

# RETAIL STR



- A **retail strategy** is a statement identifying
  - 1) the retailer's target market
  - 2) the format the retailer plans to use to satisfy the target market
  - 3) the bases upon which the retailer plans to build a sustainable competitive advantage
- The target market is the market segments toward which the retailer directs its resources and retail mix
- A **retail format** is the retailer's type of retail mix (nature of goods offered, pricing policy, advertising and promotion program, store design and visual merchandising, and typical location and customer service)
- A **sustainable competitive advantage** is an advantage over the competition that is not easily copied and thus can be maintained



# APPROACHES FOR DEVELOPING SUSTAINABLE COMPETITIVE ADVANTAGE

- Advantage:-
  - Building strong relationships with Customers
  - Building strong relationships with Suppliers
  - Achieving efficient internal operations



## **Building a Sustainable Competitive Advantage**

- Seven important opportunities for retailers to develop advantages are
  - (1) customer loyalty,
  - (2) location,
  - (3) human resource management,
  - (4) distribution and information systems,
  - (5) unique merchandise,
  - (6) vendor relations, and
  - (7) customer service.





# CUSTOMER LOYALTY

- **Customer Loyalty** means that customers are committed
- Loyalty is more than simply liking one retailer over another





# CUSTOMER LOYALTY

- More than simply liking one retailer over another
- Customers will be reluctant to patronize competitors
- Retailers build loyalty by:
  - Developing a strong brand for the store or service
  - Developing clear and precise positioning strategy
  - Creating an emotional attachment with customers through loyalty programs



# LOYALTY PROGRAMS

- Loyalty programs are part of an overall customer relations program.
- Members of loyalty programs use some type of loyalty card.
- Purchase information is stored in a huge database known as

## CUSTOMER REWARDS – THE FIRST CITIZENS

- Shoppers' Stop's customer loyalty program is called First Citizen.
- The program offers its members an opportunity to collect points and avail of innumerable special benefits.
- Currently, Shoppers' Stop has a database of over 2.5 lakh members who contribute nearly 50% of the total sales of Shoppers' Stop.



- Purchase behaviors of members of loyalty program
  - Are identified when they buy because they have a loyalty card
  - Saved in Data Warehouse
    - What they buy
    - When they buy
    - How much they buy
    - How often they buy
    - How much they spend
    - What channel they use
- Develop personalized marketing effort to the members

# RETAIL BRANDS AND PO

- **A retail brand**, whether it is the name of the retailer or emotional tie with customers that builds their trust and lo





# RETAIL BRAND

- Can create an emotional tie with customer trust and loyalty
- Facilitates store loyalty because it stands for quality
- Stores use brand (store's name and store brands) to build customer loyalty



# APPROACHES FOR BUILDING CUSTOMER LOYALTY

- Brand Image
- Positioning
- Unique Merchandise
- Customer Service
- Customer Relationship Management Programs

**Positioning** is the design and implementation of a retailer in the customer's mind relative to its competitors.

A **perceptual map** is frequently used to represent the preference for retailers.



# LOCATION

- Location is the critical factor in consumer
- It is also a competitive advantage that is n
- Influences the merchandising mix and layo





# HUMAN RESOURCE MAN

- Retailing is a labor-intensive business
- Knowledgeable and skilled employees are critical assets for the success of several companies.

# DISTRIBUTION AND INFORMATION SYSTEMS

- All retailers strive to reduce operating costs. They deliver to their customers the merchandise they want, when they want it, in the quantities that are required, at a lower delivered cost than their competitors.
- Retailers can achieve these efficiencies by developing efficient distribution and information systems.



## **UNIQUE MERCHANDISE:**

While it is difficult for retailers to develop a competitive merchandise, many retailers realize a sustainable competitive advantage by developing private-label brands (also called store brands). These brands are developed, marketed, and available only at that retailer.

# VENDOR RELATION

- By developing strong relations with vendors, retailers can (1) to sell merchandise in a specific region, (2) to get better terms than competitors who lack such relations, (3) to get in short supply.
- Example – Wal-Mart - P&G, BASF, MRPL, HUL

# CUSTOMER SERVICE

- Retailers also build a sustainable competitive advantage by
- Offering good service consistently is difficult.
- Customer service is provided by retail employees – and h  
machines.
- Customer service is a key element of store image in retail

# MULTIPLE SOURCES OF

- To build a sustainable advantage, retailers typically don't rely on low cost or excellent service. They need multiple approaches to their competitive position as possible.
- McDonald's Quick Service Restaurant Market.
- IKEA has a large group of loyal customers due to its strong shopping experience it provides its customers.
- Big bazaar's Exchange offers
- Flip kart's Bog billion day

# THE STRATEGIC RETAIL PROCESS

- The strategic retail planning process is the set of steps that lead to the development of a strategic retail plan.
- It describes how retailers select target market segments, choose a retail format, and build sustainable competitive advantages.

- Steps involved in developing retail strategy

- ❖ Establish Mission
- ❖ Analyse situation
- ❖ Identify options
- ❖ Set objectives
- ❖ Obtain and allocate resources
- ❖ Develop implementation plan
- ❖ Monitor progress and control





# STEP I-DEFINE MISSION OF THE ORGANIZATION

- It highlights the following elements:
  - The product and services offered
  - The customers who will be served
  - The geographic areas that the organisation chooses
  - The manner in which the firm intends to compete

# STEP II: CONDUCT SITUATIONAL ANALYSIS

- ☐ Management experts have developed various models for conducting situational analysis

- ☐ PEST

## Political Factors

- Government stability
- Rule of major parties
- Taxation policies
- Regulation and control
- Levels of corruption
- Ease of doing business
- Ease of initiating business

## Social Factors

- Population growth
- Gender & Ethnicity
- Health and education
- Social welfare
- Economic disparity
- Digital disparity

# PORTER'S FIVE FORCES

- This framework helps to evaluate entry barriers, the power of suppliers, the power of customers, substitute products and industrial rivalry.

## Threat of New Entry

- Time and cost of entry
- Specialist knowledge
- Economies of scale
- Cost advantages
- Technology protection
- Barriers to entry

## Threat of New Entry

## Supplier Power

## Supplier Power

- Number of suppliers
- Size of suppliers
- Uniqueness of service
- Your ability to substitute
- Cost of changing

## Competitive Rivalry

## Threat of Substitution

## Threat of Substitution

- Substitute products
- Cost of change



# INTENSITY OF RIVALRY

- Factors that determine intensity of rivalry
- Structure of industry costs
- Degree of differentiation
- Switching costs



# THREAT OF NEW ENTRANTS

- Major barriers to entry include:
  - Economies of scale
  - Product differentiation
  - Switching costs
  - Cost disadvantages independent of scale
  - Access to distribution channels
  - Government policy

# THREAT OF NEW SUBSTITUTES

- Better performance
- Low brand loyalty
- New current trends
- Low switching costs



# BARGAINING PO

- **Suppliers :**
- Supplier power can be altered in many ways:
- Differentiation of inputs
- Switching costs for transferring to other suppliers
- Availability of substitutes
- Supplier concentration
- Supplier dependence on volume
- **Buyers**



# **STEP III : IDENTIFYING OPTIONS/STRATEGIC ALTERNATIVES**

ALTERNATIVES AVAILABLE TO RETAILER ARE

- Market penetration
- Market development
- Retail format development
- Diversification





## **STEP IV : SET OBJECTIVES**

- Good objectives are specific to time ,and indicate
- Sales volume targets
- Market share targets
- Retail expansion target
- Profitability to be achieved
- Liquidity
- ROI

# STEP V: OBTAIN & A RESOURCE

Resources

Human



## **STEP VI: DEVELOP STRA**

- In order to be successful in segmenting the market
  - Measurable
  - Accessible
  - Economically viable'
  - Stable
- 
- RETAIL MIX
  - MERCHANDISING MIX
  - PRICING POLICY
  - TYPES OF LOCATIONS THE RETAIL STORE WILL BE IN
  - SERVICES OFFERED BY STORE
- 
- COMMUNICATION PLATFORM ADOPTED BY RETAIL



# RETAIL MIX & MERCHAN

- Retail mix is a marketing plan that responds to various factors, such as location, pricing, personnel, services and goods. A retail mix plan targets specific customers and influence their purchasing behavior.
- The term "merchandise mix" is essentially the same as a retail store offers. It refers to the breadth and depth of products a given retail store carries on a particular market.



# **STEP VII :IMPLEMENT THE EVALUATE & CONTROL**

- Merchandising must be single minded
- Focus on every aspect of the store
- Feedback on performance of new strategy
- Effectiveness of strategy to be evaluated
- Understanding of one own strengths



# LOCATION

- Why is Store Location Important for a Retailer?
- Location is typically prime consideration in site selection
- Location decisions have strategic importance to develop sustainable competitive advantage
- Location decisions are risky: invest or lease



# **TYPES OF LOCATION**

- Free standing location/Isolated store
- Unplanned business district
- Planned shopping center



# FREE STANDING LOCATIONS

- Neighborhood stores
  - ✓ Convenience products
  - ✓ Away from major markets
  - ✓ Inside neighborhood
  - ✓ Less competition, low rent, easy parking, better visibility.
  - ✓ Difficulty in attracting customer
- Highway stores
  - Attract customer passing highways
  - - Fast food restaurant, dhaba





# FREE STANDING LOCATIONS

- Advantages:
  - Convenience
  - High traffic and visibility
  - Modest occupancy cost
  - Separation from competition
  - Few restrictions
- Disadvantages:
  - No foot traffic
  - No drawing power



# UNPLANNED BUSINESS

- Merchandise Kiosks – small temporary selling stations located at airports, train stations or office building lobbies.
- Downtown or central business district
  - A hub of retailing activity
  - Draws customer from across city and suburbs
  - Metro CBDs attract customers outside city
  - Connaught place in Delhi, commercial street in Bangalore attract upper middle class customer.
  - Chandni chowk in delhi, chick in Bangalore and new market attract lower middle class customers.

# ADVANTAGE TO RETAILERS

- Affluence returned
- Young professionals
- Returned empty-nesters
- Incentives to move provided by cities
- Jobs!
- Low occupancy costs
- High pedestrian traffic



# **SECONDARY & NEIGHBOURHOOD BUSINESS DISTRICTS**

## **SECONDARY BUSINESS DISTRICTS**

- Unplanned cluster of stores located on a major intersection
- Attract customers from many parts of cities.
- Dadar in Mumbai, Karol bag in Delhi.

## **NEIGHBOURHOOD BUSINESS DISTRICT**

- Cluster and serve neighborhood trading area.
- Colonies

# SUBURBAN BUSINESS D

- Stores located in town's periphery.
- Rely on traffic of downtown.
- Growing market in Gurgaon and Noida, Bangalore



# PLANNED SHOPPING CENTRE

- Architecturally designed with parking and operated as a unit. Connaught place is designed as planned, but subsequent various sector markets are planned.



# REGIONAL SHOPPING CENTERS MALLS

- Largest planned shopping centers .
- Major departmental stores, large trade centers
- Cross roads-Mumbai, Spenser plaza-mall



# SHOPPING CENTERS

- Shopping Center Management Controls:
- Parking
- Security
- Parking lot lighting
- Outdoor signage
- Advertising
- Special events for customers





# **TYPES OF SHOPPING CE**

- Neighborhood and Community Cen
- Power Centers
- Enclosed Malls
- Lifestyle Centers
- Fashion Specialty Centers
- Outlet Centers

# NEIGHBORHOOD/COMMUNITY SHOPPING CENTERS

- Usually have a balance mix of stores, grocery, clothing, and other stores combined.
- Sector market complex in Chandigarh.
- Bander road in Mangalore
- Food street in VV puram Bangalore

# **SPECIALIZED MARKET**

- Specialized market for a particular product
- Ahmadabad for plastic material
- Ludhiana for machinery.
- Godown street in Chennai for clothes.



# POWER CENTERS

Shopping centers that consist primarily of collections of stores such as discount stores (Target), off-price stores (Costco), and category specialists (Lowe's, Best Buy).

- Open air set up
- Free-standing anchors
- Limited small specialty stores
- Many located near enclosed malls
- Low occupancy costs
- Convenient
- Modest vehicular and pedestrian traffic



Name	Location	S
Lulu International Shopping Mall	Kochi	I
Select City walk	New Delhi	I
Phoenix Market City	Mumbai	I
Elante Mall	Chandigarh	I
Phoenix Market City	Chennai	I
Fun Republic Mall	Lucknow	9
Mantri Square Mall	Bangalore	9
<a href="http://www.FirstRanker.com">www.FirstRanker.com</a>		2



# COMPARISON SHOPPING

- Customers have a good idea of what type of product they want but don't have a strong preference for brand.
- Competing retailers locate Near one another.
- Typical for furniture, appliances, apparel, electronics, hand tools and cameras.

# STEPS INVOLVED IN CHOOSING LOCATION

- IDENTIFY THE MARKET IN WHICH TO LOCATE THE
- EVALUATE THE DEMAND AND SUPPLY WITHIN THE
- IDENTIFY THE MOST ATTRACTIVE SITES
- SELECT THE BEST SITE AVAILABLE

# STEPS INVOLVED IN CHOOSING

**STEP 1: Market identification:** \_market attractiveness t

**STEP 2: Determining the market potential**

- ***Demographic features of the population :***

- Size-rural and urban
- Level of literacy, education

- ***Characteristic of the household in the area:***

- Average household income and distribution of income
- Average age
- Employment level and type of employment

- ***Competition and compatibility***

- Compatibility of the retail with other stores
- Analysis of the competitor

- Square Foot area of stores





# STEPS INVOLVED IN CHOOSING LOCATION

- Law and regulations:

- Various permissions
- Hours of operation
- Wages to be offered
- Holidays required



# TRADE AREA ANALYSIS

- Trade area “ a geographical area containing the customers for a specific goods or services”
- Trade area analysis - trade area analysis is a methodology, basis for understanding, visualizing and quantifying the extent of approximated trade areas.
- Majority of customers to the store
- Know the trade area for demographic and lifestyle segments
- Promotional and communication strategy
- Assessing the viability of the site

A trade area consists of three parts:

1. Primary area- encompasses 50 – 80 % of store's customer . Area closest to the store possesses the highest density of customer to population and highest per capita sales.
2. Secondary area: containing additional 15 – 25 % of a stores customers. Attractiveness of this area comparatively lower than the primary area but contribute for a desired footfalls in the stores
3. Fringe area – include all remaining customer, and they are the more widely spread. Includes the remaining customer that shop occasionally at a location as a alternative to local shopping



### **Factors to be considered while analyzing the market**

- 1. Total size and density (demand and supply) of the market.
- 2. Per capita disposable income.
- 3. Education level.
- 4. Family system (joint / nuclear).
- 5. Occupation (job / professional / own business).
- 6. Standard of living.
- 7. Age group distribution.
- 8. Number of residents owning homes.
- 9. Number of manufacturers, suppliers, wholesalers.
- 10. Size of competition.



## **STEP 3 & 4 : IDENTIFY ALT AND SELECT TH**

- Traffic
- Accessibility of the market
- Total number of stores and the types of stores that exist
- Amenities available
- To buy or to lease
- Product mix offered

## METHODS OF EVALUATING T

### Reilly's law of Retail gravitation:

“When two cities compete for retail trade from the immediate surrounding area, the breaking point of attraction for such trade will be more or less equidistant from the population of two cities and inversely proportional to the square of the distance from the immediate area of each city.

- Used to establish a point of indifference between two cities and to project the physical trading area
- Reilly suggest consumer living between two cities will choose based in the distance of each area from consumer's home
- customers are willing to travel longer distances to larger cities because of the attraction they present to customers.

- This is in terms of mathematical formula:

$$(B_a/B_b) = (P_a/P_b) (D_b/D_a)^2, \text{ where}$$

$B_a$  = business which city A draws from intermediate place

$B_b$  = business which city b draws from intermediate place

$P_a$  = population of city A

$P_b$  = population of city B

$D_a$  = Distance of city A to the intermediate place

$D_b$  = Distance of city B to the intermediate place

If a retailer wants to know the spend of customers in city X with a population of 200000 and 50 kms from city B and has a population of 100000 and 25 kms from city A, he would deduce that for every rupee spend in city B the customer would spend 4 rupees in city A.

- Assumptions of the retail gravity theory
  - The two competing cities are equally accessible from the major region
  - Population is a good indicator of the differences in the goods and services



# HERFINDAHL-HERSCHMANN

- Known as HHI, commonly accepted measure of market concentration
- Determined by adding the square of the market share of each firm in a product and geographic market
- Takes into account the relative size and distribution of the firms in a market when a market consists of a large number of firms of relatively equal size
- $HHI > 1800$  - concentrated
- $HHI$  between 1000-1800 - moderately concentrated
- $HHI < 1000$  - unconcentrated





# INDEX OF RETAIL SATURATION THEORY

- **Index of Retail Saturation (IRS)** is the ratio of demand (the number of households in a geographic area multiplied by annual **retail** expenditures for goods and services per household) divided by available supply (the square footage of retail space available for trade in a geographic area)
  - Higher IRS indicates lower level of saturation thereby increasing the potential for new stores
  - Few stores –understored
  - Many stores-overstored-fair ROI
  - Saturation is calculated in terms of existing retail facilities and the potential for new ones
  - Examines how the demand for goods and services of a potential market is being served by current retail establishments in comparison to the potential demand



# IRS

- **Index of retail saturation (IRS):** Ratio of demand divided by available supply

$$IRS = (H \times RE) / RF$$

- IRS - Index of retail saturation for an area
- H - Number of households in the area
- RE - Annual retail expenditures for a typical household in the area
- RF - Square footage of retail facilities in the area



# HUFF'S MODEL OF THE GRAVITY ANALYSIS

- David Huff - 1963
- States that consumers will shop at a store often if the size of the store or centre is large and the shopping area is decreased.
- It is used to estimate sales for a particular area.
- The probability that a customer located at a distance  $d_{ij}$  from store  $j$  is calculated according to following formula:

$$P_{ij} = \frac{S_j \div T_{ij}^b}{\sum_{j=1}^n S_j \div T_{ij}^b}$$

Where

$P_{ij}$  = Probability of a customer at a given point of origin  $i$  traveling to a particular shopping center  $j$

$S_j$  = Size of shopping center  $j$

$T_{ij}$  = Travel time or distance from customer's starting point to shopping center

$b$  = An exponent of  $T_{ij}$  that reflects the effect of travel time on the kind of shopping trips

# CENTRAL PLACE THEORY

- Comprises of cluster of retail organisations
- Range-maximum customer is willing to travel for a product
- Threshold-minimum amount of consumer demand that must be met
- $R > T$  -to be economically viable
- Needs of group of consumers in a particular location-dictates the type of development

## Market concentration (HHI Index)

Herfindahl-Hirschman Index ("HHI"):

- Sum of the squares of the market shares.
- Market shares may be calculated by reference to capacity, sales volumes and/or sales values

ACCC unlikely to have horizontal competition concerns if:

- post-merger HHI is  $< 2000$ ; or
- post-merger HHI is  $\geq 2000$  with a delta  $< 100$

HHI is consistent with approach used in US and EU.

Not determinative of ACCC's view, just one of many factors



# SPACE MANAGEMENT AND

Size and Space allocation:

- ✓ Retailers assign more space for merchandise that registers
- ✓ Large stocks of goods which experience high demand to a
- ✓ Use of historic sales data to provide the input for space m
- Space is usually measured by square meters / feet, shelf m
- Size and space allocation based on product size and sales
- optimal situation as net sales and margin will vary



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# SPACE IS THE MEDIUM TO:

- Display and promote our products

Racks and Shelves



Gondolas and Endcaps

Interactive  
Displays



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# OBJECTIVES OF SPACE M

- Enhance the Best Buy brand by improving our customer's
  - Provide Retail with easy-to-execute Maps
  - Analyze category and item effectiveness to determine the
  - Provide customized maps and planograms to support marke
  - To ensure a compatible exciting and rational interface betwe
- sales person



# SPACE MIX

- For retailer space is money
- Optimise the selling area and minimise the non selling part
- The area mix in a typical department store is
  - Selling area - 60%
  - Circulation area – 15%
  - Back area – 25%



# ELEMENT OF SPACE MIX

- Check in space
- Red carpet space
- POP display and selling space
- Merchandise space
- Customer space
- Personnel space
- Back office space
- Checkout space
- Dead space

# STRATEGIES IN SPACE M

- Space configuration: retailer and vendor - SIS concept
- Shelf position: out let position shelves in a store determine
- Shelf allocation: margin from product
- Special store needs: highlighting product Categories

# SPACE MANAGEMENT OF

- Use space effectively whether floor, page or virtual
- Optimise short- and long-term returns on investment into
- Provide a logical, convenient and inspiring product-custom
- Make right selection of products available
- Communication of retailer's brand identity



# SPACE PLANNING PROC

- `Measuring retail space: Total amount of space should be measured. physical space, the width, length, height should be taken in to
- Dividing the space into selling areas: in this stage the process of dividing retail space into selling area, usually defined by product category, is allocated on the basis of the no. of fixtures that will be given to
- Determine layout: product adjacencies will be decided, and the layout is determined.
- Determine the space allocation of product line: involves the allocation of fixtures to each product line or stock keeping unit.

# SPACE PRODUCTIVITY

- Sales volume and profitability can be measured in relation generate them
- This provides productivity measures, e.g.
  - sales per square metre
  - profit per square metre
  - sales per cubic or linear metre
  - profits per catalogue page

# STAGE 2: DIVIDING SPACE INTO SELLING AREAS

- Allocation of space to product department or category
- Usually based on previous performance indication, typically
- Some products require disproportionately large area (e.g. food) and some require disproportionately smaller area (e.g. jewellery)
- Category life-cycle may influence amount of space



# STAGE 3: DETERMINE LA PRODUCT ADJACENCIES

- Converting numerical data into a workable outlet layout, c
  - entrances, walkways, checkouts
- Consider space *quality*
- Consider logical flow through products and complementary



# STAGE 4: ALLOCATING SPACE TO INDIVIDUAL PRODUCTS

- Products, like categories are often allocated space on the shelf
  - Advantage: product is less likely to sell out
  - Disadvantage: may not be profitable
- Different sales figures have advantages and disadvantages (
  - historical sales
  - market share
  - projected sales

# SPACE ELASTICITY

- *Space elasticity* is a term for the relationship between an increase in shelf space and the resulting increase in sales
- Space elasticity is not uniform amongst products or across different markets
- Generally staple products have lower space elasticity than specialty products
- Cross elasticity is the relationship between the increase in sales of one product and the resulting increase in sale of another product

# SPACE ALLOCATION

- Allocating space according to product profitability
  - Advantage: best and most space devoted to products that b
  - Disadvantages:
    - wasting space because of low space elasticity
    - consumers may have difficulty finding products
- Long term customer satisfaction must be considered in sp

# FINANCIAL STRATEGY

# FINANCIAL STRATEGY

- ANALYSING FINANCIAL PERFORMANCE IS DONE FOR:
  - To identify gaps in the targets
  - To identify opportunities for improvement
  - To evaluate past and present performance
- Two basic methods of evaluating financial performance:
  - Income statement
  - Balance sheet



# INCOME STATEMENT

- A record of revenues earned by the organization and the e
- COMPONENTS OF INCOME STATEMENT

- a) Sales: Total money received by retailer from the sale of m
- b) Cost of goods sold: expenses incurred by the organization
- c) Gross margin:

**Gross profit on sales = Net sales – Cost of goods sold**

- d) Operating expenses: expenses incurred in producing goods

Non operating income-income that is not earned during normal

Eg: interest earned on any investment made



# BALANCE SHEET

- Key elements of balance sheet
  1. Fixed assets-land ,buildings, fixtures, com
  2. Current assets –cash on hand, cash at ba
  3. Long term liabilities
  4. Current liabilities: interest on ; loan, wag  
payments to be made to suppliers





# **RATIO ANALYSIS**

- Ratios look at relationship between individual values of a company has performed in the past and might perform in the future

**Profitability ratios:** measure margin earned in the business

**Gross profit margin** =  $\text{Gross profit} / \text{Sales}$

**Controls** production costs or margins it makes on products

**Operating profit:**

**ROCE**-Return on capital employed:

$\text{Net profit before tax, interest and dividends} / \text{Total assets}$

Takes in consideration The returns management has generated and is available to them before making any distribution of the profits

# LIQUIDITY RATIOS

- **Current Ratio** = Current assets/current liabilities.
- **Quick ratio** = Cash + Accounts Receivable/Current liabilities

## Financial leverage ratios:

**Debt equity ratio** = Long term debt/total equity

Long term debt-total equity ratio=long term debt/total equity

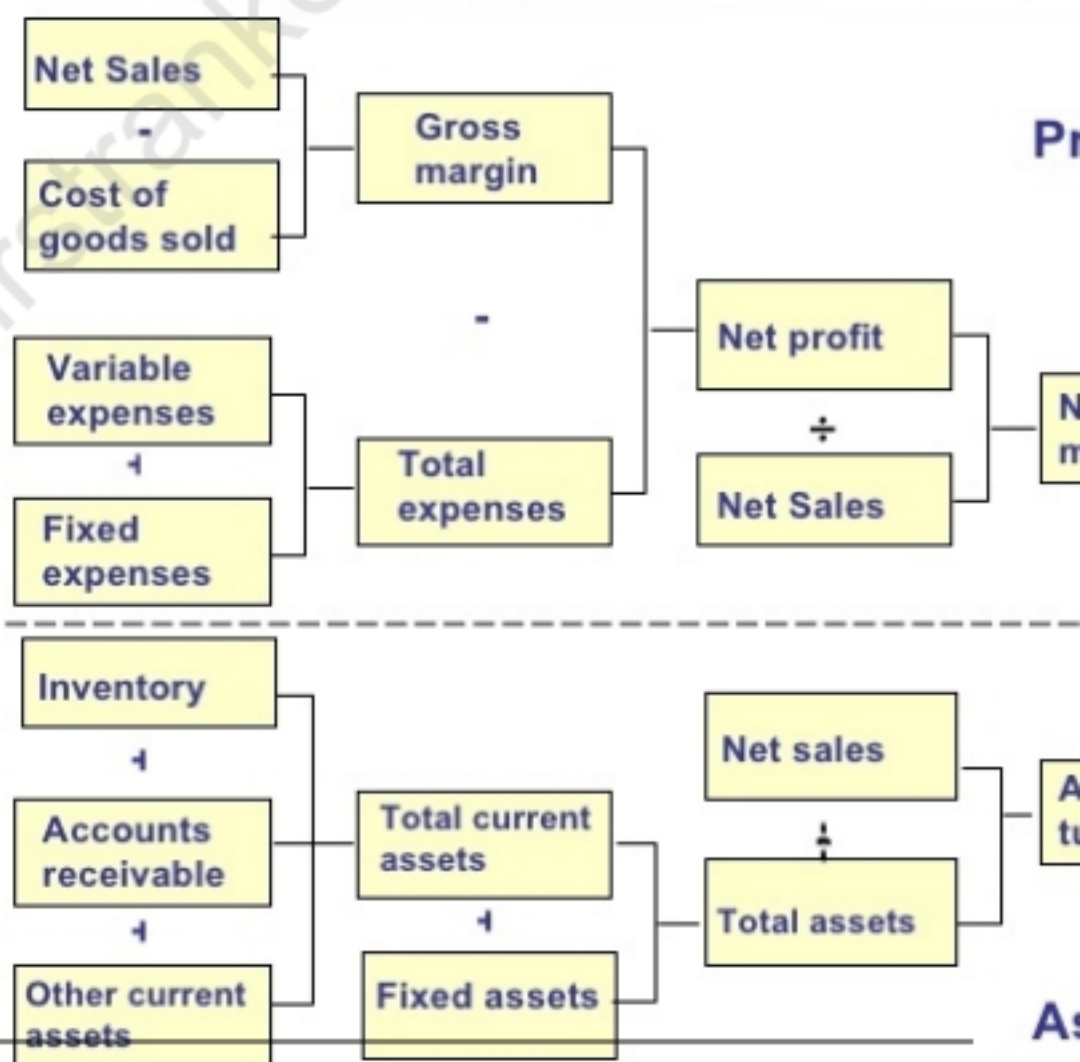
**EPS**=Earnings attributable to ordinary shareholders/ weighted average number of shares outstanding that year

**P/E ratio**= Market price of share/earning per share

**Dividend yield**= (Latest dividend per ordinary share/current market price of share)

Measures proportion of earnings retained by business than distributed as dividends

# The Strategic Profit





# MEASURES OF MERCHANDISE PERFORMANCE

- **GMROI:** tells a retailer how many times a year stock is turned over at a given margin
- **Gross Margin/Average inventory**

**Inventory turnover ratio:**

**=Net sales/Average inventory at retail OR**

**Cost of goods sold/Average inventory at cost**



# MEASURING RETAIL PERFORMANCE AND SPACE PERFORMANCE

**GMROF:** Gross margin of selling space or footage

- Calculated by dividing gross margin by the retail selling space

**Sales per square foot:** total sales/total square feet of selling space

**Conversion ratio:**

No of customers who make a purchase\*100

No of customers entering the store

**Average sales per transaction/Average ticket size:**

Total sales for the day by number of bills generated

# MEASURING EMPLOYEE

## **Sales per employee:**

Total sales/total number of employees in the store

## **GMROL:**

- Gross margin/total number of employees in the store



# SUPPLY CHAIN MANAGEMENT

“All activities associated with moving goods from raw material stage through to the customer”

- This includes
- Sourcing and procurement
- Order processing
- Inventory management
- Transportation
- Warehousing
- Customer service
- **BENEFITS OF SCM :**
- Improved product availability
- Reduced stock outs



# PUSH AND PULL SUPPLY

## PUSH SUPPLY CHAIN

- Forecast or estimate of sales is made

Suitable when lead time for manufacturing is long

- Forecast of demand is made based on past sales, market
- Used for merchandise that has a predictable steady demand

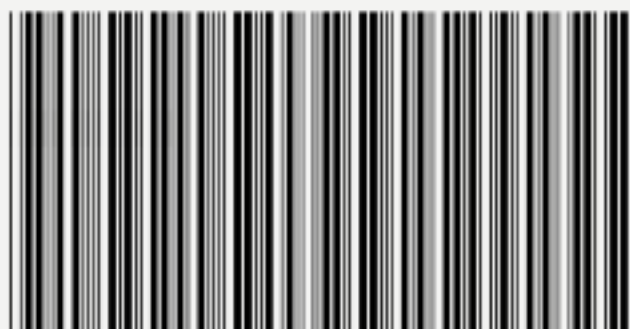
## PULL SUPPLY CHAIN

- Used when it is possible to adjust production and inventory to market conditions
- Useful when there are variations in demand and difficult to forecast
- Orders are generated on the movement of merchandise at point of sales terminal



# **INFORMATION FLOWING S**

- UPC-UNIVERSAL PRODUCT CODE
- Products or tags attached to them are marked with ser
- Retailer captures information at the point of sales and s  
monitors inventory levels



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## **UPC-UNIVERSAL PRODUCT**

- Thick and thin lines-represents items information code
- Retailer captures information-data is sent to a computer to monitor inventory levels
- The suppliers computer – production schedule and plan
- Distribution center-to ship product to stores
- ASN-Advance shipping notice

Document that informs the distribution center about details when it will be delivered.

# RETAIL LOGISTICS

## Logistics

- Part of the supply chain process that plans, implements and controls the efficient flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customers requirements

## Reverse logistics

- Flow of returned or damaged merchandise to the stores distributor



# DATA WAREHO

- All data bases are maintained at one location
- Used for reporting and data analysis
- Housed on an enterprise mainframe server

## COMPONENTS

- Data is physically stored
- Software copies original database and transfers
- them to the warehouse
- Processes inquiries
- Directory for categories of information
- available



# DATA WAREHOUSE

- Database management involves following steps
  1. Determine information needs , plan specific components
  2. Captures information accurately and store
  3. Update the database regularly to reflect the demographics , purchase pattern
  4. Analyses and leverages database for decision

# DATA MINING & EDI

- Data Mining

- In-depth analysis of information to study pa
- Uses special software to shift and sorts info
- warehouse
- Used for decision making on market segme
- displays, promotional campaigns and sales tre

## EDI-Electronic data interchange

- Computer to computer exchange of busin
- standard electronic format between busine
- .





# EDI

- There are 2 popular standard-
- UCS-Uniform communication standards
- Standard transaction sets allows computer to co exchange of documents and information
- is used by the [grocery](#) and retail-oriented industries for transactions

VICS-Voluntary interindustry standard-standard used for shipping and shipping containers in the general merchandising industry

- Pioneered the implementation of cross industry standard that simplifies the flow of products and information between retailers and suppliers



- **Intranet** –internal communications between stores, DC's
- **Extranet**-External stakeholders including vendors, transp
- **Operations of distribution center**
- Receiving and checking
- Storing and cross docking
- Cross docking-Merchandise which is repackaged and made to move from unloading dock at the DC to the loading dock in a few hours
- Cross docking speeds up delivery and saves 50% of transp
- Outbound transportation-DC's prepare an outbound transp of stores, road conditions, transportation operating constraints, routes.

# ROUTING OPTIONS- DELIVERY

- Retailer has two routing options
- Distribution center
- Direct store delivery



# THIRD PARTY LOGISTICS

- Third party Logistics Provider (3PL) performs logistics services for a client's company.
  - 3PLs provide the management skills along with the physical assets and information systems technology to provide professional logistics services, without the responsibility of performing these services themselves.
- 3PL's typically can provide
- transportation, warehousing, pool distribution, management optimization, freight forwarding, transportation management, rate negotiations, evaluations, and contract management services.

# 3PL

- **Third party logistics providers usually specialise in**
- Integrating operations
- Warehousing
- Transportation services
- Cross-docking
- Inventory management
- Packaging
- Freight forwarding

# FOURTH PARTY LOGISTICS

- 4PL is the planning, steering and controlling of all logistics (flow of information, material and capital) by one service provider.
- objectives. Fourth party logistics (4PL) has evolved as a solution comprehensively integrating the competencies of service providers, leading edge consulting firms and technology providers.
- Third party logistic suppliers provide logistics solutions based on the domain knowledge they have acquired over the years. 4PL solutions built around the domain knowledge provided by third party logistics suppliers.
- solutions. 4PL leverages combined capabilities of management and technology. The concept of a 4PL provider is an integrator that accumulates various technologies to run complete supply chain solutions.

# FUNCTIONS PROVIDE COMPANY

- Procurement
- Storage
- Distribution
- Processes



# VMI-VENDOR MANAGED

- Vendor/supplier undertaking inventory management in store
- This is called QRIS
- Supplier takes inventory replenishment decisions for the customer
- Monitors inventory levels and makes supply decisions regarding timing



# CPFR - COLLABORATIVE FORECASTING & REPLEN

- Sharing of forecast and related business information between products at the retail end and to improve supply chain efficiency
- Share information on business strategies, promotion plans, introduction, product schedule, the lead time information
- Increases product availability, and reduces cost.
- Process begins with an agreement between trading partners to collaborate on planning,
- Also share forecasts results and data
- CPFR technology analyses data and if the forecasts do not meet the companies





# EMERGING RETAIL TECH

1) Radio-frequency identification (**RFID**) uses electromagnetic

- automatically identify and track objects or persons at a distance

Radio waves. The tags contain electronically stored information

- Used in billing, inventory tracking and anti theft measures

2) Global positioning system (GPS) is technology that can give location  
anywhere on earth with respect to latitude and longitude

3) Geographic information systems (GIS) is a computer based system  
represent and analyze the geographical features present on the earth

It is useful in storing capturing analyzing and managing data and

GPS and GIS are used in store locating decisions, consignment  
definitions and logistic solutions

# RETAIL PRICE AND PROMOTION



**RETAILER  
PROMOTION**

# RETAIL MARKETING MIX

- Product –product development, product mix, product features and benefits , product branding and sales service
  - Price –costs , profitability , value for money, Quality and status
  - Place –Target market, Channel management ,Retail logistics and retail distribution
  - Promotion –Advertising management , Sales Developing promotion mix , Sales manager and direct marketing
  - People – staff capability , efficiency, availability customer interaction
- 
- Presentation



# RETAIL PRICING

Price defined as the exchange of goods and services in

Factors to be considered while arriving at pricing strategy

- 1) Business model the retailer has chosen to follow
- 2) Demand for product & target market
  - Store policies and image
  - Competition for the product and competitor's price
  - Economic conditions



# ELEMENTS OF PRICE

- Fixed costs-rent for office space,office equipment
- Variable cost-raw materials,hourly pay for contractor
- Price is the selling price per unit
- Break even point-where retailer neither makes nor lo



# EXTERNAL INFLUENCES ON STRATEGY

## 1) Customers

- Price sensitivity
- Customer segments

a) economic-do not differentiate between various retailers or service

b) Convenience oriented-prefer web shopping or shopping through

c) Image oriented-buy prestigious brands from value stores to customer service

d) variety oriented-Look for diversity in the product category

- Loyalty oriented-purchase from familiar outlets
- Look for strong relationships with the establishment

Difficult Comparison effect:

Store unique offerings whose prices cannot be compared  
high

Benefits /Price effect:

Defines the relationship between people's perception  
from a product and the price they pay for it

Benefits derived from ego gratification and recognition

- Situational effect:

Rich décor and good ambience gives the feeling of high  
product

- Suppliers:
  - When a new product is introduced
- Conflict between retailers and manufacturers
- Manufacturers who want to have control over price and consumer go in for exclusive distribution network
  - Retailer has his own methods of gaining control
  - Selling against Brand
  - Gray market goods-branded goods bought in foreign countries without proper payment of duty, imitation or stolen goods passed as original with invoice
  - Retailer asks for price guarantees



# CHARACTERISTICS

- The following characteristics influence bargaining power of
- Number of suppliers, size of suppliers
- Number of substitutes for a particular merchandise
- The switching costs from one supplier to another
- The suppliers level of forward integration to obtain higher

# COMPETITORS

- Threat of new competitors will depend on the extent of barriers to entry. Some barriers are
- Economies of scale-minimum size requirements for
- High initial investment and fixed costs
- Brand loyalty of customers
- Protected intellectual property such as patents ,licen
- Inadequacy of important resources
- Good customer relations of the existing players

# COMPETITION

- Perfect competition-all firms sell an identical product
- Monopoly-when production of goods or service with no c  
single firm with market power to decide price of its output
- Produce less and sell at high price
- Oligopoly-produce as much and charge little



# PERFECT COMPETITION

- Perfect competition is a market structure in which the following conditions are met:
  - 1) All [firms](#) sell an identical product;
  - 2) All firms are price takers - they cannot control the [market price](#);
  - 3) All firms have a relatively small market share;
  - 4) Buyers have complete information about the product and the cost of production for each firm; and
  - 5) The industry is characterized by freedom of entry and exit, and is sometimes referred to as "pure competition".

# GOVERNMENT

- They are broadly divided into two:
  - 1) One that affects buying of merchandise
  - 2) Affects the customer
- Price discrimination and vertical fixing
- Horizontal fixing
- Predatory fixing



- **Price discrimination**
- When a vendor sells the same product to different customers at different prices, it amounts to price discrimination
- **Vertical price fixing**-It involves agreements between parties at different levels of the market
- **Horizontal price fixing**-Agreements between competitors on direct competition with one another to fix prices
- **agreement** for co-operation between two or more competing businesses operating at the same level. This is generally to develop a healthy relationship with competitors.
- **Predatory pricing**-establish merchandise prices to drive competition away from the marketplace



## MARK UP PRICING

- Mark up-difference between cost of merchandise and final selling price
- $\text{Mark up} = \text{retail price} - \text{cost}$
- Cumulative mark up-calculated for gross profit
- Initial mark up-difference between cost of merchandise and the initial retail price
- Maintained mark up-difference between cost of merchandise and selling price

# MARK DOWN

- Reduction on the normal selling price
- $\text{Mark down} = \text{Normal SP} - \text{Reduced SP}$

**RETAIL PRICING**





# APPROACHES

- Cost oriented pricing
- Demand oriented pricing
- Competition oriented pricing
- Value oriented pricing



## **COST ORIENTED PRICING**

A method of setting **prices** that takes into account a company's profit objectives and that covers its costs of production. For example, a common form of **pricing** used by retailers involves simply adding a percentage markup to the amount that the manufacturer charges for the product.

The retailer has consider

- the product's average turnover
- Amount of competition for the product
- Level of service required
- Amount of sales time and effort

Basic Mark up is added to the cost of merchandise



# PRICING IN RETAIL

- Selling price = Cost + Markup
- Mark up%(retail) =  $(\text{Retail SP} - \text{Merchandise cost}) \times 100$

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Retail SP

- Mark up%(cost) =  $(\text{Retail SP} - \text{Merchandise cost}) \times 100$

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Merchandise cost



# DEMAND ORIENTED PRICING

**Demand oriented pricing** as the name suggests uses the **demand** in the market to determine the **price** in the market.

We first determine the customer's willingness to pay for any product. A high **price** is charged when the **demand** is high and a low **price** is charged when the **demand** is low.



# COMPETITOR PRICING

- When the prices adopted by the retailer plays an key role
- **Competitive pricing** is setting the **price** of a product on the **competition** is charging. This **pricing** method is used for similar products, since services can vary from business to business but product remain similar.
- A firm with strong site, superior service, good assortment sets prices above competitors



# STRATEGIES

- Differential pricing
- Price levelling
- Lifecycle pricing
- Price lining
- Price stability
- Psychological pricing
- Penetration pricing
- Leader pricing
- Promotional pricing



# RETAIL PRICING STRATEGIES

- **Price lining** is a term used by retailers when they sell their products at a fixed price.
- **Price range/price zone:** Range of prices for a particular merchandise.
- Number of price points that a retailer chooses to offer in a price range.
- **Price point:** Specific price in that price range.
- **Price bundling:**

Various products are bundled together and sold as one unit.

## **Loss Leader Pricing:**

Retailers price particularly fast moving products at a lower price to attract customers to their store.

They are sold at cost price or even at loss.



- **Multiple unit pricing**

Retailers offer a lower price per unit for two or more products or services bought together than when units are bought singly

**Everyday low pricing**

Continually price their products lower than other retailers in that market

**Odd-even pricing:**

It is setting pricing at odd numbers to denote a lower price or a good value

Setting prices at even numbers to imply higher quality

**Single pricing:**

Retailer charges the same price for the same product under similar conditions

**Pre-emptive pricing**

Setting low prices in order to discourage or deter potential entrants

**Extinction pricing:**

Setting very low prices in the short term in order to undercut competitors and drive them out of business.

Prices are set at a level lower than suppliers own cost of product

**Perceived value pricing:**

- Seller attempts to set the price at the level that intended buyer perceives as fair



- Price strategies that can be adopted by a retailer are
- **Market skimming:**

High price and lower it over time

Potential problems with this strategy:

- Dominant market share will be obtained by low cost
- Inventory turnover is low
- Entry of competitors
- Gain negative publicity
- Early purchasers feel cheated
- Makes organization inefficient

# PENETRATION PRICING

- Set a low initial entry price
- Main objective-increase share or volume
- Disadvantage-
- Establishes long term price expectations for the product a retailer
- Only switchers get attracted



# TACTICS FOR FINE TUNE PRICE

- **Coupons:**

Documents that provide right to the holder to purchase at a discount on the product.

**Rebates:**

Money returned to the buyer on the basis of some portion of the purchase price.

# RETAIL PROMOTION

- All communication that informs, persuade, and or reminds prospective segment about the marketing mix of the retail
- Methods of promotion
- Paid impersonal promotion
- Paid personal promotion
- Unpaid impersonal promotion
- Unpaid personal promotion



# FACTORS AFFECTING RE PROMOTION

- Type of product:

Frequently purchases require repeat messages

Industrial product-personal selling, product demo, sales presentation

Nature of market

Intensity of competition, locational characteristics of consumer members

# STAGES IN PLC

- Introduction & early growth-awareness creation and motivation
- Maturity-brand loyalty and brand preferences
- Budget availability-Limited resources-dealer display , wall paper
- Large scale-more sophisticated promotional tools

# COMPANY POL

Top management-role of promotion , product market strate  
wants to project.

Type of product marketed:

Business markets and consumer markets having different pro

# BUYER READINESS

Advertising and publicity –awareness building

Customer comprehension-advertising and personal selling

closing the sale- personal selling and sales promotion

re-ordering-influenced by advertising and sales promotion



# DEVELOPING PROMOTIO

- SMART
  - ✓ Specific
  - ✓ Measureable
  - ✓ Achievable
  - ✓ Realistic
  - ✓ Relevant
  - ✓ Targeted
  - ✓ Timed

# METHODS

- Paid impersonal promotion - TVC, Radios
- Paid Personal promotion – personal selling
- Unpaid impersonal promotion – publicity or coverage in n
- Unpaid personal promotion – Word of mouth

# FACTORS

- Types of product
- Nature of market
- Stage in product life cycle
- Budget availability
- Company policy
- Type of product market





# RETAIL PROMOTION STRATEGIES

- Retail advertisement
- Retail sales promotion
- Retail personal selling
- Retail public relation
- Retail publicity
- Retail word of mouth



### **Objectives:**

- Product quality objectives
- Skimming objectives
- Market penetration objectives
- Market share objective
- Survival objective
- ROI objective
- Profit objective
- Status quo objective
- Cash flow objective

# HUMAN RESOURCE MAN

- Align the capabilities and behaviours of employees with the needs of the retail firm
- Measure employee productivity
- Good quality of manpower is must for retail industry .
- Require to perform basic functions – buying, displaying and

# HR FUNCTION IN RETAIL ORGANISATION – HMR

- Job analysis
- Recruitment of retail employees –

Internal sources

External sources

- Selection of retail employees

Pre interview screening and preliminary interview

Formal application form

Interview

Psychological testing

Reference check

Physical examination

Job offer

- **Training of retail employees**

Group training method –

- Lecture method
- Audio visual method
- Discussion method
- Role playing method
- Panel method
- Round table method
- Brain storming method

Individual training method –

- On the job
- study course
- Individual coaching
- Observation post



# DIRECTION OF RETAIL E

- ❖ Communication and implementing company policies and strategies
- ❖ Counselling
- ❖ Establishing standards of performance
- ❖ Creating a favourable work environment
- ❖ Continuous training and development
- ❖ Responsibilities and expectation



# COMPENSATION OF RET. EMPLOYEES

- Types of compensation :

## **Financial Compensation**

Straight salary method

Straight commission method

Combination of salary and commission

Drawing account and commission plan

## **Non financial compensation:**

Promotion

Recognition program

Fringe benefits

perks

# CHALLENGES AND ISSUES

- High Turnover
- Talent crunch at middle and senior level managements
- Lack of professionally educated workforce
- Employee poaching in the retail industry
- Problems of work life balance



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