NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCES

COURSE CODE: MKT 206

COURSE TITLE: RETAIL MANAGEMENT

MKT 206: RETAIL MANAGEMENT

NATIONAL OPEN UNIVERSITY OF NIGERIA

Course Code	**MKT 206**
Course Title	**Retail Management**
Course Developer/Writer	**Dr C.I.Okeke (NOUN)**
Programme Leader	**Dr I.D.Idrissu (NOUN)**
Course Editor	**Prof. Peter Okuneye**
Course Coordinator	**Mrs. E.A. Adegbola (NOUN)**

NATIONAL OPEN UNIVERSITY OF NIGERIA

CONTENTS **PAGE**

Module 1-Background Issues on Retailing

UNIT 1: MARKETING CHANNELS AND INSTITUTIONS

CONTENTS

CONTENTS

UNIT 1: **MARKETING CHANNELS AND INSTITUTIONS**

1.0 INTRODUCTION

A gap always exists in time and space between the production and consumption of goods and services. Greater specialization and division of labour and advancement in transportation and communication have made it convenient for points of production and consumption to be differently located. Distribution is the business function that bridges the gap between production and consumption of goods and services. In this unit, we shall be discussing the various marketing channels that can be used in moving products from the producer to the consumer. We shall also be discussing the different marketing institutions that perform distribution functions.

2.0 OBJECTIVES

At the end of the unit, you should be able to:

- Discuss the primary and secondary distribution functions;
- Explain the utilities that distribution functions create;
- Highlight the marketing channels in use;
- Describe distribution channel structures;
- Discuss the bases for channel structure decisions; and
- Describe the characteristics of intermediary institutions.

3.0 MAIN CONTENT

3.1 **Distribution functions**

The specific functions that need to be performed before manufactured goods are consumed by the ultimate consumers are many and diverse.

These functions are:

a. Transfer of title to the goods
b. Physical movement of such goods from the point of production to the point of consumption.
c. Storage of such goods.
d. Communication of information concerning the availability, characteristics, and price of such goods.
e. Finance functions which include the finance of goods on transit, inventory and after purchase of such goods.

Distribution function creates time, form, place, and possession utilities. The eight basic functions involved in the distribution function include:

a. **Research:** the gathering of information necessary for planning and facilitating exchange.
b. **Promotion:** The development and dissemination of persuasive communications about the offer.
c. **Contact:** The searching out and communication with prospective buyers.
d. **Matching:** Shaping and fitting the offer to the requirements of the buyer. These include such activities as grading, assembling, packaging and sorting of such goods.
e. **Negotiation:** The attempt to reach a final agreement on a suitable price and other terms of the offer so that transfer of ownership or possession could be effected.
f. **Physical Distribution:** The transporting, storage, and final distribution to retailers.
g. **Finance:** The acquisition and disposal of funds to cover the cost of the channel work.

h. **Risk Taking:** The assumption of risks in connection with carrying out the channel work.

Finance of the enumerated functions above is out of question. Instead, the issue becomes the extent to which these functions could be performed and the various institutions connected with performing the functions. These issues are derived from the common characteristics of the functions. These are, firstly, the use of scarce resources, secondly, they can better be performed through specialization and thirdly, they are shiftable. The use of scarce resources suggests that whoever performs the functions must incur some costs which in turn, tie up capital and usually needs managerial effort. Amenability to specialization suggests that the functions singularly or collectively can be assigned to specialized institutions. The characteristic of shiftability ensures that many marketing institutions can perform the distribution functions.

3.2 **Marketing Channels**

At this stage, it will be quite appropriate to highlight various marketing channels in use. The specific marketing channels chosen by a firm will define the distribution strategies the firm wishes to pursue. A marketing channel points to the route goods will follow in moving from the point of production to the point of consumption. *A marketing channel comprises a set of institutions which perform all the activities (functions) utilized to move a product and its title from production to consumption.*

A marketing channel has two broad member participants, who are primary participants and facilitating participants. Primary channel members buy and sell for the transfer of title to merchandise and accept the risks as a result of their decisions. Primary channel members include Producers, wholesalers, and retailers. Facilitating channel members are vital to the smooth flow of the channel, though they are not involved in the ownership or title transfer of the goods. Based on primary channel members products will move from manufacturer to consumer through four channel structures.

The structures are:

a. manufacturer – Consumer
b. Manufacturer – Retailer – Consumer
c. Manufacturer – Wholesaler – Retailer – Consumer
d. Manufacturer – Agent – Wholesaler – Retailer – Consumer

3.2.1 Channel Structures

3.2.1.1 Producer – Consumer Channel Structure

Here, the producers perform all the functions (tasks) needed to sell the goods and services. There are two major methods through which producers can sell directly to consumers:

a) **The Personal Method:** Here the producer employs his own sales force to call upon prospective customers, or utilize his own retail outlets.
b) **The Impersonal Method:** It involves using either direct mail system or consumer press advertising.

Publishers of journals and magazines are major users of impersonal direct selling method. The publishers merely advertise to create awareness and persuade prospective buyers to subscribe to journals or magazines. In this way, sale can be effected without the seller and the buyer meeting face to face. Industrial products are also marketed direct to customers. Interest is developed through direct mail and press advertising followed by direct calls from company representatives.

3.2.1.2 Producer – Retailer – Consumer

This channel structure contains only one intermediary: in consumer markets, mostly, the retailer and in industrial markets, often a sales agent or broker. In this structure, the producer is acting as the wholesaler and serving the retailers. When the manufacturer goes direct to the retailer, the product is usually perishable, highly fashionable or costly enough to pay for the manufacturer to be a wholesaler.

3.2.1.3 Producer – Wholesaler – Retailer – Consumer

This structure contains two intermediary institutions – Wholesalers and retailers. These are the most common channel structure in use in the Nigerian Breweries and other breweries in Nigeria. Here, all the benefits of indirect marketing structures are manifested – goods achieve very wide coverage and high sales volume. The producer usually losses control as the goods move through the long route. This structure is not only popular in consumer markets; it is also widely used in industrial markets. Most breweries and marketing companies have licensed distributors/agents. They serve as wholesalers selling to minor distributors or retailers.

3.2.1.4 Producers – Agent – Wholesaler – Retailer – Consumer

This is a good example of indirect marketing channel structure, where the producer does not deal directly with wholesale middlemen and retailers. He however, uses an agent as a contact person. In the indirect distribution strategy, the producer works through marketing intermediaries like wholesalers and retailers, in getting his products to consumers. He shifts some of the distribution functions to wholesale institutions. The wholesaler then takes over the responsibility of:

i) Cost:
   - Cost of warehousing
   - Cost of inventory finance charges
   - Cost of Sales i.e. invoicing, financing of accounts
   - Risk of loss through inventory obsolescence
   - Loss through bad debts and reducing the cost of credit control
   - Transportation/ Delivery costs

ii) Coverage
   - A greater coverage is achieved through the use of a wholesaler.

iii) Provision of Service
   - Pre and after – sales Service.

Manufacturers using indirect channels lose some controls over the marketing functions but in return receive wider distribution, greater cost off – license, and higher sales volume than they could achieve through direct channel structures.

3.3 Channel Structure Decisions

A firm deciding on the particular structure to adopt, should base the decision on well thought out factors. The major factors to be analyzed are: Consumer characteristics, product characteristics, company characteristics and nature of competition.

Consumer characteristics are the most important factors to consider in selecting a channel structure for any given product. The major elements of consumer characteristics to be analyzed by the producer are: number of potential users, geographical distribution of potential users, degree of user sophistication, credit standing, preferred purchasing pattern of the user, and the degree of associated service requirements – both before and after sales service. A product characteristic is another major factor that shapes channel structure decisions. It should be looked at as the pivotal factor.

An accepted and general rule guiding the channel distribution of products is that perishable goods must be marketed using the shortest routes as much as possible. When vegetables are being marketed, direct marketing is imperative. Non - perishable goods can however, be marketed through long channel routes. The more non–perishable the goods, the longer the channel structures used. Other product characteristics include standardization, installation or service requirements and the unit cost of the product. Characteristics of a company that are major influences of a channel choice are:

i. **Size:** Small firms operating in big markets have to adapt to the prevailing distribution strategy
ii. **Industry:** Nicher, follower, challenger or leader.
iii. **Degree of Technical Competence**
iv. **Financial Strength:** A financially strong firm can use direct distribution strategy.
v. **Spatial Relationship:** Between the plants, and major users. If major users are located close to plants, firms can easily use direct distribution strategy.
vi. **Degree of Specialization:** A firm offering a product that is not unique in any sense has to use prevailing distribution strategy.
vii. **Ability to provide desired services:** A firm possessing that needed competence/technical know – how and the ability to provide all the services that middlemen can easily operate a direct distribution strategy.
vii. **Breath of product line:** A firm that produces many brands of a product, usually sold to the same class of buyers, can operate its own sales outlet.

Other characteristics are long – range corporate plans, and future plans and intents of the company.

The characteristics of intermediary institutions should also be considered. The specific characteristics of middlemen to be considered include:

i. Gross margin
ii. Market coverage
iii. Stock carrying capacity
iv. Number of substitute products carried
v. Proportion of salesman's time available for selling products.
vi. Servicing capacity
vii. Financial strength and stability
viii. Degree of technical expertise.

There are also environmental characteristics which ought to be considered. These are;

a. Legal restrictions and regulations
b. Credit
c. Tax laws
d. The availability and functionality of transportation and communication facilities
e. Credit culture.

Competitive Considerations can significantly affect channel decision. Firms especially small ones operating in highly competitive markets can ill – afford to adopt independent and unilateral channel decisions. The dominant channel in use in particular market tends to dictate the channel choice of firms coming into the markets.

4.0 **CONCLUSION**

Distribution functions are critical in delivering utilities to consumers. These functions are performed by various marketing institutions as products move through marketing channels. A marketing channel has two broad member participants. These are primary participants and facilitating participants. Primary channel members buy and sell for the transfer of title to merchandise and accept the risks as a result of their decisions. Primary channel members include Producers, wholesalers, and retailers. Facilitating channel members are vital to the smooth flow of the channel, though they are not involved in the ownership or title transfer of the goods. Based on primary channel members products will move from manufacturer to consumer through four channel structures.

5.0 **SUMMARY**

In this first unit, we discussed three broad issues. We looked at distribution functions, marketing channels and channel structure decisions. On distribution functions, we explained Baker's five essential distribution functions and Kotler's eight basic distribution functions. On marketing channels, we highlighted producer-consumer channel, producer-retailer-consumer channel, producer-wholesaler-retailer- consumer channel and producer-agent-wholesaler-retailer-consumer channel. On channel structure decisions, we explained the factors on which the decision is often based. These included consumer, product, company and nature of competition characteristics.

6.0 **TUTOR-MARKED ASSIGNMENT**

1. List the three primary channel members

2. Explain the four major factors that inform channel structure decisions

3. List the eight basic distribution functions.

7.0 REFERENCES/FURTHER READINGS

Kotler, Philip and Armstrong, Gary (1996) *Principles of Marketing*, 7th edition, Prentice Hall, Upper Saddle River, New Jersey.

Kotler, Philip and Keller, Kevin lane (2009) *Marketing Management*, 13th Edition, Pearson Education, Inc., Upper Saddle River, New Jersey.

Okeke, C.I. (2000) *Marketing Management*, Impressed Publishers, Lagos

UNIT 2: THE THEORY OF CONFLICT, CONTROL AND COOPERATION IN CHANNELS OF DISTRIBUTION

CONTENTS

1.0 INTRODUCTION

The bulk of consumer goods pass through a channel of distribution in moving from producers to consumers. The more common channel is manufacturer – to – wholesaler – to – retailer. Channels in this category involve only those firms that take title or negotiate title to merchandise. As such, it includes all kinds of producers (manufacturers)) wholesalers, agents and retailers.

The attempt in this unit is to show that between channel members, a dynamic field of conflicting and cooperating objectives exists; also that if the conflicting objectives outweigh the cooperating ones, the effectiveness of the channel will be reduced. Thus, the efficient distribution of consumer goodwill is impeded.

2.0 OBJECTIVES

At the end of the unit, you should be able to:

- Explain the underlying principles of the theory of conflict, control and cooperation in channels of distribution; and
- Discuss the concepts of power, control and cooperation in marketing channels

3.0 MAIN CONTENT

3.1 The Theory of Conflict, Control and Cooperation in Channels of Distribution

Marketing channel members can meet the challenge of ensuring that cooperating tendencies outweigh conflicting ones in channels of distribution in three distinct ways. According to Mallen (1984), one of the channel members can emerge as the channel leader and force other members to cooperate. This is an autocratic relationship. Secondly, the channel members can produce a leader who helps members to cooperate, creating a democratic relationship. Finally, the channel members can do anything and so have an anarchistic relationship.

The first classification may be called "Autocracy". In this approach to the group, the leader determines the policy, and dictates or assigns the work tasks. There are no group deliberations; no group decisions … the second classification may be called "democracy". In this approach, the leader allows all policies to be decided by the group with his participation …. The group determines the division and assignment of tasks …… The third classification may be called "anarchy". In anarchy, there is complete freedom of the group or the individual regarding policies or task assignments, without leader participation.

3.2 Power in Marketing Channels

If anarchy exists, there is a great chance of the conflicting dynamics destroying the channel. If autocracy exists, a condition of cooperation based on power and control is created. Democracy creates a more stable equilibrium based on voluntary democratic cooperation. It is to be noted that those who exercise leadership and how they exercise it will depend on the power they have. Power essentially is the ability to cause someone to do something he/she could not have done otherwise. Power to a channel member, is his ability to control the decision variables in the marketing strategy of another member in a given channel, at a different level of distribution. For this control to qualify as power, it should be different from the influenced member's original level of control over his own marketing strategy.

3.3 Conflict

Conflict is tension between two or more social entities (individuals, groups or larger organizations) which arise from incompatibility of actual or desired response. This conflict can be manifest or underlying, with manifest conflict meaning overreactions and underlying conflict, meaning that which involves interpersonal attractions, interest and desires.

Conflict has been classified into five stages:

i. **Latent Conflict:** underlying source of conflict
ii. **Perceived Conflict:** perception only, when no conditions of latent conflict exist
iii. **Felt Conflict:** tension, anxiety, disaffection in addition to the perception
iv. **Manifest Conflict:** behavior which blocks another's goal achievement
v. **Conflict Aftermath:** post – conflict, either resolution or suppression.

Whether manifest or underlying, and irrespective of the stage, conflict in a marketing channel is inevitable. The inevitability of conflict in marketing channels is perhaps due to the functional interdependence between channel members. The origin of this conflict has, however, been traced to the inherent conflict of interest embedded in the very act of exchange. It has been explained thus:

"The act of exchange is composed of two elements: a Sale and a Purchase. It is to the advantage of the seller to obtain the highest return possible from such an exchange and the exact opposite is the desire of the buyer. This exchange takes place between any kind of buyer and seller. If the consumer is the buyer, then that side of the act is termed shopping: if the manufacturer, purchasing: if the government, procurement; and if a retailer, buying".

The basic source of the conflict between channel members could be looked at in the process of the exchange act. The exchange act is a sign that the element of price conflict has been resolved to the mutual satisfaction of the two parties. It is natural for the selling member in an exchange to want a higher price than the buying member. Conflict is subdued if the exchanging act does not take place, or eliminated if the act does take place.

3.3.1 CONFLICT RESOLUTION

Conflict resolution is most effective before conflict reaches its manifest stage. When conflict arises, the consequences can be in overall, functional, if it is resolved in such a way as to enhance perceptions of goal compatibility, improve role clarity, and lessen role ambiguity and role disagreement.

Furthermore, if manifest conflict develops over one member's low aspirations and rigidity and in its aftermath, his motivation and cooperativeness improves, positive consequences can result.

On the other hand, if manifest conflict is not resolved effectively, non – functional consequences will predominate and personal relations can be disrupted. The other firm will be perceived as greedy, rigid, hostile, unfair, unrealistic, uncooperative and lacking in empathy, in high conflict situations. Members may resist further influence attempts and try to enhance their power at the expense of one another.

3.3.2 CONFLICT AREAS

There are many other conflict areas outside the exchange act, which can permeate all areas of marketing. These conflict areas can be further identified as follows;

i. A manufacturer may wish to promote a product in one manner or to a certain degree while his wholesalers and retailers oppose it.
ii. A producer may want an exclusive distribution of his product but his retailers may demand mass distribution
iii. A supplier (wholesalers) may force a product to its retailers, who dare not oppose, but will retaliate in other ways such as using the product as a loss leader.
iv. Large manufacturers may try to dictate the resale price of their merchandise which may be less or more than the price at which the retailers wish to sell it.
v. A local market may be more competitive for a retailer than is true nationally. The manufacturer may not recognize the difference in competition and refuse to help this (retailer) channel member.
vi. Conflict also occurs because of the desire of both manufacturers and retailers to eliminate the wholesalers.
vii. One basic source of channel conflict is the possibility of a difference in the primary business philosophy of channel members.
viii. Retailers complain of manufacturer's special concessions to competitors and rebel at the attempt of manufacturer's to control the resale prices; while the manufacturers complain of

retailers' deceptive and misleading advertising, non - adherence to resale price suggestions, bootlegging to authorize outlets, seeking price concessions by fair methods and misrepresenting offers by competitive suppliers.

3.4 Cooperation

Cooperation is a reflection of firms' ability to collaborate and work together in a joint fashion towards their respective goals. Effort concerns how much firms put into the relationship, their drives to reach estimated goals and make the relationship successful. If the aspirations and role performance of each firm are both high, their cooperation; and effort should also be high. Cooperation and coordination tend to be high when:

i. Inter-film communications are perceived to be effective in reducing uncertainty
ii. Participative decision making is perceive to take place.

Furthermore, the same constructs that contribute to low levels of conflict should contribute to high levels of ideological agreement, goal compatibility, role satisfaction and the use of power in; non pressurized fashion. All the same, corporation; and conflict do exist in the same relationship, especially where expected reward and role performance are high. No alternative relationship is perceived to exist that offers the same level of rewards.

4.0 CONCLUSION

The point being stressed in this unit is that channel members, who include – manufacturers, wholesalers and retailers, engage in exchange which draws them into a functional interdependence. In this relationship, conflicts are generated and need to be resolved amicably in the overall interest of all the channel members. Members need to de-emphasize conflict and seek to cooperate more.

5.0 **SUMMARY**

In this unit, you learned that channel members engage in exchange which draws them into a functional interdependence. This relationship manifests the need for power to coordinate extant relationships, conflict resolution skills to resolve all inherent conflicts in exchange relations and cooperation spirit to be able to collaborate and work together in a joint fashion towards their respective goals.

6.0 **TUTOR-MARKED ASSIGNMENT**

1. Describe the five classified stages of conflict in distribution channels.

2. When will anarchy be said to exist in a marketing channel?

3. Identify and discuss 8 conflict areas in marketing channels.

REFERENCES/FURTHER READINGS

Kotler, Philip and Armstrong, Gary (1996) *Principles of Marketing*, 7th edition, Prentice Hall,
Upper Saddle River, New Jersey.

Kotler, Philip and Keller, Kevin lane (2009) *Marketing Management*, 13th Edition, Pearson
Education, Inc., Upper Saddle River, New Jersey.

Okeke, C.I. (2000) *Marketing Management*, Impressed Publishers, Lagos

UNIT 3 VALUE, ROLE AND FUNCTIONS OF RETAILING

CONTENTS

1.0 INTRODUCTION

Marketing channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user. These organizations will include producers, wholesalers, retailers, agents etc.

Marketing intermediaries will refer to the marketing institutions that mediate the exchange relationship between producers and consumers of their products. These will include wholesalers and retailers. When producers rely on marketing intermediaries to get their products to consumers, they are said to be engaging in indirect marketing. Producers will be engaging in direct marketing when they push their products direct to consumers without going through middlemen. Thus direct marketing channel is one that has no intermediary levels while an indirect marketing channel contains one or more intermediary levels (kotler and Armstrong, 1996).

This unit will specifically discuss why marketing intermediaries are being used in distribution, the functions of middlemen, roles of retailing and functions of retailing.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Explain why marketing intermediaries are used in getting products to consumers;
- List and discuss the functions of middlemen;
- Describe the roles of retailing; and
- Discuss the functions of retailing.

3.0 Main Content

3.1 Why Are Marketing Intermediaries Used?

Intermediaries are used for the following reasons:

They are very efficient in making goods available to target markets.

They are also able to offer producers more than it can achieve on its own.

The use of intermediaries can provide economies to both producers and consumers. Their use makes the marketing system to be very efficient and interests of all participants best served. A practical illustration is the consideration of number of transactions that will be involved when an intermediary is used and when an intermediary is not used. Assume that there are three producers, each using direct marketing to reach three customers. In the absence of intermediation, nine different transactions will be involved in each customer getting the three different products needed. The introduction of one middleman will however reduce the number of transactions needed to six. This demonstrates that intermediation reduces number of transactions in the system and therefore makes the system more efficient.

3.2 Functions of Middlemen

They move products from producers to consumers and in the process bridge the time, place and possession gaps between the place of production and the place of consumption. The specific functions of middlemen according to kotler and Armstrong (1996) are:

- Information: gathering and distributing marketing research and intelligence information about actors and forces in the marketing environment needed for planning and aiding exchange.
- Promotion: developing and spreading persuasive communications about an offer.
- Contact: finding and communicating with prospective buyers.

- Matching: shaping and fitting the offer to the buyers needs, including such activities as manufacturing, grading, assembling and packaging.
- Negotiation: reaching an agreement on price and other terms of the offer so that ownership or possession can be transferred.
- Physical distribution: transporting and storing goods.
- Financing: acquiring and using funds to cover the costs of the channel work.
- Risk taking: assuming the risks of carrying out the channel work.

Functions of middlemen share some common characteristics. They are unavoidable, shift able; use up scarce resources and can be performed better through specialization. Given their unavoidability, when the producer eliminates middlemen he must assume the responsibility for the performance of the functions. The functions effectively cannot be eliminated. Because the functions can be shifted, any of the institutions in the marketing system can perform them or cease to perform them at any point in time. The functions are not tied to particular marketing institutions. Given that their performance uses up scarce resources, costs are always associated with the performance of the functions irrespective of who is performing them.

3.3 Roles of Retailing

1. To sell the product to the ultimate consumer;
2. Handle financial arrangement of the transaction including giving credit or offering credit cards or taking risks the cash will be stolen or spoil or go out of style or lose some utility.
3. Educating the consumer particularly in "pioneer" products.
4. Teaching peoples how to use a Product.
5. Handling warranty returns.
6. Protecting merchandise from theft perhaps.
7. Adding location utility to the product.
   So retailers add time, place and condition (whatever that is called in the book) utility.

3.4 **Functions of Retailing.**

From the customer point of view, the retailer serves him by providing the goods that he needs in the required assortment, at the required place and time.

1. Arranging Assortment: manufacturers usually make one or a variety of products and would like to sell their entire inventory to few buyers to reduce costs. Final consumers in contrast prefer a large variety of goods and services to choose from and usually buy them in small units.

2. Breaking Bulk: to reduce transportation costs, manufacturer and wholesalers typically ship large cartons of the products, which are then tailored by the retailers into smaller quantities to meet individual consumption needs

3. Holding stock: Retailers maintain an inventory that allows for instant availability of the product to the consumers. It helps to keep prices stable and enables the manufacture to regulate production.

4. Promotional support: small manufacturers can use retailers to provide assistance with transport, storage, advertising, and pre- payment of merchandise.

The Retailer also serves the manufacturers by

1. Accomplishing the function of distributing the goods to the end users.

2. Creating and managing a channel of information from manufacturer to the consumer

3. Act as a final link in the distribution chain

4. Recommending products where brand loyalty is not strong or for unbranded products.

Retailers have an indispensable role to play in terms of advancing the cause of sustainability. They function as both the industry's interface with the community, and at least potentially, as the consumer conscience of the community. They are positioned to acquaint their customers with those companies doing good on behalf of people and planet, and also to buy conscientiously on behalf of the highest values held by their customers.

4.0 CONCLUSION

Retailers have an indispensable role to play in terms of serving manufacturers and consumers. From the customer point of view, the retailer serves him by providing the goods that he needs in the required assortment, at the required place and time.
The Retailer also serves the manufacturers mainly by Creating and managing a channel of information from manufacturer to the consumer.

5.0 SUMMARY

In this unit you studied:

- Why are marketing intermediaries used in distribution?
- Functions of middlemen
- Roles of retailing
- Functions of retailing.

6.0 TUTOR-MARKED ASSIGNMENT

1. List the specific functions of middlemen
2. Discuss the roles of retailing
3. Explain the functions of retailing
4. Explain why marketing intermediaries are usually used in distribution.

7.0 REFERENCES/FURTHER READING

Kotler, Philip and Armstrong, Gary (1996) *Principles of Marketing*, 7th edition, Prentice Hall,
Upper Saddle River, New Jersey.

Kotler, Philip and Keller, Kevin lane (2009) *Marketing Management*, 13th Edition, Pearson

Education, Inc., Upper Saddle River, New Jersey.

Fulmer, Robert M. (1976) *The New Marketing*, Macmillan Publishing Co., Inc, 866 Third Avenue, New York.

Okeke, C.I. (2000) *Marketing Management*, Impressed Publishers, Lagos

UNIT 4: TYPES OF RETAIL OUTLETS

Table of Content

1.0 INTRODUCTION

In the last unit, we examined the role and functions of retailers and retailing institutions. We noted from the unit that retailing and retailers are crucial in the channel of distribution as both consumers and wholesalers depend on them for the performance of some very important functions.

In this unit, we are turning attention to the explanation of the various retail outlets that directly play the important roles of retailing and perform the crucial functions that justify their very existence. The unit will be discussing in detail the various bases for classifying retail outlets and the specific types of retail outlets we have in each.

2.0 OBJECTIVES

At the end of the unit, you should be able to:
Discuss store retailers and non-store retailers;
Describe the five major bases for classifying retail outlets; and
List and explain the many types of retail outlets.

3.0 MAIN CONTENT

3.1 Types of Retailers

Consumers can buy the products they need from the many and varied retail outlets that are available. The options range from store retailers to non-store retailers. Different authors have classified retailers and retail outlets according to their own world view of the subject. In this unit, we shall be classifying retail outlets using the general frameworks that have been developed.

There are five major bases for classifying retail outlets:

1) Amount of service
2) Product line sold
3) Relative price emphasis
4) Control of outlets
5) Type of store cluster

3.2 Amount of Service

The level of service in a retail outlet has a direct relation with the cost of running such an outlet and consequently the retail prices of products. Customers show different preferences for retail service levels and specific services. Based on service levels and specific services, there are four types of retail outlets

i. Self service

The assumption here is that customers will be willing to undertake the basic activities in shopping themselves, including locating of products, comparison of products/brands and selection of the item to ultimately buy, in order to reduce the price which they will have to pay for products. In self service retail outlets, customers are willing to serve themselves for a consideration-reduced price of products.

According to Kotler and Armstrong (1996) self service is the basis of all discount operations and is typically used by sellers of convenience goods (supermarkets) and nationally branded, fast-moving shopping goods.

ii. Limited service

In these retail outlets, customers are provided all the supporting information to make informed purchase decisions and are assisted in the shopping floor as much as possible. Nonetheless, customers patronizing limited service retail outlets will not expect to be waited on in the shop or purchased products taken to their cars or homes as the case may be.

iii. Full service

Examples of full-service retailers include specialty stores and first class department stores. In these stores, salespeople assist customers in every phase of the shopping process (locate-compare-select).the stores usually carry more specialty goods for which customers like to be waited on. They provide more liberal return policies, various credit plans, free delivery, home servicing, and extras such as lounges and restaurants. These many more services result in much higher operating costs, which are passed along to customers as higher prices (Kotler and Armstrong, 1996).l

iv. Self-selection

In self-selection outlets, customers according to Kotler and Keller (2009) find their own goods, although they can ask for assistance.

3.3 Product Line Sold

The length and breadth of their product assortment is yet another basis for the classification of retailers. Based on this, there are six types of retail outlets:

i. Specialty store

According to kotler and Armstrong (1996) specialty stores carry a narrow product line with a deep assortment within that line. Examples include stores selling sporting goods, furniture, books, flowers, electronics or toys. Specialty stores can further be classified by the narrowness of their product lines. For example, a clothing store is a single-line store, a men's clothing store is a limited-line store, and a men's custom shirt store is a super-specialty store

ii. Department store

A department store carries a wide variety of product lines-typically clothing, home furnishings, and household goods. Each line is operated as a separate department managed by specialist buyers and merchandisers.

iii. Supermarket

It is characterized as a large, low-cost, low-margin, high-volume, self-service store designed to meet total needs for food and household products. Customers always expect supermarkets to offer good prices, convenient locations and speedy checkout. To attract more customers supermarkets are being challenged to improve their facilities and services-provide better locations, improve décor, longer store hours, cheque cashing, delivery and even child-care centers.

iv. Convenience store

Convenience stores are according to kotler and Armstrong (1996) small stores that carry a limited line of high-turnover convenience goods. These stores are located near residential areas and remain open long hours, seven days a week. They must charge high prices to make up for higher operating costs and lower sales volume. Consumers use convenience stores for fill in purchases at off hours or when time is short, and they are willing to pay for the convenience.

v. Combination store, superstore, and hypermarket

These are huge stores that combine supermarket, discount and warehousing retailing. These shops are all larger than the conventional supermarkets. They carry large assortment of routinely purchased food and nonfood items. The4y offer such services as dry cleaning, post office, cheque cashing, bill paying, car care, pet care etc. because of wider assortment of products and services, their prices are slightly higher than those of conventional supermarkets.

vi. Service business

Service retailers include hotels, banks, airlines, colleges, hospitals, movie theaters, tennis clubs, restaurants, repair services, dry cleaners etc. Service retailers are growing faster than product retailers in most economies of the world.

3.4 Relative Price Emphasis

Based on this classification, there are three types of retail outlets:

i. Discount store

These are low-price, low-margin, high-volume stores that stock basically standard or specialty merchandise. A true discount store regularly sells its merchandise at lower prices, offering mostly national brands, not inferior goods.

ii. Off-price retailers

Off-price retailers exist majorly to fill low-price, high-volume gap. While ordinary discounters buy at regular wholesale prices and accept lower margins to keep prices down, off-price retailers buy at less than regular wholesale prices and charge consumers less than retail. They tend to carry a changing and unstable collection of higher-quality merchandise, often leftover goods, overruns, and irregulars obtained at reduced prices from manufacturers or other retailers.

The three main types of off-price retailers are factory outlets, independents and warehouse (wholesale) clubs (kotler and Armstrong, 1996). Factory outlets are owned and operated by manufacturers and normally carry the manufacturers surplus, discontinued, or irregular goods. Independent off-price retailers are either owned and run by entrepreneurs or are divisions of larger retail corporations. Although many off-price operations are run by smaller independents, most large off-price retailer operations are owned by bigger retail chains. Warehouse or wholesale clubs sell a limited selection of brand name grocery items, appliances, clothing, and other goods at deep discounts to members who pay annual membership fees.

Iii. **Catalog showroom**

A catalog showroom sells a wide selection of high-markup, fast-moving, brand-name goods at discount prices. These include jewelry, power tools, cameras, luggage, small appliances, toys and sporting goods. The showrooms make their money by cutting costs and margins to provide low prices that will attract a higher volume of sales.

3.5 Control of Outlets

Although many retail stores are independents, there are many other forms of ownership of retail stores. These other types of retail store ownership are classified as:

- **Corporate chain**

Chain stores are two or more outlets that are commonly owned and controlled, employ central buying and merchandising, and sell similar lines of merchandise corporate chain s have many advantages over independents. Their size allows them to buy in large quantities at lower prices. They can afford to hire corporate-level specialists to deal with areas such as pricing, promotion, merchandising, inventory control, and sales forecasting. They gain promotional economies because their advertising costs are spread over many stores and over a large sales volume

Though corporate chains appear in all types of retailing, they are strongest in departmental stores, variety stores, food stores, drug stores, shoe stores, and women's clothing stores (Kotler and Armstrong, 1996).

- **Voluntary chain and retailer cooperative**

According to Kotler and Armstrong (1996), the great success of corporate chains caused many independents to band together in one of two forms of contractual associations. One is the voluntary chain-a wholesale-sponsored group of independent retailers that engages in group buying and common merchandising. The other form of contractual association is the retailer cooperative-a group of independent retailers that bands together to set up a jointly owned central wholesale operation and conducts joint merchandising and promotion efforts. These organizations give independents the buying and promotion economies they need to meet the prices of corporate chains.

- **Franchise organization**

A franchise is a contractual association between a manufacturer, wholesale, or service organization (the franchiser) and independent businesspeople (the franchisees) who buy the right to own and operate one or more units in the franchise system. The main difference a franchise and other contractual systems is that franchise systems normally based on some unique product or service;

on a method of doing business; or the trade name, goodwill, or patent that the franchiser has developed.

The compensation received by the franchiser may include an initial fee, a royalty on sales, lease fees for equipment and a share of the profits.

Merchandising conglomerate

- **Consumer cooperative**

A consumer cooperative is a retail firm owned by its customers. In this type of retail outlet, members contribute money to open their own store, vote on its policies, elect a group to manage it, and receive dividends.

3.6 Type of Store Cluster

Kotler and Keller (2009) have observed that most stores today cluster together to increase their customer pulling power and to give consumers the convenience of one-stop shopping. Based on this classification, there are according to Kotler and Armstrong (1996) four types of retail outlets:

- **Central business district**

Many large cities and towns in Nigeria like Abuja and Lagos have central business districts with department stores, specialty stores, banks, and movie theaters. As population in these towns and cities begin to move the suburbs, these central business districts, with their traffic, parking and crime problems will begin to lose business. As e reaction, retail merchants in the towns will begin to open branches in suburban shopping centers. This will bring about decline in patronage of stores in the towns and cities and increase in the ones in the new or emerging suburban areas.

- **Regional shopping centre**

It typically contains between 40 and 100 stores or more and attracts customers from a wide area. Larger regional malls often have several department stores and a wide variety of specialty stores on several shopping levels. Many have added new types of retailers-dentists, banks, restaurants, hotels etc.

- **Community shopping centre**

This will contain between 15 and 50 retail stores. It normally will contain a branch of a departmental or variety store, a supermarket, specialty stores, professional offices and sometimes a bank.

- **Neighborhood shopping centre**

This will contain between 5 and 15 stores. They are close and convenient for consumers. They usually contain a supermarket, perhaps a discount store, and several service stores-dry cleaners, drugstore, video-rental outlet, barber or beauty shop or other shops.

4.0 CONCLUSION

In this unit, we looked at the types of retail outlets. We examined the different classifications of retail outlets. These included classifications based on amount of service, product line sold, relative price emphasis, control of outlets and type of store cluster. The number and type of retail outlets deriving from the discussed bases of classifications were presented and explained.

5.0 SUMMARY

There are many types of retail outlets and new retail types keep emerging. Five broad types of retail classifications were discussed in this unit. Based on amount of service being rendered by the retail outlets, four retail outlets, namely self service, limited service, full service and self selection were discussed.

Based on Product line sold in retail outlets, there are 6 types of retail outlets. These are specialty store, departmental store, supermarket, convenience store, combination stores and services businesses. On the basis of Relative price emphasis, there are 3 types of retail outlets-discount store, off-price retail store and catalog retail store. On the basis of control of outlets, there are 4 types of retail outlets. These are corporate chain, voluntary chain and retailer cooperative, franchise organization and consumers' cooperative. Lastly we discussed the classification of retail outlets based on the type of store cluster. The 4 types of retail outlets based on this classification are central business district, regional shopping centers, community shopping centers and neighborhood shopping centers.

6.0 TUTOR-MARKED ASSIGNMENT

1. Why do stores cluster together? Based on clustering, how many store types do we have?
2. Apart from independent retail stores, list and discuss 4 other types of retail store ownership.
3. Based on the length and breadth of product assortment, list and describe 6 types of retail outlets.

7.0 REFERENCES/FURTHER READING

Kotler, Philip and Armstrong, Gary (1996) *Principles of Marketing*, 7th edition, Prentice Hall,

Upper Saddle River, New Jersey.

Kotler, Philip and Keller, Kevin lane (2009) *Marketing Management*, 13th Edition,

Education, Inc., Upper Saddle River, New Jersey.

Fulmer, Robert M. (1976) *The New Marketing*, Macmillan Publishing Co., Inc, 866 Third Avenue, New York.

Okeke, C.I. (2000) *Marketing Management*, Impressed Publishers, Lagos

UNIT 5 WHOLESALING

CONTENTS

1.0 INTRODUCTION

Wholesalers are a key link between the manufacturer and the retailer. They make the movement of products through the channel more efficient and effective. As we saw and discussed earlier, they provide the manufacturer with" greater market coverage. In addition, wholesalers have become an imp6rtant source of information for all channel members. We will see. in this topic that the wholesaling function has a significant impact on all the members of distribution channels as well as playing an important role in 'he function of the economy. We will start by examining the nature of wholesaling. Then we will discuss the various types of wholesalers and look at some current trends in this area.

2.0 OBJECTIVES

By the end of this unit, you should be able to:

- Describe the nature of wholesaling and major types of wholesaling intermediaries;
- Discuss the strategic problems faced by wholesalers, together with some of the techniques that are being used in efforts to solve those problems; and
- Discuss some current trends that will affect the future of wholesaling.

3.0 MAIN CONTENT

3.1 The Nature of Wholesaling

The services mentioned at the beginning of the topic give some indication of the nature of wholesalers. In addition to providing those services, wholesalers perform specific types of transactions. But before we can discuss wholesaling in detail, we need to define it.

3.1.1 Definition of Wholesaling

Involves all of the activities provided by wholesaling intermediaries engaged in selling merchandise to retailers; to industrial, commercial, institutional, farm and professional businesses; or to other types of wholesaling intermediaries. Broadly speaking, any transaction between one producer or intermediary and another is a wholesaling transaction. Thus a retailer selling napkins to a restaurant or paper and pencils to another retailer is engaged in a wholesaling transaction. In the same flannel; a manufacturer's representative selling office equipment to a doctor or another kind of professional is also involved in a wholesaling transaction.

3.1.2 Wholesaling intermediary

The term wholesaling intermediary refers to any firm that, engages wholesaling activities. Wholesalers are 'merchant take title to the products they sell and perform necessary to move the products through the distribution channel. Thus agents, brokers, and manufacturers' repre-sentative are all wholesaling intermediaries, but they are not wholesalers.

Wholesaling is an extremely important part of the distribution channel. Without wholesalers, another member of the channel would have to perform their functions. In some cases, this simply is not possible'. For example, many small retailers would not be able to survive if they tried to 'perform all of the functions that Super Value performs. If food wholesalers did not exist, the grocery industry would be limited to major chain stores that can afford to perform wholesaling functions.

In a larger sense, wholesaling is very important to the Nigerian economy. Wholesalers have been described as the nation's inventory managers. Wholesaling "helps the economy adjust, both in times of high growth and in times of recession, because of its ability to react rapidly to changing demand and supply" We have already seen that wholesalers provide a variety of services. Infact, they think of themselves as service providers rather than simply as suppliers of products, the activities of wholesaling include buying and selling, distribution, warehousing, and financing. Usually the wholesaler can perform these activities more efficiently than either manufacturer or the retailer.

3.2 Some Common Types of Wholesaling Transactions

- Sales by manufacturers or their sales branches to wholesalers and other types of wholesale middlemen.
- Sales to retailer of all kinds.
- Sales to restaurant and hotels
- Sales to manufacturers, mines, oil companies, fisheries, railroads, public utilities and government department.
- Sales to barbers in the form of supplies and equipment; all sales of equipment and supplies by all so-called supply houses, so long as such equipment and supplies are not purchased- by ultimate consumers for their own personal use.
- Sales of office equipment or-laboratory equipment and supplies to professional such as doctors and dentists.
- Sales of building materials to contractors, except when they act as agents of home owners.
- All operations and activities of middlemen who in some way aid in the transfer of title goods when such goods are not sold to ultimate or individual consumers: in this group are individual brokers, resident buyers, purchasing agents, selling agents, manufacturers agents, and the like.
- All purchases of farm products for resale to other than individual consumers, irrespective of whether such purchases are made directly from farmers or from middlemen.

3.3 Types of Wholesaling Intermediaries

The wholesaling trade has experienced steady growth both in number of establishments and in, sales since World War II. Wholesaling intermediaries can be broken down into three major categories: merchant wholesalers, agents, and 'manufacturers' sales branches.

3.3.1 Merchant Wholesalers

These make up the largest segment of the wholesaling industry in terms of both number of establishments and sales volume. Merchant wholesalers have two distinct features (a) They take title to the goods they sell and (b) they are independently owned businesses. This type of wholesaler is called wholesaler, a jobber; or a distributor.

Merchant wholesalers can be further classified into two broad categories: fall-service and limited-service.

3.3.1.1 Pull-service Wholesalers

Performs all of the wholesaling activities mentioned earlier. Super Value (U.S.A.) is an example of a full-service wholesaler. There are three types of wholesalers in this category: general merchandise, single line, and specialty line.

- **General-Merchandise Wholesalers -** carry a wide variety of product lines, including such items as electrical and plumbing supplies, hardware, drugs, cosmetics, furniture, and nonperishable foods. This type of wholesaler usually serves small department stores, hardware stores, neighborhood grocery stores, and drugstores. A general merchandise wholesaler that operates in an industrial, setting is called <u>a mill supply house</u>.
-

Mckesson Corporation is an example of a general-merchandise wholesaler.lt not only: supplies drugstores-).with health and beauty aids but even maintain its own fleets of trucks to make sure those deliveries are made on time.

- **Single-line (or limited-line) Wholesalers -** handle fewer product lines than a general-merchandise wholesaler-typically only one or two-but they offer greater depth of assortment. They may carry only plumbing fixtures, groceries, clothing, or certain kinds of industrial products. Super Value (U.S.A) is basically a single line wholesaler, since it sells mainly food products.

- **Specialty-line Wholesaler -** A full-service wholesaler that carries a limited number of products for customers with specialized needs. Williams Drug Co. of Grand Rapids, Michigan, is an example of this type of wholesaler'4· Williams specializes in patent medicines, rural and ethical products, and other off beat and out-of-date goods. Drug retailers anywhere in the country can go to Williams Drug Co. for any rare drugs. If a product cannot be found anywhere else, it can probably be found at William's Drug. Williams has "Stuff that some (pharmacists) have not seen in 40 years.

3.3.1.2 Limited-service Wholesalers

Do not offer all of the services that are provided by a general service wholesaler. They typically carry a small number of product lines. Nevertheless, these wholesalers are very important in some industries and trades, even though they do not play a major role in the distribution process. The major types of limited-service wholesalers-cash-and-carry wholesalers, truck wholesalers, drop shippers, rackjobbers, producer cooperatives, and mail-order wholesalers are shown on a tabular form in the later part of this unit.

- **Cash-and-carry Wholesalers** - sell to customers, usually small retailers, on a cash-only basis. The retailers must provide transport for the product they buy. Aside from offering limited services, the cash-and-carry wholesaler may handle a limited number of fast-moving product lines such as groceries, construction materials, office supplies, or electrical supplies. In essence, this type of operation is run like a retail store except that it sells only to retailers. Some full-Service wholesalers have cash-and-carry departments.

- **Truck Wholesaler or Waken Wholesalers** - provide selling and delivery services. Fastmoving, perishable goods are sold to the retailer directly from the truck. The retailer can inspect the merchandise before purchasing it. Among the products sold by this type of wholesaler are potato chips, tobacco products, candy and other small snack items, and dairy products. Truck wholesalers provide many of the same services that a full-service Wholesaler does. Their success lies in their ability to deliver fr0Sh products frequently, thereby reducing the retailer's risk in carrying those products. Truck wholesalers are usually small op0B4ters who drive a regular route. They are very important to stall grocery stores, back-road service stations, hospitals, hotels and factory cafeterias.

- **Drop- Shipper -** are unique among wholesalers in that they do not stock, handle) or deliver the goods they sell even though they hold title to them. This type of wholesaler performs primarily selling functions. Drop shippers take order from customers and contact manufacturers that can supply the desired items which are then shipped directly to the customers. Drop shippers assume total responsibility for the products they sell. If something happens to the merchandise in transit, the drop shipper incurs a loss.

The products sold by drop shippers are mainly bulk items that would be extremely expensive if they had to undergo extensive handling. Examples include railcar loads of coal, lumber, chemicals, and heavy equipment.

- **Rack Jobber:** Supply nonfood products that are sold through supermarkets, grocery stores, and drug retailers. These products tend to have low turnover rates: examples include paperback books, toys, health and beauty aids, and hardware. The rack jobber sends a truck to the retailer to deliver the desired products and sometimes to price them, maintain and net up displays, keep inventory records, and so on. The retailer has only to furnish space. Rack jobbers also reduce the risk to the retailer of carrying short-lived products; they do so by selling on consignment, meaning that the retailer is billed only for products that are actually sold and the wholesaler will take back any unsold goods. The rack jobber retains title to the merchandise even after has been placed in the store.

- **Producer Cooperatives -** are found in agricultural markets. Owned by their members, they assemble farm products to sell in local markets: At the end of each year the profit of the cooperative are distributed to the members in the form of dividends.

- **Nail-Order -** Wholesalers - resemble mail-order retailers. They this catalogs to industrial, institutional, and retail custome6 le whom they sell such items as sporting goods, jewelry, hardware, and cosmetics. Mail-order wholesalers tend to serve customers located in remote areas or small industrial markets that are not served by ether wholesalers.

3.3.2 Agent Middlemen

Are wholesales that do not own or take title to the products they sell. This comprises of:

- Agents and brokers make-up the second major category of wholesaling intermediaries. The major main difference between agent middlemen and other types of wholesaling intermediaries is that they do not take title to the merchandise they .sell. An Agent's or brokers primary function is to-bring together buyers and sellers and facilities exchanges. These intermediaries provide fewer services than other wholesalers and usually Work on a commission basis.

Agents can be essential to small manufacturer's for which they perform the selling function. This enables the "manufacturers to keep expenses down. Normally agents specialize in a particular type of customer or product line. They also tend to have a fairly large customer bane with a specific geographic area.

- Manufacturer's Agents - are the most frequently encountered type of agent. These are independent sales representatives who work for several manufacturers of related but noncompeting product lines. Manufacturers' agent receives a commission on every sale they make. One of the major benefits of using this type of intermediary is that it spreads the cost of a single sales call over many products, complementary product lines can be added relatively easily, since a customer base has already been established.

A manufacturers' agent is often used by a company to enter new territories where demand is low. This is a wise more, since it cost nothing until the product is sold. Once the territory is generating enough sales volume to support a sales force, the manufacturer can take over this function. There is a trade-off however. To benefit from the saving in coots that result from the use of agents, the manufacturer must sacrifice some control over how its product is actually sold.

It is fox this reason that Apple Computer recently made some drastic changes in its distribution system. It dismantled its network of manufacturer's representatives and in its place created a 400 - person retail sales-force. It also set up second sales-force to concentrate on specific market niches, such as business and education markets.

- **Selling Agent**

Selling agents handle the entire marketing function for a manufacturer. They contract to market all of the manufacturer’s output or one or more of its product lines. The use of selling agents is appropriate when the manufacturer does not have the expertise to market its product effectively or has no interest in performing the marketing function. Selling agents have complete control over pricing, -selling, sales conditions, and advertising. In some cases a selling agent provides a manufacturer with working capital.

- **Commission Merchant**

Commission merchants take possession of the products shipped to them by producers and complete the selling transaction. They never assume title to the merchandise. They simply sell the products and return the proceeds of the sale to the manufacturer minus a commission. Commission merchants are most often involved in the distribution of agricultural products. They are normally used on a one-time basis and do not form long-term relationships with suppliers.

- **Broker**

A broker's primarily function is to bring together buyers and sellers, especially where there are large numbers of both. *A* broker's value is in supplying market information and establishes contacts in order to facilitate sales for clients. The relationship between a seller and a broker is usually temporary, and the broker assumes no risk. A broker receives compensation in the form of a commission paid by the seller.

Brokers typically specialize in one type of commodity. For example, there are food 'brokers who sell food and nonfood items to grocery: chains, merchant wholesalers, and food processors.

- **Auction Company**

Auction companies are commonly- used in markets where buyers want to inspect merchandise before they purchase it. This type of wholesaling intermediary sells merchandise on an agency basis by means of auctions.

Finally, agent middlemen are often used in international trade; in fact, they are used much more frequently than other types of wholesaling intermediaries because of the difficulty of arra4ging financing in foreign countries. There are import agents who are involved in buying merchandise from or selling merchandise for foreign firms, Export agenta'pri4hrily buy for or sell to foreign firms.

3.3.3 Manufacturers' Sales Branches and Offices

Are separate warehouses that produce set up away from their factories?

Manufacturers' sales branches and offices ire the third major type of wholesaling intermediary. These are Wholesaling establishment that are owned and operated by manufacturers but are separate from the manufacturers' factories. The reason for the establishment of sales branches and offices is to improve selling, inventory control, and product promotion. Their relative success is due to the fact they are usually set in the manufacturer's best markets.

- Sales branches carry inventory, extend credit, transport goods, and offer 'other services. Their customers include retailers, industrial buyers and other wholesalers. Companies involved in the marketing of petroleum products, automotive equipment, lumber, chemicals, and commercial equipment frequently establish sales branches.

- Manufacturer's Sales offices - differ from branches in that they do not carry inventory. The services they offer can be closely associated with those offered by agents. Often they sell other manufacturers products as well as their own.

3.3.4 Specialized Intermediaries

In addition to the three types of wholesaling intermediaries just described, there are a number of specialized intermediaries that perform wholesaling functions. For example, sales finance companies finance inventories for wholesalers and retailers. The product may be owned by the finance company, but the intermediary maintains physical possession. Automotive dealerships and appliance retailers use sales finance companies to maintain large stocks of goods among which customers can choose. This is called floor planning. The dealership owns only a certain percentage of the stock. Proceeds from sales of merchandise are used to pay off the loan.

- Factors - are another type of financial intermediary. They are basically wholesalers of credits if a wholesaler is strapped for cash to purchase inventory, it can sell its accounts receivable to a factor (Accounts receivable are sums owed to the firm by customers who have bought on credit). The factor gives the wholesaler cash 'minus a percentage fee. In addition to supplying working capital, factors can provide assistance in such areas as credit administration and collection. The main disadvantage of using factors is that their fees are quite high.
- Field warehouses also provide financing to wholesalers. They are producer - controlled warehouses that hold some of a wholesaler's inventory on their own property. The producer issues a receipt to the Wholesaler that can be used as collateral on a loan.

- Public warehouses are storage facilities in which a business can rent space instead of constructing its own warehouse. Many public warehouses maintain display facilities, deliver goods order products, and provide other wholesaling services. A bounded puh1ic warehouse can be used exactly like a field warehouse in order to negotiate a loan.

- Transportation Companies - are yet another type of specialized intermediary. They facilitate the movement of products between manufacturers and retailers without the use of a wholesaler. These companies include rail, truck, and air carriers. United Parcel Services (UPS) is an example.

Table 2 TYPES OF WHOLESALING INTERMEDIARIES

Merchant	**Wholesalers**	**Agents**	**Manufacturers' Sales Branches Offices.**
Full Service General line Single line Specialty line	Limited 'Service' Cash and carry Truck Drop shopper Rack jobbers Producer Cooperative Mail' order	Manufacturers agents Selling agents Commission merchants. Brokers Auction companies Import/export	Sales branches Sales Offices

3.4 Strategic Problem of Wholesalers

Now that we have discussed the importance of Wholesalers and the vast-array of wholesaling-intermediaries, let us take a brief look at some of the strategic problems they face. A recent survey of distributors identified five major problem areas:

- Unstable economic conditions. This is a pressing problem that has resulted from apprehension about interest rates, plant closings, and government deficits.

- Intense competition among distributors. This is also one of the problems that retailers face. Respondents to the survey mentioned numerous unethical practices, intense price competition, and too many distributors of this problem
- The high cost of making a sales call-both in terms of salaries and in terms of the cost of maintaining cars and paying salespeople's expenses. This is necessitating a change in distributors' se11ing practice.
- Declining employee productivity is another problem faced by wholesalers. This cute into profit because it raised opera ting expenses.

- Finally, manufacturer - distributor relationships are a frequently mentioned concern. Wholesalers often came into conflict with manufacturers over such matters as product return Policies and discounts. In many cases, the real problem is poor communications, One strategic tool that itt1 being used to solve some of these problem is computerization Lie retailers, wholesalers are turning to extensive use of computers and automation. More and more wholesalers are applying these technologies to inventory and cost control, warehouse and store design, and a-variety of other uses. It has been4aid that in coming decades wholesaling will be in the information business as well as the distribution business.

In the not-so distant past, wholesalers ordered all of their merchandise either L, mail or by phone.

Now over AO percent are ordering goods via electronic devices, either directly through a wholesaler-to-manufacturer order entry system or' trough a computerized clearing house. For example, the National Wholesale Drug Association (U.S.A) in conjunction with Informatics clearing house has set up an order entry system called ORDERNET. In this -system, order from retailers or wholesalers ate consolidated at a '09-ntral location. At certain times during the -day, each: manufacturer's computer obtains all the relevant purchase orders from the ORDERNET file. This system has significantly cut down the time it takes to order merchandise.

Warehouse automation is another major strategic tool for wholesalers. Fleming Co (U.S.A), a Wholesale food merchant, has invested heavily in this approach. Fleming spends as much as $30 million to build computerized warehouses in which orders from different affiliated'sdp4Markets are sorted into categories (breakfast cereals eaane0 vegetables, etc.) When every item has been classified, a warehouse employee can make a single trip to a specific area for the needed goods.

3.5 The Future of Wholesaling

What lies ahead for wholesalers? First, the move toward computerization and automation will continue, order taking and inventory control will he handled by computers, and more warehouses will be automated. At the same time, wholesalers will make more of an impact in the field of information management. Many already provide their customers with market research studies, retail site analysis, store design, detailed operating reports, and more. Because of wholesalers' closeness to the marketplace and the wealth of information available to them, they will become more valuable to their suppliers. Wholesalers are in a prime position to spot new trends and determine their magnitude and direction.

The Wholesaling industry can also be expected to make greater use of new management technique. Intensified competition and focus on cost control will force Wholesalers to streamline their business practices in order to survive. Not only will they use these techniques to run their own companies, but they will apply them to their customers as well. Large wholesalers will be a major source of management assistance for small retailers.

Another -factor that will affect wholesaling in the future is the growing rate of foreign firms.

The wholesaling industry will not be everyone's gold mine, however. Wholesalers that do not update their operations will find that their days are numbered Competition will be heightened by pencil-thin profit margins. Many smaller wholesalers will either go out of business or be bought: by larger establishments.

SELF ASSESSMENT EXERCISE 1

Who are cash and carry wholesalers?

2.0 CONCLUSION

This unit has exposed you to the nature of wholesaling. You also learned about types of wholesaling, intermediaries and some wholesaling transactions.

You also learned about strategic problems of wholesalers and the future of wholesaling.

3.0 SUMMARY

The wholesaler is an organization independent of producer and retailer, which undertakes the classic functions of distribution (Cox 1978)

Wholesaling intermediaries were broken down into three categories namely:

Merchant wholesalers, agents and manufacturers' sales branches. Each of the categories also has sub-division.

Strategic problems of wholesalers identified are:

- Unstable economic conditions
- Intense competition among distributions
- High cost of making a sales call.
- Declining employee productivity and
- Manufacturer – distributor relationships.

The future of wholesaling revolves round factors such as the growing rate of foreign firms and new management techniques.

4.0 TUTOR MARKED ASSIGNMENT

1. Discuss the functions of wholesalers

2. Write short-notes on the following:
   i) Mail Order
   ii) Discount Stores/Supermarkets

5.0 REFERENCES/FURTHER READING

William D. Perreqult and E. Jerome McCaothy (2003) Essentials of Marketing: a Global-Managerial Approach 9th Edition, New York: McGraw-Hill/Irwin, Inc.

William D. Perregult and E. Jerome McCarthy (2002). Essentials of Marketing: a Global material Approach 14th ed, New York: McGraw-Hill/Irwin Inc.

Levy M. and Weitz B. A. (1998). Retail Management 3rd ed. USA: The Irwin/McGraw-Hill, Inc.

Wholesale Drug firm Thrives on Nostalgia, Buyer's Loyalty" - Wall street Journal, June 20, 1983.

Module 2-Issues in Retail Management

Unit 1 Retail Management Decisions

Unit 2 Non-Store Retailing

Unit 3 Retail Strategy

Init 4 Retail Management Strategy

Unit 5 Retail Pricing

Unit 6 Factors Affecting Retail Pricing Decisions

UNIT 1: **RETAIL MANAGEMENT DECISIONS**

CONTENTS

1.0 Introduction

2.0 Objectives
3.0 Main Content
3.1 Marketing Decisions
3.2 Target market and positioning decision
3.3 Product assortment and services decision
3.4 Prices

1.0 INTRODUCTION

Retailers are searching for new marketing strategies to attract and hold customers. In the past, retailers attracted customers with unique products, more or better services than their competitors offered. Today national brands manufacturers, in their drive for volume, have placed their branded goods everywhere. Thus, stores offer more similar assortments- national brands are found not only in departmental stores, but also in mass-merchandise and off-price discount stores. As a result stores are looking more and more alike; they have become commoditized.

2.0 OBJECTIVES

At the end of the unit, you should be able to:

1. Explain the reasons retailers are rethinking their marketing strategies; and
2. Discuss the areas of retailer marketing decision.

3.0 MAIN CONTENT

3.1 Marketing Decisions

According to kotler and Armstrong (1996) service differentiation among retailers has eroded. Many departmental stores have trimmed their services, whereas discounters have increased theirs. Customers have become smarter and more price sensitive. They see no reason to pay more for identical brands, especially when service differences are shrinking. For all these reasons, many retailers today are rethinking their marketing strategies in the areas of target markets and positioning, product assortment and services, price, promotion, store atmosphere, and place.

3.2 Target Market and Positioning Decision

According to kotler and Armstrong (1996) retailers first must define their target markets and then decide how they will position themselves in these markets. Should the store be focused on the upscale, midscale, or downscale shoppers? Do target shoppers want variety, depth of assortment, convenience, or low prices? Until they define and profile their markets, retailers cannot make consistent decisions about product assortment, services, pricing, advertising, store décor, or any of the other decisions that must support their positions. Too many retailers fail to define their target markets and positions clearly. They try to have something for everyone and end up satisfying no market well. In contrast, successful retailers define their target markets well and position themselves strongly.

3.3 Product Assortment and Services Decision

The three major product variables that retailers must decide on are: product assortment, services mix, and store atmosphere.

The retailer's product assortment must match target shoppers expectations. The retailer must determine both the product assortments width and its depth. Thus a retailer can offer a narrow and shallow assortment, a narrow and deep assortment and a wide and shallow assortment, or a wide and deep assortment. Another product assortment element is the quality of the goods: the customer is interested not only in the range of choice but also in the quality of the products available.

Given that there will always be competitors with similar assortments and quality; the retailer must search for other ways to differentiate itself from competitors. It can use any of the differentiation strategies to achieve this. It can offer merchandise that no other competitor carries-private brands or exclusive national brands. Second, it can offer special promotions. It can also differentiate itself by offering a highly targeted product assortment

Retailers must also decide on a services mix to offer customers. It can offer home delivery, credit installation etc. The service mix is one of the key tools of non-price competition for setting one store apart from another.

3.4 Prices

According to Kotler and Armstrong (1996) a retailer's price policy is a crucial positioning factor and must be decided in relation to its target market, its product and service assortment, and its competition. All retailers will like to charge high mark ups and achieve high volume but the two seldom go together. Most retailers seek either high markups on lower volume (most specialty stores) or low markups on high volume (mass merchandise and discount stores. Retailers also pay attention to pricing tactics. Most will put low prices on some items to serve as traffic builders or loss leaders. On some occasions, they can run storewide sales. On others, they plan markdowns on slower moving merchandise.

3.5 Store Atmosphere

This is another element in the retailer's product arsenal. Every store has a physical layout that makes moving in it either hard or easy. Every store has a feel; one store is cluttered, another charming, a third plush, a fourth somber. The store must have a planned atmosphere that suits the target market and moves customers to buy.

3.6 Communications/Promotion

Retailers use the conventional promotion tools to reach consumers. They advertise in newspapers, radio, magazines and television. This may be supported by flyers and direct-mail pieces. Personal selling can also be employed and will require careful training of salespeople in how to greet customers, meet their needs, and handle their complaints. Sales promotions may include in-store demonstrations, displays, contests, and visiting celebrities. Public relations activities, such as press conferences and speeches, store openings, special events, newsletters, magazines, and public service activities, are always available to retailers.

3.7 Location Decision

A retailer's location is key to its ability to attract customers. Note that the costs of building or leasing facilities have a major impact on the retailer's profits. Site-location decisions are therefore among the most strategic the retailer makes. While small retailers will settle for any locations they can find or afford, large retailers usually employ consultants to select locations for them using advanced methods.

4.0 CONCLUSION

In this unit, we appraised the emerging challenges facing retailers and necessitating a rethinking of their marketing strategies. The major challenges retailers are facing include eroding product assortment and serviced differentiation. Others are customers that are becoming smarter and more prices sensitive. For all these reasons, many retailers today are rethinking their marketing strategies in the areas of target markets and positioning, product assortment and services, price, promotion, store atmosphere, and place.

5.0 SUMMARY

In this unit, you studied the major reasons retailers are rethinking their marketing strategies. You also studied the major marketing decision areas of retailers.

6.0 TUTOR-MARKED ASSIGNMENT

- Discuss the major reasons retailers are rethinking their marketing strategies.
- Explain the areas of retailer marketing decision.

7.0 **REFERENCES/FURTHER READING**

Kotler, Philip and Armstrong, Gary (1996) *Principles of Marketing*, 7th edition, Prentice Hall,
Upper Saddle River, New Jersey.

Kotler, Philip and Keller, Kevin lane (2009) *Marketing Management*, 13th Edition, Pearson
Education, Inc., Upper Saddle River, New Jersey.

Fulmer, Robert M. (1976) *The New Marketing*, Macmillan Publishing Co., Inc, 866 Third
Avenue, New York.

Okeke, C.I. (2000) *Marketing Management*, Impressed Publishers, Lagos

UNIT 2: **NON-STORE RETAILING**

Table of Content

1.0 **INTRODUCTION**

Although most products are sold through stores, more and more consumers are increasingly patronizing nonstore retail outlets. Nonstore retailers sell through catalogs, direct mail, telephone, home TV shopping shows, on-line computer shopping services, home and office parties, and other direct retailing approaches.

2.0 **OBJECTIVES**

At the end of the unit, you should be able to:

- List the three major categories of nonstore retailing; and
- Explain the features, benefits and challenges of direct selling, direct marketing and automatic vending.

3.0**MAIN CONTENT**

3.1Categories of Nonstore Retailing

Nonstore retailing falls into three major categories: direct selling, direct marketing and automatic vending.

3.2 Direct Selling

Door-to-door retailing, which started a long time ago with roving peddlers, has grown into a huge industry. Many companies and individuals today are selling their products door to door, office to office, or at homes. Many young Nigerians including those who are on full time employment have taken to office to office and home selling. Many entrepreneurs who are unable to pay for shops/stores have resorted to office and home direct selling.

The advantages of door-to-door selling are consumer convenience and personal attention. But the high costs of hiring, paying, and motivating the sales force result in higher prices. Although some door-to-door companies are still thriving, door-to-door selling has a somewhat uncertain future. The increase in the number of single-person and working-couple households decreases the chances of finding a buyer at home. With recent advances in interactive direct-marketing technology, the door-to-door salesperson may well be replaced in the future by the household telephone, television or home computer.

3.3 Direct Marketing (Telemarketing And Internet Selling)

Direct marketing uses various advertising media to interact directly with consumers, generally calling for the consumer to make a direct response. Mass advertising typically reaches an unspecified number of people, most of who are not in the market for a product or will not buy it until some future date. Direct advertising vehicles are used to obtain immediate orders directly from targeted consumers. Although direct marketing initially consisted mostly of direct mail and mail0order catalogs, it has taken on several additional forms in recent years, including telemarketing, direct radio and television marketing, and on-line computer shopping.

Direct marketing has boomed in recent years. All kinds of organizations use direct marketing: manufacturers, retailers, service companies, catalog merchants and nonprofit organizations. Its growing use in consumer marketing is largely a response to the demassification of mass markets, which has resulted in an ever-greater number of fragmented market segments with highly individualized needs and wants. Direct marketing allows sellers to focus efficiently on these minimarkets with offers that better match specific consumer needs.

Other trends also have fueled the growth of direct marketing. The increasing number of women entering the work force has decreased the time households have to shop. The higher costs of driving, the traffic congestion and parking headaches, the shortage of retail sales help, and the longer lines at checkout counters all have promoted in-home shopping. The development of toll-free telephone numbers and the increased use of credit cards have helped sellers reach and transact with consumers outside of stores more easily. Finally, the growth of computer power and communication technology have allowed marketers to build better customer databases and communication channels with which to reach the best prospects for specific products.

Direct marketing also has grown rapidly in business-to-business marketing. It can help reduce the high costs of reaching business markets through the sales force. Lower5-cost media, such as telemarketing and direct mail, can be used to identify the best prospects and prime them before making an expensive sales call.

Direct marketing provides many benefits to consumers as well. Instead of driving their cars through congested city streets to shop in crowded shopping malls; customers can use their telephones or computers to whiz along the information superhighway. Today sophisticated communications networks carry voice, video and data over fiber optic telephone lines, linking buyers and sellers in convenient, exciting ways.

Direct marketing provides benefits to sellers. It allows greater selectivity. A direct marketer can buy a mailing list containing the names of almost any group-millionaires, parents of newborn babies, left handed people, or recent university graduates. The direct-marketing message can be personalized and customized. The marketer can search its database, select consumers with specific characteristics, and send them very individualized laser-printed letters.

With direct t marketing, the seller can build a continuous customer relationship, tailoring a stream of offers to a regular customer's specific needs and interests. It also can be timed to reach prospects at just the right moment. Because it reaches more interested prospects at the best times, direct marketing materials receive higher readership and response. Direct marketing permits easy testing of specific messages and media. And because results are direct and immediate, direct marketing lends itself more readily to response measurement. Finally, direct marketing provides privacy- the direct marketers offer and strategy are not visible to competitors.

3.4 Automatic Vending

Automatic vending simply means selling through vending machines. This method of selling soared after world war 11. Today's automatic vending uses space-age and computer technology to sell a wide variety of convenience and impulse goods- cigarettes, beverages, candy, newspapers, foods and snacks, cosmetics, T-shirts, audio-tapes etc. vending machines are found everywhere. Automatic teller machines provide bank customers with checking, savings, withdrawals, and funds transfer services. Compared to store retailing, vending machines offer consumers greater convenience and fewer damaged goods. But the expensive equipment and labour required for automatic vending make it a costly channel and prices of vended goods are often 15 to 20 percent higher than those in retail stores. Customers also must put up with aggravating machine breakdowns, out of stock items and the fact that merchandise cannot be returned.

4 CONCLUSION

Increasingly, more and more consumers are patronizing nonstore retail outlets. This trend is not showing any sign of slowing down. Advances in technology and ICT are indeed fueling their adoption. Nonstore retailing falls into three major categories: direct selling, direct marketing and automatic vending.

5 SUMMARY

In this unit, you studied the categories of nonstore retailing and the features and benefits of door-to-door selling, direct marketing and automatic vending.

6 TUTOR-MARKED ASSIGNMENT

- Discuss the features and benefits of automatic vending to retailers and consumers.
- Articulate the trends that have fueled the growth of direct marketing.
- Discuss the two major advantages of door-to-door selling.

7 REFERENCES FURTHER READING

Kotler, Philip and Armstrong, Gary (1996) *Principles of Marketing*, 7th edition, Prentice Hall, Upper Saddle River, New Jersey.

Kotler, Philip and Keller, Kevin lane (2009) *Marketing Management*, 13th Edition, Pearson Education, Inc., Upper Saddle River, New Jersey.

Fulmer, Robert M. (1976) *The New Marketing*, Macmillan Publishing Co., Inc, 866 Third Avenue, New York.

Okeke, C.I. (2000) *Marketing Management*, Impressed Publishers, Lagos

UNIT 3: RETAIL STRATEGY

CONTENTS

1.0 INTRODUCTION

In most developed countries, retail is seen as one of the major drivers of economic growth. The retail structure in these countries comprises mainly of organised or modern retail. Most markets in the west from the point of view of retail have matured and saturated. Thus the global powers are turning their eyes towards greener pastures, that is, markets that are untapped, and offer great potential for growth. Wal-Mart is the world's largest retailer.

Recent years have seen markets become an increasingly popular retail choice. In the primitive world, the prevalent form of retail was the local marketplace where people sold their wares. In order to communicate the exclusivity of their goods to the potential buyers, these sellers would keep on announcing the superlative qualities of their wares throughout the day so as to attract the passing customers. Their voice and salesmanship were the only marketing techniques these sellers possessed. This form of selling then gave way to small shops, which was a much unorganized form of retail. Sellers had their own specialty stores, which were often named after their family name, and there were no chains of stores as we see today. As and when marketing techniques became sophisticated, and with the advent of technological breakthroughs in various spheres, this unorganized form of retail finally metamorphosed into the modern retail environment that we see today.

Retailing can be a complicated business, made even more difficult by financial problems and multiple competitions. It has been well argued that retailing is no longer a business environment characterized by low levels of competition. In almost all the townships retail businesses owned by local and foreign investors have sprung up. Established retailers such as Shoprite have also entered the township market which will increase the level of competition in the township area. Small retailers have to be as effective and efficient as possible, exploiting whatever advantages they can obtain. To cope successfully with these challenges, a more in-depth study of the marketing strategies adopted by the retail businesses was therefore required. This unit essentially explores the strategies of retail businesses.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Define concepts and terms pertaining to retail strategy;
- Highlight the importance of developing and applying retail strategy; and
- Explain the factors and issues in retail operations and performance.

3.0 MAIN CONTENT

3.1 Concepts in Retail Strategy

In the immensely competitive world of modern retail where big retail groups are taking rapid strides to extend their presence globally, it is indispensable to understand the concept of retail strategy and why it is important for retail organizations to adopt a strategic perspective. **Retailing** encompasses the business activities involved in selling goods and services to consumers for their personal, family, or household use. While retailing can be defined as including every sale to the final consumer (ranging from cars to apparel to meals at restaurants), we normally focus on those businesses that sell "merchandise generally without transformation, while rendering services incidental to the sale of merchandise.

Retailing is the last stage in a **channel of distribution**—all of the businesses and people involved in the physical movement and transfer of ownership of goods and services from producer to consumer. Retailers often act as the contact between manufacturers, wholesalers, and the consumer. Many manufacturers would like to make one basic type of item and sell their entire inventory to as few buyers as possible, but consumers usually want to choose from a variety of goods and services and purchase a limited quantity. Retailers collect an assortment from various sources, buy in large quantity, and sell in small amounts. This is the **sorting process**.

Retailing does not have to involve a store. Mail and phone orders, direct selling to consumers in their homes and offices, Web transactions, and vending machine sales all fall within the scope of retailing. Retailing does not even have to include a "retailer." Manufacturers, importers, non-profit firms, and wholesalers act as retailers when they sell to final consumers.

Traditional retail trades

The characteristics of the traditional trade can be defined as follows: being family-oriented in nature; providing old-fashioned services and exhibiting outdated displays; running the business with non-standardised management systems and limited investment; and being located in small commercial buildings or in a local community.

Modern retail trades

The characteristics of modern trade are as follows: providing modern services and displays; running business with standardized management systems; and putting large investment in technology and innovation to attract customers.

Retail marketing has been defined as 'adapting a company's product and service offer to the perceived needs of a target market segment or segments'

What is Strategy?

A retail strategy in all simplicity is how the retail business interacts with its environment to achieve its mission and associated objectives. Broadly defined, Johnson and Scholes define strategy as follows: "Strategy is the ***direction*** and ***scope*** of an organisation over the ***long-term:*** which achieves ***advantage*** for the organisation through its configuration of ***resources*** within a challenging ***environment***, to meet the needs of ***markets*** and to fulfil ***stakeholder*** expectations" *(http://www.tutor2u.net/business/strategy/porter_five_forces.htm)*. As such, the retail business strategy is simply reflected in the way it operates. The firm's actions are its strategies. The strategic choice perspective suggests that a firm needs to have different strategic responses to adapt to different types of competition.

It has been well suggested that all retail firms could be placed on a proactive-reactive continuum based on their strategic orientation. It was also proposed that ***proactive strategies*** were associated with higher performance levels than ***reactive strategies.*** Conceptually, proactiveness is the extent to which firms attempt to lead rather than follow competitors in key business areas such as the introduction of new products or services, operating technologies and administrative techniques. Reactive strategies are generally characterized by reactions to events in the environment as opposed to initiative taking. Firms pursuing this strategy avoid risk and undertake little innovation. This shows that a manager can respond in two ways:

(1) The manager can be reactive by responding to (a) specific problem(s) or

(2) The manager can attempt to change the environment or anticipate the change(s), which focus on more proactive stance.

Taking the second approach means decisions are planned and implemented. This approach helps create environments that complement the firm's strengths. On the other hand, the reactive strategies are a "wait and see" attitude. Thus, given an intensely competitive and complex environment, a mixed strategic response, encompassing both proactiveness and defensiveness, is appropriate when opportunities or threats occur.

3.2 The Importance of Developing and Applying a Retail Strategy

A **retail strategy** is the overall plan guiding a retail firm. It influences the firm's business activities and its response to market forces, such as competition and the economy. Any retailer, regardless of size or type, should utilize these six steps in strategic planning:

1. Define the type of business in terms of the goods or service category and the company's specific orientation (such as full service or "no frills").

2. Set long-run and short-run objectives for sales and profit, market share, image, and so on.

3. Determine the customer market to target on the basis of its characteristics (such as gender and income level) and needs (such as product and brand preferences).

4. Devise an overall, long-run plan that gives general direction to the firm and its employees.

5. Implement an integrated strategy that combines such factors as store location, product assortment, pricing, and advertising and displays to achieve objectives.

6. Evaluate performance regularly and correct weaknesses or problems when observed.

3.3 Retail Operations and Performance Factors

The philosophy of operating retail stores is to serve the customer. This means that a retailer should be the purchasing agent for the customer rather than the distributing agent for the manufacturer. Therefore, the store merchandise should be purchased that customers want rather than the merchandise that the manufacturer wants the retailer to carry. Retailers that can satisfy their customer needs assure themselves as a greater probability of success.

Six retail operations clusters have been identified including:

1. Merchandise and range;
2. Service and quality lines;
3. Active marketing;
4. Low price and incentives;
5. Local involvement; and

6. Unique products.

In the performance of these operations, ten survival strategies for small retailers must be considered in competing with mega-discount chains. These strategies are:

1. Focus completely on satisfying the customers;
2. Study the success of others;
3. Gather and analyze management information regularly;
4. Sharpen marketing skills;
5. Increase the customer's perception of value;
6. Position the business uniquely;
7. Eliminate waste;
8. Find something to improve every day;
9. Embrace change with a positive attitude; and
10. Pull the trigger and start the battle.

Three additional strategic directions have been identified as available to retailers, namely:

1) Adaptation means operating as effectively as possible with in the prevailing, often hostile, market conditions

2) Diversification has to do expanding product ranges and/or offering other services in order to maintain or increase market share in what may be declining market), and

3) Expansion denotes increasing the number of customers apparently through a focus on attracting custom from visitors to the locality).

Three factors have a substantial impact on a new venture's performance. In order of importance, they are (1) the structure of industry entered, (2) the new venture business strategy, and (3) the behavioural characteristics of entrepreneur.

1. Industry structure. Research shows that the chances for success are greater for entrepreneurial ventures that enter rapidly growing industries than for those that enter stable industries. In addition prospects are better in industries that are in the early, high growth stages of development because the competition often is less intense. Fast market growth also allows new ventures to make some mistakes without serious penalty. New ventures also increase their chances of success when they enter markets in which they can erect entry barriers to keep out competitors.
2. Business strategy. The key to success for most new ventures is (1) to differentiate the product from other competitors in terms of quality and service and (2) to focus the products on customer needs in a segment of the market to achieve a dominant share of that segment.

Apart from the success factors mentioned above, the unique strategies for each industry sector shows that every industry has its own unique variation of strategies that result in high performance, as each industry is unique with its own critical or key factors and environmental requirements. For the retail industry, value of money (lower price, high sale turnover, cost reduction and checking quality of product) is positively related to firm performance.

4.0 CONCLUSION

Retailing is an important field to study because of its impact on the economy, its functions in distribution, and its relationship with firms selling goods and services to retailers for their resale or use. A retail strategy is the overall plan guiding the firm. It has six basic steps: defining the business, setting objectives, defining the customer market, developing an overall plan, enacting an integrated strategy, and evaluating performance and making modifications. The strategic to retailing underscores the underlying principle is that a retail firm needs to plan for and adapt to a complex, changing environment.

5.0 SUMMARY

This chapter exposes you to the conceptual issues relating to retail strategy. Retailing as discussed can be a complicated business, made even more difficult by financial problems and multiple competitions. It has been well argued that retailing is no longer a business environment characterized by low levels of competition. In almost all the townships, retail businesses owned by local and foreign investors have sprung up. Established retailers such as Shoprite have also entered the township market which will increase the level of competition in the township area. Small retailers have to be as effective and efficient as possible, exploiting whatever advantages they can obtain. To cope successfully with these challenges, a more in-depth study of the marketing strategies adopted by the retail businesses was therefore required. A retail strategy is the overall plan guiding the firm. It has six basic steps: defining the business, setting objectives, defining the customer market, developing an overall plan, enacting an integrated strategy, and evaluating performance and making modifications.

6.0 Tutor-Marked Assignment

What is the purpose of developing a formal retail strategy?

7.0 REFERENCES/FURTHER READING

Harker, (1999, P. 50), "A Framework for Examining Strategy and Strategy-types in Small Firm", Sunshine Cost University, Australia.

Knee, D. & Walters, D. (1985). Strategy in Retailing. New Jersey: Hemel Hemstead, Philip Allen.

Mudambi, S. M. (1994). A typology of strategic choice in retailing. *International Journal of Retail & Distribution Management, 22*(4), 32-40.

Omura, G. (1986). Developing retail strategy. *International Journal of Retailing, 1(3)*, 17-32.

PricewaterhouseCoopers. (2003/2004). *Retail & consumer growth dynamics from New Delhi to New Zealand*. Bangkok: Thailand Country Report.

Rungfapaisarn, K. (2002, January, 2). Small retailers must adapt quickly to survive. *The Nation,* p. 1.
Smith, A. & Sparks, L. (1997). *Retailing and small shop: Institute for retail studies*. Stirling: University of Stirling, the Scottish Office Centre Research Unit.

UNIT 4 RETAIL MANAGEMENT STRATEGY

CONTENTS

0.0 INTRODUCTION

Management practices in retail businesses are typically those strategies and operational process options chosen by a business owner or operator to ensure the superior performance and competitiveness of their business. At a business unit level, they include the selection of strategies that competitively position the business in their environment. Whilst at a functional level, they include managers' choices of marketing, operational and human resource strategies and business processes that facilitate the achievement of the organization's strategic goals.

1.0 OBJECTIVES

At the end of this unit, you should be able to:

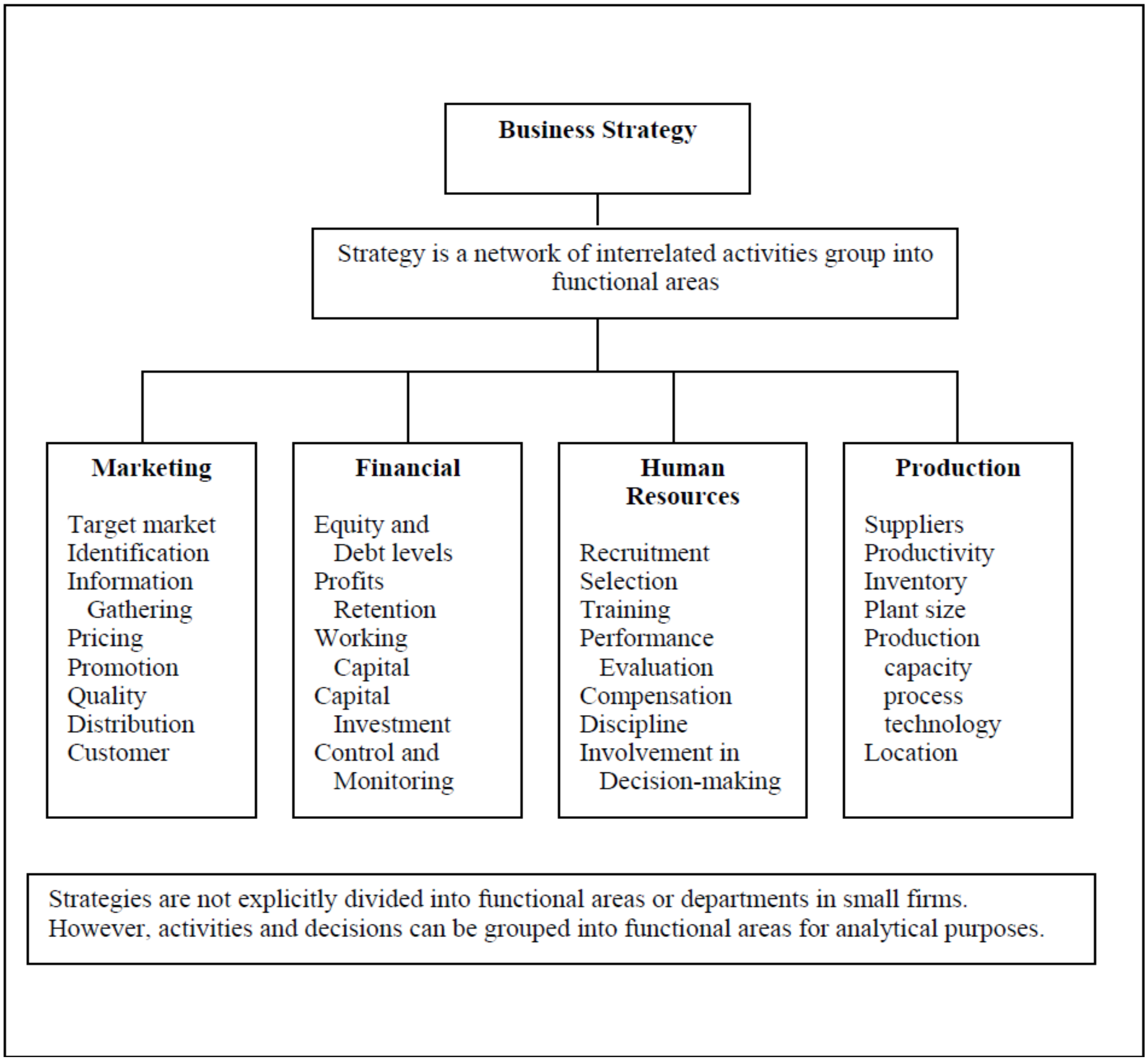
- Discuss retail management strategies;
- Group the activities that constitute a strategy into functional areas;
- Explain the three aspects of a value-oriented retail strategy; and
- Discuss the pitfalls to avoid in planning a value-oriented retail strategy.

2.0 MAIN CONTENT

3.1 Retail Management strategies

For the smaller business, six factors significantly impact upon the performance of the business: legal structure, business size, age, industry sector and markets, location and ownership. Selecting strategies for success is one of the most important decisions for retail businesses.

The key functional areas and their associated activities are portrayed in Figure 1.2



Source: Harker, (1999, P. 50), “A Framework for Examining Strategy and Strategy-types in Small Firm”, Sunshine Cost University, Australia.

Figure 1.2 **Key functional areas and their associated activities**

The activities that constitute a strategy can be grouped into functional areas. Therefore, the overall business strategy can be thought of in terms of functional areas strategies. Key functional areas and associated activities in RE are:

1. **Marketing –** It includes selecting customer target groups and gathering information on them to determine acceptable products and quality levels. It also covers price setting and choice of appropriate promotion techniques and distribution channels. Marketing also involves decisions on customer service and support
   Marketing Strategies (further divided into eighteen different types of marketing strategies)

   1. Provide various types of goods
   2. Price of goods lower than competitors
   3. Giving negotiable price
   4. Extend credit to customer
   5. Deliver to home service
   6. Provide order by phone
   7. Provide self service
   8. Give full service for customers
   9. Create good relationship with customers
   10. Advertise by cut out sign, radio broadcasting, local newspaper.
   11. Decorate name of the store
   12. Rearrange display
   13. Promote discount, Bonus, Free gift
   14. Quick post sale service
   15. Find new groups of customers (Present goods at home or office)
   16. Training staff for polite service
   17. Training staff for wearing clean clothes or uniform
   18. Training staff for greeting, describing good detail

   The main competitive tool that small stores have is to use a strategy of concentrating on personal attention to customers. This is often emphasized in the training of staff in small stores where the focus is on everybody helping out and providing prompt and courteous attention to the customer. The customer expects a certain level of service from the sales people and this result in a heavy focus in training in the following areas:

   1. How to greet customers;
   2. Showing merchandise to the best advantage;

3. Suggesting other items that are similar or maybe in addition to the items of interest; and

4. Handling customer needs and complaints.

To compete with large businesses in the area of marketing strategy, small retailers generally concentrates on a narrow market segment thereby gaining an intensive knowledge of those segments. Because small retail firms are tied so closely to their local communities, marketing research is designed to concentrate on these local communities. Since the small retailer's limited resources are already tailored to local markets, the organizational changes required for continued adaptation to local market segments are made fewer than those required to handle competition for a wide spectrum of market segments that large retailers usually seek. Even though large chains can use their purchasing power to buy merchandise at lower prices than small local stores can, small retailers tries to overcome this cost disadvantage by providing better customer service than a large, bureaucratic chain.

2. Finance – It covers decisions on capital structure, methods of raising capital, capital expenditure, profit distribution and retention and working capital levels. It also includes performance monitoring, that is, budget preparation and variance analyses. Finance and accounting strategies (further divided into eight different types of strategies)

1. Search for cheaper sources of finance
2. Re-invest profits earned and use own funds rather than use outside borrow funds
3. Maintain large cash balances
4. Use trade credit from suppliers
5. Consult/employ professions in accounting
6. Note / record revenue, expenses, inventory continuously
7. Check and control receivable account
8. Use new technology for accounting

Consequently, the small retail businesses have the time learn to pay more attention to accounting and management control or acquire these capabilities early in the business development phase. Development of strategic retailing initiatives, such as quick response times and efficient consumer response, in conjunction with the increasing use of technology, including electronic data interchange and bar coding are also strategies retail businesses uses to solve the management of inventory problems.

3. Human resources – It deals with staff recruitment and selection, employee training, performance assessment and remuneration, compensation, reward and disciplinary systems, industrial relations and levels of employee participation in decision-making .

Human resource management strategies (further divided into six different types of strategies)

1. Emphasis recruitment and employ only qualified staffs.
2. Emphasis staff training (e.g. accounting, marketing training)
3. Assess performance of employees
4. Emphasis reward and discipline system for all employees
5. Involve employee in decision making
6. Owner or manager joins short course seminar or training

These are human resource measures that retailers commonly used to improve their business performance. Retail businesses are known to form strategic alliances or network to share a pool of trained human resource managers including receiving helpful assistance such as store administration and staff training by joining with other similarly constrained operations. Assessing employee performance and giving fair rewards or penalties including listening to employees' suggestions and complaints are practical measures that retail businesses readily use. The opportunity to know all employees on a personal basis gives the small retailer an advantage over larger rivals in developing employee trust and confidence in management.

4. Production – It covers selection of location and suppliers, inventory and productivity levels, production technology and capacities, plant size and levels of efficiency in production.

Product strategies (further divided into nine different types of strategies)

1. Analyzing location for moving or open new branch
2. Finding cheaper suppliers
3. Reviewing inventory or stock control continuously
4. Adding new goods in the same product line
5. Adding new product line
6. Provide goods insurance or goods can be returned
7. Provide few lines of products but have every size and every colour
8. Emphasis high turnover / reduce price to loose stock
9. Follow up customer complaints

There are three aspects of a value-oriented retail strategy: expected, augmented, and potential. **An *expected retail strategy*** represents the minimum value chain elements a given customer segment (e.g., young women) expects from a type of retailer (e.g., a mid-priced apparel retailer). In most cases, these are expected value chain elements: store cleanliness, convenient hours, well-informed employees, timely service, popular products in stock, parking, and return privileges. If applied poorly, expected elements cause customer dissatisfaction and relate to why shoppers avoid certain retailers.

An *augmented retail strategy* includes the extra elements in a value chain that differentiate one retailer from another. As an example, how is Sears different from Holt Renfrew?
These are often augmented elements: exclusive brands, superior salespeople, loyalty programs,

delivery, personal shoppers and other special services, and valet parking. Augmented features complement expected value chain elements, and they are the key to continued customer patronage.

A *potential retail strategy* comprises value chain elements not yet perfected by a competing firm in the retailer's category. For example, what customer services could a new upscale apparel chain offer that no other chain offers? In many situations, these are potential value chain elements: 24/7 store hours (an augmented strategy for supermarkets), unlimited customer return privileges, full-scale product customization, instant fulfillment of rain checks through in-store orders accompanied by free delivery, and in-mall trams to make it easier for shoppers to move through enormous regional shopping centres. The first firms to capitalize on potential features gain a head start over their adversaries. Chapters accomplished this by opening the first book superstores, and Amazon.com has become a major player by opening the first online bookstore. Yet, even as pioneers, firms must excel at meeting customers' basic expectations and offering differentiated features from competitors if they are to grow.

3.2 Pitfalls to Avoid in Planning a Value-Oriented Retail Strategy

There are five potential pitfalls to avoid in planning a value-oriented retail strategy:

● *Planning value with just a price perspective.* Value is tied to two factors: benefits and prices. Most discounters accept credit cards because shoppers want to purchase with them.

● *Providing value-enhancing services that customers do not want or will not pay extra for.* Ikea knows that most of its customers want to save money by assembling furniture themselves.

● *Competing in the wrong value/price segment.* Neighborhood retailers generally have a tough time competing in the low-price part of the market. They are better off providing augmented benefits and charging somewhat more than large chains.

● *Believing augmented elements alone create value.* Many retailers think that if they offer a benefit not available from competitors, they will automatically prosper. Yet, they must never lose sight of the importance of expected benefits. A movie theatre with limited parking will have problems even if it features first-run movies.

● *Paying lip service to customer service.* Most firms say, and even believe, that customers are always right. Yet, they act contrary to this philosophy—by having a high turnover of salespeople, charging for returned goods that have been opened, and not giving rain checks if items are out of stock.

To sidestep these pitfalls, a retailer could use the checklist in Figure 2-2, which poses a number of questions that must be addressed. The checklist can be answered by an owner/corporate president, a team of executives, or an independent consultant. It should be reviewed at least once a year or more often if a major development, such as the emergence of a strong competitor, occurs.

THE WORLD

- ✓ Is value defined from a consumer perspective?
- ✓ Does the retailer have a clear value/price point?
- ✓ Is the retailer's value position competitively defensible?
- ✓ Are channel partners capable of delivering value-enhancing services?
- ✓ Does the retailer distinguish between expected and augmented value chain elements?
- ✓ Has the retailer identified meaningful potential value chain elements?
- ✓ Is the retailer's value-oriented approach aimed at a distinct market segment?
- ✓ Is the retailer's value-oriented approach consistent?
- ✓ Is the retailer's value-oriented approach effectively communicated to the target market?
- ✓ Can the target market clearly identify the retailer's positioning strategy?
- ✓ Does the retailer's positioning strategy consider trade-offs in sales versus profits?
- ✓ Does the retailer set customer satisfaction goals?
- ✓ Does the retailer periodically measure customer satisfaction levels?
- ✓ Is the retailer careful to avoid the pitfalls in value-oriented retailing?
- ✓ Is the retailer always looking out for new opportunities that will create customer value?

Figure 1.3 Value-Oriented Retailing strategy Checklist

4.0 CONCLUSION

Retailing is an important field to study because of its impact on the economy, its functions in distribution, and its relationship with firms selling goods and services to retailers for their resale or use. A retail strategy is the overall plan guiding the firm. It has six basic steps: defining the business, setting objectives, defining the customer market, developing an overall plan, enacting an integrated strategy, and evaluating performance and making modifications. The strategic to retailing underscores the underlying principle is that a retail firm needs to plan for and adapt to a complex, changing environment.

5.0 SUMMARY

This chapter exposes you to the conceptual issues relating to retail strategy. Retailing as discussed can be a complicated business, made even more difficult by financial problems and multiple competitions. It has been well argued that retailing is no longer a business environment characterised by low levels of competition. In almost all the townships, retail businesses owned by local and foreign investors have sprung up. Established retailers such as Shoprite have also entered the township market which will increase the level of competition in the township area. Small retailers have to be as effective and efficient as possible, exploiting whatever advantages they can obtain. To cope successfully with these challenges, a more in-depth study of the marketing strategies adopted by the retail businesses was therefore required. A retail strategy is the overall plan guiding the firm. It has six basic steps: defining the business, setting objectives, defining the customer market, developing an overall plan, enacting an integrated strategy, and evaluating performance and making modifications.

6.0 TUTOR-MARKED ASSIGNMENT

- What is the purpose of developing a formal retail strategy?
- List and explain the pitfalls to avoid in planning a value-oriented retail strategy.
- Discuss the three aspects of a value-oriented retail strategy.

7.0 REFERENCES/FURTHER READING

Harker, (1999, P. 50), "A Framework for Examining Strategy and Strategy-types in Small Firm", Sunshine Cost University, Australia.

Knee, D., & Walters, D. (1985). *Strategy in retailing*. New Jersey: Hemel Hemstead, Philip Allen.

Mudambi, S. M. (1994). A typology of strategic choice in retailing. *International Journal of Retail & Distribution Management, 22*(4), 32-40.

Omura, G. (1986). Developing retail strategy. *International Journal of Retailing, 1(3)*, 17-32.

PricewaterhouseCoopers. (2003/2004). *Retail & consumer growth dynamics from New Delhi to New Zealand*. Bangkok: Thailand Country Report.

Rungfapaisarn, K. (2002, January, 2). Small retailers must adapt quickly to survive*. The Nation,* p. 1.

Smith, A., & Sparks, L. (1997). *Retailing and small shop: Institute for retail studies*. Stirling: University of Stirling, the Scottish Office Centre Research Unit.

Unit 5 RETAIL PRICING

CONTENTS

1.0 INTRODUCTION

In blaming retailers for the high prices of products consumers easily point to arguably high retail mark – ups. It is paradoxical however, that retailers who should be making windfall profits on account of the supposedly high mark-ups are failing in business regularly.

The objective of this unit is to attempt a justification for the seemingly high mark-ups retailers charge on their products. To this end, the unit will espouse and account for all the costs (including charges and expenses) that retail mark-up must accommodate if retailers are to eke out reasonable profits from the prices fixed on their merchandise. The model that will evolve from this effort will not only guide retailers in pricing but will enlighten consumers on their actual contribution to the sustenance of the retail function. Government and other observing agencies will find the model useful in recommending prices for the commodities at the retail point.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Discuss retail mark-up;
- List the elements of traditional accounting costs in retail business; and
- Explain changes in retail business that impact on retail costs.

3.0 MAIN CONTENT

3.1 Retail Costing

A mark-up simply stresses the difference between merchandise cost and selling price. To the retailer, it relates to the difference between wholesale price of products and the price at which the products are sold to consumers.

This algebraic expression of a mark-up is mechanical and simplistic and is often the basis for the consumer perception and the charge of greedy mark-ups of retailers. Reflecting on this, Gabor (1967) observed that "the trouble is of course that the layman fails to distinguish between the mark-up rate and the rate of return on investment, and he also tends to forget that especially in retail establishments, the mark-up rate has to cover all the costs of the business not included in the wholesale price of the article".

If you approach the most biased consumer, he will concede that there is need for retailers to sell at prices slightly above the cost of the article. The cost of the article in a retail business set-up will go beyond the manufacturers/ or wholesalers asking price for the product. The traditional accounting costs in business include direct and indirect costs.

Direct Costs are the costs ascribable to particular units of article carried and will include amongst others:

1. Wholesale price of article;
2. Delivery/transportation costs;
3. Assortment and packaging costs where applicable; and
4. Miscellaneous

Indirect costs will refer to items of cost not ascribable to particular units of article carried in stock but incidental to such article. Indirect costs are often referred to as fixed charges and include:

1. Salaries and wages
2. Rent
3. Interest on loan
4. Depreciation on machines/houses etc.
5. Insurance
6. Utility bills and
7. Advertising and bad debt.

In retail business, if mark-up is pegged to cover the above enumerated costs only, then one need not search further as to why retail business fail. It will surprise many people but few enlightened retailers that mark-ups fixed to accommodate only direct and indirect costs may result to losses in retail business.

3.2 Retail Changes

There are charges outside traditional accounting costs on profit incidental to retail business. These incidental charges are expenses somewhat peculiar to retail function. Espousing on this, Fulmer (1976) emphasized that retailing by nature has expenses that make it precarious. These expenses grow out of the uncontrollable 'changes' that consumers have to pay for if retailers are to continue to perform the functions that compel their existence. Such changes will include:

Price Change

Retailers are forever confronted with fluctuating prices of items they buy from wholesalers. Because the explanation can be awkward and time consuming, retailers do not often reflect such price changes on the prices they charge consumers. You can imagine how chaotic it would be if taxi drivers should reflect car price and spare parts price changes on the fare they charge passengers each time fluctuations occur in the prices of such items.

In a period of extending rising manufacturing asking prices, retailers have been advised to incorporate an inflationary allowance in pricing their extant stock of goods. This will insulate them from rising cost of replenishing stock. It ensures that at present price level, the retailers are able to replenish their stock of goods at future manufactures asking prices (Okeke, 1989b).

For reasons of profit, convenience and standardization, retailers generally try to build in a margin into their price function that will accommodate short term upward swings in costs of articles.

Goods Change

Seldom does a retailer sell all goods s/he bought from the wholesalers to consumers. Some may be sold at considerable mark-down, while some will not be sold at all. This occurs now and then in spite of careful planning.

Using a township taxi for illustration, a car with capacity for 4 paying passengers may do up to 3 kilometers with only one passenger – the fare is assumed at 50k per passenger. At full capacity, the driver would have realized N2.00 per run, but with only one passenger, he will realize 50k though fuel consumption and wear and tear of the car on account of usage will be the same on both runs. Another good instance is the case of rain or maintenance/repair forcing the car to go off the road and hence, not yielding money for the period.

Another dimension of goods change derives from shortages and damages of the goods carried by retailers. Appraising the sole product market, Okeke (1989a) observed that soles are normally sold in pairs – left and right. It is a common occurrence however for retailers to open a carton of sole of 90 pairs and Find 95 left odd soles and 85 right odd soles. The carton in actual sense contains only 85 pairs of sole as the 10left odd soles are more or less useless. He pointed out that shortages are a feature of retailing and that for profitable pricing the incidence of the shortages of essence should be borne by the retailers but the burden inexorably must be borne by the buyers. He also recommended that retailers use statistical and mathematical tools in measuring costs occasioned by product shortages and such costs reflected as uncontrollable charges of running the business.

All these instances are cases outside the retailers control and do not result from managerial incompetence. The prudent retailer must consider all these losses and charge them as costs on fixing prices. Actual sales made must be priced as to cover sales not made.

Inventories Change

This will lie with the expenses that come with carrying or keeping articles in the store or on display. The longer the articles stay with the retailer, the higher the carrying expenses will be.

The elements of this change will include;

a. Obsolescence;
b. Physical depreciation;
c. Handling;
d. Storage and capital tied down; and
e. Damage.

Persons Change

Retail establishment face the menace of persons change from two directions. Employees of retail establishments engage in stealing articles of sale. This has been called pilferage but employee theft is a very serious threat and accounts for much retail failures. Even in very small retail outlets, mothers selling provisions in small stores will have to contend with their helps and children picking sweets and groundnuts behind their backs.

Shoplifting is another expense item peculiar to retailing. Big retail establishments like supermarkets and department stores try to manage this by investing huge amounts on security. The problem has remained and is a prodigal feature of retailing in our time.

The changes highlighted so far are by no means exhaustive but a mere attempt at bringing to the surface some of the expenses that plague retailers and often force them to charge consumers prices significantly higher than wholesale prices of such articles. Retailers will be better off charging lower rates to consumers, but these additional expenses will not just disappear. The expenses must be accounted for and someone made to bear the ultimate burden.

The incidence of the expenses of necessity falls on the retailers, but the burden inexorably must find rest on the shoulders of consumers if retailing is to be profitable and attractive. Shouldering the burden of these changes is perhaps society's penance for business imperfections.

4.0 CONCLUSION

We have not set out to deny that some retailers do mark-up their goods by margins grossly unrelated to business costs and reasonable profit provisions. Our position is that retail mark-ups that simply accommodate direct and indirect costs and other incidental charges that bear on the operation of the business and a fair margin for profit no matter how high it is cannot be justifiably said to be greedy. The charge of greedy mark-up can only be sustained if the margin significantly exceeds the traditional costs, uncontrollable expenses of running the business and a provision for fair profit.

The various changes that bear on costs and profits of retail businesses are, price change, goods change, inventories change and persons change. The specific elements of these changes are explained.

5.0 SUMMARY

In this unit, you have learnt that retail mark-ups though seemingly high can be defended. You also learnt that traditional accounting costs do not completely capture all the operational costs of retail businesses and that there are many changes in retail business that bear on costs and profits of retailers.

6.0 TUTOR-MARKED ASSIGNMENT

1. Defend the seemingly high retail mark-ups.
2. Explain the shortcomings of traditional accounting costs in retail business.
3. Discuss the various changes in retail businesses that bear on costs.

7.0 REFERENCES/FURTHER READING

Fulmer, Robert M. (1976) *The New Marketing*, Macmillan Publishing Co., Inc, 866 Third Avenue, New York.

Gabor, Andre (1967), Pricing in Theory and Practice. Management Decision, summer,

Kotler, Philip and Armstrong, Gary (1996) *Principles of Marketing*, 7th edition, Prentice Hall, Upper Saddle River, New Jersey.

Kotler, Philip and Keller, Kevin lane (2009) *Marketing Management*, 13th Edition, Pearson Education, Inc., Upper Saddle River, New Jersey.

Okeke, C.I. (2000) *Marketing Management*, Impressed Publishers, Lagos

Unit 6 FACTORS AFFECTING RETAIL PRICING DECISIONS

CONTENTS

3.0 INTRODUCTION

In general pricing situations, both internal and external factors affect pricing decisions. The internal factors include costs, objective and functional position. The external factors include – demand, competition, legal constraints, industry/market prices and labour costs. Kotler (1980) on his own claims that there is widespread agreement that actual price setting should be based on the three factors of cost, demand and competition. In this unit, you will be studying pricing procedures, mark-up pricing, cost-price relationship, retail costing, just price and application of pricing cost-aid model.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

1. Describe pricing procedures;
2. Discuss mark0up pricing;
3. Define cost-price relationship;
4. Explain retail costing;

5. Define a just price; and
6. Apply pricing cost-aid model.

3.0 MAIN CONTENT

3.1 **Pricing Procedures**

In line with the three factors, he identified three pricing procedures:

1. Cost-oriented pricing
2. Demand-oriented pricing
3. Competition-oriented pricing.

If there is 'widespread agreement' on the three factors that affect price, there is a consensus of opinion that mark-up, price-cost based pricing procedure is most suitable for retail pricing (freeman. 1939; Gabor, 1967 and Kotler, 1980).

3.2 MARK-UP PRICING

Mark-up as a pricing procedure is conceptually simplistic but operationally complex. Consumers and retailers alike are often baffled by actual outcomes from prices fixed on the basis of cost and profit.

Failure to appreciate the underlying maxims of mark-up pricing will yield misleading price and profit figures. It is not enough to know that mark-up is made up of cost and a margin for profit. A limited knowledge of cost elements in retail business and the desired fair profit margin will spiral to incongruous pricing decision. This concern is expressed bearing in mind the hazards that accompany under-pricing and over-pricing on account of cost under-valuation and over-valuation respectively.

The rallying point for successful mark-p pricing according to Gabor 919670 should hinge on the evaluation of cost on the one hand and on the other hand on the actual size of the profit which is added to it. The issue touches on cost definition cum valuation and fair profit determination.

3.3 COST-PRICE RELATIONSHIP

The paper had earlier highlighted and defined costs that profitable mark-up pricing should accommodate in retail pricing. A conceptual base for the valuation of the defined costs becomes penitent as management seeks to recover these costs in its pricing procedure.

Observing that the relationship between selling price and cost is an elastic one. Freeman (1939) insists however that certain general rules should govern this relationship. The high point of the general rules argues that selling price of any product or order should cover at least the differential cost which can be saved by not making and selling it. In addition it should contribute towards paying for the joint costs as much more as the market value permits. Reaffirming this notion, Gabor (1967) expressed the view that a "fair price which does justice both to the producer and to the consumer must cover cost and also a reasonable reward to the producer and distributors".

3.4 RETAIL COSTING

Two options are generally open to retailers on product costing. However, the peculiar natures of retailing and historical procedure of retail pricing have conspired to suggest the superiority of marginal costing over absorption costing.

While marginal costing emphasizes the direct costs of the product, absorption also called fuller total costing stresses the total costs of the products. The difficulty in operational izing total costing is the absence of control by the retailer over supply and demand on his items of merchandise. A prudent retailer while desirous of profit should not insist on recovering all the costs of his products in a market he has little or no control over its affairs. Here marginal costing becomes not only fashionable but more realistic that absorption costing.

It can be argued however, that marginal and absorption costing method complement each other in practical price setting situation. Here marginal costing will serve the purpose of indicating the lowest price level that retailers must charge on their products if they have to avoid selling at outright loss and absorption costing showing the price level at which management will be able to recover all aspects of its costs and begin to enjoy unhindered profit. Any price above the direct costs level becomes a contribution to fixed charges and expenses recovery. Marginal costing is however recommended for being handy and "particularly useful in profit planning and in short-run pricing decisions (Becker, 1968, 58 – 59).

3.5 JUST PRICE

There is no doubt that the issues that trail the concept of just price are enormous. These issues are however not insurmountable as good faith and enlightenment on the part of business owners, regulatory agencies and buyers will raise the consciousness and level of deliberation on the dissenting issues from the emotional to a more enduring and amenable ground of intellect and objectivity.

Consensus can only be arrived at if there is a general agreement on the bases and methods of cost identification, definition and valuation and on the facts that inform a 'fair' rate of profit.

A just price must take into account social and economic considerations. Like Pareto's optimality, it must serve the parties concerned and the society in general better than any other price possibly could. This process must of essence and relevance cover costs and reasonable margin for 'fair' profit.

The most subjective aspect of just price consideration is the determination of a 'fair' rate of profit.

The differing and varying profit figures being enjoyed by retail establishments are instructive. The variations suggest and make manifest the unworkability of fixing a uniform rate for all shades of retail establishments. Differences do exist as to the level of investment, expectation, and risk in retailing organizations on accounts of size, nature and type of products carried by individual organizations.

3.6 Applications and implications of the pricing cost-aid model

The model is not intended to replace managerial initiative in pricing decisions. Its usefulness will be gauged by the extent of managerial reliance on it for reference and rational price setting.

Though retailers will be better served by a pricing procedure that is basically cost oriented, this becomes a mirage in practice as retailers often do not have commanding influence over costs, prices and demands in the market place. The absence of this control compels retailers to accommodate other factors that have overt and covert influence over realistic retail prices. These factors will include demand, competition, institutional and legal constraint and long term objectives of the firm.

The unwelcome presence and interacting influences of these other factors on pricing though restrictive will not dampen the position of cost as the steering wheel that dictates the magnitude and direction of product prices.

The model will aid retailers in the following phrases of pricing decisions:

1. Bottom/base line price" This will refer to the price level below which retailers should rather keep their money in the house than use it to buy merchandise for resale to consumers. Any price below this price indicates considerable mark-down as opposed to mark up.

   This price merely covers the direct costs of products and does not contribute towards the recovery of fixed charges and uncontrollable expenses. It is only competition that is expected to push prices down to this point. The price can however not sustain retail establishments for long and should be allowed to stay for only a short time. Some curious business objectives might necessitate the adoption of this low price level but its use should be sparingly adopted.

   Consumers should not rejoice at such a ridiculous price as it often compels lowering of service standards since retailers would have to struggle to remain afloat by conti acting cost elements. The model aids in the identification and valuation of the comprehensive cost elements that make up direct costs.
2. Partial costs recovering price: baseline price denotes a severe but nonetheless transient market environment. Transient is used here on the strength of the altruistic neoclassical economists' supposition that in perfect market condition price in the long run must be able to cover business cost and return zero but not negative profit figure.

   Baseline price not being a normal business price is expected to draw reactions from retailers. As retailers square up to recover part or all business costs they will:

   a. Insist on buying merchandise from manufacturers or wholesalers at lower prices
   b. Push to sell articles at prices significantly above purchase price.
   c. Pursue the above the two measures simultaneously

As retail selling price increases, the ability of retailers to recover fixed charges and uncontrollable expenses is enhanced. Cost recovery will however remain incomplete or partial until the point of full cost price is reached. The model will aid retailers in tracking the extent of cost recovery permissible by prevalent price.

3. **Full cost price**: If market environment permits, retailers should strive to recover all cost elements in the model. The attraction of full cost price is not restricted to business owners; economists believe it is the optimal point of pricing in perfect market conditions. At this

point, profit is zero but business is assuming buoyancy akin to the growing prospects of a healthy and strong adolescent.

Businesses are highly spirited at this point in partial response to prevailing price ability to recover all identifiable and contingent retail cost with the enticing prospects of profit in the near horizon.

4. **Profit price:** Being in business for profit, the soothing influences of full cost price will not stem the enthusiasm of retailers for higher prices.
   Any price figure over the full cost figure will guarantee that retailers realize profit on any unit(s) sold. The relationship between profit and profit price figure will be direct and proportional if quantity demand is constant. Variation in quantity demanded automates a commensurate float in the relationship between business profit and profit price figure.

5. **Just price**: The figure for the profit price may or not coincide with just price figure. Retailers if unchecked, with their truculent tendency for high profits will push prices to ridiculous extent (as high as market conditions can swallow.

Just price is an evidential concept whose figure cannot be marked and sustained by the mere interaction of market forces. Only a detached and conscientious price control body can give impetus to and sustain, such as price. The body will do a good job is it assiduously identifies, measures and evaluates all products and contingent business costs. The cost and price mode! Is an attempt at synthesizing a figure for retail just price.

4.0 CONCLUSION

The comprehensive cost-aid pricing model adopted in the paper is proffered not only to retail managers but also to price control agencies interested in returning fair profit figures to retail owners. The adoption of the cost elements in the model should be done with caution. The nature and type of products carried by the retailing organization should be the determining factor in isolating cost elements applicable and contingent to the business of the firm.

5.0 SUMMARY

In this unit, you studied pricing procedures, mark-up pricing, cost-price relationship, retail costing, just price and application of pricing cost-aid model in retail businesses.

6.0**TUTOR-MARKED ASSIGTNMENT**

Explain the concept of just price and list the factors it should take into consideration.

8.0 REFERENCES/FURTHER READING

Evans, M. and K. Askew. 2006. "Wal-Mart rumors centre on Woolies and Coles." *The Age*, 7 August, viewed 18 December 2006. Available at: www.theage.com.au/articles/2006/08/06/1154802756936.html

Hyde, C.E. and J.M. Perloff. 1998. "Multimarket market power estimation: the Australian retail meat sector." *Applied Economics,* 30: 1169-1176.

Messinger, P.R. and C. Narasimhan. 1995. "Has power shifted in the grocery channel?" *Marketing Science* 14(2): 189-223.

PricewaterhouseCoopers. (2003/2004). *Retail & consumer growth dynamics from New Delhi to New Zealand*. Bangkok: Thailand Country Report.

Module 3-Strategic Issues in Retail Management

UNIT 1: THE CHANGING NATURE OF RETAILING

CONTENTS

1.0 INTRODUCTION

Local retail businesses in around have faced many problems, several of which are similar in most developing countries. These problems are inadequacies in the trading environment; modern retail styles; and management. In the past, retail businesses had been typically acting as social centres for the community as their locations were close to consumers' homes. Moreover, their personal service and long opening hours were offered in order to maintain customer satisfaction. However, the effects of globalization, advances in new technology, improvement of transportation made great changes on the retail scene.

Since 1950s, a globalizing economy had been obviously seen as having effects on local economics and retail businesses. It had opened trade boundaries for multinational retail business. Multinational corporations in various forms, multinational firms, chains, or franchises branched out from their origins towards developing country such as Nigeria. Those multinational chains operated in larger-scale retail businesses and spaces and addressed customers from wider market areas than local retailers did. These have impacted on the structure of small local businesses.

Further, today's market forces are shaping a global consumer and retail marketplace that will look radically different in the years ahead, forcing retailers to make profound changes to their practices and business models to survive. This unit explores the changes ravaging the retail businesses in a rapidly globalizing business environment.

2.0 OBJECTIVES

The student should at the end of studying this unit be able to do the following:

i) Describe the traditional retailing business outlook

ii) Discuss the new Retailing trend; and

iii) Explain the Change factors.

3.0 MAIN CONTENT

3.1 The Traditional Retail Businesses

In the primitive world, the prevalent form of retail was the local market place where people sold their wares. In order to communicate the exclusivity of their goods to the potential buyers, these sellers would keep on announcing the superlative qualities of their wares throughout the day so as to attract the passing customers. Their voice and salesmanship were the only marketing techniques these sellers possessed. This form of selling then gave way to small shops, which was a very unorganised form of retail. Sellers had their own speciality stores, which were often named after their family name, and there were no chains of stores as we see today. Retail customers have been familiar to buy goods from the shop house which sold general merchandise on the ground floor, stored inventory on the second floor and provided accommodation for its owner on the third floor. This kind of shop is popularly called the 'mom and pop shop' which is a traditional retail store.

This kind of store has traditionally been a passive retailer with very little, if any, marketing and often served as a 'side business' operated by the family whilst members of the family earned an income elsewhere. These shops were highly 'disorganised' and were often not the primary income source for the family, consequently, they have suffered from the competition of newer shopping malls which people find more attractive and parking is easier.

Similarly, prior to the 1950s, retail stores in most developing countries were characterized by considerable specialization with customers needing to visit a available stores like fruit and vegetable store, butcher's shop, laundry and other domestic items to satisfy household food needs. Most stores were independently owned. As and when marketing techniques became sophisticated, and with the advent of technological breakthroughs in various spheres, this unorganized form of retail finally metamorphosed into the modern retail environment that we see today.

3.2 **The New Retailing Trends**

It has been well argued that retailing is no longer a business environment characterised by low levels of competition. In almost all the townships retail businesses owned by local and foreign investors have sprung up. Established retailers such as Shoprite have also entered the township market which will increase the level of competition in the township area. Small retailers have to be as effective and efficient as possible, exploiting whatever advantages they can obtain. In today's turbulent business world, the issues facing successful retail executives are daunting. With an endless array of customer choices, fierce competitors, pervasive use of the internet, and a complex global economy, retailers need to focus on finding ways to sustain and grow their businesses.

The era of the 60s was basically an era of shortages in economies. Even basics like milk, kerosene, sugar and staples were hard to come by. Family owned stores dominated the retail business and manufacturers, under Government control, fixed prices. The retail establishments could not develop any competitive advantage in terms of price, range or service. The stores that existed were not inspirational in any sense and the only chain stores that existed were Bata and textile show rooms. They themselves were not big crowd pullers and carried the perception of providing standard quality at standard prices.

The retail market in most economies has undergone a sea of change since the early nineties till the present time. This highly fragmented retail market, with organized retail in a very nascent stage had negligible organized retail in the early nineties. There were no large departmental stores that catered to every need of the consumer. Also, there were no supermarkets, grocery chains, no foreign brands for clothes, shoes and other everyday products.

There were very few local brands for clothes which also operated through small retail outlets and did not have large stand alone stores. The retail consumers were habituated to buying grocery from small local shops which did not stock every item required on a usual basis. Clothes were also purchased from the small local retail stores which kept a few brands. Foreign brands were not available in the organized retail market. This scenario has changed with the growth of the retail giants which infused the concept of seamless departmental stores in the most countries.

Starting with stand alone stores, retail giants offered multi brand departmental stores to the consumers and later also ventured into grocery chain and various other concepts.

Thus, giants like Shoprite, cash and carry, etc had a major hand in changing the face of retail in Nigeria in particular and continues to do so by exploring newer sectors. From manufacturing of clothes to retail, the retail giants have also entered the food market, the entertainment sector, the real estate sector, the capital market and so on. These giants are currently occupying the top rung of the retail ladder in most countries of the world with a huge untapped retail market. Naturally there are many other players both domestic and international which are looking at entering the retail market. The international chain Wal-Mart is particularly known to be a major future key player and competitor. While facing the onslaught of competition, Shoprite and other retail giants fosters a dream to enter every market where the consumer consumes, and thus overcome the competition in this way. This involves forays into an assortment of formats and businesses, right from mobile phones and storage products to health, beauty and fitness products, from pharmacies and salons to furniture and furnishings, consumer durables and electronics, and from gold and jewellery and footwear to the entire gamut of financial products" (2006).

The major trends in retailing from the larger retailers lie in brand, format and channel extensions as they seek growth. In-store advertising is more digital, while promotional emails and text messages are replacing traditional mail flyers and coupons. Kiosks are being deployed at an accelerated rate, as are vending machines and new payment technologies.

In addition, lifestyle destination stores which feature multiple brands and product types are growing in popularity and are attracting increasing numbers of consumers. In response, the retail

market has effectively split into two extremes, with mega-retail formats dominating one end of the spectrum and focused specialists dominating the other. Lost in the middle, undifferentiated retail concepts are stagnating and may eventually fade into irrelevance.
Retailers today must also define themselves by the shoppers who visit them and not by the products they sell; the key is to know your consumer.

In the modern retail system, multinational chains have an advantage over smaller retailers by centralizing retail and distribution systems resulting in more competitive pricing and more distribution power over small local businesses. The power to control the production and distribution of products was transferred from large numbers of local retail businesses to small numbers of large business corporations. Modern large centralized retail businesses have their own lines of manufacture, distribution, and retail outlets. In addition, these multinational retailers are advantaged in terms of having privilege in tariff reduction. Thus they can sell a variety of products and have lower costs due to the buying power and use of technology. Within this advantage, multinational retailers are taking away a large proportion of business from the small local retailers.

Major Trends for the future

As these new trends continue, let's now turn to some predictions for the rest of this decade—a decade that many retailers will face in a retail environment.

1. *No more one size fits all*. Individual retailers will adopt a more robust portfolio approach to the market to appeal to the multidimensional consumer mindset.

2. *Retail giants keep smiling.* While the world waits for retail giants like Wal-Mart, Shoprite to collapse under its own weight, the giants will wait for no one.

3. *Supercentres keep rolling.* Retail giants' push into the grocery business is changing the way shopping is done—and the supercentre juggernaut will steamroll on.

4. *Surviving the supercentre.* Conventional food, drug, and mass formats are under attack, but there is still room to maneuver.

5. *Department store death spiral.* Department stores are caught in a vicious circle propelled by escalating competition from mass retailers and lifestyle specialists—more consolidation and retrenchment are inevitable.

6. *Malls get mauled*. Malls aren't going away, but many will change almost beyond recognition.

7. *Re-concept rather than remodel*. Compressed lifecycles for products, retail concepts, and brands mean the days of the large, mass-merchandised specialty chain are over.

8. *Experience excels.* Experiential retailing concepts will mix context and commerce as never before.

9. *E-commerce: More action than transaction*. E-retailing's impact will extend well beyond its contribution to retail sales, which will remain a relatively minor share of the total.

10. *Smart shopping.* Consumers will embrace new technologies that give them better information and more control over the shopping process.

11. *Smart stores.* Stores and store associates will get smarter as retailers adopt technologies to drive greater space and employee productivity. Over time, some smart store solutions will displace human resources with technology.

12. *M-commerce: More B2B* (business to business) *than B2C* (business to consumer). For the rest of this decade, the selling of products and services via mobile devices will remain largely elusive. In the next few years, wireless will focus primarily on B2B applications.

13. *Global land rush continues.* Despite growing world tensions, strong interests that businesses have in further liberalization of international borders will prevail—and with the global land rush will come a global retail oligopoly.

14. Advancements in technology will play a crucial role as consumers seek out experiences that can both save them time and money.

3.3 The Change Factors

Most developed economies have experienced a half-century of retail development, which has seen supermarkets move to predominance in food retailing.

Rapid urbanization in most countries in the 1950s and 1960s created economic conditions, which favored the establishment of supermarkets as the dominant food store format.

However, the nature of the market environment means that the variety of food retail store is relatively narrow in most countries. Traditional markets have never played a significant role, hypermarkets are rare, and deep-discount retailers are a relatively recent phenomenon.

This reflects the high degree of urbanization and suburbanization, small aggregate population and geographical isolation from other Western culture food markets.

Further, these same characteristics of the market have provided strong incentives for takeover and merger activity, such that, most dominant supermarket groups now control something in the order of 80% of retail sales, depending on definitions.

In most developing economies many research teams studied the impact of large scale multinational corporation retailers. For example, in a recent study that investigated both the negative and positive impact of the rapid expansion of large-scale retailers, it was found that about 8.5 percent of retail businesses have always experienced one form of shut down or the other. Those traditional small retailers and wholesalers who are still operating have faced a decline in their business. The decline is not only caused by the rapid expansion of large hypermarkets and convenience stores, but other factors such as an economic crisis and children's unwillingness to continue their parents' business. The rapid growth of large-scale retailers also always has profound effects on the suppliers of goods in both positive and negative ways. Once the necessary buying power has been acquired, the giant retailers usually begin to bargain for large trade discounts and demand that suppliers have to share some of the retailers cost, e.g., entrance fee, advertising cost and slotting allowance for limited shelf-space. However, the suppliers also benefit from the increased volume of business with giant retailers and from the cost saving from modern logistics and supply chain management introduced by the retailers. Moreover, small retailers in the village can also have access to cheaper supplies of goods from the giant retailers.

4.0 CONCLUSION

The evolution of supermarkets has led to substantial declines in the market shares of the specialized food retail stores that preceded them. Conventional supermarkets dominate most developed economies' retailing. The majority of nonsupermarket retail stores are scaled-down imitations of supermarkets with the greatest differences in offerings of their wares. Margins, and prices, tend to be higher with few instances of deep discounting on particular product lines as seen in supermarkets. Competition is entirely on the basis of location and trading hours. While convenience has increasing appeal to customers, the response of major supermarket chains with extended hours of operation and their metro or express formats, coupled with the high location appeal of corner stores, has accelerated the collapse of the niche previously occupied by non-supermarket retail stores.

5.0 SUMMARY

This chapter exposes you to the conceptual issues relating to the changing nature of retailing. Rapid urbanization in most economies is believed to have created economic conditions that favoured the establishment of supermarkets as the dominant retail store format.

However the market environment is a result of a high degree of urbanization and suburbanization. Although there is little formal evidence, it is widely believed that large retailers have the capacity to exercise market power against input suppliers, including farmers, and that they use this market power to reduce input prices.

It has also been recognized that the growth of supermarket chains has led to significant economies of size and scope and that these savings have been, at least in part, passed onto consumers in the form of lower prices. This implies that market power on the selling side is not a big issue.

6.0 Tutor-Marked Assignment

What would you say are the defining trends and future predictions in retail business?

7.0 REFERENCES

Evans, M. and K. Askew. 2006. “Wal-Mart rumors centre on Woolies and Coles.” *The Age*, 7 August, viewed 18 December 2006. Available at: www.theage.com.au/articles/2006/08/06/1154802756936.html

Hyde, C.E. and J.M. Perloff. 1998. “Multimarket market power estimation: the Australian retail meat sector.” *Applied Economics,* 30: 1169-1176.

Messinger, P.R. and C. Narasimhan. 1995. “Has power shifted in the grocery channel?” *Marketing Science* 14(2): 189-223.

PricewaterhouseCoopers. (2003/2004). *Retail & consumer growth dynamics from New Delhi to New Zealand*. Bangkok: Thailand Country Report.

Rungfapaisarn, K. (2002, January, 2). Small retailers must adapt quickly to survive. *The Nation,* p. 1.

Smith, A., & Sparks, L. (1997). *Retailing and small shop: Institute for retail studies*. Stirling: University of Stirling, the Scottish Office Centre Research Unit.

UNIT 2: DIRECT MARKETING

CONTENTS

1.0 **INTRODUCTION**

Most companies create products and services to meet the wants and needs of the largest possible mass market, rather than for individual or groups. Thus, the exchange of products and values between producer and consumer is largely in one direction, companies communicating information and values, consumers reply by paying money.

In view if this lop-sided marketing communication everywhere in the world, long established brand leaders have come under threat. According to Pearson, ownership of a well established, leading brand once guaranteed a steady flow of earnings, but in recent times, lower entry barriers and technology costs are ushering in new competition that threatens to wipe out the leading brands.

An obvious implication of the above development is the desire of marketing communications to go back to about forty four years ago that the only valid definition of business purpose is to create a consumer. Therefore every business has two main functions: marketing and innovation. The major thrust is no longer to build organizations that are market driven, but rather organizations that aim at innovations using customer driven approach.

In this unit, you will be studying the following:

The changing face of Marketing Communication.
What is Direct Marketing?
The rise of direct marketing.
Differences between Direct Marketing and other activities.
Benefits of Direct Marketing.
The significance of database in Direct Marketing.
The dark side of Direct Marketing.
Direct Marketing and the advertising agency.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

1. Define Direct Marketing;
2. Explain the forces giving rise to Direct Marketing;
3. List the differences between Direct Marketing and other activities;
4. Discuss the benefits of Direct Marketing; and
5. Highlight the dark side of Direct Marketing.

3.0 MAIN CONTENT

3.1 The changing face of marketing communication

The dynamics and approach to marketing communication is fast changing. A number of developments in our time have been responsible for the dynamic approach to marketing communication.

Discussing this development, Pearson (1995) noted that ideally, the theory of marketing is simple in the sense that all that is required is for producers to collect information about consumers and create products to meet their needs. Producers are also expected to communicate, or advertise, to inform consumers about the availability of and feature of their products. Pearson argues that in practice, marketing does not follow the above theory. Reviewing kotler's definition about marketing he asserts that marketing is about relationship between people, individuals and groups who differ in their needs and wants.

Marketing therefore he says involves exchange of information between purchasers and consumers. In marketing therefore, values are as important as products.

Pearson (1996) further asserts that marketers have forgotten that marketing starts with the consumers, and have become remote from their consumers. They sell through complex distribution channels: geographically dispersed sales forces, agents and retailers and most transactions by consumers are conducted through multiple retail chains or independent outlets. (Staff in most companies never has direct contact with the consumers who buy their products.)

Customer driven orientation is based on the awareness that for contemporary consumers, product satisfaction is linked to life satisfaction, and companies must attend to both. Webster (1997) developed the following guidelines, which we consider very appropriate for marketing communicators in the face of changing times.

1. Create customer focus throughout the business
2. Listen to the customer.
3. Define and nurture your distinctive competence.
4. Define marketing as market intelligence.
5. Target customers precisely.
6. Manage for profitability not sales volume
7. Make customer value the guiding star
8. Let the customer define quality
9. Measure and manage customer expectations
10. Build customer relationships and loyalty
11. Define the business as a service business
12. Commit to continuous improvement and innovation
13. Manage culture along with strategy and structure
14. Grow with partners and alliances
15. Destroy marketing bureaucracy

According to a study by coopers &Lybrand titled “Marketing at the cross road” reported by Pearson, marketing has come under various criticisms and its failings are reported as:

a. Lack of credibility and inability to fill the expectations of top management

b. Marketing development has been reported as critically ill as it is

c. Il is increasingly living a lie in the organization

d. Marketing expenditure cannot live up to the scrutiny and rigorous analysis other capital expenditure are put to.

Pearson (1996) also records the emergence of a new customer. He says "demography, education, diversifying competition and recession have changed the customers' decision making process in general and choice in particular. Today, customers are more questioning and less trusting. They are more demanding and seek products, which satisfy their individual needs. These pose new challenges for traditional marketing and its mass orientation. Traditional marketing has become increasingly ineffective and general advertising the weapon that built today's famous brands is seen as becoming rusty."

The desire to improve sales has led to increasing deployment of marketing funds to sales promotion at the expense of advertising. Though, it achieves a measurable increase in short term sales, the long term effects of sales promotion are detrimental to the brand values.

Along with these developments, are other problems, which developed as a result of continued dependence on advertising and sales promotion to increase sales. Those problems are:

a. Rising advertising media costs
b. Reducing advertising effectiveness occasioned by audience fragmentation
c. The frequency of promotions and the conditioning of consumers to expect deals, which made brand values less important.
d. Price discounts, which reduced profitability of the brand

Kotler and Armstrong (1997) identified two key elements that led to the development of direct marketing. These, they described as the shift away from mass marketing in response to the new consumer trends and development in information technology which has made possible closer tracking of consumer needs, providing information about consumers at the individual and household levels.

In support of the new trend, they said, that "in the glory days of mass marketing, consumer products companies spent a lion share of their promotion budgets on mass media advertising. Today, media advertising captures only 25% of total promotion budgets. The rest goes to various sales promotional activities, which can be focused more effectively on individual consumer and trade segments". They conclude by saying "companies are doing less broadcasting and more narrowcasting"

3.2 What is Direct Marketing?

The first direct marketer was the trusted local shopkeeper. He knew his customers and remembered when to order a favorite fabric for one and suggest a new cough mixture to another. He carries his database in his head and his best effort at intimacy is a pre-printed letter with miss pelt names.

From its early days direct marketing has grown today to a multi-faceted marketing process, which is information driven. Direct marketing involves five major forms of marketing which are:

1. Direct mail
2. Catalog marketing
3. Telemarketing
4. Television marketing
5. On line shopping

These are known as traditional forms of direct marketing. The scope of direct marketing has since been widened to include targeted relationship marketing.

Kotler and Armstrong define direct marketing as "marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response".

The economist in an article in its January 9",1999 edition describes direct marketing in a more apt fashion as an information led one to one marketing which aims to sell each individual a customized product.

Pearson (1996) describes direct marketing as "an efficient and effective system for communicating to customers". But direct marketing is more than just communication. It is one of a number of developments in business that has the goal to bring the company closer to its customers.

Schiffman and kanuk describe direct marketing as "a marketing that uses various media for the purpose of soliciting direct response from consumers. A major advantage, being its ability to generate measurable responses".

The best definition of direct marketing is by the Direct Marketing Association. It defines direct marketing as "an interactive system of marketing that uses one or more advertising media to affect a measurable response and/or transaction of any creation with this activity stored on database".

From all of the above definitions we can infer the following; that direct marketing is:

1. One to one marketing
2. It is a system of marketing
3. It is information led or data driven
4. It is communication on one or more advertising media
5. It is communication aimed at bringing company and customer closer
6. It requires consumer to make direct response
7. It is efficient and effective
8. It generates measurable responses
9. It facilitates transaction at any location

Bird (1993) enumerates the following as the features of direct marketing;

- It is about making contact with individual customers and receiving responses from them
- It is an interactive system of marketing, which uses one or more advertising media to affect a measurable response
- It is based on direct response. It invites customers to respond by mail, telephone, redeemable retail vouchers etc
- It is considered as a key discipline within marketing
- This method of marketing is considered direct because communication goes directly between you and your customer with no intermediary.
- It is a sub-set of marketing because it helps you meet your customers' needs, your profit, sales and other objectives.
- It is considered a discipline because by following a set of rules and procedures, you can achieve good results.

3.3 The Rise of Direct Marketing

Direct marketing, according to Bird (1993), "was initially unfashionable, attracting the wrong elements who liked selling items that were not seen and which could therefore be described under a license and disregard for truth, only estate agents, motor dealers and holiday companies, can match".

In Nigeria ...direct marketing has been conditioned by a number of factors.

1. Deregulation of the broadcast media has fragmented the attention of the captive 30 million viewers who hitherto had no alternative. Currently, viewers and listeners in key urban centres have alternatives, thereby putting marketing executives to task about how to package their messages so as to reach captive listeners.

2. Technology has made it much easier to communicate directly with our customers.

3. Changes in tastes and media fragmentation have made conventional mass marketing techniques less effective in getting the response we want from our customers.

4. Media surveys by independent research agencies have become deadlocked in active controversies.

5. Advertisers are demanding "show me "approach to advertising effectiveness rather than "tell me".

6. The advent of direct marketing in Nigeria is being stimulated by changes in marketing media and information technology.

3.4 Differences between Direct Marketing and other activities

In understanding what direct marketing is, it is necessary to differentiate it from other persuasive forms employed in marketing.

1. General advertising speaks to people en masse. It does not try to isolate them as individuals, nor does it normally demand immediate action. It is designed to make people have feelings and inclinations so that they will make a decision in your favor at the point of purchase, wherever they may be or whenever.
2. Sales promotion is designed to achieve an immediate effect on sales. It often uses the same means as direct marketers. For instance, direct mail and special offers. It frequently generates lists of respondents to promotions.

   But because it is normally conducted on a short-term basis, it does not then proceed to build a relationship with those respondents as individuals by placing them on a database.
3. Public relations employ media controlled by others to create a favorable climate of opinion. It can create a database, for example, replies to editorials.

3.5 Benefits of Direct Marketing

Bird (1993) highlighted the following benefits of Direct Marketing:

1. It is a response device that reveals whether people were motivated to act on your message or not.
2. It tells how well each advertisement performed against others.
3. You can evaluate media by running the same message in different publications or on different channels at different times
4. You can achieve all the above objectives while at the same time enhancing your image or and giving your customers what they want. Thus, apart from the fact that people like response devices, the response device actually improves your image.
5. It can help bring improvement in the work or product of an organization.

3.6 The Significance of Database in Direct Marketing

There is a general belief that without database there can be no direct marketing. Indeed database is said to be the secret weapon of direct marketing and is expected to achieve the following objectives for direct marketing:

- Guide direct marketers to know those interested in their products and services.
- Assist direct marketers know who their buyers are, what they buy, whether they buy by phone, or mail, how much they spend, by what methods they pay.
- Remarkably, traditional marketers do not know the millions of customers by name or by what they purchase. Departmental stores get a step closer to their clientele by identifying customers who use the store's credit card.
- It gives profile of the customer and helps to track the customer over time.

Database management starts with measuring the efficiency of advertising and promotion. Knowing which radio/television adverts, which print adverts, and which mailing lists is most cost efficient from a customer acquisition in viewpoint.

3.7 The Dark Side of Direct Marketing

The amount of 'junk mail" which direct marketing can generate, that irritant computerized telephone call, the highly persuasive host on the programmed long infomercial are just but at few of the problems of direct marketing.

In generating their database, direct marketing searches and obtains so much information of the individual that it's worrying what negative uses such information can be put to. In very advanced societies, where it is practiced, so much printed information is in the hands of direct marketers. Such information as the number of children, their ages, their birthdays, the school they attend, the ages of the parents, what they do etc. are no longer private.

In the bid to pre-empt what the customer and the members of his or her household need now and in the not too distant future, direct marketing seeks as much information as possible for inclusion in the database. This has reached such heights that legislation is now being proposed as to the use to which such massive consumer data can be legally put to.

3.8 Direct Marketing and the Advertising Agency

In previous part of this unit, it has been said that Direct Marketing is a one to one communication. It has also been said that Direct Marketing is a technique, a concept of marketing. We have also differentiated direct marketing from mass market advertising, sales promotion and public Relations.

The logical question that follows is how direct marketing relates to advertising. Contemporary literature on direct marketing is replete with instances where direct marketing is increasingly growing at a faster rate and taking a much larger chunk of the promotional budget than mass market advertising. What might one say is the future role of the advertising agency?

For some time, advertising agency reaction was represented by the buzzword, integration, which has been hailed as a major discovery. The one stop shop was regarded as the only way forward for any self-respecting agency and almost everyone was flying the flag.

It is now acknowledged that the term was widely misused "and adopted by Advertising Agencies in particular when they realized the income they were likely to obtain from above the line activities was fast diminishing".

4.0 **CONCLUSION**

As the world of marketing moves from mass marketing to Direct Marketing and relationship, the goal of the total process is to maximize the exchange relationship to the benefit of both the consumer and the marketer. Direct marketing with its various attractions and claims to enabling a better marketer/customer interface, is attended by irritants, unfairness, deception and fraud.

5.0 SUMMARY

In this unit, you studied the following:

The rise of Direct Marketing.
Differences between Direct Marketing and other activities.
Benefits of Direct Marketing.
The significance of database in Direct Marketing.
The dark side of Direct Marketing.
Direct Marketing and the advertising agency.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss the differences between direct marketing and other activities.
2. Explain the benefits of direct marketing
3. Highlight the dark side of direct marketing

7.0 REFERENCES/FURTHER READING

Bird, D (1996), Common Sense Direct Marketing, Third Edition, kogan page, London, 1996

Belch. G.E. & Belch, A. B. (1990), Introduction to Advertising Promotion Management, Richard Irwin. New York.

Boon. K. & David. L Kurtz (1989), Contemporary Marketing 6th Edition, Dryden Press, New York.

Carman J.M. & Hill R.P. (1973), Marketing Principles and Method, Richard A. Irwin, Inc. Illinois, 1973

Cournier, S. Dobscha, S. & Mick, D. G (1998), Preventing the Premature Death of relationship Marketing. Harvard Business Review.

Kotler Philip (1998), Marketing Management: Analysis, Planning, Implementation & Control, 6th Edition, Prentice Hall Inc., Engel Wood Cliff.

Kotler, Philip and Armstrong, Gary (1997), Principles of Marketing, 7th edition, prentice Hall, New Delhi.

UNIT 3: **RETAIL AUDITING**

1.0 Introduction
2.0 Objectives
3.0 Main Content
    3.1 Meaning of Retail Audit
    3.2 How to Build a Retail Audit Checklist
    3.3 How Much Do Retail Audits Really Cost?
4.0 Conclusion
5.0 Summary
6.0 Tutor-Marked Assignment
7.0 References/Further Reading

3.0 **1.0 INTRODUCTION**

This unit provides an assessment of the presence and availability of a brand to the consumer. It seeks to measure if the shelf presence of one brand is better than the position of competing brands, and the impact of additional product displays, promotional materials and prices on the level of sales. Retail audit data yields a wealth of information that gives the client basis for tactical decisions to strengthen their market position.

In this unit, you will be studying the following

- Meaning of Retail Audit
- How to Build a Retail Audit Checklist
- How Much Do Retail Audits Really Cost?

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Define retail audit;
- Discuss the categories of managers that benefit from retail audit;
- List the items that will normally go on a retail audit checklist; and
- Explain the misconceptions of retail audit.

3.0 MAIN CONTENT

3.1 Meaning of Retail Audit

Retail audit is a study of a selected sample of retail outlets, provided as subscription-based service by market research firms. Retail-audit service providers gather information on a brand's sales volume, sales trends, stock levels, effectiveness of in-store display and promotion efforts, and other associated aspects

Retail Audit entails monitoring the distribution of consumer goods. It is based on in-store observation during which the presence and prominence of certain products being checked.

According to Treasure (1953) retail audit provides information about distribution, shop purchases, stocks and stocks cover. Explain further that retail audit research is to provide information for a manufacturer or his agent about the sales, stocks and distribution of his product and its competitors in order to make estimates of national or regional market trends.

Daniel (2006) define retail audit as a market research technique which involves taking a representative sample of retail outlets and studying term to obtain data on distribution ,sales, stock, etc.

From the above we can deduce that retail audit entails a detailed and critical examination and verification of information and facts recorded about distribution, shop purchases, stocks and stocks cover of his product and its competitors in order to make estimates of national or regional market trends for the purpose of ascertaining the true and fair position of a business.

Retail Audit involves:

Retail Audit helps multi-unit retailers and manufacturers achieve store-level compliance with operational, service and merchandising standards. The web, tablet and mobile software is used by district and sales managers for retail audits and checklists

Ticket Tracking allows multi-unit retailers to track, assign and address customer complaints, feedback and general information. Tickets can be created by store personnel, district managers and head-office using laptops, tablets and smart phones.

Task Management helps multi-unit retailers deploy efficient and secure communication channels between the stores, head office and operations personnel. It allows the retailer's workforce to assign tasks and track execution

Measurement of product availability on the shelf,

Measurement of share-of-the-shelf,

Measurement of promotional displays,

Measurement of shares / number of facings,

Measurement of shares / number of SKUs,

Price measurement,

Measurement of the degree to which merchandising objectives have been met,

Measurement of the degree of fulfillment of promotional actions,

Retail audit projects are used primarily by manufacturers and distributors of consumer goods, retail outlets, sales support and marketing agencies. It is run like an Omnibus, where various clients come on board to share costs of running the study. Retail Audit is an important study for people in marketing and sales departments.

Who benefits?

•Brand administrators Manage locations, users and forms online and offline

•District managers Perform web, tablet and mobile retail audits. Create and follow-up on action plans. Spot trends, problem areas and repeat unacceptable. Engage with store owners and franchisees.

•Franchisees and store managers Acknowledge visits. View and follow-up on action plans. View visit history and trends. Compare store performance to district.

•Head office Track the performance of stores, programs and individuals in real time. Spot trends, problem areas and repeat unacceptable.

3.2 How to Build a Retail Audit Checklist

We are often asked what should go on a retail checklist. Sometimes this question comes from a retailer starting their retail audit initiative from scratch. Other times, it comes from an established retailer looking to curate or improve their existing checklist. Regardless of the circumstances, we have prepared a list of best-practices, intentionally high-level, to help retailers with this task.

Think about metadata. Metadata is data about data, that is, information about the store visit. Customers who use Excel or Word-based forms typically expect used-entered fields such as store number, completed by, date, etc… Metadata is largely automated with retail audit software. The store pick-list is built specifically for each user, the date is selected using a calendar widget and the district manager is derived from the login.

Group items into sections. Whenever possible, sections should be laid out to match the natural flow of a visit (a district manager physically walking the store). Start with the exterior (the parking lot if applicable, the window in a mall location) and work your way in, around the store and into the back of the store.

Think about "non applicable". Certain sections or items are not applicable to all locations. For example "Washrooms" is generally not applicable to mall locations and not all locations have drive-thrus. Retail audit software allows you to disable entire sections and items at certain stores according to the store type.

Make sure your form has adequate coverage. While individual situations vary, you should address some or all of the following areas, each represented as a section:

1. Store exterior

2. Presentation and Merchandising

3. Products and Preparation

4. Service and Speed of Service

5. Personnel and Training

6. Equipment

7. Security, Cash Handling and Loss Prevention

8. Drive-thru (if applicable)

9. Promotions

10. Back of the Store and Inventory

11. Washrooms

Avoid large sections. Instead of creating a small number of large sections, consider creating a larger number of small sections. This helps with data-entry on smart phones and also renders the reporting more granular and meaningful.

Set the score carefully. Assign points according to the relative importance of each criterion. While it is easy to think of everything as important (and if a criterion is not important, it should not go on the form), some items are often more important than others, even critical to the continued success of the business. Health and safety issues come to mind. Assign points and make use of the "Critical" flag accordingly. A critical item sets the value of the entire section to zero, regardless of other items, if found non-compliant during the visit. Don't worry about keeping track of the total score. Retail audit software automatically calculates the visit score and a score by section for you as the visit takes place.

Be specific, descriptive and visual. Standards should be clear and unequivocal. Don't use vague words like "recent" or "good". For example instead of saying, "Recent staff meeting held", consider using, "Staff meeting held less than 5 calendar days ago". If referring to temperatures or lapsed times, give actual numbers. Clearly spell out what the standard is. If it takes one paragraph to define the standard, use one paragraph. If you have one, attach a best practice photo to an item to illustrate the standard; a picture is often worth 1,000 words and more likely to make an impression than words alone. Compliantia allows you to attach "best practice" pictures and supporting documents to any form item and section.

Think about visit frequency. The frequency of district manager visits (at least visits involving the retail audit checklist) seems to vary greatly from one organization to the next. On one end of the spectrum, some organizations (including some big names in the food service business) tend to conduct as many as one visit every other week. Other organizations may only conduct one visit per quarter. Some organizations use a hybrid model. They use a standard form to capture their core standards (say twice a year) and create a number of smaller forms for visits throughout the year, sometime tying these visits to seasonal programs. Retail audit software allows an organization to create any number of forms, each with its own start and end date. Retail audit software also supports self-audits which can be used as a stop-gap measure until a district manager visit can be performed.

Discuss it with your Operations team. Discuss the form with your district managers, owners and managers. Solicit their input and feedback. A retail checklist is as much an audit tool, as it is a training vehicle. Define the standard, communicate and measure it. You will meet the standard and achieve your goals.

3.3 How Much Do Retail Audits Really Cost?

Not every retailer is aware there are highly efficient, largely automated systems for handling retail audits (also known as store visits and store walks) today. Some organizations have devised their own process, typically a "checklist" of some sort, usually in Excel. It's not very efficient but it does the job and appears cost-effective. Is it? How much do retail audits cost anyway, with and without automation? Let's have a look.

Getting a district manager to a store takes time. In the very best of circumstances (a short drive, no flying), let us assume it takes 45 minutes to get a District Manager to a store and another 45 minutes to get her to her next appointment. District managers covering a large geographic area will of course take longer but the point of this exercise is to be conservative with our assumptions and numbers.

A regular visit is assumed to take 2 hours. Another hour is spent calculating the score, creating the action plan and printing and signing copies. Post visit, the district manager is expected to follow up on the action plan. With paper and Excel-based processes, this usually requires follow-up phone calls and emails. Let's assume this takes an hour. The Excel or paper form is usually sent electronically or mailed to head office where it can be keyed in-to a central repository and stored. Let's assume this takes 30 minutes.

With these assumptions, an Excel or paper-based retail audit takes 365 minutes of time. Using the industry average salary for a district manager of N68, 781 (including benefits, see pay scale), this translates into a cost of N213.48 to the organization. As any VP or Director of Operations knows, this is money well spent. In any multi-unit environment, ensuring compliance with service and merchandising standards is a key guarantor of success and risk-mitigation.

Which is not to say, you can't do better? Compare the Excel and paper-based costs to those of the Compliantia solution.

While our web and mobile service does wonders, it can't get you to your appointment faster. So let us again assume 45 minutes to get the district manager to the store and another 45 minutes to get her to her next appointment. Let us assume the visit itself takes the same time, 2 hours. However Compliantia automatically scores the visit and, being fully electronic, does not require a paper trail. That's 20 minutes saved. The Compliantia Action Plan is automatically constructed from all non-compliant items found during the visit. Creating the action plan is simply a matter of assigning non-compliant items to individuals. For this reason, instead of taking 45 minutes, it only takes 15. Follow-ups are also largely automated. At any time, the DM can log-in to the application to see any visit with at least one outstanding action plan item. The DM can follow up electronically and assign tasks. No more phone calls and hard-to-track emails. For this reason, the time it takes to follow up is cut from 60 minutes to 15. Lastly, being electronic and real-time, there is no need to mail or re-key data with Compliantia. This results in a saving of 30 minutes.

End to end, a Compliantia field audit takes 240 minutes of time. Using the same industry average salary for a district manager, this translates into a cost of N140.37 to the organization. The organization saves 125 minutes and N73 for every field audit conducted using Compliantia.

		Excel or Paper-based Visit (minutes)	Complianti (minut
Pre-Visit	Transportation	90	90
Visit	Visit	120	120
	Calculate section and total score	10	0
	Print and sign copies	10	0
	Action plan	45	15
Post Visit	Visit Follow-up by DM	60	15
	Back-office mail and store form	15	0
	Back-office data entry	15	0
	TOTAL (Minutes)	**365**	**240**
	TOTAL ($$$)	**$ 213.48**	**$ 1**
	District Manager - Average annual salary	$ 68,781.00	
	DM - Average hourly salary - 49 weeks at 40 hours/week:	$ 35.09	

Field Audits help multi-unit retailers and manufacturers achieve store-level compliance with operational, service and merchandising standards.

According to a survey conducted by the In-Store Implementation Network, when asked “How do you measure performance of in-store merchandising?” 28% of respondents “make assumption that the job got done” and 23% “do not measure in-store execution” at all. And yet, the same research estimates that non-compliance costs the industry 1% of sales annually. While most retailers know of the problem, a number of misconceptions tend to surface.

Misconception -1: Training is sufficient

Training is essential but training alone does not guarantee your standards are followed. Store staff may be trained, answer the quiz and pass the test, but are they applying their learned skills where it matters, enhancing the customer experience? Measure what you communicate so the standard is communicated, reinforced and measured using consistent criteria. If for no other reason, measure for measurement sake because measurement breeds compliance.

Misconception -2: We don't need to automate

Automation saves time and money. The organization saves N73.11 for every retail audit done with Compliantia. Automation provides real-time analytics to help you better manage your business and drive the brand forward.

Misconception -3: We track compliance on paper, we don't need a system

Retailers who do monitor performance sometime rely on paper, a process that is slow, error-prone, labour-intensive, requires shipping and storage and often deprives the organization of the analytics it needs to make informed business decisions. While tracking compliance on paper is arguably better than not tracking it at all, a system like Compliantia can demonstrate ROI on the process improvement alone while giving all levels of the organization access to real-time reporting and analytics. Try it and you likely won't go back. For more information on the ROI of Compliantia vs a paper-based process, please refer to Are You Still Using Paper?

Misconception -4: We already measure compliance with a Mystery Shopping program

A mystery shopping program and District Manager store walks ultimately address different needs and have vastly different outcomes. A District Manager's store walk essentially amounts to "quality assurance". Provided the District Manager is equipped with the right tools, she will follow a compliance process that is regular, unequivocal and actionable. The visit is meant to be a preventive in nature, a process that ensures the organization's operations are conducive to efficiency, safety, profitability and customer satisfaction. This is essential because, unlike "black-box" testing (mystery shopping), quality assurance can audit the process and prevent problems before they happen. The DM isn't strictly inspecting the outcome; she is checking that the process itself is conducive to a successful outcome. She is checking the various steps, and parts of the operations machine, some of which may not be visible to the consumer. Indeed, unlike typical Mystery Shopping programs, District Managers can review the front-of-the-house, the back-of-house as well as health and safety. A positive customer experience does not happen in vacuum, it happens when all parts of the operations machine are functioning individually and together well. Your District Managers are your strategy and performance enablers on the ground. For more information on the differences between mystery shopping and District Manager store walks, please refer to Mystery Shopping vs. District Manager Store Walks.

Retail audits and task management have many benefits:

▪Drive sales through in-store merchandising and standards compliance

▪Drive the brand forward through consistent execution

▪Track the performance of stores, programs and individuals in real time

■Help communicate and implement new standards to the field, faster

■Protect your customers and employees' health and safety

■Increase customer satisfaction

4.0 CONCLUSION

The most successful chains all share one trait: they execute better than the competition. Field audits are not a "feel good" or make-work initiative. Field audits mean more efficient operations, more profitable stores and higher customer satisfaction. Customers have a way of thanking stores that are well run: they come back.

5.0 SUMMARY

In this unit, you studied:

Meaning of Retail Audit

How to Build a Retail Audit Checklist

How Much Do Retail Audits Really Cost?

6.0 TUTOR-MARKED ASSIGNMENT

1. Define retail audit
2. Describe the categories of managers that benefit from retail audit
3. Discuss the items that will go on a retail audit checklist.
4. Explain the misconceptions in retail audit.

7.0 REFERENCES/ FURTHER READING

Boon. K. & David. L Kurtz (1989), Contemporary Marketing 6th Edition, Dryden Press, New York.

Cournier, S. Dobscha, S. & Mick, D. G (1998), Preventing the Premature Death of relationship Marketing. Harvard Business Review.

Kotler Philip (1998), Marketing Management: Analysis, Planning, Implementation & Control, 6th Edition, Prentice Hall Inc., Engel Wood Cliff.

Kotler, Philip and Armstrong, Gary (1997), Principles of Marketing, 7th edition, prentice Hall, New Delhi.

Morden, A.R (1996), Elements of Marketing D. P. Publications Ltd., London.

Pearson, S. (1996), Building Brands Directly Macmillan Business, London.

UNIT 4: **FUTURE CHANGES IN RETAILING**

CONTENTS

1.0 INTRODUCTION

Retailers are optimistic for the future. Sure, concerns about the economy persist. But most retailers feel they're better positioned to handle these uncertainties, and they're starting to tap into the enormous potential of new digital retail technology. We're entering a new era of innovation and information, and the outlook is bright –for those who recognize the opportunities.

In this unit, you will be studying:

The five key pressures on retailers in the marketplace; and

The five things retailers need to know about the changing face of retailing.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

Discuss the five key pressures on retailers in the marketplace; and

Describe the five things retailers need to know about the changing face of retailing.

3.0 MAIN BODY

3.1 Changes In Today's Retail Environment

Five key pressures on retailers in the marketplace being observed are:

1. Consumer spending levels will remain weak especially for discretionary goods
2. Business costs continue to rise, increasing not only variable costs but also fixed central costs
3. Evolving technology and an ever increasing number of interactive devices is profoundly changing consumer shopping behavior
4. Intensifying competition through shrinking market and an increasing number of players converging from other sectors or other countries

5. Retailers' sustainability agenda and profits will significantly contribute to commercial performance.

3.2 **Five Things You Need to Know About the Changing Face of Retail**

Here's what marketers need to know about the changing face of retail:

1. Consumers are the driving force for growth. New channels, new products, Big Data streaming in 24/7. . . Of course, that's all invigorating. But the real news for 2012 is that successful retailers will be focusing their attention where it has belonged all along: on the consumer. Acquiring new customers is part of that equation, as is building tighter bonds of loyalty with those who already know (and love) your brand. As always, successful marketing depends on building relationships. *Now, it's time to step up and be strategic about customer engagement.*

2. The omnichannel revolution is underway. Since both consumers and retailers now can interact through a variety of different channels, it's becoming increasingly difficult to determine where e-commerce stops and in-store retailing begins. As technologies get faster, more versatile and cheaper, smart retailers are signing on, recognizing they have plenty to learn about digital marketing from e-commerce sites like Amazon. Remember: Amazon's five-year average return on investment is 17 percent; traditional retailers average less than half that (6.5 percent).

3. Today's retailers have the tools to become more efficient. Going forward, it won't be enough to know that a certain customer bought a shirt from your store last month or that they "liked" your brand's Facebook page last week. Retail marketers now need to combine and analyze these data points plus others, from a variety of different resources, in real time. Fortunately, technology is here to help.

4. Customer engagement must be relevant and real time. Technology enables retailers and brands to present customers with better, more relevant (more "intelligent") offers on a 1:1 basis. We're learning that combining analytics, social media and IMM software creates more impact and a better customer experience overall –because that customer experience is informed by insightful data. By harnessing the power of ICT retailers can keep the customer in charge and appeal to them with meaningful offers delivered when they're ready to buy.

5. Brick and mortar stores are evolving into an "online inside" model. Already, research suggests that that digital platforms influence *half* of all in-store purchases, and no one is predicting that percentage is going anywhere but up. Forward-thinking retailers will seize the opportunities to incorporate digital technology in their stores via mobile devices, interactive displays, entertainment and other innovations to improve the customer experience. Online and off-line are going to start overlapping in new and exciting ways.

4.0 CONCLUSION

Retailers are concerned with three main points: the consumer, ideas and information. The key to success will be linking and integrating these three. Can it be done? Sure. Will it be a simple process? Not necessarily. But those retail marketers that do will create a unique, "revolutionary" –kind of Omni-channel experience that will soon be required to drive in-store revenue.

5.0 SUMMARY

In this unit, you have studied the following:

The five key pressures on retailers in the marketplace today

The five major things retailers need to know about the changing face of retail.

6.0 TUTOR-MARKED ASSIGNMENT

List and explain the five key pressures facing retailers in the marketplace today.
Discuss the five major factors driving change in retailing.

7.0 REFERENCES/FURTHER READING

William D. Perregult and E. Jerome McCarthy (2002). Essentials of Marketing: a Global material Approach 14th ed, New York: McGraw-Hill/Irwin Inc.

Levy M. and Weitz B. A. (1998). Retail Management 3rd ed. USA: The Irwin/McGraw-Hill, Inc.

Statistical Abstract of the United States. 1985 p.787. p. (1982) Census of Retail Trade pp.58, 72, 76.

"The wheel of Retailing", journal of Marketing, Vol. 26, No 3 (July 1960), pp. 37-42

UNIT 5 STRATEGIC PLANNING FOR RETAILING

CONTENTS

1.INTRODUCTION

A number of trends are having a tremendous impact on retailing. Many retailers have failed to recognize these changes and are not adjusting to them. This can have extremely negative consequences. In this unit, you will be studying the following:

Nature of and role of strategic planning in retailing.

Key factors that drive strategic planning in retailing.

Major components of strategic planning in retailing.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Explain the role of strategic planning in retailing;
- Discuss the key components of strategic planning in retailing; and
- Explain the wheel of retailing theory.

3.0 MAIN CONTENT

3.1 Scanning the Environment

Strategic planning for retailing comprises scanning the environment, changing markets, technology's role and competition.

3.2 Changing Markets

Many of the trends noted earlier (understanding Buyer Behavior and profiling the market and forecasting sales) are especially relevant to modern retailing. The aging of the population as a whole, the emergence of nontraditional types of household3, the growing emphasis on leisure pursuits, and related trends present opportunities for retailers. But these trends also pose threats to retailers that are slow to respond.

The trend toward greater acceptance of nontraditional households has also affected retailing. More customers are shopping for themselves rather than for their households. Thus it is increasingly important to carry single-serving food products. In addition, greater diversity can be expected in recreational pursuits. For example, children may focus on computer games while- their parents purchase equipment geared to physical fitness.

3.3 The Role of Technology

Technology advances have revolutionized the opportunities open to retailers. Perhaps the largest impact so far has been at the checkout counter, where products labeled with optical-scanner codes pass over an electronic scanner that records the transaction. The impact of scanners has been so great that supermarkets have become channel captains as a result of the power they have gained from the possession of detailed data on sales and inventory.

3.4 Competition

By now we have seen evidence that retail competition is heating up. However, the larger one-stop retailers are coexisting with the specialty stores instead of competing directly against them. This is because the specialty stores cater to the affluent while the mass merchandise cater to the middle class. At the same .time, increased merger activity is leading to greater concentration of power in distribution Systems dominated by large businesses. This poses a serious threat to independent retailer.

Foreign retailer poses another competitive threat. These retailers' strategies are quite different from those of local companies. For example, an Italian Clothier, Benetton, is making its presence felt by tailoring 4t4stores to individual neighborhoods and sometimes even to single blocks. France's Euromarche introduced its hypermarche, or "hypermarket" concept to Cincinnati (U.S.A) in 1984. Called Bigg's it is a combination department: store and huge supermarket under one roof. The Swedish retailer IKEA has opened a store on a three acre site near Philadelphia to sell contemporary furniture and home furnishings at prices at least 2o percent below those of competitors. These European retailers are making a strong impression on American consumers.

3.5 The Future of Retailing

We have looked at several recent developments and trends- in retailing. But what is likely to happen in the future? One ·theory, known as wheel of retailing, seems to be borne out of recent developments. This theory states that each major innovation in retailing begins a cycle.

What lies ahead as the wheel of retailing continues to turn? We don't know, but the answer probably lies in meeting the trends that we have been looking at in this chapter. The emergence of the computer as a basis for cost control and productivity, new technologies such as videolex and telemarketing, the movement across national boundaries, and changes in the nature of the consumer all suggest that retailing will continue to be highly .competitive. As the less efficient, less effective competitors are shaken out, others will emerge AS take their place. The future of retailing is assured; that of individual retailer is less so.

4.0 CONCLUSION

This unit has exposed you to the need for and nature of strategic planning in retailing. You learned about scanning the environment, changing markets, role of technology, retail competition and wheel of retailing theory in the effort to understand strategic planning in retailing.

5.0 SUMMARY

Strategic planning for retailing comprises factors such as:

Scanning of the Environment, Changing Markets, Role of Technology and Competition.

The future of Retailing is centered on the emergence of a theory known as WHEEL of Retailing, which is borne out of recent development. Wheel of retailing states that major innovation in retailing begins a cycle.

6.0 TUTOR MARKED ASSIGNMENT

1) In the retailing of personal computers, chains like computer store have taken over the business from independents, why do you think this happened?

2) Recently a large number of fast-food franchises have been bought back from their franchisees by the franchisor, which finds that it can make more money operating the units itself. Give some possible explanations for this phenomenon.

3) On the basis of what you have learned in this unit, what predictions would you make for retailing and for individual retailers?
4) What might you expect to be the next development in the wheel of retailing? Why?

7.0 REFERENCES/FURTHER READING

William D. Perregult and E. Jerome McCarthy (2002). Essentials of Marketing: a Global material Approach 14th ed, New York: McGraw-Hill/Irwin Inc.

Levy M. and Weitz B. A. (1998). Retail Management 3rd ed. USA: The Irwin/McGraw-Hill, Inc.

Statistical Abstract of the United States. 1985 p.787. p. (1982) Census of Retail Trade pp.58, 72, 76.

"The wheel of Retailing", journal of Marketing, Vol. 26, No 3 (July 1960), pp. 37-42