CHAPTER 3
RETAILING: A CONCEPTUAL ANALYSIS

3.1. INTRODUCTION
The word retail is derived from the French word ‘retaillier’ meaning to cut a piece off or to break bulk. In simple terms, it implies a first-hand transaction with the customer. Retailing involves a direct interface with the customer and the co-ordination of business activities from end to end right from the concept of design stage of a product or offering to its delivery and post-delivery service to the customer. This industry has contributed to the economic growth of many countries and is undoubtedly one of the fastest changing and dynamic industries in the world today.

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 method 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.

Over the last few years, there have been sweeping changes in the general retailing business. For instance, what was once a strictly made-to-order market for clothing has now changed into a ready-to-wear market. Flipping through a catalogue, picking the right colour, size, and type of clothing a person wanted to purchase, and then waiting to have it sewn and shipped was the standard practice in the earlier days. By the turn of the century some retailers set up a storefront where people could browse, while new pieces were being sewn or customized in the back rooms. Almost all retail businesses have undergone a similar transition over the years.

Consumer money drives the economy, and retail is where consumers spend that money. When goods are put in the hands or shopping bags of consumers, retailers realize revenue-and so does the wholesalers, distributors and manufacturers that make up the rest of the consumer-goods distribution chain. In addition, retail
transactions serve as a means for collecting sales taxes, which support public services of all kinds. Retail goods are traditionally divided into durable goods, such as furniture, cars and large appliances, which are expected to last at least for five years, and non-durable goods, which include food, clothing and other categories far too numerous to mention but which eventually form the bulk stuff you see on makeshift tables at garage sales.

3.2. RETAILING: DEFINITIONS

There are many approaches to understanding and defining retailing; most emphasize retailing as the business activity of selling goods or services to the final consumer. Retail is defined as:

‘Any business that directs its marketing efforts towards satisfying the final consumer based upon the organization of selling goods and services as a means of distribution’.

The concepts assumed within this definition are quite important. The final consumer within the distribution chain is a key concept here, as retailers are at the end of the chain and are involved in a direct interface with the customer. However, the emphasis on final consumer is intentionally different from that on customer: a consumer is the final user of a purchase whereas a customer may have bought for his or her own use, as a present or as part of an own business activity. Purchases for business or industrial use are normally not retail transactions. Additionally, retailing includes more than the sale of tangible products, as it involves services such as financial services, hair cutting or dry cleaning.

Retailers are often referred to as 'middlemen' or 'intermediaries'. This suggests they occupy a middle position, receiving and passing on products from producers and wholesalers to customers. This is accomplished by the addition of service and the provision of the store in a convenient location to provide a successful channel of distribution. The key objective for any successful channel is to ensure availability of the right product, in the right quantity, at the right time via the right channel. All marketing channel decisions need to be related to ensuring that the customer is a
focal point for the selection and display of stock so as to make the sales operation as effective as possible.

Retailing may be understood as the final step in the distribution of merchandise, for consumption by the end consumers. It thus consists of all activities involved in the marketing of goods and services directly to the consumers, for their personal, family or household use.

From the customer's point of view, the retailer serves him by providing the goods that he needs, in the required assortment, at the required place and time. From an economic standpoint, the role of a retailer is to provide real added value to the customer. This comes from four different perspectives:

3.3. RETAILING: GENESIS
Retailing has, indeed, come a long way, Plato called a retailer a "kapelo" a "petty tradesman, huckster, tavern keeper, a cheat, a rogue, a knave." It has been no simple matter for successful retailers to dispel such myths. In a recent J. C. Penney annual report these words were used, "We shall continue to be concerned with increasing the profitability of these units. But we shall also keep firmly in mind a concern mutually shared with many of our customers, stockholders, associates and suppliers. That concern is for the quality of life – our social and physical environment". Most respected retail firms express a deep concern for the customer's economic welfare striving to operate efficiently and honestly offering high values and demonstrating an increased sensitivity to social, environmental and economic issues of the day.

American retailing has come a long way since the federal government first required a retail license in 1813. In the following year over 45,000 licenses were issued. By 1840 there were more than 57,000 retail stores in the United States with an average investment of $4,350. The physical size of such stores of the nineteenth century was exemplified by Filene's of Boston, which in 1881 had 24 square feet and was described as "one of the most modern of the day" with its genuine white marble floors and most artistic windows. This store has expanded and gained a reputation as the world's largest specialty store, doing over $100 million in sales per year.
A 100,000 to 150,000 square-foot retail store doing over $10 million per year of sales is by no means unusual today, and a 25,000 to 50,000 square-foot store doing from $2 million to $6 million per year is commonplace. The "pyramid of the twentieth century" that personifies this growth is the modern shopping center. In it are usually independent boutique shops, franchise operations, regional and national chain stores, specialty stores, department stores, variety stores and more and more "proven-performance" discount operations.

There is danger in "bigness" and rapid growth, however. The president of R. H. Macy & Co., for years the world's largest department store, expressed this concern when he said, "The greatest problem for retailing today is the danger of getting away from customer service and the personal feeling. The most valuable asset for the retail business is good will!"

### 3.4 RETAILING FUNCTION

Fig 3.1 Retailing Function

Retailing is a marketing activity. As such, it is a vital part of the total system of activities that the business sector performs in planning, pricing, promoting, and distributing products and services that will satisfy the wants and needs of present and potential customers. This system begins with extractive and/or manufacturing firms and ends with the final consumer. Within the system there is an ongoing process of movement and storage of goods so that the consumer can conveniently purchase desired and needed products at the time that he or she wants. Figure 3.1 shows the retailer linking the consumer to the process. The customer, as a consumer, performs the consumption function by using the products and services that he or she purchases from the retailer. Here it can be seen that the consumer comes in contact with, and becomes an integral part of, the total marketing system through direct interface
with the retailing function. The retailing function, whether performed by such well-known organizations as Bonwit Teller, Safeway, and Montgomery Ward, or whether it is accomplished by the local corner drugstore, involves the creation of utility. To economists, Utility is the want-satisfying power of a product or service. The retailer creates utility in four ways; assortment, time, place and possession. Assortment utility is performed in order to provide a proper selection of merchandise or services. The retailer purchases individual supplies from wholesalers and/or manufacturers in order to build a combination of products that is varied but related. This process is known as assorting. For example, the merchandise assortment in a ladies ready-to-wear store will include dresses, sportswear, coats, shoes, jewellery, gloves, and purses. These items are ordered in bulk from number of different manufacturers. By having related but different items in the store, the customer can fill certain needs without running from one store to another.

The first utility is regarding the form of a product that is acceptable to the customer. The retailer does not supply raw materials, but rather offers finished goods and services in a form that customers want. The retailer performs the function of storing the goods and providing us with an assortment of products in various categories. He creates time utility by keeping the store open when the consumers prefer to shop. By being available at a convenient location, he creates place utility. Finally, when the product is sold, ownership utility is created.

If retailing were catalogued to a historical period when basically the varied types of stores came on the American retail scene, we might have a diagram as in Figure 3-2.

**Figure 3.2 Development of Retailing**
3.5. FORMATS OF RETAILING

A business format is the manner in which a business chooses to serve its customers and stakeholders. In retail, a business model would dictate the product and/or services offered by the retailer, the pricing policy that he adopts, the communication that he follows to reach out to his customers and the size, look and the location of his retail store.

**Figure 3.3 Formats of Retailing**

(Source: Berman & Evans (2007) Retailing Management, Prentice Hall, Pg. No. 5)

3.5.1. Classification on the Basis of Ownership

On the basis of ownership, a retail store can be an independent retailer, a chain retailer or a corporate retail chain, a franchise or a consumer co-operative.

3.5.1.1 Independent retailer

An independent retailer is one who owns and operates only one retail outlet. Such an outlet is managed by the owner & proprietor and a few other local hands or family members working as assistants in the shop. Many independent stores tend to be passed on from generation to generation.

In India, a large number of retailers are independent retailers. Stores like the local baniya / kirana store and the panwala are examples of independent retailers, as are
stores like Benzer, Instyle, Premsons, Amarsons, etc. The ease of entry into the retail market is one of the biggest advantages available to an independent retailer. Depending on the location and product mix that he chooses to offer, he can determine the retail strategy. The independent retailer often has the advantage of having a one-to-one rapport with most of his customers. However, on the flip side, the advantages of economies of scale and the bargaining power with the suppliers is limited.

3.5.1.2 A chain retailer or a corporate retail chain

When two or more outlets are under a common ownership, it is called a retail chain. These stores are characterised by similarity in the merchandise offered to the consumer, the ambience, advertising and promotions. Examples in India include Wills Sports (ITC), Louis Phillippe, Van Heusen (Madura Garments), Arrow (Arvind Mills) and department stores like Globus, Westside and Shopper's Stop. Food world, Music world, Planet M, etc., are also examples of chain retailers.

The biggest advantage that a chain retailer has is that of the bargaining power that he can have with the suppliers. Cost effectiveness is also possible in advertising and promotions. However, since chains expand across cities and regions, it may not always be possible to take into account the regional or rural and urban preferences. The ability to give attention to each of the stores becomes fairly restricted.

3.5.1.3 Franchising

A franchise is a contractual agreement between the franchiser and the franchisee, which allows the franchisee to conduct business under an established name as per a particular business format, in return for a fee or compensation. Franchising can be:

- **A product or trade mark franchise**—where the franchisee sells the products of the franchiser and/or operates under the franchiser's name. Archie's stores, which have come up across India, are an example of product franchising.

- **A business format franchise**—McDonald's is perhaps one of the best examples of business format franchising.
Under both the mentioned methods of franchising, the franchise may be for a single store, a multiple number of stores or for a region or country. While outlets of Van Heusen, Louis Philippe, Arrow and Benetton are examples of individual franchises in India, Mc Donald's operates at a level of two regional franchises. Pizza Hut, Dominoes and Subway are also franchises operating in India.

3.5.1.4 Leased departments
These are also termed as shop-in-shops. When a section of a department in a retail store is leased/ rented to an outside party, it is termed as a leased department. A leased department within a store is a good method available to the retailer for expanding his product offering to the customers. In India, many large department stores operate their perfumes and cosmetics counters in this manner. A new trend emerging in Indian retail is that of larger retail chains setting up smaller retail outlets or counters in high traffic areas like malls, department stores, multiplexes and public places like airports and railway stations. These stores display only a fraction of the merchandise/products sold in the anchor stores. Their main aim is to be available to the consumer near his place of work or home.

3.5.1.5 Consumer co-operatives
A consumer co-operative is a retail institution owned by its member customers. A consumer cooperative may arise largely because of dissatisfied consumers whose needs are not fulfilled by the existing retailers. As the members of the co-operative largely run these co-operatives, there is a limitation on their growth opportunities. Examples of co-operatives in India are the Sahakar Bhandar and Apna Bazaar shops in Mumbai and Super Bazaar in Delhi.

3.5.2. Classification on the basis of the Merchandise offered
3.5.2.1 Convenience stores: These are relatively small stores located near residential areas; they are open for long hours and offer a limited line of convenience products. The Food Marketing Institute defines this format as a small store selling mainly groceries, open until late at night or even 24 hours per day and is sometimes abbreviated to c-store. The store ranges from 300 sq.mt. to 800 sq.mt. and they are targeted at customers who want to make their purchases quickly. The retail stores that have started coming up at petrol pumps in major cities like HP
Speed mart and In & Out are examples of convenience stores. International examples of retailers who operate convenience stores include 7-Eleven, Circle K, Albert Heijn and SPAR.

3.5.2.2 Supermarkets: These are large, low cost, low margin, high volume, self-service operations designed to meet the needs for food, groceries & other non-food items. This format was at the forefront of the grocery revolution, and today, it controls more than 30% of the grocery market in many countries.

The most widely used definition is a store with a selling area of between 400 sq.mt. and 2500 sq.mt. selling at least 70% foodstuffs and everyday commodities.12 ASDA, Safeway, Kroger and Tesco are some of the large international players. Example of supermarkets in the Indian market scenario are Food Bazaar, More for you, Spinach, Reliance Fresh, D Mart and Spencers.

3.5.2.3 Hypermarket: The word hypermarket is derived from the French word *hypermarche*, which is a combination of a supermarket and a department store. This retail business format has evolved since its invention by retailer Carrefour in Sainte Genevieve des Bois near Paris, in the year 196313. A retail store with a sales area of over 2500 sq.mt., with at least 35% of selling space devoted to non-grocery products, is termed as a hypermarket.14 The stores occupy an area which ranges anywhere between 80,000 to 2,20,000 sq.ft. and offers a variety of food and non food products like clothes, jewellery, hardware, sports equipment, cycles, books, CD’s, DVD’s, TV’s, electrical equipments and computers. It combines supermarket, discount & warehouse retailing principles. The hypermarkets are designed to attract customers from a significantly large area with their low price offers, unique range and offers.

Hypermarkets are today synonymous with one stop shopping. The cheapest prices will normally be found in these stores. Across the world, hypermarkets are usually part of a retail park with other shops, cafeterias and restaurants.
Key retailers who operate in this business model are Carrefour, Wal-Mart, Meijer, Super Targets, Tesco Extra Stores and Asda. Examples of hypermarkets in India include Giant, Big Bazaar, Hypercity, Central and Star India Bazaar.

3.5.2.4 Speciality stores: A store specialising in a particular type of merchandise or single product of durable goods viz, furniture, household goods, consumer electronics and/or domestic electrical appliances or a range of normally complementary durable goods product categories is termed as a speciality store. Such a business model is characterised by a high level of service or product information being made available to customers. These are also characterised by a narrow product line with deep assortments in that product line. Speciality stores usually concentrate on apparel, jewellery, fabrics, sporting goods, furniture, etc. They have a very clearly defined target market and their success lies in serving their needs.

Internationally, most speciality retailers would operate in an area under 8,000 sq. ft. Examples of international retail chains, which are speciality retailers, include The Gap, Ikea, High & Mighty, Big & Tall, etc. In India, speciality stores is one of the fastest emerging formats. Examples of speciality stores in India include retail chains like Proline fitness station and Gautier furniture.

3.5.2.5 Departmental stores: A departmental store is a large-scale retail outlet, often multi-levelled, whose merchandise offer spans a number of different product categories. Traditionally, department stores can be defined as averaging 7,000 sq.mt. selling at least fashion clothing, accessories, cosmetics, household goods and often a much broader assortment, from more or less separate departments on several floors. These establishments depend on food, clothing and home related items for at least 10% but less than 70% of their sales. Furthermore, these stores have at least 50 employees and a self-service ratio of less than 50%.

While department stores have been around in India for a long time, this format of retailing has a fair amount of action over the past few years. The size of average Indian departmental store varies from 20,000 to 40,000 sq.ft. and stocks anywhere
between 50,000 to 1,00,000 SKU’s. Some of the national players are Shopper’s Stop, Globys, Westside, Lifestyle, Akbarally’s, Bombay stores.

### 3.5.2.6. Off Price retailers:
Here, the merchandise is sold at less than retail prices. Off-price retailers buy manufacturers’ seconds, overruns or off seasons at a deep discount. The merchandise may be in odd sizes, unpopular colours or with minor defects. Off price retail stores may be manufacturer owned or may be owned by a speciality or departmental store. These outlets are usually seen by the parent company as a means of increasing the business. The factory outlets in case the manufacturer owns them, may stock only company merchandise. Examples of these include Pantaloon Factory Outlets, Levi’s Factory Outlets, etc. On the other hand, off price retailers owned by the speciality or departmental store may sell merchandise from the parent company as well as merchandise acquired from other retailers. This format depends on volume sales to make money.

### 3.5.2.7. Catalogue showrooms:
Catalogue retailers usually specialize in hard goods such as houseware, jewellery and consumer electronics. A customer walks into this retail showroom and goes through the catalogue of the product/s that he would like to purchase. Some stores require the customer to write out the product code number and hand it over to the clerk, who then arranges for the product to be brought out from the warehouse for inspection and purchase. Some of the popular showroom retailers in the world include Argos, Service Merchandise and Best Products. India’s most exciting retail store, Hyper City, has joined forces with Argos, the UK’s best loved high street name, to bring a new shopping experience to the customer. With over 680 stores and 34 years’ experience, Argos offers what customers want, when they want it, and has built a reputation on providing exceptional value and convenience. The Argos catalogue in India offers over 4000 top quality products for the home, from furniture to fitness, and from cookware to computing.

### 3.5.3.0 Non-Store Retailing
The ultimate form of retailing directly to the consumer is non-store retailing. A direct relationship with the consumer is the basis of any kind of non-store retail
venture. It may be broadly classified as direct selling and direct response marketing. While direct selling involves direct personal marketing, direct response marketing, the customer becomes aware of the products/services offered through a non-personal medium like mail, catalogues, phone, television or the internet.

3.5.3.1. **Direct selling**

Direct selling involves making a personal contact with the end consumer at home or at the place of work. Cosmetics, jewellery, food and nutritional products, home appliances and education materials are some of the products sold in this manner.

Direct selling may follow the party plan or the multilevel network. In the party plan, the host invites friends and neighbours for a party. The merchandise is displayed and demonstrated in the party atmosphere and buying and selling takes place.

In the multilevel network, customers act like master distributors. They appoint other people who work with them as distributors. The master distributor earns a commission on the basis of the products sold and distributed by the distributors.

3.5.3.2. **Mail Order Retailing / Catalogue retailing:** This form of retailing eliminates personal selling and store operations. Appropriate for specialty products, the key is using customer databases to develop targeted catalogues that appeal to narrow target markets. The basic characteristic of this form of retailing is convenience.

3.5.3.3. **Television shopping:** Asian Sky Shop was among the first to introduce television shopping in India. In this form of retailing, the product is advertised on television, details about the product features, price and things like guarantee/warranty are explained. Phone numbers are provided for each city, where the buyer can call in and place the order for the product. The products are then home delivered.

3.5.3.4. **Electronic Shopping:** It allows the customer to evaluate and purchase the products from the comfort of their home. The success of this form of retailing
largely depends on the products that are offered and the ability of the retail organisation to deliver the product on time to the customer. Strong supply chain and delivery mechanisms need to be in place for this to be a success.

3.5.3.5. **Information Kiosks** have emerged in the western markets as a new type of electronic retailing. These kiosks, comprising of computer terminals housed inside and a touch screen on the outside provide customers with product and company information and may actually aid the customer in making a purchase. A large number of international cosmetic companies have used this technology to an advantage. The terminals also serve as a market research tool for the retailers. A large amount of information about the people who have interacted with the system can be collected and programmes and products developed accordingly.

3.5.3.6. **Automatic Vending / Kiosks**: This is the most impersonal form of retailing. However, it provides convenience to the customers, as they have access to the products round the clock. It is a popular form of retailing abroad and is used to sell routinely purchased items like soft drinks, candy, cigarettes and newspapers. While tea and coffee vending machines are a popular sight at the airports in India, the Automated Teller Machines operated by banks are perhaps the most successful example of automated vending in India.

Kiosks have their applications in different areas of retail like within the retail environment as I-kiosks, which aim to provide access to far more products than the physical store can stock. Applications can also be seen across the government sector, banking and tourism, where not only Information is provided but other facilities like transit routes and the ability to create personalized itineraries may also be provided. Large retailers like McDonald's are using kiosks to let customers key in orders at some restaurants.

3.6. **RETAIL LIFE CYCLE**

The concept of product life cycle as explained by Philip Kotler\textsuperscript{15}, is also applicable to retail organisations. This is because retail organisations pass through identifiable stages of innovation, development, maturity and decline. This is what is commonly
termed as the retail life cycle.

Attributes and strategies change as institutions mature. The 'Retail Life cycle' is a theory about the change through time of the retailing outlets. It is claimed that the retail institutions show an 's-shaped' development through their economic life. The s-shaped development curve has been classified into four main phases:

a: **Innovation**
A new organization is born - it improves the convenience or creates other advantages to the final customers that differ sharply from those offered by other retailers. This is the stage of innovation, where the organization has a few competitors. Since it is a new concept, the rate of growth is fairly rapid and the management fine-tunes its strategy through experimentation. Levels of profitability are moderate and this stage can last up to five years depending on the organization.

b: **Accelerated Growth**
The retail organization faces rapid increases in sales. As the organization moves to stage two of growth, which is the stage of development, a few competitors emerge. Since the company has been in the market for a while, it is now in a position to preempt the market by establishing a position of leadership. Since growth is imperative, the investment level is also high, as is the profitability. Investment is largely in systems and processes. This stage can last from five to eight years. However towards the end of this phase, cost pressures tend to appear.

**Figure 3.4 Retail Life Cycle**
c. **Maturity**  
The organization still grows, but competitive pressures are felt acutely from newer forms of retail that tend to arise. Thus, the growth rate tends to decrease. Gradually, as markets become competitive and direct competition increases, the rate of growth slows down and profits also start declining. This is the time when the retail organization needs to rethink its strategy and reposition itself in the market. A change may occur not only in the format but also in the merchandise offered.

d. **Decline**  
The retail organization loses its competitive edge and there is a decline. In this stage, organization needs to decide if it is still going to continue in the market. The rate of growth negative, profitability declines further and overheads are high. The retail business in India has only recently seen the emergence of organized, corporate activity. Traditionally, most of the retail business in India has been small owner-managed business. It is hence, difficult to put down a retail organization, which has passed through all the four stages of the retail life cycle.

3.7. **RETAIL INDUSTRY - ITS CONTRIBUTION TO THE ECONOMY**  
Retailing is not only an integral part of our economic structure but also shapes, and is shaped by, our way of life. While the trading of goods has always been a part of traditional societies, in recent times the buying and selling of products has become a much more formalized and brand-dominated activity. Even as recently as the 1960s\textsuperscript{16}, retailing was predominately seen as having a smaller and significantly less important role than other industries such as manufacturing. However, the retail sector is increasingly being viewed as an important activity in the economy and its impact on society in general is readily acknowledged. This acceptance is a reflection of a number of factors; for example, retailing accounts for a significant proportion of the economy, it employs a large proportion of the workforce, and retailers today are among the largest and most sophisticated of organizations. The power of individual retail organizations is growing; they are now comparable with, and even bigger than, many manufacturers, which is an indication of the growing dominance of retailers within the supply chain. Certainly the annual turnovers achieved by retailers are comparable with the largest companies in other service industries. If the retail sector is compared with organizations within the hospitality
sector, and indeed with major corporations outside the service sector, the relatively powerful position of retailers is clear. The increasing importance of the retail sector is reflected in its contribution to GDP. In 1999, the UK retail sector accounted for about 10 per cent of GDP, thus a very significant proportion of the economy is linked to retailing. While public policy tends to recognize its importance as a driving force of the economy and aims to promote its sustained growth, other regulations, such as planning restrictions on large new stores and limits on store opening hours, act in favour of some consumer groups and small independent retailers - and balance the power of the multiple retailers. A significant historical reason underlying the perceived increasing importance of retailing is that its contribution to the economy is much more visible in the modern era than it was in the past. In less developed economies retail structures are less developed and are dominated by informal retailing, such as markets.

The retail price index is frequently referred to economic indicator. It is a measure that is based on a 'basket' of products across all retail sectors and compares prices over time in order to reveal the changes in the cost to households of typical purchase needs (Hart, 1996). In recent years the retail price index in the UK has been relatively stable, indicating stability in the economy. When the retail price index starts to rise, a government might introduce an interest rate rise to curb inflation, and if the price index looks like it might fall, an interest rate cut could help to prevent stagnation in the economy.

**A Global Viewpoint:** Retailing is increasingly a global business. A more structural retail industry with more multiple retailers (those with more than one outlet) is a sign that an economy is developing, as organizations specialize and gain economies of scale. Additionally, when disposable incomes rise, retailers play an active part in distributing increasingly discretionary goods to centers of population. Emerging markets are a real (although highly complex) opportunity for experienced retailers, especially if they are faced with high levels of retail provision and therefore competition in their traditional markets. As the artificial barriers to trade, such as import duty and quota restrictions, are removed from the global economy, many retailers will view the world as their marketplace and make sourcing and outlet
operation decisions on a set of criteria that are relevant across the globe. In UK some of the strongest recent entrants to the retail market are non-domestic players, such as Wal-Mart, IKEA\textsuperscript{18}, Toys Us and Zara, and some UK-based retailers are having considerable success on a global basis, such as Tesco and B&Q. However, long distance, political and cultural complexities are huge challenges to retailers, which can only be overcome by the strongest contenders. International retailing activities have often stemmed from retailers seeing opportunities for formats that are under-represented in new markets, such as the entry by the 'hard discount' supermarket operators (Aldi, Netto, Lidl) into the UK in the early 1990s.

Factors illustrating the growing importance of retail sector in the World Economy:
- large and increasing contribution to GDP
- economic importance more visible
- major employers
- retailers act as gatekeepers
- retailers diversifying their activities
- organizations grow on an international scale
- size of operations allowing for supply chain control
- blurring of areas of retail to include wider area of business activity

**KEY PLAYERS IN THE WORLD OF RETAIL**

**Table 3.1: Top 25 Retailers in World**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Retailer</th>
<th>Base</th>
<th>Type</th>
<th>Sales in U.S. $millions</th>
<th>Region</th>
<th>Regional Station</th>
<th>% of sales in foreign country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wal-Mart Stores, Inc</td>
<td>USA</td>
<td>Discount Store</td>
<td>163,532.00</td>
<td>N.America</td>
<td>Global</td>
<td>13.90%</td>
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<td>2</td>
<td>Carrefour Group</td>
<td>FRA</td>
<td>Hypermarkets</td>
<td>52,196.10</td>
<td>Europe</td>
<td>Global</td>
<td>37.70%</td>
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<tr>
<td>3</td>
<td>The Kroger Co</td>
<td>USA</td>
<td>Supermarkets</td>
<td>45,352.00</td>
<td>N.America</td>
<td>Single Country</td>
<td>0.00%</td>
</tr>
<tr>
<td>4</td>
<td>MetroAG</td>
<td>GER</td>
<td>Diversified</td>
<td>44,163.37</td>
<td>Europe</td>
<td>Global</td>
<td>40.00%</td>
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<tr>
<td>5</td>
<td>The Home Depot, Inc</td>
<td>USA</td>
<td>Hardlines</td>
<td>38,434.00</td>
<td>N.America</td>
<td>Global</td>
<td>3.70%</td>
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<td>Sr. No.</td>
<td>Retailer</td>
<td>Base</td>
<td>Type</td>
<td>Sales in U.S. $millions</td>
<td>Region</td>
<td>Regional Station</td>
<td>% of sales in foreign country</td>
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<tr>
<td>6</td>
<td>Albertson's, Inc</td>
<td>USA</td>
<td>Supermarkets</td>
<td>37,478.00</td>
<td>N.America</td>
<td>Single Country</td>
<td>0.00%</td>
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<td>Supermarkets</td>
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<td>Europe</td>
<td>Regional</td>
<td>36.00%</td>
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<td>8</td>
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<td>USA</td>
<td>Dept Store</td>
<td>36,728.00</td>
<td>N.America</td>
<td>Regional</td>
<td>10.60%</td>
</tr>
<tr>
<td>9</td>
<td>Kmart Corporation</td>
<td>USA</td>
<td>Discount Store</td>
<td>35,925.00</td>
<td>N.America</td>
<td>Single Country</td>
<td>0.00%</td>
</tr>
<tr>
<td>10</td>
<td>Target Corporation</td>
<td>USA</td>
<td>Discount Store</td>
<td>33,702.00</td>
<td>N.America</td>
<td>Single Country</td>
<td>0.00%</td>
</tr>
<tr>
<td>11</td>
<td>JC Penney</td>
<td>USA</td>
<td>Dept Store</td>
<td>31,503.50</td>
<td>N.America</td>
<td>Global</td>
<td>0.50%</td>
</tr>
<tr>
<td>12</td>
<td>Royal Ahold</td>
<td>NET</td>
<td>Supermarkets</td>
<td>31,222.15</td>
<td>Europe</td>
<td>Global</td>
<td>76.40%</td>
</tr>
<tr>
<td>13</td>
<td>Safeway Inc</td>
<td>USA</td>
<td>Supermarkets</td>
<td>30,801.80</td>
<td>N.America</td>
<td>Regional</td>
<td>10.80%</td>
</tr>
<tr>
<td>14</td>
<td>Rewe-Gruppe</td>
<td>GER</td>
<td>Supermarkets</td>
<td>30,567.69</td>
<td>Europe</td>
<td>Regional</td>
<td>19.70%</td>
</tr>
<tr>
<td>15</td>
<td>Tesco plc</td>
<td>UK</td>
<td>Supermarkets</td>
<td>30,404.40</td>
<td>Europe</td>
<td>Global</td>
<td>10.00%</td>
</tr>
<tr>
<td>16</td>
<td>Ito-Yokado Co, Ltd</td>
<td>JPN</td>
<td>Gen. Merchandise</td>
<td>30,237.57</td>
<td>Asia</td>
<td>Global</td>
<td>29.80%</td>
</tr>
<tr>
<td>17</td>
<td>Edeka-Gruppe</td>
<td>GER</td>
<td>Diversified</td>
<td>30,002.57</td>
<td>Europe</td>
<td>Regional</td>
<td>2.40%</td>
</tr>
<tr>
<td>18</td>
<td>Costco Companies, Inc</td>
<td>USA</td>
<td>Warehouse Clue</td>
<td>26,976.45</td>
<td>N.America</td>
<td>Global</td>
<td>18.40%</td>
</tr>
<tr>
<td>19</td>
<td>Tengelmann Warenhande</td>
<td>GER</td>
<td>Supermarkets</td>
<td>26,509.12</td>
<td>Europe</td>
<td>Global</td>
<td>47.90%</td>
</tr>
<tr>
<td>20</td>
<td>The Daiei, Inc</td>
<td>JPN</td>
<td>Diversified</td>
<td>26,486.11</td>
<td>Asia</td>
<td>Regional</td>
<td>N/A</td>
</tr>
<tr>
<td>21</td>
<td>Aldi Group</td>
<td>GER</td>
<td>Supermarkets</td>
<td>26,107.50</td>
<td>Europe</td>
<td>Global</td>
<td>32.50%</td>
</tr>
<tr>
<td>22</td>
<td>J Sainsbury plc</td>
<td>UK</td>
<td>Supermarkets</td>
<td>25,833.06</td>
<td>Europe</td>
<td>Global</td>
<td>15.00%</td>
</tr>
<tr>
<td>23</td>
<td>Auchan Groupe</td>
<td>FRA</td>
<td>Hypermarkets</td>
<td>23,742.42</td>
<td>Europe</td>
<td>Global</td>
<td>18.90%</td>
</tr>
<tr>
<td>24</td>
<td>Jusco Co, Ltd</td>
<td>JPN</td>
<td>Gen. Merchandise</td>
<td>23,166.21</td>
<td>Asia</td>
<td>Global</td>
<td>8.90%</td>
</tr>
<tr>
<td>25</td>
<td>Leclerc, Centres E</td>
<td>FRA</td>
<td>Hypermarkets</td>
<td>22,876.97</td>
<td>Europe</td>
<td>Regional</td>
<td>1.10%</td>
</tr>
</tbody>
</table>

(Source: http://www.worldb2blink.com/worldtopretailers.htm accessed on 10/01/2010)
3.8. EMPLOYMENT IN THE RETAIL SECTOR
Retail is a people-centric industry, and is one industry which can simultaneously expose you to many skills and disciplines. It offers many choices in terms of a career, chief among them being:

3.8.1. Buying and Merchandising: Merchandising and buying is often termed as a combination of art and statistics. It is a key function for any retailer as this department is responsible for the procurement of merchandise to be sold in the stores by sourcing it from vendors or manufacturers. Key tasks in this career area include selection of vendors, costing of merchandise procured, allocation of merchandise to the stores, developing distribution plans and calculating gross margins. A key aspect to be remembered is that very often, it may require extensive travelling to locate vendors and exclusive merchandise for the retail stores.

3.8.2. Marketing: In retail marketing, functions may be centralized and may include different departments like advertising, sales promotion and public/press relations. Marketing would also look at ways of understanding the customer and his behaviour by way of focus groups and analyzing of customer buying patterns to develop strategies and plans that guide marketing components like ads, websites, store signage, etc. The size of the retail organization would determine whether the various functions would be in one department or would be divided into various combinations.

3.8.3. Store Operations: Retail professionals in the store operations career area oversee overall store operations and profits. Positions include Head of Store Operations, Regional Manager and District Manager, and responsibilities in this area may include managing staff functions like loss prevention and/or human resources. Responsibilities in operations may vary from being responsible for a department, floor, and the entire store or for a group of stores. Successful store managers have the ability to lead and motivate employees as well as have an eye for detail. Store management involves all the disciplines necessary to run a successful business.
3.8.4. Sales: Very often, sales is considered as a part of store operations. Areas in sales include positions like sales associate, cashier, store stock associate and stock receiver. While the primary duty of a sales staff is to serve customers on the selling floor, actually selling goods; front-end sales staff may also be involved in receiving merchandise into the store, counting it and then displaying it on the store shelf. Responsibilities would also include receiving merchandise returned by customers. These front-end positions need the ability to deal with people, flexibility and importantly, the ability to work in teams. Very often, a sales position may be the entry position in retail. On the other hand, a cashier would work behind the cash register desk and would be responsible for billing of the merchandise purchased by the customer and the collection of the required amount of money. Many organizations would seek to train persons across functions in sales.

3.8.5. Finance: The finance retail career area includes all accounting and treasury functions like accounting for income, paying expenses, compiling and maintaining financial records, money management and cash flow control, banking, investment and credit lines. Auditing of stores for merchandise and money may also be a part of the responsibilities of this department. With the rapid development of retail in the country, understanding and implementing project finance may also emerge as a key area of responsibility in the next few years.

3.8.6. Human Resources: Human Resource in retail may range from recruiting and hiring employees to larger areas like identifying training needs at various levels within the organization and then designing and implementing the programmes. Responsibilities may also include overseeing compensation and benefits, and planning for and ensuring legal compliance in hiring and employment practices. It is necessary to remember that retail is a people focused business, but at the same time, it calls for long working hours at both the front and back end. The human resource needs to understand these aspects of the retail business while creating and implementing performance appraisals and promotions.
3.8.7. **Technology and E-commerce:** Retail is one of the most mature users of information technology. From RFID implementation to e-commerce websites, technology needs to be geared to tackle complex inventory systems, from technology-driven training programs delivered over satellites or the Internet to state-of-the-art cash register and credit systems. Careers in this department may range from overall responsibility for the data processing efforts within the chain, including systems design, programming, computer operations and information systems. Systems development may be another area, which would be responsible for programming one segment of the business such as merchandising, finance or logistics. A retailer who has a presence in the e-commerce segment may also look for individuals who may be responsible for strategy development, procurement of merchandise and the fulfilment of orders and payments as specific areas.

3.8.8. **Visual Merchandising:** Visual merchandising is largely associated with creating the look of the store. Visual merchandiser are responsible for the total merchandise or service presentation, the overall business image, and even the building and placement of design elements. The increase in competition has necessitated retailers to differentiate themselves from the competition. While products and services are the primary methods of differentiation, visual merchandising is fast becoming an area of differential advantage, as it is believed that attractive displays attract and stimulate, which in turn is believed to create increased sales.

3.8.9. **Supply Chain Management and Logistics:** Supply chain management and logistics are fast emerging as key focus areas in retail. Supply chain management is the integrated management of the flow of materials and products, services and information from raw material suppliers, through operations, to the final customer, and back again. Supply chain management and logistics is an integral factor affecting cost. Effective management of the supply chain enhances profitability. Depending on the size of the organisation, a job in supply chain management may involve analysing and negotiating contracts with suppliers, manufacturers and/or distributors, capacity and production planning, resource allocation and facility location and scheduling the transportation and logistics of products/services to their
final destination.

An indication of the important role retailers' play in today's society is their status as employers. It is estimated that the retail industry employs one in nine of the UK work-force. Retailers employ a significant proportion of the overall workforce, and they are particularly important employers of some groups. Notably, the retail sector has higher levels of female employees than many other sectors; indeed, it is estimated that more than two-thirds of the retail labour force are female. Also more than half of retailing employees are employed on a part-time basis (Labour Market Trends, 1998)\textsuperscript{19}, in part due to the need to maintain a highly flexible workforce capable of adapting to the differing labour demands. In the past the retail sector has had a reputation for not supporting its employees and for having lower pay and longer hours than other sectors. However, increasingly there are examples of retailers implementing innovative and supportive working conditions. For example, the DIY retailer B&Q\textsuperscript{20} has marketed itself to both its workforce and consumers as an organization supportive of part-time and older employees.

<table>
<thead>
<tr>
<th>Country</th>
<th>Share of Retail Industry in Total Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>8 %</td>
</tr>
<tr>
<td>China</td>
<td>6 %</td>
</tr>
<tr>
<td>Poland</td>
<td>12 %</td>
</tr>
<tr>
<td>Brazil</td>
<td>15 %</td>
</tr>
<tr>
<td>USA</td>
<td>11.7 %</td>
</tr>
<tr>
<td>Korea</td>
<td>18 %</td>
</tr>
<tr>
<td>UK</td>
<td>11 %</td>
</tr>
<tr>
<td>Malaysia</td>
<td>7 %</td>
</tr>
</tbody>
</table>

(Source: FDI in Retail Sector in India, Arpita Mukherji, Nitisha Patel, ICRIER Publication Pg. 31)
Table 3.3: World's Biggest Employers

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wal-Mart</td>
<td>1,700,000</td>
</tr>
<tr>
<td>McDonald's</td>
<td>438,000</td>
</tr>
<tr>
<td>Carrefour</td>
<td>430,000</td>
</tr>
<tr>
<td>Target</td>
<td>292,000</td>
</tr>
<tr>
<td>Kroger</td>
<td>289,000</td>
</tr>
<tr>
<td>Home Depot</td>
<td>273,000</td>
</tr>
<tr>
<td>Sears Roebuck</td>
<td>247,000</td>
</tr>
<tr>
<td>Tesco</td>
<td>242,980</td>
</tr>
<tr>
<td>Albertsons</td>
<td>241,000</td>
</tr>
<tr>
<td>Metro</td>
<td>208,616</td>
</tr>
</tbody>
</table>

(Source: Global Powers of Retailing, Jan 2008 Pg. no. 93)

3.9. CHALLENGES FACED BY GLOBAL RETAILERS

Till a few years ago, the American economy fuelled economic growth in many parts of the world. However, the recent economic slowdown there has forced many retailers to start looking at other economies. Rising fuel prices have also had a negative effect on the rapid expansion of the trade in various parts of the world. Retail at a global level is a reality, which has to be understood and faced by retailers. Globalisation is gradually emerging as an integral part of the retail strategy of many retailers. Listed below are some of the key challenges being faced by retailers worldwide:

3.9.1. The Emergence of New Markets: Asia, especially China and India are the emerging marketplaces. In the past, the sheer size of China and India did not necessarily lead to their having an impact as a market. The technological, transportation and industrial revolutions of the past two decades have changed much of that. Increasing urbanisation in both the markets has fast emerged as an important factor in the rise of these nations as important emerging markets. Together, China and India, or Chindia as they are now termed, are estimated to see their GDP rise to $6 trillion by the year 2020\textsuperscript{21}. They will consume 45-50\% of the world's natural resources and have the potential of becoming the world's largest...
exporter of goods and services with a 25% + share. Few marketers and retailers can hence ignore such a market.

3.9.2. The Empowered Consumer: Retaining the consumer is far more difficult today than it was a decade ago. Consumer lifestyles and demographics are changing rapidly. Spending power is increasing and technology is aiding consumers to make sound shopping decisions. Given the increased amount of choice in terms of products and formats, consumers now demand more for less from the shopping experience: more quality, choice, consistency and service, for less money, time, effort, and risk. Competition is not just on price, but on multiple firms.

3.9.3. Technology Enabled Efficiencies: Technology has enabled businesses and consumers to built efficiencies on the basis of the ability to receive and transmit data, at a fast speed. This information has today become critical for achieving efficiencies in all aspects of retailing. In the near future, retailer-supplier partnerships will depend on technology, substituting information for inventory in the pipeline to reduce costs while improving productivity. Retailers will rely on technology to establish links with consumers through electronic retailing and customer relationship marketing.

3.9.4. The Rise of the E-age: The emergence of internet retailing or e-tailing as it is popularly known, has been a key driver of change in retail. The increase in the number of internet users not only in the developed markets but also globally, has placed new demands on retailers. Online shopping facilitated by auction sites are the new realities of retail. Internet savvy consumers understand the power to shop and buy on their own terms. Internet both enhances and competes with the store, i.e., the brick and mortar experience. Comparison-shopping is a new reality of the e-age.

By the year 2010, RFID\textsuperscript{22} tags will be attached to most consumer products, turning ordinary items into smart products, the second main concept of the store of the future. RFID chips not only help retailers manage inventory, but they also help to increase sales. When shoppers enter the changing room at Prada's New York City
store, the RFID tag on the clothing is scanned at the doorway. The scan activates a video screen in the changing room that displays other clothing and accessories that are complementary to the item the customer chooses. This feature resulted in an increase in complementary sales at the Prada store. Technology will not only enhance inventory management but will also encourage smart shopping.

Retail in the years to come will be an age where the old adage of Darwinism will hold good. The competitive marketplace requires retailers to build competitive cost advantages in their lines of business. This will be a challenge, as understanding the consumer will not simply be based on demographics. As lifestyles change, buying behavior will become more complex and hence, less predictable. A retailer will have to choose whom to cater to; the days of one size fitting all may be over. The environmental changes occurring will force the retailers to re-examine and rethink their competitive strategies. Competition at the next level may not necessarily come from traditional competitors, but from new ideas or methods of doing business. As consumer lifestyles change and an increasing section of the population works from home, the method of shopping will also change. Channels of distribution will blur, and the internet will emerge as a powerful channel of distribution, and mobile commerce may soon become a reality. Lifestyle retailing, which refers to "the policy of tailoring a retail offering" according to the lifestyles of specific target market segments, will continue to evolve as consumer lifestyles evolve. Lifestyle retailers will continue to be at the forefront of retail change. The emergence of restaurants catering to specific cuisines and target audiences and niche retailers are examples of lifestyle retailing. Retailers may choose to target different segments with different product offerings thereby catering to different lifestyles.

In an age where the consumer is faced with a crunch on time, the mall may change to an entertainment center. Retailers will need to not only grasp customer trends, but also their relevance and then respond. Retailers may need to invent not only in terms of design but also in terms of richness and reach.
3.10. RETAIL CONSUMER BEHAVIOUR

A key challenge faced by the retailer is creating products & services which would be successful in the market. An accurate understanding of consumer needs helps the retailer create a product that is likely to be successful in the market. Consumer understanding or an understanding of the consumer buying behaviour is the starting point of strategy creation. It is not only important to understand what consumers know about a product, but also what they do not know. This helps in determining the channels of communication and the products that need to be created to cater to the needs of the customer. Understanding consumer knowledge can also help a firm assess how well it has achieved its product positioning goals. The firm needs to study consumers to see how its product is perceived; if there is a good match or not, and then, the positioning strategy can be deemed a success.

Retailers need to know the various influences that lead up to a purchase, not just the store where the purchase was made. This includes looking at a host of external & internal influences.

The process starts with:

- Understanding how the need for a product/service was determined.
- Understanding how information was sought by the customer.
- The process of evaluation of various products & stores.
- The payment process.
- The post purchase behaviour.

To understand consumer behaviour completely is not really possible, it is in the best interest of the retailer to know his customers. The earliest attempts to study Consumer Behaviour were motivation research, which relied heavily on Freudian techniques. Consumers can be studied in a variety of ways, including thorough observation, electronic surveillance, interviews and surveys, experimentation and sales analysis or consumption research. Firms must examine the demographics of customers, as well as the role of group influences and personal factors like attitudes, beliefs, motivations, etc. Populations are not static in the long term; they move around, with populations ebbing and flowing like the sea. Growth areas emerge
over time, some quickly, some slowly. Corporations analyze these population trends, and start planning to enter or leave markets accordingly. This is the process of analyzing constantly, the changing consumer trends, competition, external sources of influence, and company strengths and weaknesses. This may sound very easy, but in practice, it is often very difficult. It is also important to know how, when and where the customers use the product or service that the retailer sells. An objective analysis of internal strengths & weaknesses must also be made. This is often difficult, for strengths are often overstated, while weaknesses understated. An analysis of the competition is also in order. Some firms welcome competition, even trying to locate near competitors so that a ‘critical mass’ can be created. Finally, the external market factors must be considered, notably the economy, but also technological and legal/political issues as well. The retailer also needs to understand the competitors and how the customers perceive them. This would help the firm understand how they are perceived vis-à-vis the competition. It is also important to understand why consumers choose the competitors product over your product. This analysis may reveal some startling facts, and provide direction for future differentiation strategies. At the heart of every business strategy must be deep understanding. Paco Underskill, in his famous book ‘Why we Buy, The Science of Shipping, brings out some key facts about how consumers buy and the various influences on the same.

3.10.1. Consumer Behaviour: Definitions
Consumer Behaviour refers to the behaviour that consumers display in searching for, purchasing, using, evaluating, and disposing of products and services that they expect will satisfy their needs. The study of consumer behaviour is the study of how individuals make decisions to spend their available resources (time, money, effort) on consumption related items.23

Consumer Behaviour describes how consumers make purchase decisions and how they use and dispose of the purchased goods or services. The study of consumer behavior also includes an analysis of factor that influences purchase decisions and product use.24
The work of psychologist Kurt Lewin provides a useful classification scheme for influences on buying behavior. Lewin’s proposition is

\[ B = f(P,E) \]

This statement means that Behaviour \( B \) is a function \( f \) of interactions of personal influences \( P \) and pressures exerted by outside environmental forces. The statement is rewritten to apply to consumer behavior as follows:

\[ B = f(I,P) \]

Consumer Behaviour \( B \) is a function \( f \) of the interactions of interpersonal influences \( I \) – such as culture, friends, classmates, co-workers and relatives and personal factors \( P \) – such as attitudes, learning and perception\(^{25}\).

Simply stated, consumer behavior has traditionally been thought of as the study of “why people buy” – with the premise that it becomes easier to develop strategies to influence consumers once a marketer knows the reasons why people buy specific products or brands. Consumer behavior can also be defined as a field of study that focuses on consumer activities\(^{26}\).

Buying Behaviour is the decision processes and acts of people involved in buying and using products.

We need to understand the underlying factors as to

- Why consumers make the purchases that they make?
- What factors influence consumer purchases?
- What are the changing factors in our society?

**3.10.2. Steps of consumer buying process**

The steps of the consumer buying process are presented in a sequence of 5 steps as shown below.
However, whether a consumer will actually carry out each step depends on the type of purchase decision that is faced. For instance, for minor re-purchases the consumer may be quite loyal to the same brand, thus the decision is a routine one (i.e., buy the same product) and little effort is involved in making a purchase decision. But for more complex decisions, such as major new purchases, the purchasing process can extend for days, weeks, months or longer. So in presenting these steps, marketers should realize that, depending on the circumstances surrounding the purchase, the importance of each step may vary.

1. **Need/Want/Desire is recognized:** In the first step the consumer has determined that for some reason he/she is not satisfied (i.e., consumer's perceived actual condition) and wants to improve his/her situation (i.e., consumer's perceived desired condition). For instance, internal triggers, such as hunger or thirst, may tell the consumer that food or drink is needed. External factors can also trigger consumer's needs. Marketers are particularly good at this through advertising, in-store displays and even the intentional use of scent (e.g., perfume counters). At this stage the decision-making process may stall if the consumer is not motivated to continue. However, if the consumer does have the internal drive to satisfy the need they will continue to the next step.
2. **Search for Information**: Assuming consumers are motivated to satisfy their need, they will next undertake a search for information on possible solutions. The sources used to acquire this information may be as simple as remembering information from past experience (i.e., memory) or the consumer may take considerable effort to locate information from outside sources (e.g., Internet search, talk with others, etc.). How much effort the consumer directs toward searching depends on such factors as: the importance of satisfying the need, familiarity with available solutions and the amount of time available to search. To appeal to consumers who are at the search stage, marketers should make efforts to ensure consumers can locate information related to their product. For example, for marketers whose customers rely on the Internet for information gathering, attaining high rankings in search engines has become a critical marketing objective.

3. **Evaluate Options**: Consumers' search efforts may result in a set of options from which a choice can be made. It should be noted that there may be two levels to this stage. At level one the consumer may create a set of possible solutions to their needs (i.e., product types) while at level two the consumer may be evaluating particular) products (i.e., brands) within each solution. For example, a consumer who needs to replace a television has multiple solutions to choose from such as Plasma, LCD and CRT televisions. Within each solution type will be multiple brands from which to choose. Marketers need to understand how consumers evaluate product options and why some products are included while others are not. Most importantly, marketers must determine which criteria consumers are using in their selection of possible options and how each criterion is evaluated. Returning to the television example, marketing tactics will be most effective when the marketer can tailor their efforts by knowing what benefits are most important to consumers when selecting options (e.g., picture quality, brand name, screen size, etc.) and then determine the order of importance of each benefit.
4. **Purchase:** In many cases the solution chosen by the consumer is the same as the product whose evaluation is the highest. However, this may change when it is actually time to make the purchase. The "intended" purchase may be altered at the time of purchase for many reasons such as: the product is out-of-stock, a competitor offers an incentive at the point-of-purchase (e.g., store salesperson mentions a competitor's offer), the customer lacks the necessary funds (e.g., credit card not working), or members of the consumer's reference group take a negative view of the purchase (e.g., friend is critical of purchase). Marketers whose product is most desirable to the consumer must make sure that the transaction goes smoothly. For example, Internet retailers have worked hard to prevent consumers from abandoning online purchase (i.e., online shopping carts) by streamlining the checkout process. For marketers whose product is not the consumers selected product, last chance marketing efforts may be worth exploring, such as offering incentives to store personnel to "talk up" their product at the checkout line.

5. **After-Purchase Evaluation:** Once the consumer has made the purchase they are faced with an evaluation of the decision. If the product performs below the consumer's expectation then/she will re-evaluate satisfaction with the decision, which at its extreme may result in the consumer returning the product while in less extreme situations the consumer will retain the purchased item but may take a negative view of the product. Such evaluations are more likely to occur in cases of expensive or highly important purchases. To help ease the concerns consumers have with their purchase evaluation, marketers need to be receptive and even encourage consumer contact. Customer service centres and follow-up market research are useful tools in helping to address purchasers’ concerns.²⁷

³.**10.3. Factors influencing the Consumer Buying Behaviour**

The consumer decision making does not occur in a vacuum. The decision process is strongly influenced by Cultural, Social, Individual and Psychological factors
Cultural Factors: Cultural factors form a major factor that influence consumer decision making. Cultural factors exert the broadest and deepest influence over a person’s consumer behaviour and decision making\(^{28}\). Marketers should understand the way people's culture and its values, as well as their subculture and social class, influence their buying behaviour. Cultural factors are composed of three factors: Culture and values, Subculture and Social Class.
**Culture and Values:** Culture is the essential character of a society that distinguishes it from other cultural groups. The underlying elements of every culture are the values, language, myths, customs, rituals, and laws that shape the behaviour of the culture, as well as the material artefacts, or products, of that behaviour as they are transmitted from one generation to the next. Culture is, Pervasive, functional, learned and dynamic.

The most defining element of culture is its values. Values are the enduring beliefs shared by a society that a specific mode of conduct is personally or socially preferable to another mode of conduct. People's value systems have a great effect on their consumer behaviour.29

A culture can be divided into subcultures on the basis of demographic characteristics, geographic regions, national and ethnic background, political beliefs, and religious beliefs.

**Subculture:** A subculture is a homogeneous group of people who share elements of the overall culture as well as cultural elements unique to their group. Within subcultures, people's attitudes, values, and purchase decisions are even more similar than they are within the broad culture. Subcultural differences may result in considerable variation within a culture in what, how, when, and where people buy goods and services.

**Social Class:** A social class is a group of people who are considered nearly equal in status or community esteem, who regularly socializes among themselves both formally and informally, and who share behavioural norms.30 Social class is typically measured as a combination of occupation, income, education, wealth and other variables. Marketers are interested in social class for two main reasons. Firstly, social class often indicates which medium to use for advertising. Secondly, knowing what products appeal to which social class can help marketers determine where to be distribute their products.
Social Factors: When the perceived risk of decision making increases consumers seek the opinion of others to reduce their search and evaluation effort or uncertainty. Consumers also seek others' opinion when the product is new or sufficient information is not available. Usually consumers interact with reference groups, opinion leaders, and family members to obtain information about the product and approval of the decision.

Reference Groups: All the formal and informal groups that influence the buying behaviour of an individual are the person's reference groups. Consumers may use products or brands to identify with or become a member of a group. They learn to make their buying decisions by observing the members of the reference group.

Opinion Leaders: Opinion leaders or group leaders are usually from the reference groups who influence others. Opinion leaders are the first to try new products and services. It is important for marketing managers to persuade such people to purchase their goods or services.

Family: The family is the most important social institution for many consumers, strongly influencing values, attitudes, self-concept and buying behaviour. The family is responsible for the socialisation process, the passing down of cultural values and norms to the children. Children tend to learn the consumption patterns by observing their parents and tend to make the purchase in a similar manner.

Family members assume a variety of roles in the purchase process.
- *Initiators* are the ones who suggest, initiate, or plant the seed for the purchase process.

- *Influencers* are those members of the family whose opinions are valued.

- The *decision maker* is the member of the family who actually makes the decisions to buy or not to buy.
• The *purchaser* is the one who actually exchanges money for the product.

• The *consumer* is the actual user.

**Individual Factors:** A person's buying decisions are also influenced by personal characteristics that are unique to each individual, such as gender, age and lifecycle, and personality.

**Gender:** Psychological differences between men and women result in different needs, such as health and beauty products. Just as important are the distinct cultural, social, and economic roles played by men and women and the effects that these have on the decision-making processes.

**Age and Family Life-Cycle Stage:** The age and family life-cycle stage of a consumer can have a significant impact on consumer behaviour. The age of a consumer generally indicates what product he or she may be interested in purchasing. Consumer's tastes in food, clothing, cars, furniture, and recreation often age related.

**Personality, Self-Concept, and Lifestyle:** Each consumer has a unique personality. Personality is the broad concept that can be thought of as a way of organising and grouping how an individual typically reacts to situations. Thus, personality combines psychological makeup and environmental forces.

**Psychological Influences:** An individual's buying decisions are further influenced by psychological factors: perception, motivation, learning, and beliefs and attitudes. They are the tools consumers use to recognize their feelings, gather and analyze information, formulate thoughts and opinions, and take action. Unlike the other three influences on consumer behaviour psychological influences can be affected by a person's environment because they are applied on specific occasions.

**Perception:** A stimulus is any unit of input affecting one or more of the five senses: sight, smell, taste, touch, hearing. The process by which we select, organize, and
interpret these stimuli into meaningful and coherent picture is called perception. Selective exposure is the process whereby a consumer notices certain stimuli and ignores others. Selective distortion occurs when consumers change or distort information that supports personal feelings or beliefs. Selective retention is remembering only information that supports personnel feelings or beliefs.

**Motivation:** Motives are the driving forces that cause a person to take action to the specific needs. One popular theory is the Maslow's hierarchy of needs in the figure given below, which arranges needs in ascending order of importance: physiological, safety, social, esteem, and self-actualisation. As a person fulfils one need, a higher level need becomes more important.

**Learning:** Learning is the process that creates changes in behaviour through experience and practice. Almost all consumer behaviour results from learning. It is not possible to observe learning directly, but we can infer when it has occurred by a person's actions.

There are two types of learning: experimental and conceptual:

- **Experimental** learning occurs when an experience changes your behaviour.

- **Conceptual** learning is not acquired through direct experience.

**Beliefs and Attitudes:** Beliefs and attitudes are closely linked to values. A belief is an organised pattern of knowledge that an individual holds as true about his or her word. An attitude is a learned tendency to respond consistently towards a given object, such as a brand. Attitudes rests on an individual's value system, which represents personal standards of good and bad, right and wrong, and so forth; therefore, attitudes tend to be more enduring and complex than beliefs.

**3.10.4. Types of Consumer Purchase Decisions**

Consumers are faced with purchase decisions nearly every day. But not all decisions are treated the same. Some decisions are more complex than others and thus require more by the consumer. Other decisions are fairly normal and require
little effort.

In general, consumers face four types of purchase decisions:

- **Minor New Purchases:** These purchases represent something new to a consumer but in the customer’s mind is not a very important purchase in terms of need, money or other reason (e.g., status within a group).

- **Minor Re-Purchases:** These are the most routine of all purchases and often the consumer returns to purchase the same product without giving much thought to other product options (i.e. consumer brand loyalty).

- **Major New Purchases:** These purchases are the most difficult of all purchases because these are important to the consumer yet the consumer has little or no previous experience making the purchase and is important. This type of decision often requires the consumer to engage in an extensive decision making process.

- **Major Re-Purchases:** The purchase decisions are also important to the customer but the customer feels more confident in making the decision since they have experienced purchasing the product in the past.

For marketers it is important to understand how consumers treat the purchase decisions they face. If a company is targeting customers who feel a purchase decision is difficult (i.e. Major New Purchase), their marketing strategy may vary greatly from company targeting customers who view the purchase decision as routine. In fact, the same company may face both situations at the same time; for some the product is new, while other customers see the purchase as routine. The implication of buying behaviour for marketers is that different buying situations require different marketing efforts.

### 3.10.5. Importance of studying consumer behaviour

From a retailer’s perspective, we need to study consumer behaviour to be aware of:

- The needs as well as the purchase motives of individuals
• How demographic change may affect retail purchasing
• The different effects of various promotional tactics
• The complexity and process of purchase decisions
• The perception of risk for retail purchases
• The different market segments based upon purchase behaviour
• How retail managers may improve their chance of business success based upon understanding of what is required as part of the retail experience, and how customers react to that experience process based on all the retail marketing approaches utilised.

Analyzing buying behaviour is necessary to
• Know the buyer’s reaction to a firm’s marketing strategy as it has a great impact on the firm’s success.
• Know the what, where, when and how consumers buy as the firm has to create a Marketing Mix that satisfies or gives utility to the customers.

Marketing can better predict how consumers will respond to marketing strategies. Possibly, the most challenging concept in marketing deals with understanding the concept of why buyers do what they like or don’t do what they dislike.

Such knowledge is critical for marketers since they have a strong understanding of buyer behaviour, which will help shed light on what is important to the customer and suggest the important influences on customer decision-making. Using this information, marketers can create marketing programs that they believe will be interest to customers.

As we might guess, factors affecting how customers make decisions are extremely complex. Buyer Behaviour is deeply rooted in psychology with dashes of sociology thrown in just to make things more interesting. Since every person in the world is different, it is impossible to have simple rules that explain how buying decisions are made. But those who have spent many years analyzing customer activity have presented us with useful “guidelines” in how someone decides whether or not to make a purchase.
3.10.6. Consumer Behaviour Models
The most fruitful approach to an understanding of retail demand is to identify and evaluate the broader theories of consumer behaviour linked to purchase behaviour. The discipline of consumer behaviour has borrowed a range of concepts from the quantitative and behavioural sciences in order to generate integrated models of action.

Models of behaviour are useful means of organizing disparate bodies of knowledge regarding social action into somewhat arbitrary yet plausible process of intervening psychological, social, economic and behavioural variables. The early major theories were those of Engel et al. (1968): Howard and Sheth (1969) & Nicosia (1966). These models are explained as under:

3.10.6.1. The Engel-Kollat-Blackwell (EKB) model
The Engel-Kollat-Blackwell (EKB) model has been widely referenced and is acknowledged as the most comprehensive explanation of consumer behaviour. The EKB model takes a broad view, incorporating inputs such as perception and learning. A key feature of the EKB model is its incorporation of the difference between high and low involvement as apart of the buying process. High involvement is normally present in the decision making process when the perceived risk in the purchase is high. The element of risk is higher when the consumer is unsure about the outcome of his or her purchase decision. This arises when information is limited; the buyer has low confidence; and the price relative to income is high. Engel, Blackwell and Miniard (1996) stated that limited problem solving (LPS) activity takes place when there is little perceived risk that a wrong decision will be made. As they also point out, most consumer decisions are of LPS type. However, when present, the extended problem-solving (EPS) affects the amount of effort put into search to reduce the perceived risk. This will involve a great deal and more external searching.
The EKB model has the decision process as pathways of convergence passing through various stages of processing prior to any choice being made. The central process can be seen to incorporate five stages.

i) Problem recognition / arousal
ii) Internal search-alternative evaluation
iii) External search-alternative evaluation
iv) Choice / purchase
v) Outcomes as dissonance or satisfaction

The environmental factors, such as cultural norms and values, motives, etc. which influence these stages are important. The model incorporate influence which moves from the general to the specific, which is from the macro level (reference group, social class, norms) to the micro level (belief, intention and attitude).

3.10.6.2. Sheth’s family model of behaviour
Quite often the purchase decision process is investigated in terms of the individual as some models have stressed the individual as the single focus of attention. In case of high risk item an individual stands the risk of making a wrong decision and may
need the advice of more individuals for making the decision. The situation becomes more complex when the purchase has to satisfy the divergent needs of the group. A family decision involves multiple influences from its members. Within the theory of family buying behaviour there is the concept of role structure, that is, individual members of the family take on roles such as collecting information, deciding on the available budget, etc. whatever way a family makes its final decision, we have to realize that we are not dealing with a homogenous unit but with a collection of individuals with different goals, needs, motives and interests.

The Sheth model of the family decision process provides one of the few examples of an attempt to reciprocate the behaviour of group decision making. The problem with the schema of Sheth is the aspects of search, motives, beliefs and predisposition occur in tandem with each member of the group prior to there being a resolution of the group to a final decision, whereas joint or autonomous outcomes occur.

Figure 3.8: Howard Sheth Model of Buying Behaviour


The psychology of each individual considers the product or service on offer in relation to their own culture, attitude, previous learning and personal perception.
The consumer then decides whether or not to purchase, where to purchase, the
brand that he or she prefers and other choices\textsuperscript{32}.

\subsection*{3.10.7. Consumer Behaviour and its Correlation with Marketing Strategy}
The study of consumers helps firms and organizations improve their marketing
strategies by understanding issues such as how:

- The psychology of consumers, how he/she think, feel, reason, and select
  between different alternatives (e.g. brands, products);

- The psychology of the consumer, how he/she is influenced by his or her
  environment (e.g. culture, family, signs, media);

- The behaviour of consumers while shopping or making other marketing
decisions.

- Limitations in consumer knowledge or information processing abilities
  influence decisions and marketing outcome;

- How consumer motivation and decision strategies differ between products
  that differ in their level of importance or interest that they entail for the
  consumer; and

- How marketers can adopt and improve their marketing campaigns and
  marketing strategies to more effectively reach the consumer.

\subsection*{3.11. CUSTOMER RELATIONSHIP MARKETING IN RETAIL}
Retail CRM is 'to establish, develop, maintain and optimise long-term, mutually
valuable relationships between consumers and retailers, so as to gain incremental
value to all the stakeholders'.

CRM is the process or methodology used to learn more about customers’ needs and
behaviours in order to develop stronger relationships with them. From the above
definition, we can infer that the customer is the most important part of any business.
Competition can steal your customers if you are not proactive, and the cost of keeping current customers happy is less than the cost of acquiring new ones.

CRM processes help businesses to identify and target their best customers, generate quality sales leads and plan and implement marketing campaigns with clear goals and objectives. CRM processes help form individualised relationships with customers (to improve customer satisfaction) and provide the highest level of customer service to the most profitable customers. It also provides employees with the information they need to know their customers' wants and needs, and build relationships between the company and its customers.

CRM reflects the company's attitude, rules and solutions that manage the process of selling to and making customers happy. There are many technological components to CRM, but thinking about CRM in primarily technological terms is a mistake. The more useful way to think about it is as a process that will help bring together lots of pieces of information about customers, sales, marketing effectiveness, responsiveness and market trends. CRM helps businesses use technology and human resources to gain insight into the behaviour of customers and the value of those customers.

3.11.1. CRM APPLICATIONS IN RETAILING

- **Retail Customers:** You can please some of the people most of the time and most of the people some of the time, but you can not please all the people all the time. The CRM programme allows the company to identify its best customers. A customer is a person who becomes accustomed to buying from you. This customer is established through purchase and interaction on frequent occasions over time. A true customer is 'grown' over time.

- **Increased Competition:** The relationship the retail business has with its customer is its only defensible competitive advantage. Products are easy to copy, services are difficult to copy but the learned relationship the customer has with his or her supplier is nearly impossible to reproduce.
• **Repeat Purchase:** Repeat purchases come only through customer satisfaction. In order to satisfy an existing customer, individual attention should be provided to customers. This can be done by greeting the customers on their special occasions, providing offers on their celebrations etc. Customers do not like to undergo the trouble of explaining their preferences to multiple companies. Therefore, customers have an incentive to remain loyal to a company, and the company gains a strategically defensible advantage over its competitors.

• **Up selling and Cross-selling:** Cross-selling is selling an additional product to existing customers, usually related to what they have already bought. Up selling is selling a better but usually more expensive product to customers, after they have decided on a cheaper product. CRM encompasses retailers' efforts to become more familiar with the shopper's browsing and purchasing habits and drive sales across channels.

• **Customer Acquisition:** The threat of losing customers is an ever-increasing business risk for many retailers. As competition intensifies in most markets, a customer's switching 'cost' decreases. The growing popularity of retailers offering an increased variety of producer lines can significantly affect a customer's choice. A customer can be lured away by a retailer offering more items at the same or lower price.

**3.11.2. STRATEGIC FRAMEWORK FOR CRM IN RETAIL**

Today's retail markets have changed. Customers are demanding higher levels of service, better products and more recognition. To meet these higher expectations and to combat intense competition for customer loyalty, retailers are turning to CRM solutions. CRM is an integration of strategy, technology and human resources to manage customer interaction.
3.11.3. Challenges:

1. **Powerful retailers**: Retail today is all about being better, faster and leaner. Powerful retailers with big pockets can implement advanced CRM software, which gives them an edge over the smaller retailers.

2. **No Customer Information**: Lack of comprehensive customer knowledge is an impediment for determining profitability from the customer relationship.

3. **Dissatisfied customers**: Customer satisfaction occurs when the total experience of the customer has been met or exceeded the customer expectations. However, when the expectations are not met the customer may feel dissatisfied. A dissatisfied customer may express his dissatisfaction, which may cost the company.
4. **No Loyalty Programme Differentiation**: Retail loyalty programmes evolved when progressive retailers recognised that without a 'customer identification tool', they were unable to recognise individual customers and reward them for desired behaviour. Most of the retailers started loyalty programmes to retain their loyal customers. In the race to win customers, retailers did not attempt to differentiate their loyalty programmes from that of the others. This resulted in almost all the retailers having more or less the same loyalty programmes.

3.11.4. CRM Tools

1. **Database Marketing**: Database marketing is an important part of analytic CRM. Formally, database marketing was a form of one-to-one direct marketing in which databases at customers (or potential customers) are used to generate personalised communications in promoting products or services. Due to the richness of customer information, database marketing places emphasis on the use of analytic methods in selecting or targeting customers for marketing purposes. Database marketing may include the following:

   • Customer profiling
   • Customer segmentation
   • Customer scoring
   • Customer retention
   • Cross-selling
   • Up selling

Customer information that can be used in analytical database marketing may include the following:

   • Demographic variables describe characteristics of populations and include age, gender, race, education, occupation, income, religion, marital status, family size, children, home ownership, socio-economic status and so on.
   • Geographic variables include various classifications of geographic areas, for example, zip code, state, country, region, climate, population and other geographical census data. Note that this information can come from national census data.
• Psychographic variables describe lifestyle, personality, values, attitudes and so on.
• Behavioural variables include product usage rate and end, brand loyalty, benefit sought, decision-making units, ready-to-buy stage and so on. This information can be extremely useful for marketing purposes.
• Past business history includes various business statistics on customers. This provides essential business indicators and therefore is very important information.

In addition, RFM information can be included in the list:
• Regency: Customers who purchased recently tend to buy again.
• Frequency: Customers who purchased frequently tend to buy again.
• Monetary Value: Customers who purchased the most monetary value tend to buy again.

2. **Loyalty Programmes:** Loyalty programmes are structured marketing efforts that reward and encourage loyal buying behaviour, which is of potential benefit to the retailer. Loyalty programmes can be segregated as follows:
• Loyalty Card
• Rewards Card
• Points Card
• Advantage Card
• Club Card

A retail establishment may issue a loyalty card to a consumer who can use it as a form of identification when dealing with the retailer. By presenting the card, the purchaser is either entitled a discount on the current purchase or an allotment of points that can be used for future purchases. Loyalty programmes are aimed to hold the customers to the retailer and for increasing the ticket size whenever they shop. Big retailers like Tesco give away a Club Card and Sears has its own Sears Credit Card.
3. **Retention Strategies**: Everyone wants to retain their existing customers. Few retailers, however, are implementing positive strategies aimed at retention. Their advertising and sales programmes are designed to find and promote their products and services to new customers. While they all have customer service departments and most have a customer service toll free number, they lack an integrated marketing strategy that is directed at retention and that defines retention as a measurement of success. Given below are a few retention strategies:

- Membership cards and membership programmes
- Welcome and thank you communications
- Satisfaction surveys followed by phone calls and letters
- Beefed up customer service, empowered to solve problems
- Frequent buyer programmes, which permit customers to build up equity

4. **Customer Experience Management**: Customer experience management is an internal response of an individual to their interaction with a retailer product, people, process and environment. An internal response includes thoughts, feeling and emotions experienced and the rational, psychological benefits and sensory benefits of the experience. It can be elaborated further as follows:

- Physical Benefits: The physical items associated with the product or services, for example, the merchandise displayed in the store.
- Sensing Benefits: Smells, sights, sounds of environment, for example, music in a luxury store, smell of freshly baked bread in a hypermarket.
- Emotional and Psychological Benefits: Sense of security, ego gratification, sense of belonging, feeling competent, attractive, successful, etc., for example, in the case of lifestyle stores or lifestyle brands like Armani, Gucci, etc.
- Rational Benefits: The utility or benefit that the product can offer, for example, the uses of the staple merchandise in a retail store.
- Deep Psychological Drivers: Mostly triggered by cues and symbols, personal metaphors and related to perception, for example, brand name, brand logos, etc.
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