What is Retail Strategy?

A detailed marketing plan related to the business, its targets and ways and methods to achieve it, in relation to retail is known as retail strategy.

It is important for a retail store to form a strategy to promote its goods and services and reach the right set of customers — the primary objective of the retail strategies to increase sales as well as customer satisfaction equally.

Generally speaking, a retail plan is dependent on a lot of factors like products the store location of the store nature of customers and other multiple external factors like competition, physical and political restraints, seasonality, etc.

It is crucial that one considers all of these factors while planning and deciding the retail strategy.

Retail Marketing Strategies

1. Retail positioning:

This involves choice of target market and differential advantage. Targeting allows retailers to tailor the marketing mix which includes product assortment, service levels, store locations, prices and promotion, to the needs of their chosen customer segments.

Differentiation provides a reason to the customer to shop at one store rather than at another. The customer should have distinct expectations from the store when he walks into it which should be different from the expectations that he has when he walks into another store. Retail positioning comes from novelty in the processes of shopping offered to the customers and novelty in the product assortment or both.

- **Novelty in the process offered to the shopper:**

The way a store facilitates a shopper to make his choice of products and brands, the way he is able to access the items in the store, and the way he makes his payments, determine a customer's satisfaction with a store.

But a customer does not want a similar treatment for all his purchases and on all occasions when he visits the store. For some products, his choice of brand may be very clear, and a salesperson's attempt to help him would only irritate him.

But for some other products, the same customer would solicit help of salespersons in making a choice among brands and would welcome a salesperson's attempt to influence his purchase. For some purchases, the customer would like his favourite brand to be placed prominently on the shelf.

- **Novelty in the product/product assortment offered to the shopper:**

A retail shop has to be known for being of a certain type. A store may be famous for being very prompt in stocking the latest or the most fashionable product. Another may be known for stocking all possible variety in a category and yet another may be famous for stocking the most premium brands.

A store would become too unwieldy if it tries to have too many different types of assortments. A store which stocks the latest products in a category will also be able to stock the most premium brands of the category but the attention of the company will be divided and it will be difficult to handle relationships with diverse suppliers whose business philosophies are different. Such a strategy will also send conflicting signals to customers as to what the store really stocks well.

2. Location of the retail store:

For some products like groceries, consumers do not like to go to a far away store. Therefore, store location has great influence on sales performance of such products. A retailer has to decide whether it will be a standalone store in a city, or will it open stores to cover a designated area like a city, state or country. A retailer may decide to open one store in each city.

The retailer has to buy from distributors to replenish its stocks. Or it decides to open as many stores as a city can sustain, and moves to another city and again opens as many stores as that city can sustain. Therefore, it covers cities one by one, instead of opening one store in each city. It opens a distribution centre in each city.

The distribution centre receives supplies for all the stores in the city in a single truck from each supplier. Smaller lots of each of these supplies are loaded on trucks bound for each store. The retailer buys from the manufacturer directly, and does not have to buy from distributors.

A retailer's choice of a city depends upon factors like its congruence with its chosen target market, the level of disposable income, the availability of suitable sites and level of competition. A retailer's choice of a particular site in a city depends on level of existing traffic passing the site, parking facilities, presence of competitors and possible opportunities to form new retailing centres with other outlets. When two or more non-competing retailers agree to site outlets together, the retailing centre can draw more customers than what each individual store would have been able to do.

More than proximity to customers, the location of a store is important in terms of how often the target customers are likely to visit the site as they live their lives. The lifestyle of the target customers, and the goods and services that they buy will decide whether they will visit the site or not, and how often.

Being in the place which the customer will visit in pursuance of his lifestyle will ensure that the customer will walk into the store. This aspect is important because customers are combining purchases of different genre of goods and combining purchases of goods and pursuance of entertainment.

3. Product assortment and services:

A retailer has to decide on the breadth of its product assortment, and also its depth. A retailer may have a broad product assortment, but within each product line, it can stock a shallow product range. Or it can have a narrow product assortment, but within each product line, it can stock a deep product range.

Therefore, a retailer's choice of product assortment ranges from stocking one deep product line to stocking a broad range of products including toys, cosmetics, jewellery, clothes, electrical goods and household accessories. A retailer begins with one or limited product lines and gradually broadens product assortment to be able to sell more products to customers who come to its store.

Petrol stations start out as fuel providers, and expand by adding provision stores or food outlets to maximize the revenue that can be obtained from the customer. Some stations on the highway may also add a Cineplex to make their retail outlet a one-stop entertainment and utility centre for the customer.

By expanding its product assortment, a retailer reduces price sensitivity of customers because a traveller stops at a petrol station as he can buy an assortment of products, and not because its fuel cost is low. A retailer's decision of the product assortment that he will stock will depend on its positioning strategy, the expectation that its customers have come to have of it, and also on the profitability of product lines that it carries.

It may be prompted to drop slow moving unprofitable lines unless they are necessary to conform with the range of products expected by its customers. A retailer also has to decide whether it will sell only manufacturer brands, or it will have its own label or store brands. Most manufacturers may sell own label brands products to compliment manufacturer brands.

4. Price:

A retailer may choose to compete purely on price, but price can be a differential advantage only when a retailer has immense buying power, and has been able to control cost. A retailer may favour everyday low prices rather than higher prices supplemented by price discounts.

Such a retailer is patronized by customers who prefer predictable low prices rather than occasional price discounts. A retailer may sell no-frill products, which are basic commodities such as bread and soft drinks that are sold in rudimentary packaging at low prices. It appeals to the price conscious shopper who wants standard products at low prices.

Some retail items may be priced very competitively to generate more demand for other items. Such products may often be sold below cost and are called 'loss leader'.

The idea is that the customers get attracted to the low price of the 'loss leader' and walk in the store to buy the item but may end up buying many more items. The items chosen for inclusion should be widely known and bought on frequent basis.

5. Promotion:

Retail promotion includes advertising, public relations, publicity and sales promotion. The goal is to position the store in consumers' minds. Retailers design ads, stage special events and develop promotions aimed at their markets.

A store's opening is a carefully orchestrated blend of advertising, merchandising, goodwill and glitter. All the elements of an opening—press coverage, special events, media advertising and store displays—are carefully planned.

Retail advertising is carried out at the local level, although retail chains can advertise nationally. Local advertising by retailers provides specific information about their stores, such as location, merchandise, hours, prices and special sales. In contrast, national retail advertising generally focuses on image.

A popular retail advertising practice is cooperative advertising. Under cooperative advertising, manufacturers pay retailers to feature their products in store mailers or the manufacturer develops a TV or print ad campaign and includes the name of the retailers carrying the product at the end.

Many retailers are avoiding media advertising in favour of direct-mail or frequent shopper programmes. The frequent shopper programmes offer perks ranging from gift certificates to special sales for most frequent shoppers. Direct-mail and catalogue programmes may be a cost effective method of increasing store loyalty and spending by core customers.

6. Store atmosphere:

Store atmosphere is created by the design, colour and layout of a store. A retailer works on both exterior and interior designs to create an appropriate store atmosphere. The store atmosphere should prompt target customers to visit the store and stimulate them to buy once they are in the store.

External designs include architectural design, signs, window display and use of colour that create identity for a retailer. The image which is projected should be consonant with the ethos of the store. For instance, a kids' store is usually bright, vibrant (may be in the shape of Mickey Mouse) and colourful to attract the child and make him want to buy things in the store.

Such a store should generally have lots of space for the child to move around and explore his world. Even the salespeople should match the child's temperament. They should be playful. Interior design like store lighting, fixtures and fittings as well as layout, affect store atmosphere.

If a store has narrow aisles, it appears congested and unclean, the customers may not like to spend too much time in such an environment. A poorly lit store is uninviting.

Colour, sound and smell affect mood of customers, and customers stay longer in stores which are colourful, plays good music and smells good. People attribute different meanings to different colours, and a retailer uses colours to create the desired atmosphere in the store. Music can be used to create a relaxed atmosphere, and make the customers linger on in the store.

Performance Measure in Retail

1. Number of Customers (Customer Traffic)

A number of customers are the most straightforward metric for your retail business. Even a child gets that the place that's crowding with customers must be doing good. You normally don't go to an empty restaurant, don't you?

Customers are the sole source of money for your retail business. As Karl Marx had it, human work adds real value to land and capital. For a retailer, the more potential customers you get into your shop, the more money they'll likely leave behind.

If you're in e-commerce, measuring customer numbers is pretty easy. It does, however, take some experience in reading the analytics. Most probably you'll be using Google Analytics, but don't forget that your e-commerce backend has at least some visitor statistics. Even if these are not as fancy as Google provides, they are typically easy to read and might even be more accurate. Set your benchmarks, compare results to last year and yesterday.

In the brick-and-mortar, pay attention to the number of visitors and the number of customers. The latter can be seen from your point of sale history. Use loyalty programs, so your customers identify themselves at the counter, then it's much easier to understand if your retail traffic. Wait!

Do you visit your retail stores in person? Visual estimation can be adequate enough. Estimate, before you start counting.

A number of customers are the only metric you can grow almost infinitely, i.e. the theoretical limit is the number of inhabitants on Earth. And possibly more, depending on your views on extraterrestrial retail.

2. Effectivity (Retail Conversion Rate)

Alright, we already had to distinguish retail visitors and retail customers. Some visitor doesn't buy anything. It's rather unlikely in a big shopping mall, but very common in specialty stores or luxury boutiques.

In e-commerce, we're talking about customer conversion ratio. This shows how many visitors a retailer turns into a buyer. It's easy to calculate if you already know your retail customer traffic. Just take the number of retail transactions and divide in with the number of people who visited your store. And multiply by 100, if you want a percentage.

Customer conversion ratio = No of transactions / Customer traffic x 100

The effectivity depends greatly on the type of retail business you're in. If you're selling clothing and apparel in a brick-and-mortar retail store, your likely customer transaction effectivity is 18-25%. This means one out of five customers buys something. If you're lucky, one out of four. It's never 100%. Even ice cream restaurant on a hot day does not convert 100%, as one of your customers have left his wallet at home! If it's brand new luxury cars, the conversion rate is microscopic by nature.

According to Industry Retailer, the average conversion rate for e-commerce sites is about 2-3%. Sure it differs from industry to industry, but don't feel too relieved if you're in that range. To succeed, you need to be better than others. Just use common sense and browse the Internet to find benchmarks suitable to your retail business, i.e. what you're selling.

3. Average Sale (Average purchase value)

Alright, now you have two essential retail metrics to watch. Going more in depth, you'll be interested in your average sale value. How money dollars, pound, yen or euros your average customer spends in checkout? How has it changed over time?

So you have been working on getting more people into your store, and tried to make them buy each time they visit your store? Calculate the average sale, also called average order value. It's the moment truth in many cases.

Even a business with unsophisticated technology can very easily measure the average sale, but surprisingly they don't. It is measured by dividing the total sales value ($) by the number of transactions. Keep in mind the same customer could initiate multiple transactions; AOV determines sales per order, not sales per customer.

Average sales order value = Total sales value / Number of transactions

This is far the most powerful and the most effective measure of the productivity of the sales system. You get more people to your retail store, they do actually buy more often, but the order average is falling? Watch out, you might be pushing the well-paying customer away. More visitors means more hassle, you need more sales associates and your store might become too crowded.

On the other hand, it can be just about OK if the average sale order value is not growing. In many retail businesses, it is not possible to sell more expensive stuff or buy more at the time.

The average purchasing power of the society does have limits, and so does the rationally acceptable price level. You cannot charge 1000 bucks for a T-shirt. So sometimes the only thing you can do, is to get more customers and more transactions, even if the average value of a purchase is falling.

4. Items per purchase (Size of an average shopping cart)

In the retail business, especially brick-and-mortar outlet, a sold item more roughly estimates for added revenue. It also brings along handling costs like inventory carrying costs, transaction time and salary of sales associates, needs for retail space.

Your point of sale system should be capable of providing you with pretty exact data. If your transaction volumes are low, the number of items may seem insignificant, like a carton of milk equal to an iPad sold. When the sales volumes are higher, it starts making much more sense. If your retail business keeps up good averages per purchase, but the number of items is rising, it means people are buying cheaper products in bulk.

Check your sales offers, maybe you're overdoing something? Come next month, and nobody buys soap and shampoos anymore because your customers now have large stock at home.

In general, terms, if your average purchases are going up, the item count rises, too. But it would be better if the item count is slower to rise than the sales value average. For the end of the day, you want to sell for more money, not just sell more.

Don't worry if average shopping cart has more items in it. In most cases, bigger is better. Use common sense to assess the situation. You could aim for more items in a shopping cart with 2=3 marketing campaigns.

But there are always limits. For example, it is very hard to force your customers into buying more than one suit at the time. So if you're selling suits, anything over 1 item per cart is for the better. No to mention brick-and-mortar, where shopping carts have physical limits.

5. Gross margin (Sales profit before costs)

Gross margin is the difference between revenue and cost before accounting for certain other costs. Generally, it is calculated as the selling price of an item, less the cost of goods sold. It's rather basic math for business to know how much it took you to acquire or produce the thing you're selling.

Product price when sold = Product acquiring or making price + Gross margin

Gross margin is what a business lives on. This has to cover all the costs of selling and production, including salaries, taxes, rent, transport, and any other costs. If your business has debts to pay, these also must be covered by the margin, otherwise, it's impossible to survive.

Rule of thumb is to set the gross margin high enough so you have plenty of room to cut back. Even a successful retail business will have some goods that are harder to sell. These must be discounted.

In fact, nowadays customers are so spoilt that they expect -50% or even -70% discounts.

In most cases, the lower the margins more items you sell and the more conversions you have. Some retailers are decidedly low margin. Costco, Wal-Mart set their margins as low are 10-20% range. A retailer must have hundreds of thousands, possibly millions of customers for that.

Clothing and apparel retailers get 30-50% gross margin, and this is minus the discounts! The smaller the business and the fewer items there are sold, the higher the margin. Specialty stores have to keep up 100-500%, and it’s not about greed but space, employees, and client per item sold demand higher margin.

Competition and suppliers eat your margins, so you cannot push it much higher than the industry average, and cannot survive if it’s much lower than that. Always know where you are with a particular product and discount. Use your enterprise resource planning (retail ERP) to keep an eye on the gross margin. Often it’s also the only thing the owners of a retail chain or store really care about.

If you’re doing well, the retail business will have some money left when stuff is sold and all the costs are deducted. This gross profit. Normally it’s several times less than gross margin. As a definition puts it, gross profit is a company’s residual profit after selling a product or service, deducting the cost associated with its production and sale.

Gross profit = Revenue per item – Cost of items and selling process

Want to compare the gross margin and gross profit per product? It’s pretty hard to calculate how much time and space you spend on a particular product, so just count your costs and divide by the number of items sold. This is what most of the retailers do, even though advanced enterprise management software can be customized to calculate the item’s dimension, stocking time and much more. Get good software that allows this in future.

Franchising

Franchising is a well-known business strategy. Franchising is a form of contractual agreement in which a franchisee (a retailer) enters into an agreement with a franchisor (a producer) to sell the goods and services for a specified fee or commission. The retailer through his outlet distributes the goods or services.

It brings together the title-holder of recognized merchandise with another business. This strategy can be opted by small businesses by having a brand name of a well-known company associated with it.

For small business who cannot afford for much finance and capital investment for a business startup, franchising will be beneficial. Buying a franchise can be a shortcut to success.

Advantages of buying a franchise

The following are some of the advantages of buying franchise.

1. Higher success Rate: When entrepreneurs buy a franchise, they buy an established concept that has been successful. Franchisees stand a much better chance of success than people who start independent businesses.

Today, Raymonds, being the world's largest integrated producers of suiting fabrics provides franchise opportunities. An entrepreneur by becoming a franchisee of Raymonds will be able to sell the suiting fabrics at ease due to the well established name.

2. Assistance: When entrepreneurs buy a franchise; they get all the equipment, supplies and instruction or training needed to start the business.

3. Cost reduction: Franchisor can afford to buy in bulk and pass the savings to franchisees. Inventory and supplies will cost less than running an independent company. For example, running a courier company on own could be a difficult task. But by being a franchisee of Overnite Express, the franchisee can save money.

4. Star Power: Many well-known franchises have national brand-name recognition. Buying a franchise can be like buying a business with built-in customers. For example, buying a franchise of Aptech will help to attract customers easily.

5. Profits: A franchise business can be immensely profitable. The probability for a small business to succeed is high as they have the backup and support of well established big business enterprises.

6. Marketing assistance: When a business is associated with a franchisor then the big-business themselves help in corporate marketing of the goods of the small industry or business they are providing support for.

7. Staff training: The franchisor provides all the necessary training to the franchisee or small business staff and provides additional resources and decision-making capabilities to a small business.

Disadvantages of buying a franchise

The following are some of the disadvantages of buying franchise.

1. Control: Some franchisors exert a great degree of control. No decision can be taken by the franchisees without consulting the franchisor.

2. Ongoing Costs: Besides the original franchise fee, royalties, a percentage of franchise's business revenue, will have to be paid to the franchisor each month.

3. Lack of Support: All franchisors do not offer the same degree of assistance in starting a business and operating it successfully. Assistance is provided only at the time of starting the business.

4. Expensive: Buying a well-known franchise is very expensive. Entrepreneurs must have the ability to arrange the necessary finance.

5. Time consuming: Lot of time is required while selecting a franchise. A complete and thorough research is required to select the right franchise and to determine whether it would work for the business or not.

6. Misunderstanding: Franchise is a complex procedure and disputes may arise between the franchisee and franchisor.