

Retail Marketing Strategy

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Lecture-7

Welcome back everyone. Today we will be beginning with the session 2 of the course Retail Marketing Strategy and we are indeed in week 2. Now if you recollect about the last session we had definitely discussed a lot of exciting things about how you can add value for the customers by looking at or by working towards creating a visual presentation of the customer journeys and then identifying how we can eliminate pain points or how we can actually increase pleasure for the customers with respect to enhancing value.

Learning Objectives:

After going through this module, the learner will be able to appreciate:

- Retailing theories
- A retailer's role in supply chain
- Various aspects of Retail Management Decision Process

Extra Fodder for Thought: "Firing Customers"
Learning Something New: "A/B Testing"



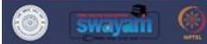
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Now as far as this module is concerned we will indeed be learning about the retailing theories which again can also be looked at from the perspective of evolution of retailing and then we will be looking at the role which a retailer plays in supply chain and finally, we will be looking at the various aspects of the retail management decision process. So considering this module we will be also looking at the element of extra fodder for thought which is about firing customers and finally, learning something new for this particular module it is going to be A/B testing we will also look at the relevance of A/B testing as far as the digital retailing perspectives are concerned.

Have you ever heard about firing customers?

We will be learning more about it in Extra Fodder for Thought Section

Stay Tuned!

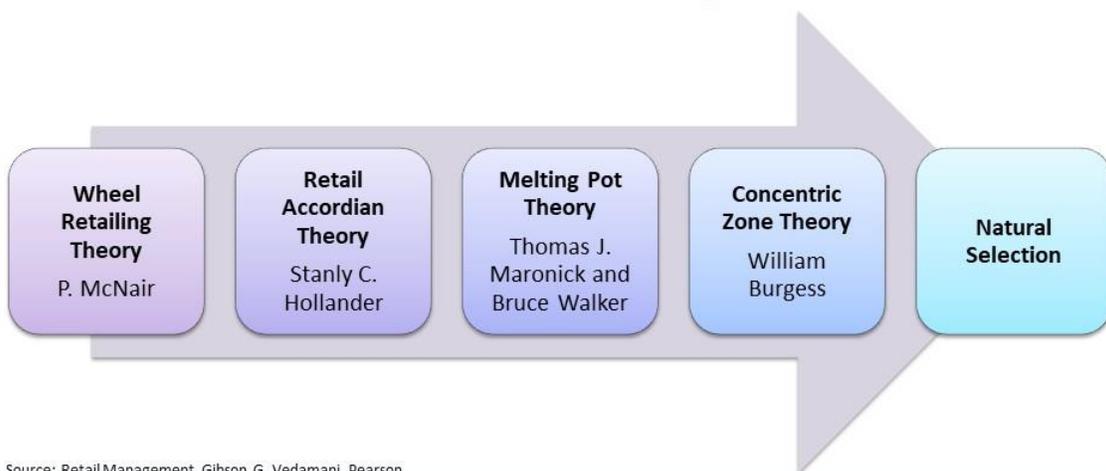


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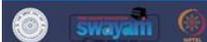
I am very sure you must have heard about you know a lot of news concerning firing of employees but again I would ask you have you ever heard about firing customers.

So this is something new which we will be learning today as a part of extra fodder for thought section but you have to stay tuned for this

Theories of Retailing



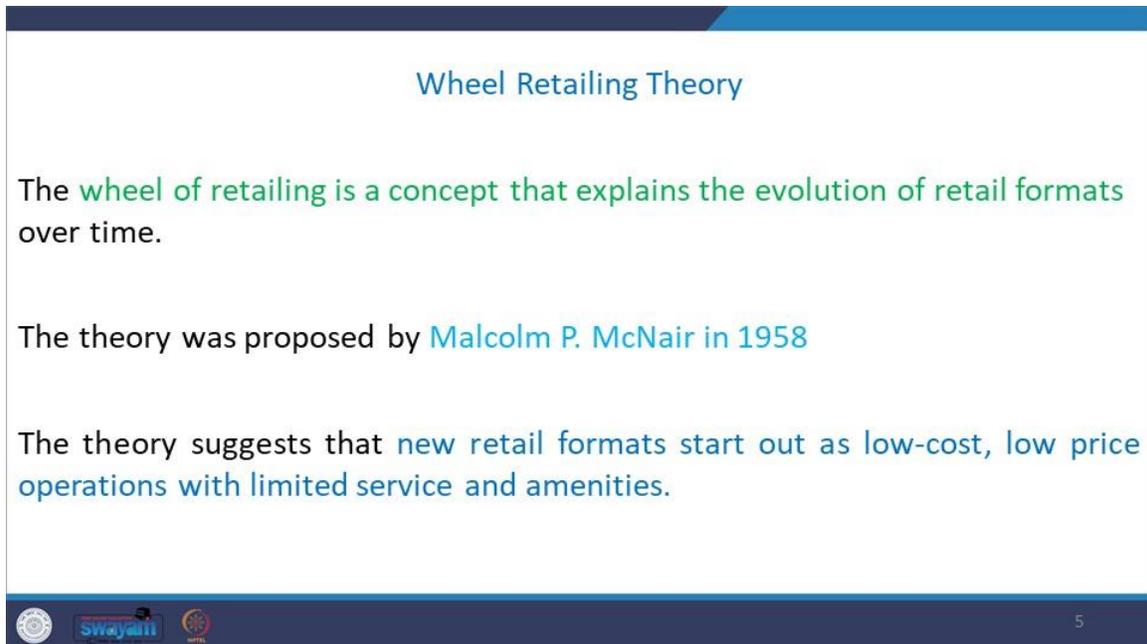
Source: Retail Management, Gibson G. Vedamani, Pearson



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but for now we will be beginning with theories of retailing. So in this particular module we are going to look at 5 theories of retailing the first one is wheel retailing theory by P. McNair then we will get to the retail accordion theory which has been proposed by

Stanley C. Hollander and then we will be looking at melting pot theory this is also referred to as the dialectic theory of retail evolution and it has been proposed by Thomas J and Bruce Walker and finally, we will be looking at the concentric zone theory which has been proposed by William B. Apart from that we will be finally looking at the natural selection theory but if you look at on the slide I have not put the details of the author of the natural selection theory. So this is one thing which I would urge you to find out you can also treat it as a part of your homework and you can definitely post your messages in the forum and then we will be definitely discussing about it.



The slide is titled "Wheel Retailing Theory" in blue text. It contains three bullet points: "The wheel of retailing is a concept that explains the evolution of retail formats over time.", "The theory was proposed by Malcolm P. McNair in 1958", and "The theory suggests that new retail formats start out as low-cost, low price operations with limited service and amenities." The slide footer includes logos for Swajati and IITL, and the number 5.

Now if you get to the wheel retailing theory this theory certainly explains the evolution of retail formats over time and this was proposed by Malcolm P. McNair in 1958.

Now what this theory actually proposes is whenever you have a retailer who is entering into the market for the first time. So their objective is always going to be about being low cost which means they will try to keep the operations very low key or very minimal because they want to keep the cost of the products for the consumers very low and on similar lines they are also going to provide limited service and amenities because the objective is to control the cost. Now as and when this business gets more established and it begins to grow they will start offering you more of variety and assortment of the products and more of service and amenities which eventually also indicates that the prices which they are charging are also going to be increased.

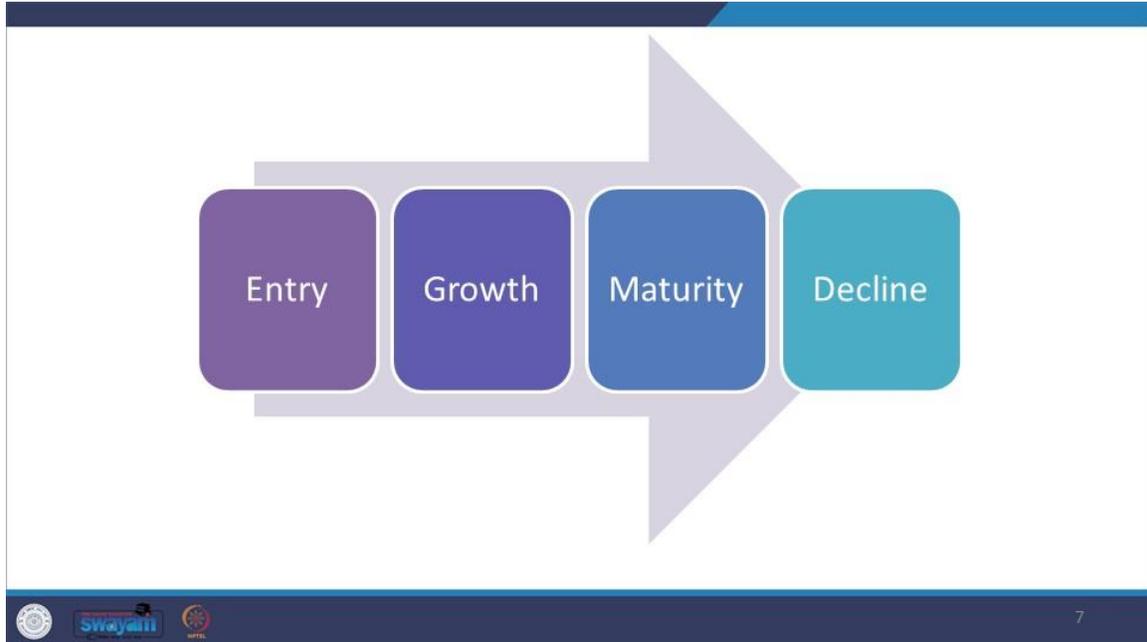
But as these retailers become more established, they begin to add more services and amenities and hence also start charging higher prices.

However, at a later date they are challenged by new entrants who again introduce new reasonable offerings in the market.

This process creates a wheel or cycle of retailing as new low-cost retailers emerge to take the place of old ones.

Now you might be wondering why we call it a wheel of retailing simply because now the retailer who eventually entered into the market and was offering products at low prices and later on started offering more of service and amenities and started charging higher prices is now being challenged by a low price retailer and now this particular retailer who has actually achieved an established stage need to compete with the retailers who are now offering low prices and even had to figure out ways of kind of holding their position in the market that is why this is called as wheel of retailing because many times the retailers who cannot walk hand on hand with the technology are eventually going to be replaced by the new low cost retailers. I really hope now you are able to understand why

we call it wheel of retailing.



Now other researchers have tried to explain this particular theory by using this analogy by proposing the phases of entry, growth, maturity and decline.

Entry Phase: Retailer penetrates into new markets, this phase is marked by low prices, low margins, low customer awareness, focus is on rationalizing operations, value is offered through low prices to the customer.

Growth Phase: Seeks to expand by offering new product categories and more services, opening of more stores takes place, marked by higher margins and growth in sales, retailer starts earning a reputation of his own.

At the bottom of this slide, there are logos for 'Swayam' and 'MPTL' on the left, and the number '8' on the right.

Now the entry phase for a retailer precisely indicates that they are trying to penetrate into new markets and in order to penetrate into new markets their focus is entirely going to be on offering low prices, keeping low margins and the customer awareness is definitely going to be low but they will also focus on rationalizing operations because they want to keep the cost to the minimum. So the whole idea of this phase can be looked at from the

essence of the fact that the value to the customer is offered by keeping low prices. Now once this retailer has passed the entry phase they get to the phase of growth which means they seek to expand by offering new product categories and services to the customers they might also think of opening new stores in the city which is again going to increase their cost but might also give a huge pump to their revenues in definitely the margins are going to be higher and growth in sales can also be seen. As far as this phase is concerned a retailer is also more likely to earn a reputation of its own but particularly in this phase the sales of the retailer will definitely start increasing.

Now then eventually gets to the maturity stage where sales reach their maximum and they even get flat because as far as this phase is concerned the retailer operates in full capacity they have a steady customer base they definitely have a robust infrastructure and capabilities as well to offer best of services to the customers.

Maturity: Retailer operates in its full capacity, steady customer base, robust infrastructure and capabilities, new customers often offset attrition, high liabilities of investment and ongoing costs occur, focus must be on satisfaction to push loyalty.

Decline: Retailer becomes vulnerable to low-cost operations, new rivals enter, focus must be on reinventing, decisions regarding closure are also considered.

Particularly in this phase you might have new customers coming in but you might have some customers leaving also to another competitors and this attrition is definitely set off by the new customers who join you and as far as this phase is concerned retailers might also be thinking of making a lot of investments. So high liabilities as far as investment and ongoing cost are concerned are also seen and in this case the focus is definitely going to be on increasing satisfaction and pushing the loyalty of the customers or in other words we can say specifically during the maturity stage as you get on the end tail the focus precisely gets on retaining the existing customers and that is why we talk about pushing more of loyalty so that they stay with you. And finally you get to the decline stage where the retailer becomes vulnerable to the low cost operations and then again he is competing with the new players who are now offering products at very competitive

prices maybe by using new technology then again precisely it becomes a wheel of retailing where we see the risk of the players who have established themselves are being replaced by the new entrants who are actually offering products at low cost prices where the existing established retailer actually started. So this was all about wheel of retailing how a retailer who gets into the market offers low prices then when he expands and offers more of services they increase the price and finally as they move further they are challenged by the new low cost retailers and sustaining position during those times definitely gets very difficult.

So another theory which we are going to understand in this particular module is retailing accordion theory in order to understand this



The slide features a blue header with the title "Retailing Accordion Theory" in white text. Below the header, the text is presented in three paragraphs: the first in purple, the second in brown, and the third in teal. At the bottom of the slide, there is a dark blue footer containing three logos on the left and the number "10" on the right.

Retailing Accordion Theory

This theory explains the evolution of retail establishments by using the analogy of an accordion.

As per this theory, a retailer begins its operations as a niche retailer with limited product line and services.

Overtime, they expand their services to attract more customers and to increase their revenue.

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I would urge you to go and google about accordion and it is definitely going to be self explanatory how this theory actually functions.

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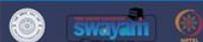
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Now as far as this theory is concerned it also says that whenever there is a retailer who enters the market its operations are definitely going to be like a niche retailer which means they are only going to have a very limited product line and they will also be offering very limited services which in ways can also be aligned with the wheel of retailing theory. And likewise when they expand their services they will not only attract more customers and their revenue will increase, but in a way they will also start charging more of prices to the customers.

In other words, during economic downturns or changes in consumer behaviour, retailers contract their operations by closing stores, reducing product offerings and cutting back on services.

This contraction allows them to focus on their competencies and reduce costs, in turn helping them to survive the economic storms.

This theory also captures the essence of retail business being flexible in terms of adapting to changing economic conditions to survive and thrive.



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But what differentiates this particular theory from the wheel of retailing is the fact that it basically brings flexibility of a retailer at the fulcrum. What they are trying to say is that during economic downturns or when there are changes in consumer behaviour let us say preference of preferences taste and preferences of consumer change or there is a change in technology then the retailer should be flexible to that and should be smart enough to adjust with respect to controlling the production or decreasing the production of the products which they can foresee that the consumers are no longer going to buy.

So, they need to kind of have a system which can be called as a marketing intelligence system to understand when they should contract their operations because this eventually can also lead to closing of stores, reducing product offerings and definitely cutting back on services to bring down the cost and at least we survive in the market. On the other way round this also indicates that during economic downturns a retailer should only focus on the competencies which means they should only be doing the task which they are best at so that they can survive the economic storms. Otherwise whenever there is let us say prosperity in the markets then such retailers also look towards expanding their operations and work towards capturing more of markets by offering the best quality products and the best of services. So, I hope you got the differentiation as far as the wheel of retailing is concerned and the retail accordion theory is concerned.

Dialectic Theory of Retail Evolution

The Dialectic theory of retail evolution, also referred to as Melting Pot was proposed by Thomas J. Maronick and Bruce J. Walker.

This theory suggests that retail business progresses through a series of opposing forces or contradictions that shape their evolution.

According to this theory, retail business begins with a thesis which is a dominant way of doing business.

Now as we move further we will be definitely understanding the dialectic theory of retail evolution this is also called as a melting pot theory and was proposed by Thoms Jay and Bruce Walker.

Now what this theory suggest is that retail businesses progresses through a series of opposing forces or contradictions that shape their evolution. What they are trying to say is whenever a retail business begins it is more going to be a thesis which means it will have its own dominant way of doing business.

Overtime, it is challenged by an anti-thesis which introduces new ways of doing business.

These opposing forces lead to a synthesis which presents a new way of doing business incorporating both new and old elements.

OFFLINE SHOPPING

ONLINE SHOPPING

CLICK AND COLLECT



But later on it will be challenged by the retailers who will be entering the market with better technologies and with new ways of doing business and that is precisely called as anti-thesis. Now as the time progresses these opposing forces will lead to a synthesis in the sense like the new business player is definitely going to be a mixture of thesis and anti-thesis which means it will combine the best of both the worlds whether it is a thesis or the dominant way of business which operated earlier or how the technology is changing they will definitely bring the best combination of that. I will give you an example to make you understand this let us say earlier you had offline retailing right when people were going to physical stores and were buying products and services.

Then came online retailing which gives you the heightened convenience of ordering products online and that too whenever you want whether you want to order product at 6 in the morning that also you can do and if you want to order products at 10 p.m. in the night that also you can do. Now offline shopping in a way can be seen as a thesis online shopping can be seen as a anti-thesis but what comes as the evolution happens is click and collect strategies which means you can do your orders online but you can go to the physical store and collect your products so this in a way gives you best of both the worlds while you are enjoying the convenience of placing orders online but you are also enjoying the benefits that only a physical store provides like immediate gratification which means you are going and picking up the products on the same day itself or let us

say even after an hour or something as far as the terms of your order placement are concerned.

Concentric Zone Theory

It is model developed by the sociologist Ernest Burgess in 1925 to explain spatial organization of cities.

As per this theory, urban areas are organized into a series of concentric zones with each zone characterized by different land uses, population densities and social and economic characteristics.

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Now the another theory which we are going to learn as a part of this module is concentric zone theory and this was proposed by Ernest Purgeas in 1925.

Now as far as this theory is concerned this basically looks at the organization of a city into a series of concentric zones and their characteristics are definitely looked at from the perspectives of the different land uses population densities and social and economic characteristics and this is how this theory further bifurcates a city into 5 different zones.

Central Business District (CBD): Innermost zone, commercial and economic hub of the city. Area is typically characterized by high population density and high land values.

Inner City: Second zone, surrounds CBD. Typically characterized by older buildings, lower income groups and higher crime rates.

Outer City: Newer, Sub-urban style development and middle-class populations



So, the first one is central business district which is considered as the innermost zone and also looked at from the perspective of commercial and economic hub of the city area is typically characterized by high population density and high land values. So, this in ways also indicates that if you want to own a retail store in this particular area that the rent is definitely going to be very higher because this is something which is more like a central heart of the city where you have a lot of people commuting or coming for shopping or you might also see other prominent or popular big retail establishment in the central business district right. Then when you get to inner city this is considered as the second zone and is surrounded by the central business district and this is typically looked at from the perspective of older buildings lower income groups and higher crime rates. So, in this case you might not see much of popular retail establishments or branded retail establishments coming in, but you might see a lot of unorganized retailers particularly operating in such areas.

Then when you get to outer city what you see is a newer suburban style development and a lot of middle class populations. Now this precisely also happens because a lot of people start living in such residential areas specifically middleclass population because of the low rent which this particular area provides.

The Suburbs: Residential areas, located further from the city, characterized by single family homes and a higher standard of living

Rural-Urban Fringe: Outermost zone in rural-urban fringe, area where rural and urban land uses intersect

And then you get to the suburbs which are residential areas located further from the city and are characterized by single family homes and a higher standard of living. Now the dots concerning the residential areas available at a lower rent can also be aligned with suburb areas. In today in various cities we also see a lot of builders kind of establishing affordable homes in suburb areas just because of the fact that the rates of the land are less there and they are able to offer property or residential houses to the customers at at least some reduced pricing as far as the central part of the cities are concerned.

But usually in such areas you might only see factory outlets or discount stores let us say you might find Decathlon in suburbs and that is precisely because it requires a huge space which is only available in suburbs and the other thing is it also helps them to reduce a lot of expenditures as far as the rent and other expenses are concerned. And finally you get to rural and urban fringe which is the outermost zone of the city and lies on the rural urban fringe which means it is more of an area where the urban area might end and the rural end might start right or it is more of an intersection point for them. So, as far as this is concerned you might not see a lot of customers visiting to the stores who are basically developed in these areas and precisely in such cases also you will see only a lot of unorganized retailers setting up their retailers.

Natural Selection Theory

This theory is also referred to as **Adaptive behaviour model**

Retail institutions that naturally adapt to changing environmental conditions only prosper and survive, only the fittest retail species survive

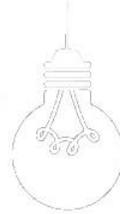
Capability and ability to adapt to environmental changes like varying consumer tastes, economic disturbances, competitive pressures, social and cultural trends determines the success of a retailer



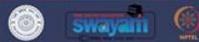
Now the last theory which we are going to discuss as a part of this module is natural selection theory. This theory is also referred to as adaptive behavioral model.

Now what this theory actually postulates is the fact that only the fittest retailers are going to survive in the market which means only those retailers will survive who have the capability and ability to adapt to the changing environmental facets like let us say if they are able to walk hand in hand with changing consumer preferences like or if they are able to kind of face the economic disturbances which happens in the country or if they are able to take account of the fact how competitive pressures are emerging and they also need to change concerning those or even how the social and cultural fabric of the country or a nation or the area in which they are operating is changing. So, the whole idea of this particular theory is understanding the fact that only the fittest is going to survive. In case a retailer is not able to adapt to the changing situations concerning the consumer preferences, consumer likings or how the economy is changing let us say if there is economic downturn it becomes very important for a marketer and a retailer to offer products which lie in the affordability of the customers during those events or let us say if there is a new competitor who has entered into the market with new technology then how you are going to face that or what is the strategy that you actually execute to reply to that competitor and still retain your customer segments and again how the social and cultural facets are changing in the broader dynamics of a nation. So, again I would sum up only the fittest retailer or who or who can keep up with the changing times is going to survive. Now we finally get to the most exciting element of this module which is extra food for thought.

FOOD FOR THOUGHT



Source: <https://giphy.com/PDishke>



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Extra Fodder for Thought: Firing Customers

[Bloomberg the Company & Its Products](#) | [Bloomberg Terminal Demo Request](#) | [Bloomberg Anywhere Remote Login](#) | [Bloomberg Customer Support](#)

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Business

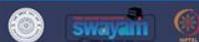
Sprint to Customers: You Are Fired

Sprint just kicked out a bunch of its own customers. Their offense? Calling Sprint's customer service a lot. If you've been one of this letter's recipient, please contact me.

By [Olga Kharif](#)

July 5, 2007 at 9:30 AM GMT+5:30

Source: https://www.bloomberg.com/news/articles/2007-07-04/sprint-to-customers-you-are-fired?in_source=embedded-checkout-banner



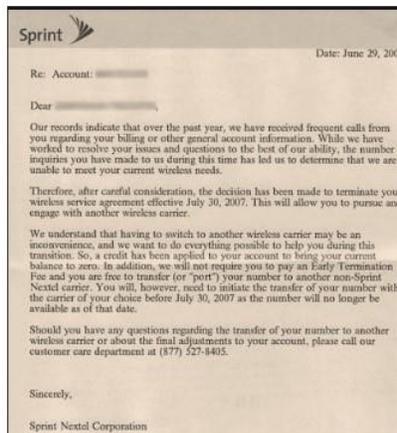
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I have already said it a couple of times that you might have not heard about the concept of firing customers, but you must have definitely heard about firing employees right, but there are a few examples of companies that have fired customers also in one such company Sprint. So, what happened with Sprint was they had a major chunk of customers who were calling to the helpline a couple of times rather more number of times than the company could handle and that too maybe for a lot of unnecessary reasons or which could be considered as counterproductive. So, the Sprint finally decided to fire

those customers as you can see in the news or the Bloomberg snippet it clearly says Sprint to customers you are fired Sprint just kicked out a bunch of its own customers their offense calling Sprint's customer service a lot right. Another way of looking at this is definitely a very important lesson which we retailers need to learn and that is see you all you definitely need to segregate your customers into profitable and non profitable customers. If you keep on serving your non profitable customers that is definitely not going to work they are neither going to contribute to your profits and will also keep escalating the cost as and when you serve them.

So, the solution does not lies in simply firing them the best way is to look at alternative strategies how things can be resolved like one way could be you can look at alternative ways of you know offering services to them like in this case one possible solution could have been the Sprint could have thought of started charging for calls if like after 3 calls you could be charged or let us say after 5 calls you could be charged. So, in this case that would have come across as one of the good solutions, but in other cases when you have realized that this is not going to work you can definitely have a way out of figuring out how such customers can be dealt with. See even if you connect the dots of that particular pass book automated machine that also indicates that it is a strategy to basically deal with customers who were coming to branch quite often, but were not contributing to the profitability rather they were taking away lot of the opportunity cost in terms of time of the officers which could have been spent on customers you know who could have been profitable for a bank.

Have a look at this letter sent to customers by Sprint Nextel:



Source: <https://nextup.wordpress.com/2007/07/06/sprint-fires-its-customers/>

So, this is the letter which was sent by the Sprint next tell to its customers. Our records indicate that over the past year we have received frequent calls from you regarding your billing or other general account information.

While we have worked to resolve your issues and questions to the best of our ability the number of enquiries you have made to us during this time had led us to determine that we are unable to meet your current wireless needs. Therefore, after careful consideration the decision has been made to terminate your wireless service agreement effective from July 30, 2007. This will allow you to pursue and engage with another wireless carrier. So, which means that they also gave them some time so that they can figure out and find out another service provider which could be open to providing services to them. They further write we understand that having to switch to another wireless carrier may be an inconvenience and we want to do everything possible to help you during this transition.

So, credit has been applied to your account to bring your current balance to 0. In addition we will not require you to pay an early termination fee and you are free to transfer or put your number to another non Sprint next tell carrier. You will however need to initiate the transfer of your number with the carrier of your choice before July 30, 2007 as the number will no longer be available as of date. Now this definitely can be considered as a very brave move by the Sprint next tell see. In a long run it is definitely going to be futile if you keep on serving customers who are not being profitable for you, but are only escalating your cost as I just repeated.

But the solution does not lies in straight away firing the best ways to figure out alternative strategies how this can be controlled or how you can decrease the cost for such customers and still keep them satisfied. But if there is no solution then companies indeed are forced to take such brave steps and as far as this particular case of Sprint is concerned it was all over the news at that time.

The screenshot shows the top of a RetailWire article. The header includes the RetailWire logo and navigation links: FRONT PAGE, DISCUSSIONS, RETAIL NEWS, RESOURCES, BRAINTRUST, MARKETING, ABOUT. The date is THURSDAY, 08/25/2022. A banner for 'The US TikTok Advertising Report' is visible, with a 'GET A COMPLIMENTARY PREVIEW' button and 'INSIDER INTELLIGENCE' text. The main article title is 'Sprint Fires Customers'. Below the title, it says '37 EXPERT COMMENTS' and 'DISCUSSION'. There are tags for 'CUSTOMER SERVICE', 'OPERATIONS', and 'SPRINT'. The date is 'Jul 12, 2007' and the author is 'by Tom Ryan'. A blue box on the right contains the text: 'Retailers and marketers are dealing with a continually shifting competitive landscape. Do they know your solution?'. At the bottom, there is a source link: <https://retailwire.com/discussion/sprint-fires-customers/> and a page number '21'.

You can also look at this snippet by retail wire which again mentions Sprint fires customers then the next one is by Cenet

The screenshot shows the top of a CNET article. The header includes the CNET logo and the tagline 'Your guide to a better future'. The article is categorized under 'Culture'. The main title is 'Sprint breaks up with high-maintenance customers'. Below the title, the text reads: 'Wireless carrier sends Dear John letters to customers who it says call the customer support line too often.' The author is 'Marguerite Reardon' with a verified badge, and the date is 'July 5, 2007 3:36 p.m. PT'. The article length is '3 min read'. Below the text, it says 'The squeaky wheel doesn't always get the grease.' At the bottom, there is a source link: <https://www.cnet.com/culture/sprint-breaks-up-with-high-maintenance-customers/> and a page number '22'.

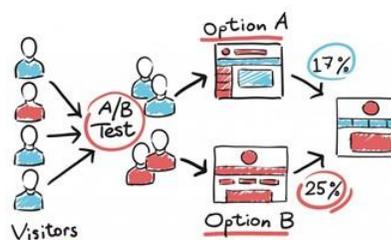
which also says Sprint breaks up with high maintenance customers. So, as far as this is concerned I would definitely urge you to go back and Google more about it and trust me this is definitely going to be very knowledge enriching for you. Now finally, we get to another exciting element which is learning something new

Learning Something New



A/B Testing:

A/B Testing which is also known as split testing is used a mechanism to check which variations of campaign perform better.



Source: <https://blog.hubspot.com/marketing/how-to-do-a-b-testing>, <https://diag.intravel.com/airline-ab-testing/> (Source for the Image)



and in this particular module we will be learning about A B testing.

Now A B testing is also known as split testing it is basically used as a mechanism to check which variations of campaign perform better. Now you might be wondering how this works I will explain you this with an example of an email. Let us say you want to send email to your prospective customers and this email could be related to pitching out to them for buying your electric vehicle. Like we will use subject line to understand A B testing. Now one subject line could be if you want to increase your fuel bills by 50 percent open this mail.

Other subject line could be an exciting electric vehicle that helps you save. Now we will send let us say we might decide to send 1000 mails to a sample group and then we can see which subject line basically emerges as more catchy and stimulates people to open that mail. Now this is an example of A B testing where we are trying to test which subject line is much more effective and efficacious with respect to making sure that more people open mails. So this is one very small facet of A B testing which I have discussed this can also be done with respect to other allied factors as far as digital marketing is concerned. This can also be done with respect to figuring out which product features customers want and which they don't want.

This can also be done with respect to figuring out which shape of the product is more appealing to the customers. So even in this case I would appeal you to go and read more about A B testing and definitely concerning digital marketing A B testing is very popular. So as far as this module is concerned I thank you for now and when we will be moving in next session we will be definitely learning a lot more exciting things. So wishing you a good day as of now and looking forward to meeting you soon in the session 3.