

Retail Management
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Lecture - 34
Merchandising in Retail (continued)

Hello everybody. Welcome to this NPTEL Swayam course on Retail Management. This is Professor Swagato Chatterjee from VGSOM, IIT Kharagpur who is taking this course for you. This is week 7. In the last week we were talking about merchandising in retail and we will continue on those discussion in this particular week as well.

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Factors in Planning Merchandise Innovativeness

FACTOR	RELEVANCE for PLANNING
Target market(s)	Evaluate whether the target market is conservative or innovative
Goods/service growth potential	Consider each new offering on the basis of rapidity of initial sales, maximum sales potential per time period, and length of sales life
Fashion trends	Understand vertical and horizontal fashion trends, if appropriate
Retailer image	Carry goods/services that reinforce the firm's image

So in this first topic, we will discuss about what are the factors in planning merchandise innovativeness. So when you are doing trying to create innovative this is a this is something that always the market has tried to be because you create a brand image based on your sense of innovativeness, how much the perceived innovativeness of this particular retail store is depending on that customer sometimes have a choice that which particular retail store I will go for.

So in that context, some of the factors that matter is like the target market. So evaluate whether the target market is conservative or innovative. Then the goods and service growth potential. Consider each new offering on the basis of rapidity of initial sales, maximum sales potential per time period and length of sales life. So you have to see that how in what speed this particular market will grow.

If the initial sales, so the new offering, whenever you are coming up with a new offering the initial sales if it is that that particular new offering is high, that will reach to a further higher limit. And then if the length of sales life is longer then you also make a lot of money. So you preferably you need initial sales to be high, maximum sales potential per period should be also higher and the length of sales life should be also high.

Then fashion trends. Understand vertical and horizontal fashion trends if appropriate. Vertical fashion trends means within the same product vertical whether there are different kinds of trends are there. And horizontal means in a particular product category if there are parallel trends are there. For example, let us say if I talk about so let us jeans is in fashion.

So when I am talking about horizontal fashion trend, let us say jeans trousers can be of different types, those are all horizontal. One jeans trouser versus another jeans trouser versus another jeans trouser. On the other hand if it is a vertical fashion trend then everything is jeans, the top is also jeans, the shirt is also of jeans and the trousers are also of jeans. So these are vertical fashion trends.

Which one is working you have to understand. Retailer image carry goods and services that reinforce the firm's image. So this is also very important.

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Factors in Planning Merchandise Innovativeness

FACTOR	RELEVANCE for PLANNING
Competition	Lead or follow competition in the selection of new goods/services
Customer segments	Segment customers by dividing merchandise into established-product displays and new-product displays
Responsiveness to consumers	Carry new offerings when requested by the target market
Amount of investment	Consider all possible investment for each new good/service: product costs, new fixtures, and additional personnel



Competition. Lead or follow competition in the selection of new goods and services. Either you will be the leader or you will be the follower, which one you want to be you have to choose that. The segments, you segment customers by dividing merchandise into established product displays and new product displays.

So you try to segment customers based on those who want to go for established product display, they do not want new things and then another group of customers who are always go for new thing. Now this is very important to segment them and to direct them to that kind of displays properly. So that you do not lose your brand image or you do not lose your positioning in the market.

Responsiveness to consumers you carry new offerings when requested by the target market and also amount of investment. So any innovativeness, any new things you have to do you have to put a lot of money. So consider all possible investment for each new goods and services like product costs, new fixtures, new fixtures and additional personnel. These are all investments whether it is worth doing that.

So there are so many different factors that we generally try to choose when we are talking about a innovative company or innovative retail store that we are trying to bring in.

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Factors in Planning Merchandise Innovativeness

FACTOR	RELEVANCE for PLANNING
Profitability	Assess each new offering for potential profits
Risk	Be aware of the possible tarnishing of the retailer's image, investment costs, and opportunity costs
Constrained decision making	Restrict franchisees and chain branches from buying certain items
Declining goods/ services	Delete older goods/services if sales and/or profits are too low



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Now I will talk about a little bit of money. Obviously the profitability, the risk, these are two important factors. The constrained decision making and the declining goods

and services. So delete older goods and services if sales and profits are too low, this is very important. To make a space for new arrivals you have to remove your old items, old stocks.

And that is why people give a lot of late you say season ends kind of a sales offerings. Because by doing that, by doing stock clearance, they are making space for new products. In a fashion industry, this is very common because fashion will not sustain after a long period of time. After a certain period of time your old products will not be sold unless you give discount.

So by giving discount, you are making space for new arrival so that the moment new arrival comes you target your profitable customers, you tell them that see new arrival has come and I am giving you very early notification that these kind of products have come up, why do you not come and buy.

And these kind of customers who are profitable customers do not want to purchase such kind of apparel, which are also being bought or being worn by somebody else, they do not like that. So that is why giving them that fresh arrival items or giving them that kind of option to buy the new arrival items is very important for them.

And these are profitable customers who are ready to pay a premium for this kind of benefit, which for them, you need to make space and that is why you give discounts and do your season end kind of clearance sales which is very important.

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Advantages of Private Labels versus National brands

- **Store loyalty**— A 1 percent increase in private label purchasing increases a retailer's market share of a household's purchases by 0.3 percent.
- **Differentiation strategy**- Opportunity to differentiate store on the basis of recipe, styling, value, features.
- **Increased channel power over suppliers**— Depends on strength of private label versus national brand
- **Higher profit margins on private labels**- 25 to 30 percent higher (but no return privileges, co-op promotions, slotting fees, and warehousing support).



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Now another important thing in the context of merchandising is that how do you source the merchandise? Will you get the merchandise from a national level or will you get it as a private level. Private level means you yourself source it directly from the manufacturer, not a branded manufacturer from an unbranded manufacturer and then put your own label and sell it.

And you put this own label, which is a private label in competition with the national brand. You put them side by side. Sometimes your ones is the top and the national brand is the bottom and then you want to push your one and the national brand gets affected. Now whether you can do that, how much will be the bargaining power between the national brand and the retailer, these are all factors which will impact.

But private label brands are becoming more and more stronger day by day. Why? It has been seen that a 1% increase in private level purchasing increases a retailer's market share of a household purchases by 0.3%, understand this. That people become loyal to a store when they find a private label brand which is good. So then what happens is if I can increase my sales of my private label brand by 1%, out of that 1% increase that will reflect in the market share of the store.

Market share of the store means the store is competing with another stores. People are dropping into this store versus that store. The footfall in this store will increase by 0.3%. So retailer's market share of a household's purchase increases by 0.3%. So people become more loyal to a particular store if the private level inside that store is

strong, which is a very peculiar case which is not in competition with the national brand.

Here you are competing with other retailer stores, whether they have a strong private label brand or not. Differentiation strategy. You have an opportunity to differentiate your store on the basis of recipes, styling, value, features etc. So if you have a particular private label brand in your retail store, and you know the customers more right, you are the retailer. At the end of the day you are in direct contact with the local customer in that particular area.

So if you have that kind of connection, you can create your product or services or offerings in such a way such that you can differentiate from the national brand in terms of the recipe, styling, value etc. National brand will try to basically cater to the whole market, whole national market. But you are not catering to the national market. You have a small retail store. You are trying to cater to your local market only.

So whatever local markets need you can focus on that and you can differentiate which will increase the sales. Increased channel power over suppliers it depends on strength of private label versus national brand. You can do a margin analysis. You can do a margin negotiation with the national brand. You can say that okay you do not give me X amount percent of margin I will put you in the lower, I would say lower part of my display.

In the front, in the eye level my own national brands will be there and in lower level your brands will be there. So you can basically do this bargaining. When you do not have anything to show the national brand can say that okay you put me anywhere, it will anyways sell and I will not give you enough margin, do whatever you want to do.

Now in this case, they cannot say that because if they tell you that do whatever you want to do you do that, you can put all your private label brands there, and your private label brands sales will go up and then national brand sales will not go up. So you have a bargaining power now. You can say, see it is simple thing. If you have a space which you are renting out, what the retailers do?

Retailers try to rent out their space know. If you are renting out so that the product gets sell, you can either give it to Pepsi or give it to Coca Cola if they are two national brands they are competing. Now when Coca Cola, you are doing a negotiation with Coca Cola, you can say let us say Pepsi is giving me X percentage of the margin you should also give me otherwise I will go for Pepsi.

Now in many cases, that will not be oligopoly. There will not be two, duopoly basically. There will not be two or more players. Now if you bring in your own player there, which is your private level brand, then you are making the market more competitive so that the national brands gives you better offers. So that is something so you have increased channel power over the suppliers.

Higher profit margins on private labels because it is something that you are directly sourcing, you get higher profit margin also. 25 to 30% higher in comparison to the private level brands, but you have no return privileges, co-operative promotions, no slotting fees and warehousing support. These are some of the problems also. So you have no return privileges.

In other places if the product gets unsold, expired, you can return it. That kind of facility is not here. There is no co-operative promotions. So when national brand does its promotion, it impacts the sales at AMD store. So basically the promotional activity of the store is basically shared by the national brand and multiple other stores, let us say which is not the case here.

You cannot do that. So the slotting fees are basically pretty high and the warehousing support is zero, you do not have a warehousing support. So these are some of the advantages or disadvantages of private label brands you have to keep in mind.

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Successful Private Label Strategies

- **Be a purchasing agent for consumers, not a selling agent for suppliers**
- **Develop distinctive products** (Trader Joe's wild salmon in a can, chocolate-covered sunflower seeds, pretzels with sesame seeds (instead of salt))
- **Co-brand with famous designer** (Target with Michael Graves, Mossimo and Liz Lange) or with national brand (Costco and Starbucks, Jelly-Belly, StonyField)
- **Taste and product performance testing** (Costco, Trader Joe's, Aldi)
- **Tell a story about the product** (ingredients, source, recipe, and health).

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Now how to understand these advantages and disadvantages, how to create a very successful private label brand is what we are going to discuss. So be a purchasing agent for consumers, not a selling agent of consumers. This is very important. So private label brand should be for the consumer.

We are trying to differentiate your product, that means you have to wear the consumer shoe and as if you there are let us say 50, 100, 200 consumers in your particular locality who have similar preferences, which is different from whatever the national brand is offering, it is as if your retail store is being a representative of this 100 consumers and going to the manufacturer directly, small scale manufacturer directly and sourcing the products for them.

So it is as if they were purchasing from the right source based on your understanding about the consumer and then you are giving it to the consumers. So it is better to have that kind of a thought process. If you become a selling agent, then your focus will be more on the revenue generation because you will be more on the volume rather than the differentiation. But private labels actually work on differentiation.

Private label do not have a very strong brand name. They have benefits, which is utilitarian benefit over and above whatever the brand name is providing. So that is something that they should focus on. Develop distinctive products as I was telling that you should differentiate.

Like Trader Joe's wild salmon in a can or chocolate covered sunflower seeds or pretzels with sesame seeds instead of salt, these are all some amount of differentiation that they are doing over and above whatever the national brands are providing. Sometimes this works very well. So you can co-brand with famous designer.

Like Target is a apparel firm which it is a big retail store, but they have associated with Michael Graves, and they have Mossimo and Liz Lange which is basically trying to focus on the famous designers or with national brands also. You can go with famous designer, you can also go with national brands. Like Costco and Starbucks are coming together. Jelly-Belly is something like that or StonyField is a similar kind of example.

What they are co-branding with the national brand altogether. Taste and product performance testing. So you have to basically check the taste that you are providing or the product performance that you are providing and tell a story about the product. This becomes again another very distinctive strategy of differentiation, where you are not only selling the utility, you are also selling the hedonism.

And the hedonism is sold by telling a story; the ingredients, the store, the source, who is providing, who is making the product, how the person who is making the product goes to the goes to collect the raw materials, how they make, what are the backend story. So sometimes selling the product which is very, I would say differentiated, if you want to make money out of it, you have to pay for extra benefit right?

You have to give extra benefit, which is over and above the utility and sometimes that can be provided using these hedonic topics, which is telling a story about the product, which sometimes work pretty well.

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Timing, Allocation decisions

Timing:

- a. Peak seasons.
- b. Order and delivery time.
- c. Routine versus special orders.
- d. Stock turnover.
- e. Discounts.
- f. The efficiency of inventory procedures.

Allocation:

- a. How much merchandise to place on the sales floor.
- b. How much merchandise to place in the stockroom.
- c. Whether to use a warehouse.



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Next we will talk about the timing and allocation decisions. So how the time this the time component or the allocation space component also plays a very important role in the case of retail merchandising. Like in the timing, there are peak sessions and there are trough sessions. So you have to know that when the sales will go up, when sales will go down.

Based on that your display will change, your resource allocation will change, the personnel that you will put in the retail store will change. You should also focus on order and delivery time. So from order to delivery the time gap, how I can reduce that is a very important factor most so in the context of e-commerce. So you have to focus on that. Routine versus special orders.

So you will see that Amazon gives you the Amazon subscription plans which are routine orders. Every month a particular day these items will be delivered. And in a sudden jumps those items would be again repeated. Now if you can get your customers buying this product at a subscription plan basis, you are basically binding the customers. They are making sure that they are remaining loyal and you are charging them very low, probably sometimes 20, 30% discounts.

So that is the routine orders, it is very important to capture that. Special orders, for special orders, you can probably charge a little bit more. You can probably take a little bit of more ordering to delivery time. But routine orders you cannot do all those stuff.

The stock turnover. In how much time your stocks get replenished and you again go for a new ordering is also very important in the context of retail stores.

The discounts that you give, at what time, based on what kind of time demand, based on what kind of peak season or trough season you can give discounts. And the efficiency of inventory procedures. These are all related to timing decisions. Some of them are marketing timing decisions like the as I just told that routine versus special orders or let us say what is peak season versus trough season.

But many of them are supply chain decisions. For example, what is the difference between, what should be the optimal difference between order and delivery time. Optimal both in the context of customer satisfaction and your own ability to give that. The cost involved in reducing the time of delivery. And also the efficiency of the inventory, the stock turnover, whether in what speed the stock can be replenished again.

So these are all timing decisions, which are related to supply chain. And their timing decisions related to marketing time, is a very important factor for the retail store. Another important factor for the retail store is the space, the allocation and we will talk about more in a different class. How much merchandise to place on the sales floor? How much merchandise to place in the stockroom?

What to use or whether to use a warehouse and how much will be the distance of the warehouse. These are some of the basic decisions that you have to take. Later, you will also take that how will I put, in a sales place also if I have let us say so many cell space, what percentage of that will go to the FMCG, what percentage of that will go to private label brands, what percentage will go to grocery.

So allocation of the display spaces. Now within the display, FMCG space what percentage will go to let us say P&G, what percentage will go to HUL? All these micro level decisions are very important and sometimes we require very specialized softwares or very specialized I would say industrial engineers or managers basically who, allocation managers who can run very sophisticated mathematical techniques to give this decision.

These are not easy managerial level decision. There has to be a mathematics backed decision making, although this mathematics has to be supported by the consumer psychology kind of decision making also. So mathematics will give you certain suggestions, consumer psychology will give you certain suggestions, and the retail manager in the store will ultimately decide that in combination of these two, how I can create a allocation plan, which will give me the best possible result.

So again this is a very important topic. So we will stop here today and we will discuss about further more about this merchandising plans in the next class. I will talk about merchandising, the rest of the part of merchandising and the store layout plans in the next videos. Thank you very much for being with me. I will see you in the next video.