Module -3

Retailing strategy for setting up Retail organisation and planning

Retail market strategy:

- Retailing strategy outlines the mission & vision
- It is a systematic plan which provides the retailers overall framework for dealing with its competitors, technological and international movements.
- Strategic management actually is of recent origin as far as retailing is concerned.
- Retailing strategy sets the tone for creating sustainable competitive advantage through the optimization of available resources.

Strategic retail planning process:

Step 1: Define the business mission

Mission statement-broad description of a retailer's objectives and the scope of activities it plans to undertake.

1. What business are we in?

2. What should our business be in the future?

3. Who are our customers?

4. What are our capabilities?

5. What do we want to accomplish?

Step 2: Conduct a Situation Audit

Situation Audit-and analysis of the opportunities and threats in the retail environment and the strengths and weaknesses of the retail business relative to its competitors

Market Factors

• Market size – large markets attractive to large retail firms

• Growing markets – typically more attractive than mature or declining

• Business cycles – retail markets can be affected by economic conditions – military base towns

• Seasonality – can be an issue as resources are necessary during peak season only

Competitive Factors Barriers to Entry Bargaining Power of Competitive Large Vendors Rivalry Customers Threat of Substitution

Environmental Factors

• Questions for analyzing

• New developments or changes -- technologies, regulations, social factors, economic conditions

• Likelihood changes will occur

• Key factors determining change

• Impact of change on retail market and competitors

Strength and Weakness Analysis

• Indicates how well that business can seize opportunities and avoid harm from threats in the environment

Management Capability:

Capabilities and experience of top management Depth of Management--capabilities of middle management Management's commitment to firm financial Resources: Cash flow from existing business Ability to raise debt or equity financing Operations: Store Management Capabilities Overhead cost structure Management capabilities Quality of operating systems Quality of sales associates Distribution capabilities Commitment of sales associates to firm Management information systems Loss prevention systems Locations Inventory control system Merchandising Capabilities: Knowledge and skills of buyers Customers Relationships with vendors Loyalty of customers Capabilities in developing private capabilities

Step 3: Identify Strategic Opportunities

• After completing the situation audit, the next step is to identify opportunities for increasing retail sales.

Step 4: Evaluate Strategic Opportunities

• Evaluate opportunities that have been identifies in the situation audit the evaluation determines the retailer's potential to establish a sustainable competitive advantage and reap long-term profits from the opportunities being evaluated.

Step 5: Establish Specific Objectives and Allocate Resources

• Establish a specific objective for each opportunity

• Three components:

1. Performance sought Included a numerical index which progress may be measured

2. Time frame within which the goal is to be achieved

3. Level of investment needed to achieve the objective

Step 6: Develop a Retail Mix to Implement Strategy

Develop a retail mix for each opportunity in which an Investment will be made and control and evaluate performance

Step 7: Evaluate Performance and Make Adjustments

• Evaluate the results of the strategy and implementation program

• If the retailer is meeting or exceeding its objective changes aren't needed but if the retailer fails to meet its objective, reanalysis is required

• The conclusion would result in starting a new planning process, including a new situation audit

Financial strategy:

- Finance is the backbone of any successful business, retiling is not an exception
- Be it manufacturing, whole selling or even retailing, without finance no business can survive for long.
- Retail firm requires finance to run their business and meet day to day requirements.

- For the success of a business, there should be continuous movements of funds in and outside the firm.

Retail Cash Flow Management

- It is the procedure of monitoring, analyzing, and adjusting the cash flow that comes through selling merchandise.
- For retail business managing cash is to avoid shortage of cash
- The larger the gap, chances are of failure
- Optimum balance is required
- Thus, effective cash flow management is imperative at all stages

A retail firm may be profitable one as per financial statements but in actual it is unable to pay the bills on time

Budget and Budgetary Control

- **Retail Budget**: A retail budget is a financial plan or blue print of overall financial transactions that shows how the resource will be acquired and used over a period of time.
- **Budgetary Control**: It is the use of budgets as a means of controlling financial activities.
- **Budgeting**: Budgeting refers to the management's action of formulating budgets to facilitate various departments to operate efficiently and economically.

Income Statement

- It is the statement of the profit earned or loss incurred during an accounting year, usually a month, a quarter, or a year.
- This represents a summary of a retailer's revenues and expenses over a particular period of time such as April1, 2010 to March 31, 2011.
- A profit or loss account or an income statement has the following components:
    - **Net Sales**

- **Cost of Goods Sold**
- **Gross Margin**
- **Operating Expenses**
- **Net Profit**

Asset Management

- Each retailer has assets to manage and liabilities to control.
- It is the retailer's ability and efficiency how effectively he manages the inputs and outputs.
- Balance sheet is a statement that reports the values owned by the retail firm and the claims of the creditors and owners against these properties.
- In an organization, balance sheet is known by different titles (name). These are:
  - Statement of assets and liabilities
  - Statement of resources and liabilities
  - Statement of financial position
  - Statement of financial soundness
  - Statement of assets, liabilities and owners fund etc
  - Balance sheet/ General balance sheet
  - Statement of stocks/position

Site and locations:

Retail Location:

Location is the most important ingredient for any business that relies on customers. It is also one of the most difficult to plan for completely. Location decisions can be complex, costs can be quite high, there is often little flexibility once a location has been chosen and the attribute of location have a strong importance on retailers overall strategy.

Importance of Location Decision:

Location is a major cost factor because it:

- Involves large capital investment
- Affects transportation cost
- Affects human resources

Location is major revenue factor because it

- Affects the amount of customer traffic
- Affect the volume of business

A location decision is influenced by the flow of pedestrian and vehicular traffic, which determine the footfalls in a retail store. Footfalls refer to the no. of customers who visit a store in a defined time period.

Levels of Location Decision and its Determining Factors:

1. Selection of a city:

Factors to be considered for selection of a city:

- Size of the city's trading area: A city's trading are is the geographic region from which customers come to the city for shopping. A city's trading area would comprise it suburbs as well as neighbouring cities and towns. Cities like Mumbai and Delhi have a large trading are as they draw customers from far off cities and towns.
- Population or population growth in the trading area: A high growth in population in the trading area can also increase the retail potential.
- Total purchasing power and its distribution: Cities with a large population of affluent and upper middle class customers can be a attractive location for stores selling high priced purchasing power and its distribution among a large base of middle class is contribution to a retailing boom around major cities in India.
- Total retail trade potential for different lines of trade: A city may become specialize in certain lines of trade. Moradabad has become important location for brassware products, Mysore-silks.
- The retailer also consider, number, size, quality of competition before selecting a city.
- Development cost

Margin Free Market, the Kerala based retail chain (grocery and toiletry product targeted middle and lower class) located 250 stores in small towns in Kerala.

II. Selection of an Area or Type of Location within a city.

Evaluation of the following factors required:

- Customer attraction power of a shopping district or a particular store(commercial street-Bangalore, Chandni Chowk in Delhi)
- Product lines carried by other stores, number of stores in the area.
- Availability of access routes- There should not be traffic jam and congestion
- Nature of zoning regulations: Retailers should examine the plans of zoning commissions and municipal corporations regarding the development of shopping centres, residential areas, flyovers.
- Direction of the spread of the city. For ex. Mumbai's subarbs and Navi Mumbai are growing at a fast rate

III. Selection of a specific Site:

1. Adequacy and potential of traffic passing the site: The volume of vehicular traffic and pedestrian shoppers who pass by the specific site shoud be assessed since they represent the potential customers.
2. Ability of the site to intercept the traffic following past the site. The vehicular or pedestrian traffic moving past the site would be attracted only if it represents the segment the store is targeting.
3. Complementary nature of adjacent stores: a store selling school uniforms would have greater potential if adjacent stores sell school books, stationary etc.

Type of Retail Location:

1. Free standing location:

Where there is no other retail outlets in the vicinity of the store and therefore depend on its own pulling power and promotion. Dhabas on highways.

2. Neighbourhood stores:

Located in residential neighbourhoods and serve a small locality. They sell convenience products like groceries.

3. Highway stores:

Located along highways or at the intersections of two highways and attract customers passing through these highways. Fast food restaurants, Dhabas with good parking facilities.

4. Business associated location:

These are locations where a group of retail outlets offering a variety of merchandise work together to attract customers to their retail area but also compete against each other for the same customers.

This can further be classified into two:

a) Unplanned business districts

An unplanned business district is a type of retail location where two or more retail stores locate together on individual consideration rather than on the basis on any long-rang collective planning. We may find 4-5 shoe stores, 3-4 medical stores in a cluster, but no grocery store. Connaught place in New Delhi

i) Downtown or central Business District: A CBD usually has a trade area that varies according to the size of the city or town. CBD s in major metro like Delhi, Mumbai even draw customers from far off places. In major metros like Delhi and Mumbai we find two or more CBD's each serving different segments. Commercial street-Bangalore, Chikpet in Bangalore Chandni chowk –Delhi.

ii) Secondary Business District: They are composed of an unplanned cluster of stores often located on a major intersection of a city. Koramangala in Bangalore.

iii) Neighbourhood Business District: Stores located in Neighbourhood business district form a small cluster and serve neighbourhood trading area. (Cities and towns)

iv) Suburban business District: Stores located on the town's periphery have lower rents, often rely on traffic generated by the downtown and may sometimes offer parking facilities. The malls in Gurgaon near Delhi are good examples.

b) Planned Shopping Centers

A planned shopping centre consists of a group of architecturally owned or managed stores, designed and operated as a unit, based on balanced tendency and surrounded by parking facilities.

Regional shopping centre malls:

Regional shopping centres or malls are the largest planned shopping cantered; often they are anchored by two or more major department stores, have enclosed malls, serve a large trading area and have high rents.(cross roads in Mumbai, Ansal Plaza in Delhi, Spencer Plaza in Chennai, Metropolitan Mall in Gurgaon.

Neighbourhood/community Shopping centre:

Usually have a balanced mix of stores including a few grocery stores a chemist, a variety store, and a few other stores.

Specialized Markets: In India most of the cities have specialized market famous for a particular product category. For ex: Chennai- Go down street is famous for clothes, Usman street for jewellery, T. Nagar for readymade garments.

Periodic Markets: Another peculiar type of market found in India is the periodic market, which is established at particular places on a particular day in a week. Most of these markets operate in evening hours. These markets are mostly associated with the name of the day it is held on.

Type of consumer Goods and location Decision:

1. Convenience Goods –low price, purchased frequently- convenience stores located in central business districts, such as low priced, ready to wear have a limited mobility to generate their own traffic. eg. *Subhiksha has an expansion strategy of setting up one outlet within every 3-4 km.*
2. Shopping Goods- involve more intensive selling effort – suits, automobiles and furniture- *shoppers stop and Westside prefers to locate in Central business districts or major secondary business districts.*
3. Speciality Goods- imply products with high unit price, brought infrequently, require special effort – may use isolated locations because they generate consumer traffic.

Trading Area:

A trade area is a contiguous geographic area from which a retailer draws customers that account for the majority of a store's sales. A trade area may a part of a city, or it can extend beyond the city's boundaries. A trade area can be divided into 2 or 3 zones.

Trade Area Analysis: It is necessary to estimate market potential, understand consumer profile, competition etc. GIS (Geographical Information System – combine digitized mapping with key location data) used for this purpose. A saturated trade area offers customers a wide variety of merchandise, which also ensures impressive profits for retailers in the market.

Site Selection Analysis: A retailer has to consider the following factors while selecting a site.

1. kind of products sold:

   *convenience goods – quality of traffic most important – large window display area is usually a better site.

   * Shopping Goods – quality of traffic most important-The emergence of several apparel factory outlet within a short stretch on the on the Delhi Jaipur highway is driven by this factor

   * Speciality Goods- may desire to locate close to the shopping goods store.

2. Cost Factor in Location Decision: Traditionally retail community own the place. Space cost (combination of rent, utilities, leasehold improvements, general decoration, security, insurance, and all the related cost of having a place to conduct business operation) is important factor.

3. Competitor location: Intense competition in the area shows that new businesses will have to divide the market with existing business.

4. Ease of traffic flow and accessibility (studying flow of traffic, nothing one way street, street widths, and parking lots)

5. Parking and Major Thoroughfares: The way parking lot is laid out, the direction of the travel lanes and spaces, landscaping. The ideal ratio for food stores is in the magnitude of 7-8 cars per 1000 square feet of food store.

6. Market Trends: Discussions with the business owners and officials are a good source of information. Make use of information available through the chamber of commerce.

7. Visibility: It is important when a shopper is trying to find the store for the first or second time. The question relevant to this factor is: who will be the store's neighbour, what will be their effect on store sales, how much space is needed.

Selection of a particular shopping centre or Market Area:

The following consideration influence the selection of a particular shopping centre:
1. Merchants' Association: can strengthen business and save money through group advertising, insurance plans and collective security measures.

2. Responsiveness of the landlord: Prospective retailers expect landlord's acknowledgement on the following issues: placement and size of signs, maintenance and repairs, and the adjacent retail space.

3. Zoning and planning: The zoning commission will provide the latest "mapping" of the retail location and surrounding area under consideration. Are there restrictions that will limit operation; - will construction or changes in city traffic or new highways present barriers.

4. Leases: Before entering into any lease agreement, retailers should collect information on future zoning plans and decide how long it will be viable to run business at a particular location.

5. Building Layout: Age and condition of the building, adequacy of all mechanical system, remodelling needs, storage availability, security needs, restrictions on alterations and improvements to the property.

Location Assessment Procedures:

To determine the best possible retail location for the prospective retail outlet.

1. Checklist Analysis: simple framework regarding geo-demographics, shopping behaviour, competition, cost and accessibility to the particular site.
2. Analogue Analysis: It attempts to predict the economic performance of a particular site by assessing its potential against the already running stores.
3. Financial analysis: regarding development and operation of an outlet, comparing the development cost, capital investment on site, building and variable cost against expected returns.
4. Regression Modelling: developed around a no. of determinants such as demographics, accessibility, competitive environment, trade area characteristics, to estimate the potential turnover of the prospective outlet.
5. Retail Area Development: There are 4 important interest groups that can work individually and in partnership to overcome challenges and obstacles in the

development of new retail markets. 1. Public 2.Developers 3. The Government 4. Retailers.

Objectives of good store design:

1. Implement the retailers' strategy

Primary objective: to implement retailers strategy • Design- consistent and reinforce the retailers strategy by meeting the needs of the target market and building a competitive advantage.

E.g. Sam`s-price sensitive- floor design and racks – metal and concrete to reinforce the brand image • Flooring and shelving also affect retailer's image: glass-elegance

2. Influence the customer buying behavior

Store design- should attract customers, enable them to locate merchandise, keep them in the store for as long time, motivate them to make unplanned, impulse purchase and provide them with a satisfied customer experience. Buying behavior-influences store design: rise in nuclear families-limited time

E.g. P&G: "first moment of truth"- first 3-7 seconds, customer notices an item on the store shelf. Mkt research – customers do not walk down one aisle and up the next. Park at the end of aisle-walk partway to pick the product and return to the cart. Hence puts its best selling brands at the middle of the aisle

3. Provide flexibility

Dynamic business- what may work today may not be applicable tomorrow- need to change the merchandise mix- need to change layout, attempt to design stores with max flexibility. Two forms: ability to physically move and store the components, and the ease with which components can be modified ex. Book stores

4. Control design and maintenance costs

Cost of implementing the store design and maintain the store appearance, Free form design – can encourage the customers to explore and increase sales • More lighting- expensive jewellery and other merchandise • Good lighting- can make the merchandise look better and increase sales • Store design – affect labour costs- traditional dept stores with diff depts. – comfortable shopping, but require one person constantly to provide service

5. Meet legal requirements

The store design should fully comply with the standards set by civic authorities.

Human Resource Management:

- HRM includes recruitment and selection of appropriate employees at various levels.
- The main objective of HRM is to help an organization to meet its strategic goals by attracting, maintaining and managing them.
- HRM basically is the organizational function that deals with issues related to people such as compensation, hiring, performance management, organization development, safety, wellness, benefits, employee motivation, communication, administration, and training.

Objectives of HRM in Retailing

- To serve as standards against which performance is evaluated.
- To promote harmony among human efforts & voluntary co-operation.
- To fulfill the demand of retail industry.
- To boost up survival-integrated activities such as employees' recruitment, selection, induction, training and development, supervision and compensation in the organization.
- Right person at right position

HR Functions in Retailing

1. Job analysis and job design
2. Recruitment and selection of retail employees
3. Employees' training and development
4. Performance management
5. Compensation and benefits
6. Labor relations
7. Managerial relations

Supply chain management and logistics

- It is a network of retailers, distributors, transporters, storage facilities, and suppliers that take part in the production, delivery, and sale of a product that convert and move the goods from raw materials to end users.
- It describes the processes and people involved in converting and conveying the goods from raw materials to end consumers.

- The activities close to the raw material stage are known as ***upstream activities*** and activities between the manufacturer and end consumer are ***downstream activities***.

Parts of a Supply Chain

1. **Supply:** It focuses on the raw materials supplied to manufacturing, including how, when, and from what location.
2. **Manufacturing:** It focuses on converting these raw materials into finished products.
3. **Distribution:** It focuses on ensuring these products reach the consumers through an organized network of distributors, warehouses, and retailers.

Objectives of SCM

- To provide an uninterrupted flow of goods and services.
- To meet quality criteria.
- To reduce the inventory investment to the extent possible.
- To offer high customer service, low inventory management and low unit cost.
- To ensure quick responsiveness to the customer changes.
- To select and maintain competent suppliers.

Components of Retail Supply Chain Management

- Planning
- Source
- Procurement
- Sell
- Return/Exchange

Information systems in retailing:

Radio frequency identification or RFID

Is a new tracking technology that involves small tags that emit distinct signals. Retail business owners can use remote scanners to read RFID tags placed on individual products, enabling them to record a variety of information, including quantities of various stock items and their precise locations.

Benefits of RFID:

1. Inventory Shrinkage (Shrink) Reduction

• Track retail items between point of manufacture or purchase from supplier and point of sale.

• Real-time notification of security when RFID tagged items leave area without payment

• Competitive advantage – saving money on theft allows to offer product at lower prices

2. RFID Smart Labelling

• Monitor unattended inventory

• Automatic item identification on mixed pallets

• "Smart Shelf" systems – designed to provide real time tracking and locating of tagged items on shelves

• Shipping and Receiving applications

3. Shelf Stocking

• Real-time notification of out-of –stock items

• Improvement of product replenishment

• Retention of consumers who may turn to competitors if inventory item is out-of-stock

• Automated charting and tracking for improved product forecasting

4. Check-out Process

• Reduce time spent in line

• Reduce labour/time cost of employees

• Streamline check-out process with ability to scan multiple items and pay for them all at once

5. Overhead Reduction

• Track product shipping and receiving from point-to-point automatically versus manual tracking to save time and labour cost

• Know how many units of inventory or on-site via automated RFID system versus manual process, saving labour and time cost

• Efficiency in error reduction reduces manual labour cost