactive window displays by placing Shopcodes in your storefront window.

Alexa Allamano, owner of Foamy Wader, is one retailer using QR codes to build smart window displays. She says, "Using a system of scannable QR codes merchandised in my store windows allows me to drive traffic to my Shopify and capture sales and leads outside normal open hours.

Shoppers use their smartphone camera to scan the QR code next to an item in the window and be led to order that exact item on my website. One customer recently said it was like shopping online in real life.

Alexa Allamano, Owner of Foamy Wader

The result? Alexa says, "Business has returned to pre-pandemic levels despite having relocated and being available in-store by appointment only."

RFID technology

Ask any retailer what tasks they hate most, and "managing inventory" is bound to make the list. Retailers spend hours stock-taking, and 62% blame human error when things don't line up.

RFID technology exists to solve that problem—or at least the amount of time you spend counting store inventory. Scan RFID tags, small chips that transmit product data to a portable reader, and update stock levels in your inventory management system within just a few seconds.

RFID technology not only streamlines inventory processes, but also provides 100% accuracy when it comes to restocking.

Melanie Schuler, Lululemon RFID team

Beyond inventory management, advanced use cases of RFID technology include unmanned stores like Amazon Go. Scanners inside product shelving detect which items a customer has picked up. Data from the RFID scanner feeds back through to a payment system for a shopper to pay upon exit.

Augmented reality

Augmented reality (AR) is a relatively new technology that places graphics over real-world settings. Think Snapchat filters—cartoon ears, glasses, or features that appear over your face and move when you do.

Retailers will want to identify the new and best customers now shopping across channels. They must use this insight to drive more effective digital engagement and commerce through owned and paid channels, including social, DTC and marketplaces. Expect mobile apps, live-streaming, video chat and augmented reality (AR) developments here.

Miya Knights, publisher of RetailTechnology.co.uk

AR is increasing in popularity. Data suggests that 48.3 million people will be engaging with AR on social media in 2022.

That usage is overflowing into retail stores, bridging the gap between germ-conscious shoppers and the outside world. People get as close as they can to a product (sometimes trying it on) without actually touching it. An estimated one-third of brands plan to invest in AR to help shoppers visualize how the products they sell fit into customers' lives.

Examples of AR in a retail setting include:

Virtual fitting rooms. Make it easy for customers to try on products with virtual fitting rooms. RFID technology scans the products in their hand, while the livestream camera overlays it onto a shopper's body. No changing clothes necessary. These AR interactions have a 94% higher conversion rate than standard.

Extend the in-store experience at home. If an ecommerce website provides images of your brick-and-mortar store, give online shoppers the chance to experience your retail store with AR. Show them life-size versions of products without having to leave their home.

Virtual product tours. Go big on experiential retail with virtual reality experiences in-store. Furniture brands with low-inventory stores, for example, could take shoppers on a "guided tour" through the unit, with AR technology placing life size inventory in a livestream through the customer's smartphone.

When the shopper realizes the mirror they're using in a store is also a touchscreen to find products, get outfit recommendations, and even check out, it's an unexpected and delightful experience with a mundane object in an everyday context.

Rohan Deuskar, founder and CEO of Stylitics

PRO TIP: Add augmented reality to your store with Shopify AR. Bring products to life for customers who can't visit your store to see them in the flesh.

NFTs

Non-fungible tokens (NFTs) are unique, digital pieces of content—such as images, video, tweets, and audio—owned by one person. Information about the token is stored on a secure and decentralized data record known as a blockchain. Sales involving NFTs hit $13.9 billion in 2021. Retailers are getting in on the action.

In October of 2021, luxury fashion brand Dolce & Gabbana launched the Genesis Collection—an NFT drop that generated $5.65 million at auction. Its Glass Suit offering, one physical suit bundled with a NFT image of it, sold for more than $1 million.

"Brands who see NFTs as visual storytelling opportunities and not just transactional relationships will see how they can pay dividends long-term," says B. Earl, Partner at Skyview Way Studios.

As brands race to the NFT gold rush, they should understand NFTs create more than digital scarcity—they offer ways to connect to their greater brand story. When NFTs are tied to physical products, and they will be soon, the value prop will click with more merchants.

B. Earl, Partner at Skyview Way Studios

Smart checkout

The traditional checkout experience is fast becoming out of date. Retailers who fail to implement mobile point-of-sale technology at their stores face long queues. Some 60% of customers say long checkout queues are a major pain point while shopping, though two-thirds think automation could ease it.

Let’s take a look at smart checkout features contributing to the death of the checkout queue:

Contactless payment. Contactless technology is speeding up the payment process. Shoppers can tap their credit card or mobile device onto a payment terminal, pay for their products, and leave the store within just a few seconds.

Payment installations. Almost one-third of shoppers admit to abandoning a purchase because they couldn’t use their preferred payment method. Buy now, pay later (BNPL) is increasing in popularity. Help customers finance expensive purchases by allowing them to pay in installments.

Ship to home. Not all customers can take in-store purchases home with them. Whether the item’s out of stock or simply too heavy to carry home, take payment in-store and ship the item directly to the customer’s shipping address.

Digital receipts. Research shows 63% of consumers would rather shop with retailers who reduce the need for consumables. Another 58% would shop with merchants who take steps to lower their carbon footprint. Reduce paper waste and collect customer data by emailing a copy of their receipt.

Self-checkout. Customers prefer unattended retail because they can shop at their own pace. Continue that experience through to self-checkout with technology like Mashgin.

Mashgin uses cameras and artificial intelligence to identify items instead of barcodes. This lets us ring up multiple items at once, so customers simply place their items down on the tray of our touchless checkout system and everything will ring up instantly. As a result, we see transaction times as much as 400% faster than traditional checkout and self-checkout methods.

Toby Awalt, Director of Product Marketing at Mashgin

The secret to smart checkout is a POS system that offers the smart features your customers want.

With Shopify POS, for instance, you can customize your checkout to make it faster, accept contactless payments, email digital receipts, ship items purchased in store to your customer’s home, and more.

Store management

No matter how much technology impacts the experience of visiting your store, you can’t run a successful physical location without a human team. You need people on hand to open the store, display inventory, and assist shoppers who still prefer a human touch.

Look at your employees in a different way, not just as store staff, because that mundanity gets to everyone. Use technology to empower your store employees, as opposed to replacing them. In independent retail, you still need that touchpoint to add a human element even during virtual interactions.

Hemant Chavan, Founder of Brik + Clik

Blend technology and people with team management tools. Some 39% of retailers are investing in improving the tools and technologies employees use to do their day-to-day work, such as:

Payroll. Pay your employees on time by automating payroll. Add their salary, plus tips and commissions, with Shopify apps like Gusto.

Staff scheduling. “The pandemic has helped increase business usage of technology that helps them manage their workforce remotely, through things like time attendance, scheduling and communications,” says Damien Tampling, Global Chief Strategy Officer at Xero. “Planday is a good example of this, which is helping businesses manage their day from a single platform.”

Retail analytics. Understand store performance better with apps like Dor. Its thermal-sensing camera tracks how many people enter your store, and connects the traffic data with revenue from your POS system. Find peak times, optimal team rotations, and local marketing campaign impact.

User Interface Improvements To Maximize E-Commerce Sales

Running an e-commerce store can be a great business opportunity, especially during a pandemic, as many have learned this past year. Of course, because nearly every aspect of the business takes place online, it’s important to create an exceptional user experience and an inviting virtual storefront for shoppers who land on your website.

A crucial part of the overall e-commerce buying experience is a great user interface. To help you get this component right, 14 members of Forbes Communications Council shared effective ways to improve the UI of your e-commerce site. Read on for their tips to maximize online conversions and grow your digital sales.

Forbes Communications Council members share ways to improve an e-commerce site's user interface and maximize sales.

Maximize SEO and incorporate suggested items for sale. Make the checkout process easy to view and make it a priority to click on the “Check Out Now” or “Complete My Order” buttons. - Cynthia Kao, Innovative Computing and Applied Technology (INCATech)

2. Identify ‘Best In Class’ Examples

Working with my teams over the years, I have found the best way to start has been to identify “best in class” examples that are selling similar goods or services and solving similar problems. There is always room to evolve, pivot or simplify, but starting with fantastic thinking as a springboard has always served us well. - Lonny Schwartz, DDC

3. Utilize Video

Upgrade the UX by showcasing your products in action through a short video clip. Not only does it offer product size and scale to the customer, but it also allows them to virtually try out the product; and it’s an easy and efficient way to share basic product information. Video is a vital ingredient in a successful e-commerce recipe. - Heather Byrd, Taillight

4. Test Your UI With Actual Users

Make sure you consider the end user above all others. It is so easy for a business to get into the details and think that it is easy for the end user because those inside the business know it so well. The challenge is to make it easy for the user, so test it with actual users to make sure it works for them. - Michelle Bank, Nuspire

5. Use Data

Best practices are great, but data is better. When it comes to removing obstacles and frustration across your digital properties, take your cue from customers. Granular experience analytics can help you translate your customers’ continuous digital feedback into a precise understanding of what’s not working on your interface. Visualizing the obstacles along the customer journey is key to a great CX. - Niki Hall, Contentsquare

6. Personalize The Shopping Experience

People respond to offers and information specific to their needs, so companies should tailor shopping experiences with information that matches what they know about each customer. Whether it’s offers, a certain landing page or the way products are suggested and displayed, personalization has been shown to lead to higher conversion rates. - Lynne Capozzi, Acquia

7. Incorporate Social Media Content

An effective way to increase conversions on e-commerce channels is to incorporate high-performing content from social media on websites and product pages. Using social as a testing ground for e-commerce creative has proven a successful tactic, especially when leveraging AI to predict what types of imagery audiences are most likely to engage with and, ultimately, click through to purchase. - Julie Meredith, Dash Hudson

8. Use Dynamic Navigation

Use dynamic navigation that changes search filters automatically to be more relevant to the product category and actual shopping behavior of shoppers, such as on a home furnishing site, for example. If people browsing floor rugs almost always then look at shape and dimensions, then the AI powering your search page should automatically show those filters first for that term to help the buyer buy. - Mark Floisand, Coveo

9. Clearly Communicate Return Policies

On a product page, I would make sure to clearly communicate your policy on returns, exchanges and refunds. Not including these details leads to unnecessary friction that creates uncertainty in the user's mind, causing them not to convert. - Brian Schofield, Market 8

10. Send Order Confirmation And Delivery Details

Think broadly about UI and UX, and remember that it all continues after they click the buy button. Send buyers an instant confirmation that you've received their order. Include details about expected delivery and ways for customers to connect and share concerns. Yes, clicking the buy button technically is a conversion, but how valuable is an order that a buyer cancels out of uncertainty or frustration? - Indy Guha, Signifyd

11. Prioritize Clear And Descriptive Information

Clarity is key. Make sure visitors understand exactly what you sell and why they should buy from you as soon as they land on your site. At every stage of the funnel, ensure that the information you provide, such as CTA buttons, product descriptions, FAQs, links and shipping and returns information, is clear and descriptive. Users should never have to guess what's going on or what's happening next. - Matthew Stafford, Build Grow Scale

12. Focus On The Return Visitor

Personalize their experience using their website behavior. For instance, when they land on your website again, highlight their previous product views, show them products they added to the cart and recommend other products based on their purchase history. Also, enable one-click purchasing to leverage customers' stored addresses, credit cards and delivery preferences. - Anand Rao, AutoNation

13. Remove The Clutter

It seems simple, but remove the clutter. Be very intentional about the distractions you are introducing to your customers. If you want to maximize conversions, focus specifically on that conversion and strip everything else away. - Jonathan Sasse, Metova

14. Incorporate Social Proof And Urgency

First, shoppers need to know that the item selected is credible and will meet their expectations. The best way to do that is to show real-time reviews and stats from verified customers. Second, the shopper needs to know that, if they wait, that highly sought-after item may be gone. Once you have solved these two concerns, online conversions will soar. - Josh Francia, Blueshift

Biggest Ecommerce Challenges

Ecommerce Challenges – Remember when the Titanic was sinking and the band continued to play? Well, retailers in 2023 are the band!
Ever since the World Health Organization declared covid-19 a global pandemic, there seems to have been a boom in everything ranging from the extra pounds in many people to the number of food channels on YouTube.

However, monthly retail sales volume is one among many things that have constantly been declining. In fact, in the United Kingdom, the Office for National Statistics has reported a 5.1% drop in retail sales due to covid-19 – the highest ever drop since its inception 30 years ago.
With forty-three retailers (including industry leaders such as Art Van Furniture and Lord & Taylor) filing for bankruptcy, 2023 is on track to have the highest number of retail bankruptcies in a decade, according to a report by S&P Global Market Intelligence.
However, if you are an e-commerce retailer, the pandemic can be a double-edged sword for you!
E-Commerce: Silver lining to the 2023 retail sector

While most retail sectors have taken a hit, one of the most intriguing changes taken place in 2023 is the shift to digital. With more people at home, the number of Google searches has multiplied and people have started using e-commerce to buy products they previously would have bought in physical retail stores.

According to Sanjay Gupta, Country Head and VP, Google India, the silver lining to the whole situation is that businesses have squeezed four years of change into four months since the lockdown began, from a business transformation and skills perspective.

In Microsoft's quarterly earnings report to Wall Street, Satya Nadella's statement on digital transformation further fuels the argument that the e-commerce sector will thrive in the 'new normal'.
"We've seen two years' worth of digital transformation in two months. From remote teamwork and learning to sales and customer service, to critical cloud infrastructure and security—we are working alongside customers every day to help them adapt and stay open for business in a world of remote everything."
– Satya Nadella, CEO, Microsoft

By 2040, it is estimated that 95% of purchases will be made online, so now is the right time for retailers to face ecommerce challenges & find solutions for them. With consumers increasingly relying on online shopping, e-commerce is opening doors of opportunity to many entrepreneurs. Furthermore, those ecommerce sale opportunities are growing at a rapid rate. However, as we all know, there's no rose without a thorn!

20 Biggest Ecommerce Challenges in 2023 & Solutions to solve them
20 Ecommerce Challenges in 2023

1. Cyber & Data Security
When it comes to eCommerce, one of the biggest challenges faced is security breaches. There is a lot of information/data that is involved while dealing with eCommerce and a technical issue with data can cause severe damage to the retailer's daily operations as well as brand image.

Solution:
Be vigilant and always back up your data. Post that, you can install security plugins onto your website to prevent it from getting hacked. There are several plugins out there, pick one that works best for your eCommerce website.

2. Online Identity Verification
When a shopper visits an eCommerce site, how would the retailer know if the person is who they say they are? Is the shopper entering accurate information? Is the shopper genuinely interested in the eCommerce products?

If you do not have the accurate details or information, how do you proceed? Well, it does become tricky. The solution would be to invest in online identity verification.
Solution:
There are different ways to incorporate online identity verification. Some examples include biometrics, AI, single sign on, one time password, two-factor authentication and so on.

3. Attracting the Perfect Customer
Shoppers have a myriad of options to choose from these days. If they are looking to buy a handbag, they do some thorough research before finalizing on one. If shoppers have several options, how do you make sure they pick you? How do you go about finding that perfect customer that wants your product, at your rate and to the places you can ship?

Solution:
Partner with companies that help you target your customers. Digital marketing is preferred over traditional marketing because they can target your ideal customer. While this might not happen overnight, with A/B testing, finetuning and analysis – your products could be showing up to potential customers on different social media platforms.

4. Customer Experience

Customer experience or user experience is key to a successful eCommerce website. Shoppers expect a similar if not same experience as one they would get in a brick and mortar store. The flow of the website, the segmentation of the website and the retail personalization of products based on the shopper's preferences are imperative.

Solution:

There are several ways to improve the user experience. The most important would be to have a clean and simple website so that shoppers can navigate through easily. The next point would be to have clear CTAs (call to action) so that the shopper knows exactly what to do. Here is a post that shows you 10 ways to improve user experience.

5. Customer Loyalty

Here are two facts that show the importance of customer loyalty:(a) It can cost up to 5 times more to acquire a new customer than retaining an existing one and (b) the success rate of selling to a current customer is 60-70% compared to only 5-20% success rate of selling to a new customer.

The above two facts are testament to how important customer retention or loyalty is. Once a customer makes a purchase or utilizes a service from a retailer, they have to make sure that they keep this customer for life. But how is this possible?

Solution:

These are a few different methods that can be used to retain customers. The first would be to have excellent customer service – a customer is happy to have purchased a great product, but they are ecstatic when the customer service is on point. The next step is to keep in touch with the customer via a method that they like – be it an email, SMS or blog posts – be sure to find out what works best for your customer. The last point would be to let them know about new products, sales promotions and special coupon codes for being such loyal customers.

6. Converting Shoppers into Paying Customers

One of the biggest ecommerce challenges is to convert visitors into paying customers. An eCommerce website might have a lot of traffic, a lot of clicks and impressions but they aren't making the sales they anticipated. What can they do to get more sales?

Solution:

The first and foremost would be to understand why your shoppers aren't converting – are you targeting the right audience? Is your mobile website working seamlessly? Do your online platforms face technical challenges all the time? Does your customer base trust you? Do you personalize your website for your customers? Always think from a shopper's perspective and see if you are doing everything possible to make them paying customers.

7. Competition & Competitor Analysis

Have you heard of a Jam Experiment? Well it has quite a controversial conclusion, which is – the less you offer customers the more likely they are to actually purchase something. A lot of people these days are fatigued by all the options that are out there. A simple search (personalized search) for something like headphones will give you thousands of options – how does one make a choice?

From a retailer's standpoint, how do they stand out from the crowd? How do they bring shoppers to their website, instead of buying a similar product from their competitors?

Solution:
Always do a thorough analysis of your competitors. Find out what products they are selling, how they are generating leads and how they keep in touch with their customers. The next step would be to make sure you stand out – be it the colors you use, the topnotch functionality of your website or amazing user experience. And finally, offer services or products that are unique and relevant to your customer base.

8. Price & Shipping
We have all heard of customers that prefer to purchase products from places that have free shipping. eCommerce giants like Amazon provide such attractive shipping deals that customers seldom want to look at other places. How does one bring down costs for shipping?

Solution:
While all eCommerce sites cannot completely get rid of shipping costs, always look to find options that work for your customer base. Would a subscription reduce the cost of shipping? Would a certain time of the month give them lower shipping costs? Or is there a carrier that is reliable but offers a cheaper rate? Be sure to do your research and find the best possible solution for your shoppers.

9. Product Return & Refund Policies
According to ComScore, more than 60% of online shoppers say that they look at a retailer's return policy before making a purchase. When an eCommerce site says "no returns or refunds" it makes a shopper nervous and less likely to trust the retailer. When shopping online, customers want the flexibility of making a mistake that doesn't cost them.
Solution:
Customer satisfaction is the most important factor for any retailer. Therefore having a flexible return and refund policy not only helps with customer satisfaction with it also helps with customers making purchases without being nervous.

10. Choosing the Right Technology/Partners **To Fix Your eCommerce Challenges**
Choosing the right technology or partner will make or break your business. A retailer's growth might be stunted because their technology is limiting them or because they have hired the wrong agency to help them manage their projects.

There are a lot of aspects that need to be in place for a successful retail business, but a good technology foundation is crucial.

Solution:
Partner with Vue.ai, a unified Visual AI platform that is redesigning the future of retail commerce **to fix all your eCommerce challenges.** Using image recognition and data science,

Vue helps retailers generate product, and customer intelligence, and combine these with market insights, to power growth.

Nothing has propelled eCommerce like the conditions of 2023. While there have been a lot of exciting and positive changes, there are still online businesses that struggle with the challenges that eCommerce brings. The above mentioned solutions are fixes that can help any eCommerce business move closer to their ideal customers and targeted sales.

11. Customer Support

With the scale of eCommerce increasing rapidly and with the rising number of users facing everyday issues with eCommerce services, Customer support has been augmented with chatbots which enable faster processing and response to tickets. However, many customers find themselves feeling uncomfortable or dissatisfied with automated responses from chatbots.

Solution:

The solution to this **eCommerce challenges** is fairly simple – eCommerce companies should utilize a combination of technology and human assistance to deal with customer support by tagging specific issues that require human assistance and distinguishing the queries that can be handled by a chatbot.

12. Cross-border eCommerce

A lot of eCommerce sites tend to stagnate due to the lack of interaction with customers outside their geographical and linguistic range. Users that do not speak the primary language used on the site tend to look for other retailers that can offer them a better user experience. Moreover, the differences in pricing, tax rates, etc., deter users from purchasing across borders.

Solution:

Implementing a multi-lingual site that is translated for customers that do not speak the primary language of your site can make a huge difference in attracting customers and also improving your conversion rates. Using technology to enable an easy conversion of currencies and taxing the products appropriately will also significantly contribute to growth.

13. Marketing Budgets

With digital marketing becoming the norm for most eCommerce businesses, more companies are flocking towards their digital and social media ad spends. With the demand for clicks and virtual advertising space increasing, so does the price. This can become very expensive for small and medium-sized retailers and in fact, this is one of the biggest eCommerce challenges that they face.

Solution:

Create specific customer profiles that will help your business with targeting your social media and digital ads so that you significantly improve your return on investment on your spends.

14. Going Omnichannel
Selling your products through multiple channels enables you to increase your overall revenue and Average Order Value(AOV). A customer that shops on multiple channels is likely to spend three-times more than the average customer. However, if not done right, some channels might lead to losses if they don't attract the right customers and the required volume of customers.

Solution:
Use the data you receive from the different channels you operate on to identify the top-performers and optimize them for your customers and reduce your spending on the platforms that do not gain the traction that you need.

15. Data Privacy
Customers today are aware of the importance of their data and the need for data privacy. Device manufacturers like Apple are going the extra mile to ensure that their users' data are kept safe from third-parties. However, user data can also enable platforms to provide them a better user-experience.

Solution:
Collect Zero-party data, where your customers will intentionally and voluntarily share their data with your brand as opposed to collecting third-party data, which is what customers these days are extremely cautious about.

16. Logistics
Companies across the world are affected by supply chain issues every year, and considering it is a layered process, issues and errors occur at multiple steps during the process, which leads to added expenses and delays.
Solution:
Gain visibility of your entire supply chain. Supply Chain Visibility enables you to track your inventory accurately and also establish a clear communication system that can help you stay up-to-date with different parts of the supply chain process.This is one of those eCommerce challenges that requires time and effort, but is also extremely essential.

17. Store Agility
How rapidly can you roll out new features, post and market fresh content? Due to the rapid evolution of ecommerce, it is crucial that you implement an agile company model. Staying relevant and up-to-date with trends is crucial for eCommerce businesses to survive and thrive and provide their customers the best possible user-experience.

Solution:
This is more of a process than a solution – ensure that your team is adaptable and has processes set to deal with changes, both internal and external to enable quick decision-making.

18. Customer Expectations
Modern consumers these days are increasingly informed and aware with the advent of new technology and exposure to multiple brands and services. The modern consumer has high expectations for the kind of products and services they pay for and are constantly on the lookout for better experiences.

Solution:
If you wish to solve this problem for your e-commerce business, a thorough awareness of contemporary web design trends is required. A thorough examination of current trends will enable you to recognise the adjustments that your company needs to make and assist in making them.

19. Placement of Elements within your page
This might come across as surprising – but the design and placement of important elements such as the navigation bar, tabs etc., on your website can significantly impact your conversions and sales because your user-interface contributes to the customer's experience on your site. Users tend to be wary of sites that they cannot easily navigate through

Solution:
Constantly improve on your User Interface design, utilize A/B tests to understand what designs your customers respond well to and remove any unnecessary hindrances that hamper your users from fully engaging with your site.
20. Sustainability
Retailers are now being incentivized to market their goods and delivery services as having a low environmental impact due to the increased global attention on sustainability due to consumer demand. Nearly 60% of consumers are ready to alter their purchase patterns in order to lessen their impact on the environment.

Solution:
Improve the efficiency of your supply chains and identify key areas where your carbon footprint can be reduced for improved environmental impact.