CHAPTER 3

CONCEPTUAL FRAMEWORK OF
RETAIL MARKETING MANAGEMENT

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Chapter 3

CONCEPTUAL FRAMEWORK OF RETAIL MARKETING MANAGEMENT

3.1 Introduction:

Retail is an age old, all pervasive activity. It is a process of selling goods and services in small quantities to the ultimate consumer for non commercial use. Barter could be considered an oldest form of retail trade where goods were exchanged for goods. As the mankind progressed, retailing assumed different forms as per the requirements of the society, its size and complexity. In today’s competitive world, retailing is just not about selling in the shops, but it entails a host of other activities that lure and retain the consumer for consumption on a sustained basis. Since retailing involves direct interface with the consumer and coordination of business activities from end to end, it is a dynamic link between the producer and the end user of the products. Retail is regarded as the mother of all industries because every other product ultimately converges into the retail store to reach the consumer. Unlike other sectors, retail has the ability to touch consumer’s lives in the most fundamental ways. Till there is life on this planet, there shall be demand and retailing is bound to exist as an indispensable socio economic activity.

3.2 Concept of Retailing:

The word retail is derived from the French word ‘Retaillier'\textsuperscript{106} which means to cut off a piece or to break bulk. It is the first point of consumer contact.

\textsuperscript{106} The North American Industry Classification System (NAICS), www.census.gov/epcd/naics.
Phillip Kotler: “Retailing includes all the activities involved in selling goods or services to the final consumer for personal, non-business use”.107

Vedmani Gibson: “Retailing involves a direct interface with the customer and the coordination of business activities from end to end—right from the concept or design stage of a product or offering, to its delivery and post delivery service to the customer”.108

- **Functions of a retailer**

  A retailer performs function of selling goods to the customers in whatever form they are procured from the suppliers. He stores goods in the shop and makes the same available to customers, as and when they prefer to shop. Several other functions of a retailer are buying and merchandising, marketing, sales, finance, advertising etc.

  Retailer breaks the bulk in smaller sizes for the convenience of individual consumer. Assortment of merchandise offers the consumer optimum array of products to choose from. The storing function involves stocking goods until customers are willing to buy and use them. Retailers create economic utility by providing goods at the time desired, in the desired form and shape.

  Retailers also help manufacturers to streamline their production cycle by providing market feedback. Retail trade is a labor intensive industry and also generates employment opportunities in the country.

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Types of retail formats

Retail formats are mainly divided into three categories, namely brick and store retail formats, non store retail formats and others. Brick and store formats are physical stores of various shapes and sizes where as non store retail formats include the conduct of marketing activity not from any single designated place. A detailed description of multiple categories of retail formats is provided.

### Table 3.1
Brick and Store retail formats

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Convenience Store</td>
<td>Independent retail format, similar to mom’s and pop’s store in India. Located close to residential area, easily accessible, friendly grocery and general provision store, limited space, approx 500 sq. ft.</td>
</tr>
<tr>
<td>2</td>
<td>Chain of Stores</td>
<td>Multiple stores set up by a single retailer in different localities, single ownership.</td>
</tr>
<tr>
<td>3</td>
<td>Franchise</td>
<td>Retail operations conducted by individual traders on behalf of and licensed by a big and supporting business organization.</td>
</tr>
<tr>
<td>4</td>
<td>Specialty Store</td>
<td>Store or chain of stores specializing in a narrow line of merchandising, offering specialized services to the customers, space approx 2000-5000 sq.ft.</td>
</tr>
<tr>
<td>5</td>
<td>Supermarket</td>
<td>A store, divided into different sections, selling food, grocery, general provision items along with limited volume and variety of non grocery items as well. Space approx 800-5000 sq.ft.</td>
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<tr>
<td><strong>6</strong></td>
<td><strong>Departmental Store</strong></td>
<td>A store with several departments, selling both food and non food items such as clothing, personal care, books and music items, consumer durables and so on. Space apprx 5000-40000 sq.ft.</td>
</tr>
<tr>
<td><strong>7</strong></td>
<td><strong>Hypermarket</strong></td>
<td>Very large in size, offer grocery and other general merchandise and host of other products in very large quantity and variety. Space apprx. 40000-80000 sq.ft.</td>
</tr>
<tr>
<td><strong>8</strong></td>
<td><strong>Shopping Mall</strong></td>
<td>An arrangement of several retail stores, providing a right mix of shopping, eating and entertainment, all under one roof. Space shared by anchor stores and other tenant retailers, apprx 80000-500000 sq.ft &amp; more.</td>
</tr>
<tr>
<td><strong>9</strong></td>
<td><strong>Shopping Plaza</strong></td>
<td>A combination of many small and medium scale tenant retailers, quite similar to shopping malls.</td>
</tr>
<tr>
<td><strong>10</strong></td>
<td><strong>Discount Store</strong></td>
<td>USP of the store is discount offered on merchandise available to the customer all the time of the year.</td>
</tr>
<tr>
<td><strong>11</strong></td>
<td><strong>Factory Outlet</strong></td>
<td>Store owned and operated by the manufacturing company for selling at low rates.</td>
</tr>
</tbody>
</table>

Source: compiled from different secondary sources.
## Table 3.2
Non Store retail formats

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Direct selling</td>
<td>Personal contact with the customer at his home or place of work, selling the products of low cost, could be multi level marketing.</td>
</tr>
<tr>
<td>2</td>
<td>Catalogue retailing / mail order retailing</td>
<td>Creation of customer database to develop targeted catalogues for select segments and eliminates personal selling.</td>
</tr>
<tr>
<td>3</td>
<td>Television shopping/ Tele shopping</td>
<td>The product is advertised on television, phone numbers are provided for placing the orders, followed by home delivery.</td>
</tr>
<tr>
<td>4</td>
<td>Electronic shopping</td>
<td>Use of internet for shopping. Click and mortar option to the buyers.</td>
</tr>
</tbody>
</table>

Source: compiled from different secondary sources.

## Table 3.3
Other retail formats

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Automated vending / Kiosks</td>
<td>Impersonal form of retailing, access is provided to the products round the clock for the convenience of the customers.</td>
</tr>
<tr>
<td>2</td>
<td>Cash and carry</td>
<td>Wholesale format that aids small retailers and businessmen, wide assortment of merchandise offered to the customers.</td>
</tr>
<tr>
<td>3</td>
<td>Warehouse clubs</td>
<td>Large warehouses providing a limited number of product lines to the customers.</td>
</tr>
</tbody>
</table>

Source: compiled from different secondary sources.
3.3 Theories of Retail Development:

Theories can be broadly classified into four categories:

1) Environmental theory

This theory envisages a change in retail activity as a response to environmental change. Environmental influences play a pivotal role in every aspect of life, whether individual or business. This theory states that those retailers, who successfully adapt to such changes both at micro and macro level, are the ones that are most likely to grow and prosper.

2) Conflict Theory

This theory believes in the creation of new formats that may arise as a result of the survival instincts between two similar competing businesses. It can also be through fusion, blending of two opposites which create a new format.

3) Life Cycle Theory

This concept is explained by Phillip Kotler. Retail organizations also pass through these identifiable stages of innovation, inception, growth, maturity and decline. Retail life cycle theory is about the changes in the retail business through time.

4) Cyclic theory

Also called as “Wheel of Retailing” Theory. The theory is propounded by McNair which suggests that there are three phases observed in this wheel.

a) Entry phase is innovative, which is characterized by fledgling operations, limited product offerings and a low status due to new entry into the market.

b) Traditional retailing phase with minimum business risk and low cost structure with wide offerings.

c) Mature phase that elevates the retailer from being traditional to a developmental stage with increase in prosperity.

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3.4 Retail strategies:

Retail strategy is a clear and definite plan that the retailer outlines to tap the market and build a long term relationship with the customer.\(^{110}\)

- Definition of strategy

Alfred Chandler\(^{111}\) (1962) defines “strategy as the determination of the basic long term goals of the business and adoption of courses of action and allocation of resources necessary for carrying out the goals”.

William Glueck (1972) “A Strategy is a unified comprehensive\(^{112}\) and integrated plan designed to assure that the basic objectives of the business are achieved”.


• **Strategy in retail perspective**

Every type of retailer must have a clear strategy as it is fundamentally essential for the existence and success of any retail organization. It helps to define the organization, its purpose of existence and how the retailer has planned to respond to various environmental factors. Retail strategy acts as a guide for the retailer to succeed in a competitive business environment. The primary areas in which a retailer has to determine his strategy are store location, merchandising, pricing and marketing, among others.

• **Process of strategic management in retail**

The process of strategic management is broadly divided into the following steps:

1) Establishing strategic intent
2) Environmental and organizational appraisal
3) Evolution of alternative strategies and making a strategic choice
4) Strategy implementation
5) Strategy evaluation and control

1) Establishing strategic intent

Strategic intent lays the foundation for strategic management. It includes the vision, mission, business definition and the objectives of the organization. Vision relates to the long term dream of the organization. Mission is a reflection of the relationship between the organization and the society. Business definition explains the business of the organization in terms of customer needs, customer groups, products and services to be offered and technology. The objectives of an organization state what is to be achieved in a given period of time and serve as yardstick and benchmarks for measuring business performance. In all types and
size of businesses including that of retail, strategic intent is essential, as the same offers a clear focus to the businessman.

2) Environmental and organizational appraisal

It is also called as situational analysis. Environmental analysis helps the retailer to understand the environment in which he is likely to operate. It also helps him to find out the opportunities and threats operating in the environment and the strengths and weaknesses of the business in order to create a match between them.

3) Evolution of alternative strategies and making a strategic choice

Since a retailer is the end point in the process of distribution, he can choose from among the following strategic alternatives on the basis of target market segment.

a) Stability strategy

It is an attempt made by the retailer, not to venture beyond what he is currently doing. He takes a conscious decision to serve the same set of customers, in the same manner. He might decide to make an attempt at an incremental improvement in the functional performance with a few minor changes.

b) Growth strategy

It may be market penetration, market development, adoption of multiple retail formats, market diversification, expansion through internationalization, i.e., by joining hands with world leaders. Different types of international strategies as a part of growth strategies that can be adopted by the retailer are franchising, acquisition, mergers, joint ventures etc.
4) Strategy implementation

Retailers require a large pool of resources- technical, financial, human, physical etc for running the business. Similarly, every aspect of the store operations needs to be planned and implemented minutely with constant focus on target market. Procedures, structure, operations, regulatory framework are other areas which need attention.

5) Strategy evaluation and control

Once the strategy is implemented, retailer needs constant feedback, so as to gauge the effectiveness of his plans so that modification and reformulations can be planned, if necessary. There are five dimensions of a retail strategy: location, merchandise, price, service and communication. These dimensions work together as a combined package, thus giving distinct identity to the retailer. The strategies are also supported by different tactics, prominent among which are store operations, logistics, purchasing, market research, finance and technology. Each retailer should determine which strategic combination would be suitable for him in order to survive and succeed in the market.

3.5 Types of retail operations:

Every retailer, irrespective of the size and volume of operations, has to perform several functions in order to run the business efficiently. Such operations are described in brief as follows:

- Merchandise Management

Merchandise management is defined as planning and control of merchandise inventory of the retailer, in order to enjoy optimum use of the merchandise, leading to enhancement in the productivity of business operations. Since merchandise planning and procurement is one of the core functions of retail, it has to be integrated with other functions such as finance, marketing,
warehousing and logistics and store operations. Steps in merchandise planning and management are as follows.

a) Development of sales forecast by analyzing past sales and future trends in order to determine the actual requirements of merchandise

b) A detailed planning about merchandise classification, sub categories, quality and range of assortment in order to decide about the Stock Keeping Units (SKU). SKU is the basic level of identification of merchandise from buyer’s point of view

c) Merchandise control is the step where efforts are made in maintaining planned relation between stock and sales and avoiding overstocking and under stocking. Other considerations that can be used in merchandise control process are financial aspect, USP of the store, types of customer base, strategy options etc. Usually, it is followed in big retail shops.

d) Assortment planning and range planning involves the depth of product category that needs to be bought. It helps in creating deep assortment of merchandise and benefits the buyer tremendously. Range planning, on the other hand involves efforts in creating a wide range for each type of products for offering. Range planning requires a clear understanding of the target customer segment.

e) Retailer then, has to prepare the final plan that gives precise idea about each merchandise line to be kept in a retail store and a plan for its procurement.

f) Merchandise procurement begins with the identification of the sources of supply, negotiations with vendors and so on. Sources such as trade magazines, yellow pages, trade fairs and exhibitions, newspaper and business magazines can be of great help to the retailer to trace the vendors. In the era of organized retailing, the new concept, “Vendor relationship” has come to stay as both look upon each other as natural partners unlike the past where their relationship was perceived to be competitive.
Organized retailing has also given rise to “private labels” concept. These are private store brands, which are store specific, and are available at much cheaper rates than branded products. Private labels as a part of merchandise planning is popularly gaining all over the world, including India.

- **Supply Chain and Logistic Management**

  It includes every effort in producing and delivering the final product from the supplier’s supplier to customer’s customer. Activities such as sourcing and procurement of raw material, production scheduling and assembly, order processing, inventory management, transportation and customer service are a part of supply chain management. It is managing the total flow of distribution channel from the supplier to the ultimate consumer. It can also be termed as quick response management which basically aims at cost cutting at every level by reducing the lead time gap between logistic pipeline and customer order cycle. Innovations in this field include CPFR (Collaborative Planning, Forecasting and Replenishment Management), Cross Docking, and Vendor Managed Inventory, which is commonly followed by the retailer’s world over. Logistic is a process of strategically managing the procurement, movement and storage of materials, part and finished inventory through the organization, and its marketing channels in such a way that current and future profitability is maximized through the cost effective fulfillment of orders.

\[\text{Supply Chain Council-www.supply_chain.org.}\]
\[\text{ibid.}\]
Retail Store Design and Visual Merchandising

Selling goods using visual stimuli is an age old practice but with the increasing growth of retail industry, “Visual merchandising” has come to occupy centre stage. Store design plays a crucial role in branding as it reflects and reinforces the image of the retailer. Store design is a very strong communication tool that helps in creating an image of the shop in the minds of prospective customer. Elements of store design include architecture of the shop, ambience, customer friendly pathways, space planning, attractive window display, location of the departments and products, material display at vantage points, atmospherics and aesthetics of the store as well as furniture’s, fixtures, ventilation etc.
Visual merchandising on the other hand is an attractive display of merchandise in the store with the sole objective of attracting the attention of the customers at the first glance. It includes SKU planning, window panes, floor display, use of different objects such as mannequins, platforms etc. The whole point of visual merchandising is to help the retailer to communicate his brand message so that customers can make better informed choice.

• Technology in Retail

It refers to the technology of production, storage and communication of information using information technology as a tool. It enables the retailer to cut down operating costs and improve productivity in the long term. The areas where retailer can use technology are sourcing and vendor management, merchandise planning and management, internal store operations, customer relationship management, among others. The technology applications in retail include EDI (Electronic Data Interchange) facility, intranet and extranet, UPC (Universal Product Code/Barcode) system, database management, data warehousing, data mining, RFID (Radio frequency Identification Technology) etc. Use of technology is still not taken up seriously by the Indian retail sector, particularly by the unorganized one. However, slowly but steadily, the awareness is catching up.

• Retail Marketing and Communication

Retail marketing mix includes four P’s of marketing, namely Product, Price, Physical distribution and Promotion. Retail communication mix includes advertising, sales promotion, personal selling, public relations as well as direct marketing. Judicious mix of communication tools helps in better customer service. CRM is another tool of retail marketing that aims at creating the die-hard, loyal band of customers for lifetime.
Retail marketing involves tools such as marketing mix, communication mix and customer relationship management. They focus on segmentation, targeting, positioning and branding of retail store and communicating the same to the visitor. Product offerings should be matched with the customer’s preferences as it helps the shopkeeper to optimize sales. Store location too is an important aspect of retail marketing mix as ideal location boosts the prospects of success. Price of the merchandise is yet another strategic area of retail marketing which needs very careful attention in the sensitive and competitive market. Proper use of communication tools create a customer pull and help the retailer to position himself in the market place and enjoy patronage of the customer.

Retailers who seek to understand their customers better must constantly be on the lookout of buyer’s behavior. It has to be consistent; the deliverables need to be always integrated with the mission, vision and philosophy which are the very essence of the existence of any retailer. Every retailer must make concerted efforts to get customer’s mind space along with his wallet, through his positioning efforts.
• **Human Resource Management**

Management of human resource is one of the strategic functions of retail management. Since employees are front end contact point of the customers, their motivation and proactive attitude is very much necessary for enhancement of sales. HRM is centrally managed in a large retailing organization, whereas it
is much simpler for a small retailer since he alone handles all the activities with the help of few assistants. Better alignment of human resource with actual services enables the retailer to improve customer service and maximize human productivity.

The strategic objective of HRM is to match the capabilities and behaviors of employees with the goals of the retailer. The retailer can motivate his employees by having clear cut policies and supervision, incentives and developing their skills and commitments through exposure towards training programs, empowerment and creating a sense of partnership in them.

**Financial Management in Retailing**

The success of retail depends on two key issues – the ability to manage costs and the ability to manage assets. A combination of retail statistics, accounting and financials is referred to as retail economics. Since the final objective of every business is to earn profit, financial planning becomes a much more essential task for the retailer. Retailer’s capacity to generate finance determines the scale of his operations. The measures of financial performance are income statement, balance sheet, ratio analysis and other special techniques such as GMROI (Gross Margin Return on Investment), GMROF (Gross Margin Return on Footage), GMROL (Labor) etc.

**Retail Pricing**

Price is a point at which a customer willing to buy a product coincides with the seller who is willing to sell his merchandise. Various factors influence the pricing decision as it is a very sensitive area of business. Various retail

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pricing strategies are break even pricing, markup and markdown pricing, market scheming and penetration, everyday low price, follow the leader, uniform pricing, differential pricing, psychological pricing, price bundling, loss leader pricing etc which are used by the retailer as per market situation.

• Ethics and Social Responsibility

Ethics is a system of moral values and is concerned with a branch of philosophy dealing with values related to human conduct. The retailer has to follow business ethics in his practices towards both internal and external stakeholders.

Social responsibility of business refers to the obligation to pursue those policies, to make those decisions or to follow those lines of actions which are desirable in terms of objectives and values of our society. Though business is basically an economic activity, it cannot only concentrate on profit maximization. Business is a part of society and must operate within the limits, rules and regulation prescribed by the society, despite its size and format.

3.6 Conclusion :

Retailing is a set of various business activities which adds value to the products and services sold to consumers either for personal or non business use. Management of retail necessitates the development and implementation of various functions, with the objective of maximizing the turnover as well as profit. The magnitude and intricacies of such operations depend upon the size and scale of the retail set up.

Since retailing is a service organization, its prime challenge is to keep customers interests alive. Some of the common bases for attracting customers include employing a team of dedicated employees, availability of wide assortment of merchandise, attractive display of products, promotional offers
and superior customer service and so on. Development of retail marketing strategy too is very much essential for building up sustainable competitive advantage in an ever changing market environment.

Another daunting task in front of the retailer is to cut down the cost in order to maximize benefits. Application of merchandise planning and control techniques, logistic management, supply chain management, adoption of technology etc helps the retailer to enjoy cost efficiency in the long run. In an evolving global retail scenario, adoption of management techniques of retail certainly gives an upper edge to the retailers of all scales.