

The Domain of Retailing

What is Retailing?

Retailing as an activity can be thought to be as old as formation of human societies. It can be traced to the times when man stopped producing all its requirements and trading came into being. The potters, blacksmiths and fishmongers, for instance, signify a community that involved themselves into selling to households. This was different from trade that happened on 'wholesale' leading to spice routes from Malabar (Kerala) to Europe and beyond through Afghanistan and silks routes in India and China. Retailers have become an integral part of society.

Retailing has always been an integral part of economic development. Nations with strong retail activity have enjoyed greater economic and social progress. It contributes to the development by matching the individual requirements of the population with the producers and suppliers of merchandise. It is a clear indication of the spending pattern of the consumers of a country. By bringing the product to the customers, they are helpful in creation of demand of new offers leading to the expansion of market. Some of the benefits of a thriving retailing sector are access to products, better merchandise, not having to settle for a second or third choice when shopping for a particular product, greater customer satisfaction and higher levels of customer service.¹ In a way they symbolise consumerism. The Eastern European countries experienced low rate of growth when they were under Communist regime. After the countries have opened to market forces and became part of the emerging economies, retailing is one of the forces driving consumption. Many international retailers were instant hit as they provided the customers a different form of experience. A similar experience is being witnessed in India, where the new format stores are places to be and seen at and customers are deriving a significant hedonic utility out of shopping. In many categories, shopping is taking a new meaning. It is acquiring a major part of leisure time of the customers.² Thus retailers perform many functions. These were described as distribution service outputs by Louis P. Bucklin and were classified into four main categories 'decentralization', 'waiting time', 'lot size' and 'variety'.³ These evolve around the utilities of form, place, time and size that a customer wants to optimise. This classification was refined into accessibility, product assortment, assurance of product delivery at the desired time and in the desired form, availability of information and ambience.⁴ This

¹ Reibstein David and Paul Farris (1995), "Do Marketing Expenditures leverage cost to Customers", *European Management Journal*, March, pp. 31 – 38.

² Sinha Piyush Kumar (2003), "Shopping Orientation in the Evolving Indian Market", *Vikalpa*, Vol. 28 (2), April - June, , pp. 13 - 22.

³ Bucklin, L.P. (1966), *A Theory of Distribution Channel Structure*. Berkeley, CA: IBER Special Publications and Bucklin, L.P. (1972), *Competition and Evolution in the Distributive Trades*. Englewood Cliffs, NJ: Prentice-Hall.

⁴ Betancourt, R.R. and Gautschi, D.A. (1990), Demand Complementarities, Household Production, and Retail Assortments, *Marketing Science*, 9 (Spring). 146-161; Betancourt, R.R. and Gautschi, D.A. (1998), Distribution Services and Economic Power in a Channel, *Journal of Retailing*, 74 (1). 37-60; Hean Tat Keh

brief description confirms that even the production function is involved (desired form), as also the communication function (availability of information and also of ambience). Their approach seems to describe “the typical intermediary”, or else “the typical channel output” and imply a distortion of Bucklin’s functionally inspired view, into a predominantly institutional view. The element ‘ambience’, moreover, concerns a non-economic output. Another framework for channel selection offered a “parsimonious list of eight channel functions and their implications for channel choice: product information, product customisation, product quality assurance, lot size, assortment, availability, after-sales service and logistics”.⁵ This contribution implies a confirmation of the applicability of the DO concept to industrial applications and presents a classification of service outputs (e.g. lot size or assortment) rather than of functions. It is also clear that next to the distribution function, the communication and production function(s) are considered as primary generators of service outputs. A similar conceptualisation provides and breaks distribution services into: exchange, product line, convenience, auxiliary services and production.⁶ This description includes the financial function.

These services create utilities as well as dis-utilities. These could be seen as positive and negative customer values. Retailing can, potentially affect any need category addressed by marketing activities. Overview of need classifications provides three alternative typologies in chronological order; Maslow (1943), Rokeach (1973) and Sheth, Neumann and Gross (1991).⁷ Of these three, the last one is the most appropriate option as it surmounts empirical findings and theoretical grounds. It starts from the axiomatic proposition that consumer choice is a function of multiple values including values extend beyond economic utilities. Each consumption value is consistent with various components of models advanced by Maslow (1943), Katona (1953), Katz (1960) and Hanna (1980). Also the definition of functional or economic values takes into account perceptual phenomena. The consumption values identified by the theory are independent, relating additively and contributing incrementally to choice. The classification possesses the generic quality of collective exhaustiveness and exclusiveness.⁸ The four values are: economic (but in perceived terms), functional, emotional and epistemic.

Customers derive dis-utilities, or ‘negative (perceived) values’, as a result of the adoption of products or services. The disutility following from the payment of a monetary price for a product is the most typical example. This monetary price may, explicitly or implicitly,

(1997), “The Classification of Distribution Channel Output: a Review”, *The International Review of Retail, Distribution and Consumer Research*, 7 (2). 145-156.

⁵ Rangan, V.K, Menezes, M.A.J. and Maier, E.P. (1992), Channel Selection for New Industrial Products: A Framework, Method and Application, *Journal of Marketing*, 56 (July). 69-82.

⁶ Oi, W.Y. (1992), Productivity in the Distributive Trades: The Shopper and the Economies of Massed Reserves, pp. 161-191 in *Output Measurement in the Services Sectors* Griliches, Z. (ed.), Chicago, IL: University of Chicago Press.

⁷ Lambin, J.-J. (2000), *Market-Driven Management: Strategic and Operational Marketing*. London: MacMillan Press pp. 105-111)

⁸ Hunt, S.D. (1991), *Modern Marketing Theory: Critical Issues in the Philosophy of Marketing Science*. Homewood, Ill: Irwin.

concern the product or service as well as the acquisition process and its elements.⁹ It is possible that positive and negative customer values need not necessarily belong to the same category, and even when they do, they need not necessarily be compensatory. This argument may be applicable more to non-monetary costs, as in case of the affective influence of the environment.¹⁰ The notion of non-monetary costs also focuses on the negative affect stemming from store environments.¹¹ This perspective is also consistent with the argument that positive and negative affects are distinct constructs and that negative affect has a stronger impact on consumers.¹² Researchers in economics and marketing have treated them as distinct.¹³ Thus there is a need to treat positive and negative customer values generally apart. A combination of these two values, as given in Figure – 1, brings out several dimensions of retailing business that affect value design and delivery to the shoppers.

In light of the above retailing can be defined as an activity that ensures that customers derive maximum value from the buying process. This involves activities and steps needed to place the merchandise made elsewhere into the hands of customers or to provide services to the customers.¹⁴ They organise the availability on large scale and supply them to consumers on a relatively small scale. In the process they provide the accessibility of location, convenience of timing, convenience of size, information and lifestyle support. When they perform these activities they create value for their customers who pay for these. These values are created continuously through a combination of service, price, accessibility and experience.¹⁵ One of the major roles played by retailers is enabling the adoption of products and services. Unless the product is made available at the store as is adopted by the retailers themselves, it is difficult to derive high value out of the marketing expenditure. The phenomenon, known as dual adoption, states that when a product is launched, customers adopt it symbolically, the actual adoption happens only when the retailers put forth the product in the right perspective.¹⁶ With more and more customers making purchase decisions at the store, retailing has gone beyond being a part of distribution function. It merits an independent marketing activity that is a combination of distribution and communication. Also the changing canvasses of marketing, where physical products

⁹ Bell, D.R., Ho, T.-H, and Tang, C.S. (1998), Determining Where to Shop: Fixed and Variable Costs of Shopping, *Journal of Marketing Research*, 35 (3). 352-369

¹⁰ Baker, J., Parasuraman A., Grewal D. and Voss, G.B. (2002), “The Influence of Multiple Store Environment Cues on Perceived Merchandise Value and Patronage Intentions”, *Journal of Marketing*, 66 (April). 120-141

¹¹ Zeithaml, V.A. (1988), Consumer Perceptions of Price, Quality and Value: A Means-End Model and Synthesis of Evidence, *Journal of Marketing*, 52 (July). 2-22

¹² Babin, B.J. and Darden, W.R. (1996), “Good and Bad Shopping Vibes: Spending and Patronage Satisfaction”, *Journal of Business Research*, 35 (3). 201-206; Babin, B.J., Darden, W.R. and Babin, A. (1998), Negative Emotions in Marketing Research: Affect or Artifact?, *Journal of Business Research*, 42 (3). 271-285; Watson D., Clark, L.A. and Tellegen, A. (1988), Development and Validation of Brief Measures of Positive and Negative Affect: The Panas Scales, *Journal of Personality and Social Psychology*, 54 (6). 1063-1070.

¹³ Bender, W. (1964), Consumer Purchase Costs, *Journal of Retailing*, 40 (Spring). 1-8)

¹⁴ Dunne P M, Luch R F and Griffith D A (2002), *Retailing*, Thomson South Western, 4th Edition, p. 7.

¹⁵ Newman A J and Cullen P (2002), *Retailing: Environment and Operations*, Thomson Learning, 1st Edition, pp. 14 – 15.

¹⁶ Parthasarthy M, Sohi R and Hampton RD (1994), “Dual Diffusion: Analysis and Implications for Salesforce Management”, *Journal of Marketing Theory and Practice*, Summer, 1 – 14.

and physical space of activity is also being joined by services and non-store retailing formats, pose new realities for the retailers. They need to redefine the ways they have been managing so far. A clear move has to be from a distribution-oriented perspective, where physical aspects of merchandise availability and supply chain play an important role, to a more consumer value-oriented perspective for attaining sustainable competitive advantages.

Theories of Retail development

The retail canvass keeps changing continuously. These changes are brought by the ever-changing customer requirements, economic development of the nation, falling borders, new technologies and the entrepreneurs. Countries like India and many other Asian and east European countries are witnessing unforeseen changes in the landscape of retailing. The traditional retailer, recognised as mom-and-pop stores, are sharing the canvass with malls, departmental stores and large price format stores. Several theories have been propounded to explain such developments.

The Wheel of Retailing

It is one of the oldest and the most acceptable theories of the development of retailing (Figure – 2). It postulates that retailers enter the business at a fairly low status, low prices and with low price operation. This helps them to compete against the established retailers. With time, when such retailers succeed they acquire more sophisticated and elaborate facilities. Finally they mature as high-cost, high-price retailers who become vulnerable to new entrants, who, in turn, go through the same process.¹⁷ This happens because these stores are usually established by entrepreneurs who are aggressive and cost conscious and do not want unprofitable frills. But they tend to lose the control over cost as they acquire age and wealth. Their successors turn out to be less competent. Either the innovators or their successors fail to adapt to the changed environment and the laxity in management lead them along the wheel.¹⁸ While economists expect retailers to avoid price competition, as it would happen in a perfect competition situation, the retailers feel that improvements in service, location,

The Retail Accordion

Retail development is linked to human habitation. It expands or contracts in line with the geographical expansion of the society. When a new area or location is developed and customer start living in that area, the early stores deal in almost all products needed by these customers. Few stores that come up match the offerings of the incumbent retailers.

¹⁷ McNair M P (1958), “Significant trends and Development in the Post-War Period”, in A B Smith (Ed.), *Competitive Distribution in a Free High-level Economy and its Implications for the University*, Pittsburgh, PA, University of Pittsburgh Press

¹⁸ Converse P D (1959), “Mediocrity in Retailing”, *Journal of Marketing*, Vol. 23, pp. 419 – 420

Most of them attract customers due to convenience, as the travel and search costs from other localities are more. In most cases these stores would deal with consumer non-durable products and several emergencies/ infrequently purchase products like hardware and electrical products. However, as the locality evolves, a set of stores start developing that deal in merchandise that do not necessarily overlap with the existing retailers. These stores also specialise in a particular category. In most cases these are consumer durable and household appliances. Petrol pumps, restaurants, gift and other lifestyle products and beauty salon as some of the retailers that emerge. This trend continues till the trading area witnesses a good growth. As the growth tapers, the retailers turn their attention from acquiring more customers to maximising the value per customer. This starts a phenomenon where retailers start adding unrelated merchandise to their offering and slowly a large number of them become 'general' merchants.¹⁹ The cycle continues and after some time 'specialist' retailers emerge that add significant value to one category of merchandise and attract clientele on the basis of either range or value added products. Some of them become price players and some emerge as category killers.

The Melting Pot Theory

As per this theory, a new value proposition by one retailer gives rise to two new retailers with the same proposition.²⁰ This theory, also called the Dialectic Process, suggests that retail firms adapt mutually to the emerging competition and tend to adopt the plans and strategies of the opposition.²¹ This was epitomised in the earlier avatar of Tesco where it would simply match what Sainsbury would offer. Their policies became similar in terms of facilities, offerings, supplementary service, prices and even the loyalty programme rewards.²² It took almost ten years for Tesco to recover and become the most respected retailer. This phenomenon of melting pot is also very evident in white goods sector, catalogue stores and petrol pumps. This gives rise to a process where a successful retail 'formula' catches like wild fire and many retailers adopt it without really finding out the key success factors. Thus after some time, the mortality rate increases and many of them are not sure of the reason of failure. In the grocery sector India is facing a price led dialectic process. Although it early to pick the survivor, many of them can are good candidates for early death. While the instant success of the model is attracting several retailers, the need to find a formula for success which is just not only buying in bulk and hence selling it cheaper than the current retailers.

The Polarisation Theory

This theory suggests that in a longer term, the industry consists of mostly large and small size retailers. The medium size becomes unviable. This is called polarisation. The large

¹⁹ Davies Gary (1999), "The Evolution of Marks and Spencer", The Service Industries Journal, Vol. 19 (3), pp. 60 – 73.

²⁰ Ibid 15 (Newman and Cullen)

²¹ Luch R F, Dunne P M and Gebhardt R (1993), Retail Marketing, South Western Publishing, Cincinnati, p. 115.

²² Tesco Plc. (2002), Harvard School Publishing.

size retailers take advantage of large and direct purchases from the manufacturers and offer a large range at very competitive prices. This phenomenon has led to an increase in the size of the retailers and a change in their numbers. The larger stores offer one-stop shopping. The smaller retailers tend to offer a limited range but add value to their offers with other services or tend to specialise. It is found that firms tend to be more profitable when they are either smaller in size or they are big. The mid-size firms fall into the Bermuda Triangle.²³ The Bermuda Triangle Effect concludes that the performance of mid-sized firms suffered if big mid-sized firms continued to “act small” or the small mid-sized firms set up costly big-firm practices. Informally organised firms have low fixed costs. Small firms that are informally organised have low operating costs. But as size increases, the need for coordination within the organisation increases, and informal organisation often leads to errors and confusion. Thus, the cost of operating informally increases as a convex function of scale. Conversely, formal organisation incurs fixed costs, such as the cost of running an information system. For a small firm, this fixed cost is distributed over a small output, so the cost per unit of revenue is high. But as the firm increases in size, the fixed cost is distributed over a larger volume, thus lowering operating cost as a fraction of revenue. Ideally, small organisations should be managed informally and large organisations should be managed formally. As a firm grows in size, it should transition at the cost cross-over point from informal to formal management. However, organisations do not transition at the optimal point. Some move from informal to formal too early, others wait till too late before making the transition. The result is that mid-sized firms face higher costs and lower profitability. That leads to the Bermuda Triangle of management – many firms enter it, not all get out of it at the other end. There is plenty of evidence to suggest that small independent retailers have been affected by large retailers. However, it is expected that the specialised store would grow to and fill the mid-size segment.²⁴ India is witnessing a peculiar phenomenon where both independents and large format stores are increasing by leaps and bounds. It is early to tell whether polarisation would happen.

Retail Management Process

Retailing is a complex business. The complexity comes not out of the activities involved, but out of the detailing and precision involved in implementing each of the decisions. It is about every customer that visits the store and about every transaction that the customer gets involved. While, most retailing businesses involve products, the act of retailing is essentially a service that the manufacturer asks the retailers to perform. The product, which is the centre of activity for most of the manufacturers, becomes just one of the elements in the delivery of retailing service to the customers. In this business, the customer is always on-line. The presence of customers in the premises or during the process makes retailing a very involving business.

Retailers have to take care of their customers much more than the manufacturers also because, unlike manufacturers, stores' trading area is limited compared to a brand. There is a high likelihood of exhausting the potential faster. Thus, the business has to depend far

²³ Nanda Ashish (2004), “Profitability Drivers of Professional Service Firms”, Harvard School Publishing

²⁴ Ibid 15 (Newman and Cullen)

more on repeat purchase. Manufacturers are generally concerned with market share arising out of number of customers or the rate of usage. Retailers have to deal more with deriving more value out of their limited customers base. This makes it imperative that opportunities are assessed more accurately and customers are cared well. This process involves several aspects as described in Figure – 3. The core of the framework is the Retail Value Proposition. The proposition is derived keeping in mind the market profile and expectations, opportunities present in the market, competitive stances and activities and the retailer's objectives and resources. Based on the proposition, retailers decide the formats, merchandise, location, supply chain, pricing, promotion and other aspects of retailing mix.

Framework of the Book

This book is organised along the retailing decision process. Chapter – 2 and Chapter - 3 describe the World of Retailing in India and some other Asian countries. It also covers the phenomenon of retailing the USA and some countries Europe as a reference point. It looks the developing nation more insightfully and taking India as a reference brings out the opportunities and challenges facing a retailer. The chapter also describes the enabling factors in the environment that are fuelling the growth as well as factors that might deter the success of the retailers in such an environment.

Chapter – 4 is devoted to Understanding the Customers. It brings out that shoppers are different from customers and hence require to be studied from some other aspects. The chapter profiles the Indian shoppers demographically, psychographically, based on their values and their behaviour at the store. In order that a retailer has a large loyal base of customers, it would need to understand them not only on the basis of how do they decide to buy a particular brands from a particular store, they need also to map and develop strategies based on their behaviour at the store. The chapter indicates that customers in emerging markets think and behave differently and hence require a different outlook. Retail, being a much localised business, would need to keep the local culture and traditions in mind before offering the service, especially in countries like India which are know for their diversities.

Retail Formats are the tangible aspect of the value proposition of a retailer. It is the system that would realise the objectives and promises of a retailer. To the customers, it is the face of the retailer. Chapter – 5 details different formats available to the retailers in the current scenario. It also brings out the benefits and limitations of each of the formats. The description is divided broadly into store and non-store based retailers. The emerging formats like Internet retailing and supercentres have also been described. The chapter also suggests a process of deciding the format that would best suit the retailer's objectives and resources and the market it wants to address. The chapter dwells deeper into e-tailing and provide a comprehensive view of the business.

One of the most critical and perhaps the only 'fixed' decision that a retailer takes is about locating the store, both in the real and the virtual world. It is a decision to identify a place in the trading that would maximise value to the target customer base. Retailers operate within a given catchment area and one of the major costs that customers incur is in reaching

a store. Chapter – 6 is devoted to identifying a location that would be most suitable to the retailers. It defines a process that is divided in two broad parts of deciding the Trading Area and then identifying a site for the store. Several models that are utilised for this purpose are described.

The merchandising aspect of retailing is discussed in Chapter – 7. The book takes a stance of Category Management as key to an efficient consumer response (ECR). It entails the process that successful retailers undertake to devise suitable merchandise offers. The chapter deals with the ways to define the categories and their roles for appropriate strategies. It describes the tactics that retailers may apply with regard to assortments, shelf displays and sales promotion. In the process it exemplifies the steps from the practices being followed by leading retailers.

The other aspect of ECR is Supply Chain Management. Chapter – 8 describes the supply chain as a system of adding value to the business. While the focus is on managing cost and un-congested supply, it also brings out the importance of forecasting the demand. In addition the chapter deals with phenomenon of private branding that has seeming emerged out of supply chain of manufacturers that do not take into account the requirement of every retailer. In order to meet specific demands of their customers, retailers tend to offer merchandise or SKUs that the manufacturers fail to deliver. The chapter brings out that retailers can develop competitive advantages out of their supply chain.

Chapter – 9 is devoted to the Buying function of a retailer. It focuses on the criticality of the activity and hence advocates an astute process. The chapter describes the role of the buyer and the characteristics that retailers look into such a person. It then describes a process that efficient retailers follow in developing a buying plan. This involves demand forecasting and detailing down to the SKU level so that the store has the lowest inventory cost and is never out of stock.

Store Layout is the subject of Chapter – 10. The emphasis of the chapter is to arrive at a layout that reduces the stress while shopping. The factors that contribute to a good layout are elaborated in this chapter. These are classified into three sections of the ambience, physical aspects and the merchandise display. The role of olfactory factors such as scent, music and lighting are describes. The chapter also describes several plans available to the retailer for managing the circulation of the customers. The role of graphics and signage as well as the fixtures is highlighted.

Building a good image of the store through external and internal communication is the subject of Chapter – 11. It describes different tools available for both types of communications. While it describes the external communication aimed at building store image and traffic, the role of POP communication has also been elaborated. The various tools of external communication are compared so that a retailer can make a choice. In case of POP, the chapter proposes a framework for developing the strategies and choosing the right tool for a given condition. The conditions are described on the basis of the involvement of the customer and the value proposition that the store provides to the

customers. A 3 X 3 matrix has been developed to indicate options from which a retailer can choose.

Setting a price such that customers derive the maximum value out of buying at a store is dealt in Chapter – 12. Development of pricing strategies and policies for the retailers is elaborated. It also highlights the impacts of pricing on other retail mix elements. The options available to the retailers in implementing a pricing strategy such as EDLP and High-Lo are described. The chapter also focuses on managing mark-ups and markdowns. The several dimension of price variations such as line pricing and differential pricing have been discussed. The chapter devotes a full section on the phenomenon of reference price. It brings out the different theories in this area and reports the findings of a study that shows the impact of reference prices on shoppers' behaviour with regard to store and merchandise choice.

Chapter – 13 deals with the aspect of managing customer loyalty. The chapter emphasises that stores need to deal with every customer and every transaction of the customer, hence, building loyalty is easier as the customer provides several opportunities. On the other hand, it is challenging as the retailer is tested for many moments of truth. The chapter first explains the store choice behaviour of the customers. It delineates several factors that customers keep in mind while choosing a store. These are classified as economic and non-economic factors. It then proceeds to explain the difference between loyalty and patronage. A framework for managing loyalty is developed that could be adopted by the retailers.

Stores have been studied as a place where customers find themselves in a different world. They tend to alter their behaviour as they move from one store to the other. Chapter – 14 explains this phenomenon. It describes store as a social construct. The store is considered as a world with its own code of conduct, language and norms. The chapter explores the factors that create such a society. In the process it discusses the role that salesperson play in making this society. With the customers at the centre of activity, the world of retailing is explored.

The role of technology is explained in Chapter - 15. Retailing has witnessed the adoption of several technologies that help in managing supply chain, product displays and make shopping an enjoyable activity. The role of technology as enabler and doer of many activities is described.

The book is planned to help in making decisions with regard to retailing. Both the retailer and the manufacturers should benefit from the approach of decision making as followed in the book. The common thread that runs along all the chapters is a process of delivering value to the customers where manufacturers and retailers are strategic partners.

Figure 1: A Generic Perceived Customer Value Grid

	POSITIVE FUNCTIONAL VALUES	POSITIVE SOCIAL VALUES	POSITIVE EMOTIONAL VALUES	POSITIVE EPISTEMIC VALUES	POSITIVE CONDITIONAL VALUES
NEGATIVE FUNCTIONAL VALUES	convenient opening hours, but expensive	place to be, but expensive	my late father's favourite supplier, but too expensive	newly opened store, but inconvenient location	extreme cheapness of available produce because of glut, but too narrow range
NEGATIVE SOCIAL VALUES	good merchandise, but "Not-my-kind-store"	many habituals who are good acquaintances, but also the opposite	my late father's favourite supplier, but many dubious clients these days	newly opened store, but "Not-my-kind-store"	extreme cheapness of available produce because of glut, but "Not-my-kind-store"
NEGATIVE EMOTIONAL VALUES	good prices, but unpleasant sales persons	life style store, but unpleasant sales personnel	my late father's favourite supplier, but unpleasant sales reps	new interactive kiosk at store, but unpleasant visitors	extreme cheapness of available produce because of glut, but unpleasant visitors
NEGATIVE EPISTEMIC VALUES	good prices, but never any new item	life style store, but never any new item	my late father's favourite supplier, but no innovative items at all	always lots of new items, but not accessible for inspection	extreme cheapness of available produce because of glut, but never any new item
NEGATIVE CONDITIONAL VALUES	good merchandise, but aircon out of order	place to be, but music system out of order	touching opera performance, but aircon out of order	winter fashion show, but music system out of order	extreme cheapness of available produce because of glut, but electrical doors out of order

Figure – 2: The Wheel of Retailing

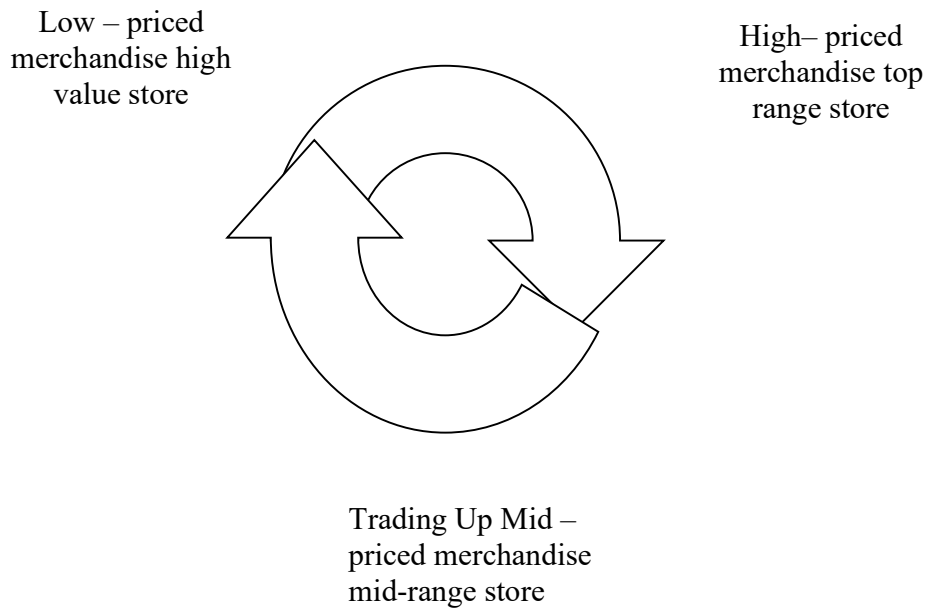


Figure – 3: Retailing Decisions

Retailing Decisions

