Study Material

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Subject – Principles of Marketing
Topic – Retailing – 3 (Evolution, Concept and Terminology)

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Learning outcome from this lecture note:

- Evolution of Retail
- Introduction and meaning
- Concept of Retailing
- Retailing Terminology

Evolution of Retail

Though the barter system is considered as the oldest form of retailing, the traditional forms of retailing such as neighbourhood stores, main-street stores and fairs still exist in the laid-back towns around the world. During post-war years in the US and Europe, small retailers reformed their shops into large organized stores, markets, and malls.

Retail evolution mainly took place in three stages −

- Conventional
- Established
- Emerging

Conventional formats –

Haats, Mandis, Melas
Fairs
Hawkers
Weekly Bazar

Established Formats –

Grocery Shops
Paan/ Beedi Shops
Departmental Stores
Co- operative Stores
Fair Price Stores
Company / Multiple Brand Showrooms

Emerging Formats-
Retail Outlets
Super Markets
Hyper Markets
Service Outlets
Fast Food Joints
Speciality Malls
E- Retailing

Retailing – Introduction and Meaning
The distribution of finished products begins with the producer and ends at the ultimate consumer. Between the two of them, there is a middle person—the retailer. Retailing is defined as a set of activities or steps used to sell a product or a service to consumers for their personal or family use. It is responsible for matching individual demands of the consumer with supplies of all the manufacturers. The word 'retail' is derived from the French word retailer, meaning 'to cut a piece of' or 'to break bulk'.

Retailing has become such an intrinsic part of our everyday lives that it is often taken for granted. The nations that have enjoyed the greatest economic and social progress have been those with a strong retail sector. Why has retailing become such a popular method of conducting business? The answer lies in the benefits that a vibrant retailing sector offers—an easy access to a variety of products, freedom of choice, and high levels of customer service.

A retailer is a person, agent, agency, company, or organization, which is instrumental in reaching the goods, merchandise, or services to the ultimate consumer. Retailers perform specific activities, such as anticipating customers' wants, developing assortments of products, acquiring market information, and financing.

Retailing – Concept of Retailing

It is essentially the marketing concept of a customer-centred, company-wide approach to developing and implementing a strategy. It provides the guidelines, which must be followed by all retailers irrespective of their size, channel design, and medium of selling.

The retailing concept covers four broad areas and is an essential part of the retailing strategy:

(i) Customer Orientation – The retailer makes a careful study of the needs of the customer and attempts to satisfy those needs.

(ii) Goal Orientation – The retailer has clear cut goals and devises strategies to achieve those goals.

(iii) Value Driven Approach – The retailer offers good value to the consumer with merchandise having the price and quality appropriate for the target market.

(iv) Coordinated Effort – Every activity of the firm is aligned to the goal and is designed to maximize its efficiency and deliver value to the consumer.

The retailing concept, though simple to adopt is not followed by many retailers who neglect one or more of the points enumerated above. There must be a proper balance of all the aspects of this concept for the retailer to achieve success. The retailing concept, while important is limited by its nature as it does not cover the firm's internal capabilities or the competitiveness of the external environment.

It however remains an important strategic guide. The retailing concept can be used to measure the retailers' performance through three parameters – the total retail experience, customer service, and relationship retailing. The total retail experience refers to all the ingredients of a customer's interaction with the retailer. This includes all activities from parking to billing.

If some parts of the retail experience are unsatisfactory, the shopper may decide not to patronize that particular outlet. Therefore, it is necessary for a retailer to ensure that every element in the experience must aim at fulfilling customer expectations. This experience means different aspects for different types of retailers — for an upper-end clothing retailer this might imply the presence of plush interiors and air conditioning while a discount store needs to have adequate stock.

One of the biggest challenges for the retailer today is to devise new ways of attracting customer attention to be able to position themselves differently from competitors. Many novelties in retailing, for example, the theme restaurants, have emerged and there is a battle to snare the customer's attention. Sometimes though, elements of the retail experience can be beyond the control of the retailer, like the levying of sales tax or the speed of online shopping.

Customer service refers to the tangible and intangible activities undertaken by a retailer in combination with the basic goods and services it provides. It is part of the value- driven approach adopted by retailers in a bid to differentiate themselves and occupy a strategic position.

Among the factors that drive a firm's customer-centric approach are store hours, parking access, sales personnel, amenities like a recreation area for children, and coffee shops. Different people evaluate the same service in various ways. Even an individual may do so at different times due to intangibility. People's assessment of a particular service is based not necessarily on reality but on perception.

Keywords such as customer orientation, innovation, and flexibility have become 'must-haves'.

These words have been repeated like mantras for decades now but rarely have they been put into practice. The service mentality frequently encountered in the Indian retail sector can still be unpleasant even to those customers willing to make purchases. The realisation that the services provided do not suit the prices demanded impels rationally acting customers to switch to the discounters.

Stand-alone businesses and the owner-managed specialist stores are suffering in particular and, at least in urban India, appear to have passed their zenith. Many retail companies have now realised that the competition for the purchasing power of the customers has long crossed the boundaries of their own narrow sectors. New competitors have been courting the attention of customers and trespassing on the traditional territory of the retail companies.

Some of the major criteria for the fight customer approach are as follows:

1. Creating the right environment;

2. Listening to customers;

3. Providing rewards to the best customers; and

4. Realising the lifetime value of consumers.

The concept of lifetime value of consumers is employed in relationship marketing. Retailers need to establish relationships with existing customers to motivate them to return regularly. The ongoing process of identifying and creating new value with individual customers over the lifetime of a relationship is relationship marketing.

It is mutually beneficial in nature creating a win-win solution for both the retailer and the consumer by allowing the retailer to be profitable and giving the consumer value. This is especially important because it is much harder to attract new customers than it is to retain old ones. It is a blend of product, quality, and services.

Relationship marketing uses the event-driven tactics of customer retention marketing, but treats marketing as a process over time rather than single unconnected events. By moulding the marketing message and tactics according to the lifecycle of the customer, the relationship marketing approach achieves very high customer and is highly profitable.

Using the relationship marketing approach, the retailer must customise programmes for individual consumer groups and the stage of the process they are going through as opposed to some forms of database marketing where everybody would get virtually the same promotions, with perhaps a change in offer. The stage in the customer lifecycle determines the marketing approach used with the customer. A simple example of this would be sending new customers a ‘welcome kit,’ as an incentive to make a second purchase.

A common perception is that retailing involves only the sale of products in stores. However, it also includes the sale of services such as those offered at a restaurant, parlour, or by car rental agencies. The selling need not necessarily take place through a store.

Retailing encompasses selling through the mail, the Internet, door- to-door visits—any channel that could be used to approach the consumer. When manufacturers like Dell Computers sell directly to the consumer, they too become retailers.

The world over retail business is dominated by small family-run chains and regionally targeted stores. Gradually more and more markets in the Western world are being taken over by billion-dollar multinational conglomerates, such as Wal-Mart, Sears, McDonald's, and Marks and Spencer.

The larger retailers have set up huge supply or distribution chains, inventory management systems, financing pacts, and wide- scale marketing plans, which have allowed them to provide better services at competitive prices by achieving economies of scale.

A retailer's cost and profit varies depending on their type of operation and major product line. They usually manage a profit of 9-10 per cent on their sales. Retail stores of different sizes face distinct challenges and their sales volume influences business opportunities, merchandise purchase policies, nature of promotion, and expense control measures.

As we all know, the ease of entry into retail business results in fierce competition and better value for customers. To enter retailing is easy, and to fail is even easier. Therefore, to survive in the retailing business, any enterprise must perform its primary role of catering to customers satisfactorily.

Over the last decade, there have been sweeping changes in the general retailing business. For instance, what was once a strictly 'made-to-order' market for clothing is now a predominantly 'ready-to-wear' market? Flipping through a catalogue, picking the right colour, size, and type of cloth a person wanted to purchase, and then waiting to have it sewn and shipped used to be the standard practice in the earlier days.

By the turn of the century, some retailers set up a storefront wherein people could browse whereas new pieces were being sewn or customized in the back rooms. Almost all retail businesses have undergone a similar transition over the years.

In an era of globalization, liberalization, and a highly aware customer, a retailer is required to make a conscious effort to position himself distinctively to face the competition. This is determined to a great extent by the retail mix strategy followed by a company to sell its products.

A major development in the recent times has been the emergence of varied retail formats that have started operating in most product categories. For instance, there are large department stores that offer a huge assortment of goods and services. There are discounters who offer a wide array of products, and compete mainly on price. For example, Big Bazaar and Reliance Mart. There are also the high-end retailers who target extremely niche segments with top-of-the-line brands such as Louis Philippe and Dior.

Each of these retailers have their distinct advantages, and it is interesting to see how these advantages play out. For example, during tough economic times, the discount retailers tend to outperform their rivals whereas the opposite is true when the economy is doing well. The more successful retailers attempt to combine the characteristics of more than one type of retailing to differentiate themselves from the existing competition.

In today's competitive environment, retailers have redefined their role in general, and in the value chain in particular. They act as gatekeepers who decide which new products should find their way to the shelves of their stores. As a result, they have a strong say in the success of a product or service being launched into the market.

A product manager of household appliances claimed, 'Marketers have to sell a new product several times, first within the company, then to the retailer, and finally to the user of the product.'
It is a well-established fact that manufacturers need to sell their products through retail formats that are compatible with their business strategy, brand image, and market profile to ensure a competitive edge.

The role of retailers in the present competitive environment has gained the attention of manufacturers because external parties, such as market intermediaries and supplying partners are becoming increasingly powerful. It is thus, necessary for the marketers of consumer products to identify the needs and motivations of their partners in the marketing channel.

Consumer companies might improve their new product success rate if they put in more effort at creating retailer value as well as consumer differential advantage. If the objectives of a manufacturer are incompatible with those of a market intermediary like the retailer, the success of a product stands jeopardized.

Consumer durables major LG electronics and Paras Pharmaceuticals, the makers of Moov, Borosoft, Krack cream, etc., for instance, are deriving extensive advantage due to wide retail network developed over years.

The wide and increasing range of product categories accompanied by multiple brands in each category complicate decision-making for both the manufacturers and market intermediaries. Retailers want to optimize sales within the limited shelf space, governed by their individual sales philosophy. They undertake risk in selecting a portfolio of products or brands to offer to their customers.

They have to make an optimum selection of goods to be sold given the following major concerns:

1. Selling space available is relatively fixed and must return maximum profits. If such space is occupied by merchandise that is not moving, it will not result in profit. The retailer may have to resort to substantial price reductions to get rid of the unsold stock.

2. There is always the risk of non-performance in terms of quality, supplies, etc., which in turn harms the image of the retail outlet.

Retailing is a dynamic industry—constantly changing due to shifts in the needs of the consumers and the growth of technology. Retail formats and companies that were unknown three decades ago are now major forces in the economy. Therefore, the challenges for retail managers the world over are increasing—they must take decisions ranging from setting the price of a bag of rice to setting up multimillion- dollar stores in malls.
Selecting target markets, determining what merchandise and services to offer, negotiating with suppliers, training salespeople—these are just a few of the many functions that a retail manager has to perform on a perpetual basis.

Retail Terminology

Here are some commonly used terms in Retail Management −

Consumerism	The organized-efforts by individuals, groups, and governments to protect consumers from policies and practices that infringe consumer rights.
Consumption	Using a product or a service for one's benefit in particular time; not for resale.
Customer Satisfaction	It is the degree at which the customer is pleased after purchasing and using a product or availing a service, and going to the same retailer or service provider.
Distribution	It is movement of products or services from manufacturer to end consumer through a channel.
Empowered Consumers	The consumers with access and knowledge of Internet, exploiting the power of digital technologies, and demanding products and services matching their personal preferences.
Inventory Shrinkage	Reduction of inventory due to theft by employees, customers, or by error from merchandise management at the time of receiving merchandise.
Logistics	It is planning, executing and controlling of the procurement and movement of material and resources on some beneficial purpose.
Markdown	Reduction in price.
Planogram	Predetermined layout of display to promote merchandise sale.
Procurement	It is the process of buying a product or a service. It involves various stages such as planning, researching supplier or service provider, negotiating price, placing

	order, making payment and availing the product or service.
Retail	Sale of products or services to end customer for consumption rather than resale.
Supply-Chain Management	It is the management of material and information flow in a chain from manufacturer to consumer for providing highest level of customer satisfaction at lowest possible price.
Switching Costs	The costs incurred by a consumer for switching from one supplier or marketplace to another.
Wholesale	The business of selling products of large quantity at lesser price to retailers or consumers.