2

A SURVEY OF THE LITERATURE

Nature of Retailer and Retail trade

Some Early Views

"In the earliest known historic periods, 2000 B.C. or earlier, there was a well defined retail trade; towns were full of shopkeepers, peddlers and traders were in constant movement from community to community. Despite the importance of trade, shopkeepers were as a rule held in low repute. Traders were lower in social order than those occupied with politics, religion, military life or even agriculture. The shopkeepers were considered dishonest and immoral. Most religions held small businessmen in low esteem. "The church branded retailers as sinners because they did nothing to improve a product, but charged a higher price."2

"During the period of prosperity and power of Greek city states and later of the Roman Empire retail trade in common with commerce in general, develops to a very high point, not only as to forms and types of shops and methods of trading but also to extent and volume. Goods were offered for sale in booths, on porches or in outer rooms facing the street. The arrangement and displays of goods were probably much like those found in the shops or bazars in the Orient today."3

The traders usually lived in the room or room's back of his shop or on the floor above. The shops were managed by the owner and his wife and occasionally with the help of children or slaves. In Indus civilisation also we got evidence of shops in the traders houses. "" ""even in these houses. rooms on the ground floor served as shops and stores (godowns)"4

There was certainly a well established consumer interest in shopping and retail trading sections of the larger cities must have had their daily crowds. Men's and women's apparel,
foot wear, jewellery, perfumes and home furnishings were subject to fashion changes and Rome in the days of empire was the centre of the fashion world. People of the most distant lands followed these fashions as closely as they could through the reports of travellers and couriers. Indeed there seems to have been a trade by messenger and post comparable to the present mail order business. But it is very difficult in fact to point any type of retail institutions-chain store or department store - which did not have more or less well defined beginnings in Ancient Greece and Rome.

During the fourth and fifth centuries, when Roman empire went to pieces, retail trade declined along with commerce of all kinds. From 500 to 900 A.D. such trade as existed in western Europe was carried on by barter, through fairs, in primitive market places and by travellers and itinerant peddlers. By the tenth century retail trade again appeared. The old market places were reopened, periodical fairs came into existence. "Retailing emerged as a separate business function from the fairs, the bazars and the guild controlled shops of the middle ages."

The eighteenth century saw the peak of the development of the small retail shop. The lines of development of retail trade in North America were different from those of Europe. The prehistoric Indian trade which existed before the arrival of white men gave way to the trading post period, in which commerce was carried on between white traders and the native Indians, generally on a basis of barter. With the beginning of white settlements, there arose a type of retail trading establishment, the general merchandise store; This in turn slowly gave way to single line shops, much like those that existed in England and other European countries in the eighteenth and nineteenth centuries. The development of retail trade in United States also has been similar to that of other and older countries.

But the middle of nineteenth century saw a new factor in retail trade - large scale retail institution. Such institutions as department stores, mail order house and chain stores developed and side by side the small retail shop is the still dominant form of retail trade in most of the countries of the World.

The world of retail trade has changed very much in recent years. The changes have been driven by several forces in the environment of the retail trade. Consumer demographics and needs are changing, and retailers are responding to these changes. Technological
development, population explosion along with the changes of the geographic, socio-cultural, economic, legal, psychological framework of the target consumer market have made the retail trade management more complex. The main objective of retail trade management is customer satisfaction in an effective manner so that consumers find it easy and attractive to buy and retailing truly serve the society. W. Edwards Deming stated three principles (1) customer satisfaction (2) continuous quality improvement and (3) taking care of the employees with training and giving them the tools for success. The retailers must make complex decisions in selecting target markets, locating stores, determining what merchandise and services to offer, negotiating with suppliers and deciding how to price, promote and display merchandise. Making these decisions in a highly competitive, rapidly changing environment is challenging and exciting with big opportunities for financial rewards. In this chapter, the important areas like - planning and managing financial resources, human resources, store, pricing and merchandise have been discussed.

2.1 FINANCIAL MANAGEMENT

2.1.1 Financial Records
All businesses need sound financial management and retail enterprises are no exception to that rule. Proper management accounts with proforma cash flows, profit and loss accounts and balance sheets are essential if a firm is to survive and prosper, as is variance analysis comparing what was planned with what actually occurred. So for this purpose, records of cash and materials are necessary. Because records are the basis for guiding and controlling the operations of a retail organisation. They tell how much is owed employees, the Govt., the suppliers. They tell whether the business is making profit. They tell when, how much and what type of merchandise are needed in the store. And they help the trader make plans for the future. Records are the tools of the trade, providing information to make decisions. To fulfill their functions, records must be timely, accurate, complete and convenient to use. The type of retail business, availability of human and financial resources, the type and extent of the retailer's informational needs, retailer's ability to use information in the records and the information necessary to assess the business's tax liability - are the variables which constitute an adequate set of records. There are numerous items of records kept by the retailers. But there are three areas in which it is absolutely essential to keep records, sales, merchandise inventory and expenses.
2.1.2 Financial statement

An evaluation of the financial condition of a retail store should tell four things: whether the store can pay its bill on time, whether it is making a profit, whether it has a healthy balance between debt funds and ownership funds, and whether its assets are productive. Financial records are utilized to evaluate a store's performance. Measures of a retailer's ability to meet its cash obligations include the average collection period of accounts receivable and the stock turnover rate. Productivity is evaluated by the total asset turnover rate and the ratio of net sales to working capital. A store should evaluate profitability in terms of net profit to sales, total assets and net worth. Gross margin analysis is another tool for determining financial performance. Another financial management tool that has been quite popular as a method of improving retailing performance is activity-based-costing. In activity-based costing, all major activities within a cost centre are identified and costs of performing each are calculated. The resulting costs are then charged to the product, product line, customer or vendor that caused the activity to be performed.

Financial Planning—An integral part of a retailer's overall strategy is the development of a plan that projects the financial performance of the business. The plan will aid management in determining its future liquidity position, its profit potential and its growth limitations. Balance Sheet, expense budget, cash budget, Proforma income statement and Proforma balance sheet are the main components of a complete financial plan. Information for developing a financial plan comes from current financial records and the goals of the retailer.

2.2 Human resource Management in retail trade

Retailers are to rely on people to perform the basic retailing activities such as buying, displaying merchandise and providing service to customers. Because, retailers by their very nature play a boundary spanning role in the distribution channel. They deal with businesses from which they obtain goods as well as the market to which they sell goods. Retail employees are the 'face' the customers and the vendors see. Often the only thing that differentiates one store from another is employee service. It is often the sales associates that deal directly with customers. Their actions affect every aspect of success. A customer who receives poor service will not only refuse to return but in most cases tell friends and
acquaintances about the lead experience. It is the retailer's responsibility to make sure that each customer is treated well. In manufacturing, if an employee fails to do something properly, it can usually be caught and repaired before leaving the assembly line. In retailing, little can be done to correct poor service after a customer has left the store. In many manufacturing firms, capital equipment (machinery, computer systems) is now used to perform jobs employees once did. But retailing and other service business remain labour-intensive. So human resource management is especially important in retailing because employees play a major role in performing retail functions. Labour costs typically are over twenty-five percent of sales and fifty percent of operating costs in fashion-oriented department and specialty stores. Human resource management in retailing is very challenging. Most retailers open long hours and weekends to respond to the needs of family shoppers and working people. In addition, peak shopping periods occur during different festivals. To accommodate these peak periods and long hours, retailers must complement their one or two shifts of full time employees with part time workers. Part-time workers can be more difficult to manage than full time employees. They often are less committed to the organisation and the job and more likely to quit than full time employees.

Retailers must also control expenses and thus are cautious about paying high wages to hourly employees who perform low-skill jobs. Often retailers hire people with little or no experience to work as sales associates, waiter and stock clerks. High turnover, absenteeism and poor performance often result from use of inexperienced, low-wage employees. The lack of experience and motivation among retail employees is particularly trouble some because these employees are often in direct contact with customers. Unlike manufacturing employees on an assembly line, retail employees work in areas that are highly visible to the firm's customers. Poor appearance, manners, and attitude can hinder sales. To satisfy their human resource needs, retailers are increasing the diversity of their work force. Managing the growing diversity in retail work forces creates opportunities and problems for retailer as human resource managers.

The strategic objective of human resource management is to increase employee productivity - the retailer's sales or profit divided by its employee costs. Employee productivity can be increased by increasing the sales generated by each employee and/or reducing labour costs. Specialisation enables employees to develop expertise and increase productivity. Once the tasks have been identified the retailer groups them into jobs to be
assigned to specific individuals and determines the relationships. Rather than performing all the tasks (strategic, merchandise, store and administrative or operations), individual employees are typically responsible for only one or two tasks.  

2.2.1 Organisation Structure

Retail organisation structures differ according to the types of retailer and the size of the firm. A retailer with a single store will have an organisation structure quite different from a national retail chain. Owner managers of small stores may be the entire organisation. When they go to lunch or go home, the store is closed. As sales grow, the owner-manager hires employees. Coordinating and controlling employee activities is easier in a small store than in a large firm. The owner-manager simply assigns tasks to each employee and watches to see that these tasks are performed properly. Since the number of employees is limited, small retailers have little specialisation. Each employee must perform a wide range of activities and the owner-manager is responsible for all management tasks. When sales increase specialisation in management may occur when owner-manager hires management employees and the owner manager contracts with an accounting person or firm to perform financial control tasks for a fees. In contrast to the management of small retailers, big retail trade management is complex. Managers must supervise units that are geographically distant from each other. To improve financial performance in the face of increased competition, retailers are changing their organisations. These changes reduce cost by flattening the organisation structure, outsourcing and improving employee productivity through empowerment. Flattening the organisation means reducing the number of management levels. Cutting management levels reduces the total number of managers and increases the organisations responsiveness to customers and competitors. Higher level managers then become closer to the customer. Fewer levels of approval are needed to make changes and implement new programmes. One the other hand, in a flatter organisation, managers have more subordinates reporting to them so they can not supervise them directly. They must trust their subordinates to do their jobs well. Outsourcing is purchasing from suppliers services that previously had been performed by the organisation employees. Retailers like other businesses, are reviewing the activities performed by the organisation employees and deciding if these activities can be performed more efficiently by other organisations because of their scale of economics and use of up-to-date technologies. Empowerment is the process of managers sharing power and decision making authority with employees. Empowerment of retail employees transfers
authority and responsibility for making decisions to the organisation's lower levels. These employees are closer to customers and in a better position to satisfy customers' needs. For these empowerment efforts to work, managers must change their attitude from distrust and control to trust and respect. The next task of human resource management is to motivate and coordinate employees to work toward achieving the firm's goals and implementing the strategy. Retailers generally use three methods to motivate and coordinate their employee activities: 1) Written policies and supervision 2) incentives, and 3) organisation culture.

2.2.2 Staffing

The staffing activities of a retail trade involve the recruitment and selection of employees. Success and failure are determined mainly by the quality of the workforce and the effort it exerts. Therefore the policies and methods a retail firm adopts to meet its staffing needs are of vital importance. It is very costly to hire employees. Personnel turnover is also very expensive.

Turnover: The True cost

1. Recruiting and selecting employees
2. Cost of training new employees
3. Pay and benefits during the time employees are in training before full productivity is reached.
4. Lower initial productivity for new employees
5. Low sales and unhappy customers because of lower staffing levels during training time.
6. Mistakes made by inexperienced employees.
7. Loss of customers loyal to former employees.
8. Loss of knowledge and experience obtained by employees who quit.
9. Possible damaged relationships with suppliers.
10. Low overall employee morale because of high turnover.

So proper staffing is an important considerations for the retailers. Though historically retailers have had a reputation for paying very low wages and hiring part-time workers to avoid paying benefits. However many retailers realise that to retain quality employees, an
adequate compensation and benefits package is critical. In fact when recruiting, training and productivity issues are considered better package is often good business.  

2.2.3 Managing Diversity

Motivating people with different backgrounds, aspirations, desires and needs will require skilled managers. Managing diversity means fastening an environment in which workers of all kinds can flourish and given opportunities to reach their full potentials and contribute at the highest level, can give top performance to an organisation. Managing diversity offers a competitive advantage in problem solving, meeting customer demands and hiring and retaining quality employees. To achieve this advantage, retailers must have a diverse workforce to match the demographics of the customer base. There has also been evidence that diverse groups are more effective at solving problems. They have a richer variety of ideas, greater creativity and a better, more flexible understanding of diverse markets. One study showed that diverse student teams viewed situations from a broader range of perspectives and produced more innovative solutions to problems than homogeneous teams. Retailers can learn lessons from other types of firms. A study of Fortune 500 companies found the following strategies for managing diversity. Avon encourages cultural networks, Apple computer has a manager of multicultural and affirmative action Programmes and mentors minority employees and Xerox managers are held accountable for the number of minorities in each division. As retailing becomes more competitive, it is imperative that retailers increase the productivity of their assets, particularly human resources as they are the life blood of this trade.

2.3 Retail Store

2.3.1 Retail store location

Retail store location is the most important decision for several reasons. Whether it was the consumer's need for convenience, their desire to do comparison shopping, the extent of purchasing power in a market area, or the transportation facilities available, many factors together led to the development of different kinds of retail locations. There is an old saying that the value of real estate is determined by three things: location, location and location. Nowhere is that more the case than the stores. A wall street journal study looked at the largest store as measured by gross sales of the twenty largest brands. Retail stores should be located where market opportunities are best. After a country, a region, city or trade area and neighbourhood have been identified as satisfactory, a specific site may be chosen that will
best serve the desired target market. Site selection can be the difference between success and failure. A thorough study of customers and their shopping behaviour should be made before a location is chosen. The finest store in the world will not live up to its potential if it is located where customers can not or will not travel to shop. A study by the National Restaurant Association, U S A. found that the highest number of restaurants per number of residents was in major tourists destinations.

Many types of locations are available for retail stores - each with its own strengths and weaknesses. Choosing a particular site involves evaluating a series of trade-offs. These trade-off generally concern the cost versus the value of the site for a particular site for a particular type of retailer. "A convenient location means close. But close to what? Either close to other stores or close to home. For apparel shopping, over forty percent of consumers feel convenience means in terms of closeness to home." Retailers have three basic types of sites to choose from a Central business districts (CBD), a shopping Centre and a free standing location. Retailers can also choose carts, kiosks, retail merchandising units or tall wall units, which are selling spaces within a shopping centre. Retailers can also locate in a mixed-use development.

The Central Business District is the traditional downtown business area in a city or town. Due to its business activity, it draws many people in the area. Also, people must go to the area for Pedestrian traffic. Finally, the most successful CBDs for retail trade are those with a large number of residents living in the area. Many down town areas have deteriorated. They grew old without being renovated. Traffic congestion become intense and the lack of adequate parking facilities has made downtown shopping difficult. These factors coupled with rising rental costs and urban crime problems have made downtown retail locations increasingly hard to justify. Many cities are passing statutes that require downtown buildings to have street level retail sites. Reuse and modernisations of commercial buildings also promise to help the return of street level retail activity to downtown areas. A retailer must decide whether renovation of downtown building space is commercially feasible. The following attributes should be considered - (a) easy access from street (b) abundance of foot and vehicular traffic (c) space and lighting for appropriate signage (d) physical dimensions required to support business use (e) a contiguous population that can correlate with the quality of shops and their brand name merchandise and expected cost of goods and (f) the design enticements to help make the location a unique shopping experience.
The notion of planned shopping centre was born because of the expansion of suburbia with planned residential development. A shopping centre is a group of retail and commercial establishment that is planned, developed, owned and managed as a single property. Within basic configurations, there are eight major types: neighbourhood centre, community centre, regional centre, super-regional centre, fashion/speciality centre, power centre, theme/festival centre and outlet centre.

- Neighbourhood shopping centre is designed to provide convenience shopping for the day-to-day needs of consumers in the immediate neighbourhood.

- Community centre typically offers a wide range of apparel and other soft goods than the neighborhood centre.

- Regional shopping centre provides general merchandise, a large percentage of which is apparel and services in full depth and variety.

- Super-regional shopping centre is similar to a regional centre but it is of a larger size than the regional centre.
- Fashion/specialty centre is composed of mainly of upscale apparel shops, boutiques and craft shops carrying selected fashion or unique merchandise of high quality and price.

- Power centre includes discount department stores, off-price stores, warehouse clubs. These stores offer tremendous selection in a particular merchandise category at low prices.

- Theme/Festival centres employ a unifying theme that is carried out by the individual shops in their architectural design and to an extent in their merchandise. The biggest appeal of these centres is the tourists.
Outlet centres are usually located in a rural or occasionally in a tourist area. These centres mostly consist of manufacturers' stores selling their own brands at a discount.

A frequent option for large retailers is a freestanding site. A free standing site is a retail location that is not connected to other retailers, although many are located adjacent to shopping malls. Retailers with large space requirements, such as warehouse clubs and hypermarkets are often freestanding.

Carts, kiosks, retail merchandising units and tall wall units are selling spaces typically found in call common areas. A cart offers the simplest presentation, is mobile, and is often on wheels. A kiosk is larger than a cart is stationary and has many conveniences of a store such as movable shelves, telephone, electricity. Retail merchandising units are a relatively new and sophisticated located alternative offering the compactness and mobility of a cart but the more sophisticated features of a kiosk. Tall wall units are six to seven foot selling spaces placed against a wall instead of in the middle an aisle.

Mixed-use-developments combine several different uses in one complex including shopping centres, office towers, hotels, residential complexes, civic centres and convention centres.

2.4 Retail trade area site and site selection
Retailers want to locate their stores in the best place possible. The best place possible will vary from retailer to retailer depending on the industry, type of product, competition and other market factors. Basically a retail store should be located where the market opportunities are at optimal levels. The retailer must select a region and then define the boundaries of the trade area and evaluate its population characteristics against the retailer's target market. The buying power of the area must be considered along with its market and sales potential. The size, location and type of competition must also be taken into account. The local legal and political environment must be examined along with the costs. The actual physical features of the location such as available space, traffic and access to the site and surrounding building - play a role in the selection process. So it is important to define the market area of any potential location. A retail market is any group of individuals who
possess the ability, desire and willingness to buy retail goods or services. The residents of any neighbourhood, city, region, country may constitute a retail market. The retail trade area is defined as the geographic area within which the retail customers for a particular kind of store live or work. A trade area, is a contiguous geographic area that accounts for the majority of a store's sales and customers. It may be part of a city, or it can extend beyond the city's boundaries, depending on the type of store and the density of potential customers surrounding it. For instance, a video rental store's trade area may be only a few city blocks within a major metropolitan area but a jewellery store's trade area may encompass 50 square miles.\(^{39}\)

Retailers choose a particular region or market area for two reasons. First, some types of merchandise sell better in certain areas than in others. Second, some stores choose to maintain a regional focus so that they can maintain a strong image with their customer and will be able to manage their stores and distribution more efficiently. Trade areas are typically divided into primary, secondary and tertiary zone. The boundaries of a trade area are determined by how accessible it is to customers, the natural and physical barriers that exist in the area, type of shopping area in which the store is located, the type of store and the level of competition. Retailers consider several issues when assessing the attractiveness of a particular region, market or trade area. They want to know about the people living in the area. What are their life styles? How wealthy and large are the households? Is the area growing or declining? Does it have a favourable business climate? Importantly, what is the level of competition? Retailers should only locate in areas with heavy competition if they believe their retailing format is superior to that of their competitors. A safer strategy is to locate in an area with little competition.\(^{40}\)

Retailers possess many tools to help in the site selection decision. A number of complementary analytical methods are used to measure the sales potential of trade areas.

\subsection{2.4.1 Analog Approach}\(^{11}\) - Analog approach is divided into three steps. First the current trade area is determined by using a technique known as customer spotting in which customers are identified and their locations are plotted on a map. Second, based on the density of customers from the store, the primary, secondary and tertiary trade area zones are defined. Finally, the characteristics of the current store with the potential new stores' locations are matched to determine the best site.
2.4.2 Multiple Regression Analysis - Multiple regression analysis is a common method of defining retail trade area potential for retail chains with greater than twenty stores. Although multiple regression analysis uses logic similar to that of the analog approach, it uses statistics rather than judgement to predict sales for a new store. The initial steps in multiple regression analysis are the same as those in the analog approach. First, the current trade areas are determined by using the customer spotting technique. Second, the primary, secondary and tertiary zones are determined by plotting customers on a map. But then the multiple regression procedure begins to differ from the analog approach. Instead of matching characteristics of trade area for existing stores with a potential new store by using the location analyst's subjective experience, a mathematical equation is derived. Three steps are followed to develop the multiple regression equation.

(a) Select appropriate measure of performance, such as per capita sales or market share.

(b) Select a set of variables that may be useful in predicting performance.

(c) Solve the regression equation and use it to project performance for future sites. The end result of the regression analysis is an equation that can be used to predict sales of a new store.

2.4.3 Reilly's law of Retail Gravitation - Reilly's law defines two cities to attract customers from the area between them. The larger the town, the greater its ability to attract customers. Likewise the greater the distance from town, the less likely a customer is to shop there. It is most useful and simple model. It states that a customer will travel a distance to shop based on the population of the shopping area and the distance between areas. The formula for Reilly's law of retail gravitation is

\[ \frac{Ba}{Bb} = \frac{Pa}{Pb} \times \left( \frac{Da}{Db} \right)^2 \]

Where \( Ba \) = The business the city A draws from the intermediate place.
\( Bb \) = The business the city B draws from the intermediate place.
\( Pa \) = Population of city A
\( Pb \) = Population of city B
\( Da \) = Distance from city A to intermediate place
\( Db \) = Distance from city B to intermediate place
X area is approximately 12 miles from Y market (city A) and 8 miles from Z market (city B). Y market has a population of about 10 lakh people, whereas Z market has only about 4 lakh 30 thousand. Using Reilly's formula:

\[ \frac{B_y}{B_z} = \frac{10,00,000}{4,30,000} \times \frac{8}{12} = 1.03 \]

Reilly's model predicts that customers living in X area spend about the same amount of money in Y market as in Z market, i.e. Rs. 1.03 in Y market and Re 1 in Z market.

### 2.4.4 Converse's Breaking Point Model
Converse extended Reilly's law by defining the breaking point - the location between two towns where customers on one side of the location patronise one town, while those on the other side patronise the other town. The formula for Converse's model is

\[ D_{ab} = d + P_a / P_b \]

Where \( D_{ab} \) = breaking point from city A measured in miles to city B

- \( D \) = Distance between city A and city B
- \( P_a \) = Population of city A
- \( P_b \) = Population of city B.

Continuing the previous example, the distance (d) between market Y and Z is about 20 miles. Y market has about 10 lakh people \( (P_a) \) compared to about 4.30 lakh for Z market \( (P_b) \)

\[ D_{ab} = 20 + 4,30,000 / 10,00,000 = 12.08 \]

Thus breaking point from Y market is 12.08 miles along with the road to Z market. People living within 12.08 miles will most likely shop in Y market. While those living more than 12.08 miles from Y market will shop in Z market.

### 2.4.5 Christaller's Central place Theory
Christaller developed his central place theory in Germany about the same time that Reilly was publishing his law of retail gravitation in the United States. A central place is a centre of retailing activity such as a town or city. The theory argues that there is a hierarchy of central places according to the assortment of goods available. Thus a village would be at the bottom of the hierarchy since it provides a relatively small assortment of goods. A large city is at the top of the hierarchy, since its assortment is
large. Small towns can usually support a relatively limited group of retailers such as grocery stores, and convenience stores. People will go longer distances to shop in cities with a large assortment of merchandise. Like the law of retail gravitation, the central place theory uses size of retail business activity and distance from consumers as the two critical parameters for analysing retail locations. The central place theory is useful for identifying appropriate markets for new stores for three reasons.\(^4^6\)

(a) The theory supports the notion that not all locations are appropriate for all retailers. While convenience stores are as successful in small towns as in large cities, people expect to go to large cities to find specialty goods like motor cycles, and cars etc. Retailers that specialise in convenience and necessity items can be successful in small shopping centres. But purveyors of specialty goods which must draw from a larger trade area to ensure a sufficient customer base, should locate in larger shopping areas.

(b) Growing Communities and shopping areas will be able to support larger number of shopping and specialty goods retailers.

(c) Since larger communities and shopping areas contain both convenience and necessity items as well as shopping and specialty goods, people will travel further to these areas to satisfy all their shopping needs in one location. Thus larger cities and shopping areas will do a disproportionately larger amount of business.\(^4^7\)

2.4.6 Huff's Model - A slightly more complex alternative to Reilly's law was developed by David Huff. Huff's model considers the size of the shopping centre, how long it would take a customer to travel to each shopping centre and the type of the products the customer is looking for. Huff's model gives retailers an approximate probability of how likely it will be for a customer to travel to a specific shopping centre. The general model is as follows\(^4^8\):

\[
P_{ij} = \frac{(S_i + T_{ij})}{\sum_{j=1}^{n} (S_j + T_{ij})}
\]

Where \(P_{ij} = \text{Probability of a customer at a given point of origin 'i' travelling to a particular shopping centre 'j'}\)

\(S_i = \text{Size of shopping centre 'j'}\)
\( T_{ii} \) = Travel time or distance from customer's starting point to shopping centre

\( b \) = An exponent to \( T_{ii} \) that reflects the effect of travel time on different kinds of shopping Trips.

<table>
<thead>
<tr>
<th>Shopping centre</th>
<th>Size sq. ft.</th>
<th>Distance (miles)</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>1000</td>
<td>3</td>
</tr>
<tr>
<td>Y</td>
<td>500</td>
<td>5</td>
</tr>
<tr>
<td>Z</td>
<td>100</td>
<td>1</td>
</tr>
</tbody>
</table>

(The exponent, \( b \), is assumed to be \( Z \))

\[
\frac{1000 \div 3^2}{(1000 \div 3^2) + (500 \div 5^2) + (100 \div 1^2)}
\]

Probability = .48

Population \( \times \) probability = Expected customers.

That means about 48 per cent of the total population will shop in shopping centre.

The exponent, \( b \), is usually determined through surveys of shopping patterns or from previous experience.\(^{49}\)

2.5 Merchandise Management

2.5.1 Assortment planning

The primary goal of most of the retailers is to sell merchandise. Nothing is more central to the strategic thrust of the retailing firm. Deciding what to buy and how much is a vital task for any retailer. Merchandise management is the process by which a retailer attempts to offer the right quantity of the right merchandise in the right place at the right time while meeting the organisation's financial goals. Small and large retailers are required to make decisions about thousands of individual items from hundreds of vendors. If the buying process is not organised in a systematic, orderly way, chaos will result. As in any business, a retailer's ultimate objective is to achieve an adequate return on the investment to the owners. Once the financial objectives are set, the retailers start the task of determining what to buy. Superficially, one would think this would be easy. If the store is a women's clothing. Unfortunately, it is not that simple. The retailer is limited by the amount of money available for merchandise and the space in the store. He must decide whether to carry a large variety of
different types of clothing - for example, dresses, blouses and jeans - or carry fewer categories but a larger assortment of more styles and colours within each category. To complicate the situation, the retailer needs to decide how much back up stock to carry for each item. The more backup stock, the less likely he is to run out of a particular item. On the other hand, if he decides to carry a lot of backup stock, he will have less money available to invest in a deeper assortment or in more categories. The process of trading off variety, assortment and backup stock is called assortment planning.

Merchandise must be broken for planning purposes. Buyers and their partners, merchandise planners control these categories, often with the help of their major vendors. Without a method of categorising merchandise retailers could never purchase merchandise in a rational way.

Tools to develop a merchandising plan include gross margin return on investment, inventory turnover and sales forecasting (GMROI). GMROI is used to plan and evaluate merchandise performance. The GMROI is used to plan and evaluate merchandise performance. The GMROI planned for a particular merchandise category is derived from the firm's overall financial goals broken down to the category level. Gross margin percentage and inventory turnover work together to form this useful merchandise management tool.

Calculating inventory turnover and determining inventory turnover goals are important. Retailers strive for a balanced inventory turnover. Rapid inventory turnover is imperative for the firm's financial success. But if the retailers attempt to push inventory turnover to its limit, severe stock-outs and increased costs may result.

When developing a sales forecast, retailers must know what stage of the life cycle a particular category is in and whether the product is a fad, fashion or staple so they can plan their merchandising activities accordingly. Creating a sales forecast involves such sources of information as previous sales volume, published sources, customer information and shopping and the competition as well as utilising vendors and buying offices. The trade-off between variety, assortment and product availability is a crucial issue in determining merchandising strategy.

2.5.2 Buying system
While the assortment plan provides a general outline of what types of merchandise should be carried, the merchandise budget plan is used to determine how much money to spend in each month on a particular category of fashion merchandise, given the sales forecast, inventory turnover and GMROI goals. It is not a complete buying guide because it does not indicate how much of a particular stock keeping unit should be purchased. To forecast sales for a particular stock keeping unit, buyers must know how much was sold in the past. Yet there is little or no sales history for fashion at the stock keeping unit level. Forecasting sales is much more straightforward for staples than for fashion merchandise. Since there is an established sales history for each staple stock keeping unit, standard statistical techniques are used to forecast sales. For understanding the actual process of planning merchandise needs and open-to-buy seven steps are followed.54

1. Develop a sales plan
2. Plan reductions
3. Develop a stock plan
4. Plan merchandise needs
5. Calculate planned purchase
6. Plan an initial markup
7. Plan the open-to-buy-at cost

- Estimate planned sales
- Shrinkage, markdowns and employee discounts
- Beginning Inventory, Ending Inventory
- Add together estimated sales, reductions, and ending inventory.
- Merchandise needed less the beginning inventory, subtract merchandise ordered to get open-to-buy at retail.
- Planned gross margin plus retail reductions divided by the total of planned sales plus retail reductions.
- Multiply the complement of the initial markup percentage by open-to-buy at retail.55

In addition to knowing how much and what to buy, retailers must have some knowledge of how to make a buy. To purchase merchandise the buyer must be familiar with the thousands of old and new products offered for sale as well as the testing, evaluating and retesting of product that have been purchased. There may be many vendors around the world who could potentially supply the desired merchandise and they must be evaluated as to their financial ability to meet the needs of the store. One requirement of working with the details of buying is a system for getting the most out of trips to the market, where merchandise is bought or for use in direct negotiations with vendors and manufacturers. Whether one buys
from a firm across town on the other side of the world, a buyer must be prepared before beginning the purchasing process. For many types of merchandise, the biggest part of buying is still done on these "trips to the market". The number of visits to market depends on the distance involved, sales volume, market conditions etc. Retail buyers are confronted by conditions in the market that often are not under their control. If circumstances were always the same, any changes would be reasonably predictable and their job certainly would be simplified. Unfortunately, the buyer must be prepared to adjust to the changing supply and demand conditions in the market place. Smart buyers have repeatedly emphasised the need for flexibility in the buying function. If the economic picture begins to show a downturn or if important merchandise can not be purchased, buyers must be prepared to enter or get out of the market in a short time. Having this information plus knowing in general terms how to enter a market and how much merchandise to commit oneself to is important to intelligent buying. A buyer may be initially concerned with basic stocks for which the retailer can anticipate fairly accurately the needs for the forthcoming season. Retailers may be uncertain as to which fashions their customers will respond to during the season. Before the season begins, retailers must commit themselves to stocking merchandise in depth to ensure that inventory will be adequate at the height of consumer buying. To do this, they must engage in forward buying - that is, buying ahead of needs, constantly checking with resources and generally looking for goods or substitutable items that can be counted on for delivery. It is at this time that the retailer's supplier relationships go a long way in ensuring that it receives preferential treatment. Sometimes, to support demand late in the season, retailers will offer special promotions to rekindle customer interest. Markdowns can also serve to keep interest alive. Substantial markdown and clearance sales are often used to move merchandise out of stock at the end of the season.

2.6 Retailer and vendor relationships

It was not long ago that an adversarial relationship existed between the supplier of goods and the buyers. Companies and consumers sought the lowest price and highest quality through the bidding process and shopping around. Suppliers were continually played against each other in an attempt by the buyer to obtain the best possible deal. This was necessary for the buyer because the manufacturer usually had the greater power in the negotiating process. The size of the most retailers was dwarfed by that of the vendor.
Also many vendors had power in the market because customers wanted the vendor's brand. This led to the attitude that the buying and selling of merchandise was zero sum game where one party must lose for the other to gain.

Several changes in both the external and the internal environment of retailing caused a shift in attitudes. Among these changes were increased competition among suppliers, the introduction of new management technique increases the market power of large retailers and the introduction of strategic partnerships by innovative retailers and vendors. The simultaneous increase of competition between supplier and the relative growth in the size of retailers changed the power structure of the buyer seller relationship. 56

So we can simply put that retailers can not succeed without their vendors. To survive, they must be able to count on a predictable supply of merchandise at competitive prices and with sufficient promotional support. Retailers can purchase either manufacturer’s brand or private level brands. Each type has its own relative advantages. Choosing brands and a branding strategy is an integral component of a firm’s merchandise and assortment planning. 57

Buyers and their merchandise managers have several opportunities to meet with vendors, view new merchandise and place orders. They can visit their vendors at wholesale market centres. Retailers who can successfully team up with their vendors can achieve a sustainable competitive advantage. Their needs to be more than just a promise to buy and sell on a regular basis. Strategic partnerships require trust, shared goals, strong communication and a financial commitment.

The world of retail vendor relationships allows information technology to increase the efficiency of nearly every aspect of business. New technologies provide buyers with greater and faster access to information than ever before, shifting the emphasis away from the inventory itself. Technology now allows real-time communications between the participants in the supply chain: the manufacturer, wholesaler, importers, warehouses.
h thousands of annual transactions taking place between retailers and their vendors, there is plenty of room for ethical and legal problems. The retailers is consider all the elements and problems while taking decision on merchandise management.
2.7 Retail Pricing decision

Pricing decision is an important area in retail trade management and pricing is the only element that produces revenue and it can be done in a variety of ways. In case large retail trade organisations, it is generally done by the department or product line in charge but in case of small retail organisations, it is handled by the owner managers. Actually price is a major strategic weapon for many retailers and the decision regarding pricing is not an easy task. Today's customers' are much more value conscious than they were in the past. Competition is growing more intense and the retailers are engaged in a fierce battle for retaining their market share as well as the customer loyalty.

Many factors go into the retail pricing decision...
2.7.1 **Economic Concept** - Knowledge of customers and the previous experience in Pricing Products help the retailers to take price decision. At the same time an understanding of the basic law of demand and supply "Which states that the quantity demanded goes up as the price goes down and as the price goes up, quantity demanded goes down" is essential. The idea of price sensitivity provides a way of thinking about how demand affects pricing. The sensitivity of demand is also dependent on the unique value of the product, substitute awareness, comparison difficulty, relative price, quality, importance of the product as well as the income characteristics and cost sharing of the customers\(^\text{60}\).

2.7.2 **Psychological concept** - In pricing decision, apart from the basic economic concepts, another concepts i.e., psychological concept should be taken into consideration. Common use of psychology in pricing revolves around policies associated with coupons, rebates, leader pricing, price bundling, multiple unit pricing, price lining, odd pricing and one-price selling.

2.8 **Markdown Strategies** - The initial retail price is not always the price at which the merchandise is ultimately sold. Because merchandise is not always purchased correctly, markdowns are common. Furthermore, new products arrive frequently from manufacturers and suppliers. The retailers must move stock out, via markdown, to make room for incoming items. The four adjustments\(^\text{61}\) to the initial retail price are markdowns, markdowns cancellations, additional markups and additional markup cancellations. Markdowns are reductions in initial retail price. A markdown cancellations is the amount by which the retail price raised after a markdown is taken. An additional markup is an increase in the retail price after the initial markup percentage has been applied but before the merchandise is placed on the selling floor. An additional markup cancellation is the amount by which the retail price is lowered after an additional markup is taken.

2.9 **Price Calculations** - It is important for the retailers to know the mechanics of pricing calculations.

Initial mark up or original markup, additional markup.

Mark up cancellation

Markdown

Markdown cancellation
Cost + mark up = retail price

Rs. 80 + Rs. 20 = Rs. 100

Mark up as a percentage of retail

\[
\text{Mark up} = \frac{20 \times 100}{100} = 20\% \text{ of the retail price}
\]

Mark up as a percentage of cost

\[
\text{Mark up} = \frac{20 \times 100}{80} = 25\% \text{ of the cost price}
\]

In this way, the retailers express mark up as a percentage of retail and as a percentage of cost.

2.10 Price Strategies - Retailers have made the pricing problem interesting by adding various nuances to the basic process of adding a markup to the cost of merchandise. In today's retail market, two opposing pricing strategies prevail: everyday low pricing and high/low pricing.

(Everyday Low Pricing) (EDLP)

Reduced Price War

Reduced advertisement

Improved customer service

High/Low Pricing

The same merchandise appeals to multiple markets

It creates excitement

It moves merchandise
Reduced Stock outs & improved inventory management

Increased profit margin

Emphasis is on quality or service

It is hard to maintained EDLP

EDLP is not suitable for all kinds of retailers. Retailers using EDLP are eventually doomed if their prices are higher than competitors but they still advertise EDLP. Regardless of the strategy followed all retailers are to set prices high enough to cover cost and make a reasonable profit.

Retail Pricing in the individual store is seldom confined to any one method. A particular retailer may use a customary mark up for most or many of the merchandise he sells, the prices of some may be stipulated by the manufacturers, some may be sold at predetermined prices for convenience sake, others may be sold at a price that results in a margin which is higher or lower than his customary mark up, depending on his estimate of what they can be sold for. There may be - but in most cases there are not - understanding with some of his competitors concerning the price at which he will sell certain products, and finally, prices already set or about to be set may be altered to meet prices in competing stores.63

2.11 Theories of the evolution of Retail trade

The present structure of retail trade sector can be explained with a number of theories that have been developed earlier and these theories also help to predict - how the structure will change. No individual theory explains all the changes in the retail trade environment. Yet as a whole, the theories provide insight for understanding the evolution of retail institutions.

2.11.1 The wheel of retailing

It is one of the first and famous framework for explaining changes in retail institutions.64 The wheel represents phases through which some types of retailers pass. The cycle begins with retailers attracting customers by offering low price and low service. Over time these retailers
want to expand their market and they began to stock more expensive merchandise, provide more services and open more convenient locations. This trading-up process increases the retailers' costs and the prices of their merchandise, creating opportunity for new low-price retailers to enter the market.

![Fig 4 The wheel of retailing](image)

**Mature Retailer**
- Vulnerability phase
- Trading-up Phase

**Innovation retailer**
- Low status
- Low price
- Minimum service
- Poor facilities
- Limited Product Offering

**Traditional retailer**
- Elaborate facilities
- Expected, essential and exotic services
- Higher rent locations.
- Fashion Orientation
- Higher prices
- Extended Product Offerings

### 2.11.2 The Accordian Theory

It proposes that the retail institutions fluctuate from the strategy of offering many merchandise categories with a narrow assortment to the strategy of offering a wide assortment with a limited number of categories. This expansion and contraction calls to mind an accordion. During America's early development, relatively small general stores succeeded by offering rural Americans many categories of merchandise under one roof. As town grows, they were able to support retail specialists like shoe, clothing, Drug and food stores.
Department stores developed during the next expansion of the accordian. Department stores, somewhat like giant general stores, again offered customers multiple merchandise categories under one roof. This time, however, the depth of selection improved as well. The next contraction of the retail accordian, results from speciality stores tendency to have become even more specialised in the past two decades. These retail formats-known as category killers or category specialists (Such as Toys "R" Us, Foot locker) - offer consumers deep selection in a limited number of merchandise categories.67

2.11.3 Dialectic Process

The wheel of retailing and the accordian theory of change in retail institutions is the dialectic process of thesis, antithesis and synthesis. This theory implies that new retail institutions result from stores borrowing characteristics from other very different competitors, much like children are a combination of the genes of their parents. The established retail institution, known for relatively high margins, low turnover, and plush facilities in the department store - the thesis. Discount stores in their early form were the antithesis of department stores. That is, they were characteristically low margin, high turnover, spartan operations. Overtime, characteristics from both department stores and discount stores were synthesised to form discount department stores like wal-mart and Kmart.68

Fig 5 The Dialectic Process69

<table>
<thead>
<tr>
<th>THESIS</th>
<th>SYNTHESES</th>
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<tbody>
<tr>
<td><strong>Department Store</strong></td>
<td><strong>Discount Department Store</strong></td>
</tr>
<tr>
<td>• High margin</td>
<td>• Average margin</td>
</tr>
<tr>
<td>• Low turnover</td>
<td>• Average turnover</td>
</tr>
<tr>
<td>• High price</td>
<td>• Limited service</td>
</tr>
<tr>
<td>• Full service</td>
<td>• Modest price</td>
</tr>
<tr>
<td>• Downtown location</td>
<td>• Suburban locations</td>
</tr>
<tr>
<td>• Plush facilities</td>
<td>• Modest facilities</td>
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<th>ANTITHESIS</th>
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<tbody>
<tr>
<td><strong>Discount Store</strong></td>
</tr>
<tr>
<td>• Low margin</td>
</tr>
<tr>
<td>• High turnover</td>
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<tr>
<td>• Low price</td>
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<tr>
<td>• Self service</td>
</tr>
<tr>
<td>• Low rent location</td>
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<tr>
<td>• Spartan facilities</td>
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2.11.4 Natural selection

It is a theory with the strongest intuitive appeal for explaining change in retail institutions, is natural selection. It follows Charles Darwin's early view that organism evolve and change on the basis of survival of the fittest. In retailing, those institutions best able to adapt to changes in customers, technology, competition and legal environments have the greatest chance of success. Department stores have tried to battle speciality stores' competitive inroads by creating small speciality stores or boutiques within their stores.

The first two theories (The wheel of retailing and Accordian theory) are cyclical theories. These theories suggest that retail institutions go through cycles, beginning with one state and then returning to that state at some time in the future. The last two theories (Dialectic process and natural selection) are evolutionary theories suggesting that changes in retail institutions are similar to patterns observed in biological evolution.

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