

Retail Management
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Lecture – 14
Retail Institutions by Store-Based Strategy Mix – Continued

Hello everybody, welcome to this NPTEL Swayam course on retail management. This is Dr. Swagato Chatterjee from VGSOM, IIT Kharagpur, who is taking this course for you. We are in week 3 and we are talking about different types of retailing formats. So, in the last class I discussed about food-based retailing and there are different kinds of food-based retailing that is available in various countries including India.

And we also talked about a special case in India which is much common because India at the end of the day there are lots of agricultural produce that we have and we need a specific type of retailing which can connect the agricultural farming market and customers. Now, in this particular lecture, we will discuss about general merchandising or general format of retailing that means why you are trying to keep all different kinds of products.

Not only food kind of products, all different kinds of products which can be electronics, which can be apparel, which can be FMCG products, durable products, sometimes as well so in your store, so what kind of different formats are there. So, under that as I told you before that there are multiple, almost 6-7 different kinds of options are there.

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Specialty Store Strategy Mix

- **Location**
 - Business district or shopping center
- **Prices**
 - Competitive to Above average
- **Atmosphere & Services**
 - Average to excellent
- **Merchandise**
 - Very narrow width and extensive depth of assortment; average to good quality
- **Promotion**
 - Heavy use of displays Extensive sales force



The first option is called speciality store. So, I discussed about format blurring in the first lecture of this particular week where I told that there are stores which are trying to bring in lots of different kinds of products which comes under the overall broad umbrella. For example, it is Bata; their broad umbrella is shoe and it is leather products. Initially they thought that okay it is a shoe company.

And then they thought that no, no, we are not shoe company, we are a leather product company, so anything that comes under leather will come into the picture. And then they thought that no we are neither shoe company nor leather company, we are accessories company. So anything which is not your primary dress, anything which is add-on on your dress, I will sell it. So that kind of approaches are taken, but these are basically speciality stores.

You define a goal, you define what you are, and then you try to produce or you try to keep your products accordingly. Generally, the locations are in shopping malls, shopping centres or business district. Business district means like let us say it is in the city centre. So, city centre might be business district or let us say sometimes if there is a Park Street in Calcutta, which is a place where lots of shops are there and lots of offices are there, so that you can consider as a business district.

So it can be locality where businesses happen more, neighbourhood is less that means residential complexes are less or residential houses are less, businesses are more, so that can be considered as a business district that is number one. Number two is that these are the places where these specialty stores might be there or they might be there also in shopping centre. Their prices are competitive to above average.

So probably there is a wide range, it is not very high, above average means high, so competitive means not low. Competitive means value for money. So from value for money to above average, so mid-range pricing. The atmosphere is average to excellent. So slowly if you remember in the last in all the food-based retailing where the atmosphere is low or why it is low or below average atmosphere in food-based retailing?

Food-based retailing the atmosphere is below average and etc., or the services are average because you it is a common thing that you purchase. It is a day to day purchasing thing that

you do, so you do not have to give them specialized care so that they will come to your store. If they find your store to be convenient, if they find your store to be competitive in terms of prices and product availability, so then they will come to your store.

So those are the major pointers because that is something that you buy in a day-to-day life, but the specifically the store is not something where you will buy in your day-to-day life that is why it is specially. When the speciality needs come up then all you come and buy from here. So if that is the case, then I have to rely on atmosphere and services when I am trying to create my store. The merchandises are very narrow width that means I do not keep lots of different kinds of products.

I define my goal and based on that I keep some products, but extensive depth whatever, so for example shoe Bata has different kinds of shoes but all the shoes. Giving the definition they are probably keeping certain other products like let us say belts or jackets or this and that which are cross selling kind of products, but the overall definition is shoes. So, the overall definition is shoe I will have different kinds of shoes and average to very good quality. The promotions are heavy use of displays, extensive sales force.

These are the two promotion activities. We use heavy use of displays that means broad I would say it can be digital display, it can be non-digital display because visuals are something that attracts in case of speciality stores and you also use sales force that means the persons who are employed here are taught how to push, how to show a product, how to make sure that possible. How to give exact nudge such that a potential sales gets converted to actual sales. So, these are speciality stores that you have and these are about general merchandising.

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Traditional Department Store Strategy Mix

- **Location**
 - Business district, shopping center or isolated store
- **Prices**
 - Average to Above average
- **Atmosphere & Services**
 - Good to excellent
- **Merchandise**
 - Extensive width and depth of assortment; average to good quality
- **Promotion**
 - Heavy ad and catalog use; direct mail; personal selling



Then comes the traditional department store. So traditional department store one of the examples is like Spencer's. Now you might ask that why the Spencer you are considering it not to be a food-based store. So, that depends on what you are putting in the merchandise. So, if you see that one of the Spencer stores has lots and lots of grocery products or lots of food-based product then I would consider them to be a food-based store.

But if you go to a Spencer store you will see that the food item will probably be 20% of the whole stores or 20 will be too low, 30% of the whole store's activity. So, if that is the case, then probably I might not consider it to be a food-based store. So, the location is again business district or shopping centre or isolated store. So, these are prominent locations basically. Average to above average prices.

Atmosphere is good to excellent and merchandise is extensive depth and extensive width, so this is something which is different from the speciality store. Speciality store will have extensive depth, but width will be not there. Width means what different kinds of product categories. Depth means what within a product category it has different kinds of products. Like in speciality store Bata they have one product category which is shoe majorly, on the other hand Spencer will have different product category.

It can be food and beverages, it can be kitchenwares, it can be home care items, so there are different categories. And within those different categories, it has lots of depth also. So within kitchen care items, there will be lots of different kinds of products; some will be electronics, some might not be electronics, some will be let us say cloth based, some will be cotton based,

etc. So that advantage is there and the second is that quality is again good quality products similar to let us say Bata.

Bata also has good quality products, these guys will also have good quality products. Both speciality store and traditional departmental store quality wise they will be good. Again, they will focus on heavy ad and catalog use, direct mail, personal selling. So, these are two things that we are coming in. So heavy ad and catalog use is something that is there, but they will also do direct mail that means they will send you emails or they will sign and send you.

At one point of time, they used to send letters to the subscribers who are members of this particular loyalty programs. They will send letters to their house with these particular month's offers or particular week's offers or they might send you email at least or nowadays they send you push notifications or SMSs and they will also do personal selling. Personal selling means when you come to the product, they will attach a person who will help you to buy products.

And while helping you to buy products, while cutting your merchandise that you are picking up, they will also suggest some products which might be required and this can be also very much product category centric. When you are buying a grocery item, they might not put a person, but when you are buying let us say some frozen food products; now frozen food products are generally heavily brand sensitive.

So, people who know which brand to buy they will go and buy, but there are other people who are trial, you are coming in here in the trial basis. And these people who are the personal sellers will want to ensure that you pick up something as a trial basis because only trials will lead to repeat purchase. So, that is what the personal sellers will be standing, you will see a lot in a traditional departmental store.

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Full Line Discount Store Strategy Mix

- **Location**
 - Business district, shopping center or isolated store
- **Prices**
 - Competitive
- **Atmosphere & Services**
 - Slightly below average to average
- **Merchandise**
 - Extensive width and depth of assortment; average to good quality
- **Promotion**
 - Heavy use of newspapers; price-oriented; moderate sales force



Then comes a full line discount store. Full line discount store means everything is in a discount as simple as that. So, again their location are prominent locations, majorly isolated location. So unlike business district, so though I have written here business district is not what they are generally located, they are mostly located in isolated stores, a little bit away from both business places and residential places. Prices are competitive. Atmospheres are below average probably.

Merchandise is extensive width and depth and average to good quality. So, same thing, but here the prices are low, services are low; there the prices are high, services are high. Heavy use of newspapers, price-oriented, moderate sales force. So they have sales force, but price oriented. So, only those products which will give them higher profitability or margin to the company, they will put a personal seller there, not all other products they will put a personal seller. So, these kinds of stores you can see like Walmart is the example.

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Variety Store Strategy Mix

- **Location**
 - Business district, shopping center or isolated store
- **Prices**
 - Average
- **Atmosphere & Services**
 - Below average
- **Merchandise**
 - Good width and some depth of assortment; below-average to average quality
- **Promotion**
 - Use of newspapers; self-service



Next type of stores are variety stores. Variety stores is again it is not very common in other parts of the world. In traditional malls which are older ones, means which have a long history of retailing this variety stores will come up. Like even in India variety stores, we will see in the older markets of various towns or cities, not in the upcoming markets. Let us say you will not say a variety store in a retail mall, but you will see a variety store in a business district which is traditionally a market let us say.

So, locations are majorly business district or less rather than isolated store. Prices are average and atmosphere is below average. So, basically you do not see that the atmosphere is good. Good width and some depth of assortment. It is not that you will have lots of different kinds of product, the width is there. There might be variety stores by definition they might have lots of different kinds of product categories, but the depth will not be there much. And the quality will be more or less average to below average. They will also use newspapers and self-service facilities for your promotion.

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Off-Price Chain Strategy Mix

- **Location**
 - Business district, suburban shopping strip, or isolated store
- **Prices**
 - Low
- **Atmosphere & Services**
 - Below average
- **Merchandise**
 - Moderate width but poor depth of assortment; average to good quality; low continuity
- **Promotion**
 - Use of newspapers; brands not advertised; limited sales force



The next one is called off-price chain strategy. This is something very important and there are two types of strategies that I will talk about. One is called off-price chain strategy and another is called basically factory outlet. So, these are related strategies. What is an off-price chain strategy? Again, they are located separately, mostly in a suburban shopping strip rather than urban, this is also different, and also probably in an isolated location.

The prices are low. The atmospheres are below average. Merchandise is moderate width, but poor depth of assortment. So not very depth is available. Quality is average to good, but continuity is low. So there might not be lots of, you might not say reliable, reliability of the quality will not be there. So, what are these off-price change store basically?

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Off Price Retailing Strategy (1 of 2)

- Pay vendor quickly with no promotional allowances, cooperative advertising funds, chargebacks, or markdown monies
- Do not promote brand name so as to anger department and specialty shops which are vendor's traditional customers
- Buy all of vendor's excess inventory, cancelled orders, returns regardless of color, size or style distributions



So, what they do is that they buy in bulk from the inventory. So, they go to the manufacturers and they say that okay whatever inventory that you have I will buy it in bulk. So, manufacturers sell their products whichever are produced high, produce higher in volume but not sold in a certain price in the market through the normal retailing chain. They will basically sell those products that means basically almost about to expire product or let us say too much that had been produced those kinds of products.

They will sell it through off-price retailing. Now see in a production context if you produce a lot and if you cannot store those products or if you cannot sell it at a later time period, then the value of the products will go down. For example, you know that this particular jersey which is let say Nike has produced, Nike jerseys will be sold for India's jerseys, let us say India's World Cup jerseys will be sold till probably the World Cup ends or till India is there in the World Cup.

Once India goes out of the World Cup that particular jersey will not sell because the new jersey will sell or the value of that jersey will come down a lot. Now, if Nike knows that, so Nike has produced let us say 1 lakh jerseys and by estimation and etc. by or because India went out or for whatever reason, they found out that only 40,000 or 50,000 jerseys will basically sell at a higher price that is all my demand.

If 1 lakh jerseys are there and only 50,000 sells, then what happens with the rest? If I cannot sell it off, then I have two choices; either I reduce the price of the jerseys within the time period so that all my 1 lakh gets sold. But that might give you less number of revenue in an overall sense, let us say 1 lakh into price one and 50,000 into price two, if price two is more than twice of price one then the by selling 50,000 you are making more profit and often that is the case.

The price two for which only 50,000 will purchase and price one for which all the 1 lakh people will purchase, price one will be lower than half price two. And if that is the case, then you might have lesser revenue by selling the whole 1 lakh. You might want to stick back to 50,000 and sell it at price two. But the question comes up is what will you do with the rest 50,000? You cannot sell them in a Nike's normal stores or all those stores where Nike kind of I would say products are sold.

So if you cannot sell them in your traditional retailing line, then you have to unbranded them, you have to remove the Nike tag and sell the same quality product with not having the brand name on it through this off-price retailing strategy. So here what you do is that you pay the vendor quickly with no promotional allowances, cooperative advertising funds, chargebacks or markdown money.

As a Reject Shop you buy in bulk from the vendor and you also remove the tag names. The Reject Shop also removes the tag names and brand names so that the original retails stores of the manufacturer or original retail chain of the manufacturer does not get affected. So, you remove all the tag names and then sell it at a throwaway price because you have bought it also at a throwaway price, the Reject Shop has also bought it.

Now why will a customer come in a Reject Shop because he knows that I am getting the best quality products if I have the way. If I know how to gauge which product is good and which product is bad, then I will get a good quality product at a throwaway price. The fact that I can gauge that is something that I can play as in my advantage. So, buy all of vendor's excess inventory, cancelled orders, returns regardless of colour, size, style distribution that is the strategy that the Reject Shops or off-price retailers decide.


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Off Price Retailing Strategy (2 of 2)

- Pay 10 to 20 percent of vendor's traditional wholesale \$500 jacket purchased for \$50 and sold for \$100; versus sold for \$250 less allowances
- Can also arrange for vendor to produce special goods for off-price retailer to reduce loss on fabrics, and to keep subcontractors busy

① Inventory of finished goods
→ high quality

② Inventory of resources
→ low quality
→ not sold
→ special lower quality products for off price market
→ raw material



So pay 10 to 20% of vendor's traditional wholesale jacket, so 5,000 dollars jacket you are paying 50 dollars to the vendor. Let us say he is the jacket manufacturer. He sells it in general in 5,500 dollars, you are paying 50 dollars. And then this 500, market price is 500 dollars,

you are selling it to the customers at let us say 100 dollars. So, if you are selling it for 100 dollars, then you are making 50 dollars profit out of it and the customer is very happy.

If he can gauge the quality, he can buy a 500 dollars jacket at 100 dollars or you can do another thing. You can also sell it at 250 dollars less allowances. So, you may not give any kind of allowances to the customers. So you can take any **(()) (19:40)**. So, at the end of the day, you are selling it to the customers at a lower price. Customers are happy provided they can gauge the quality because quality is not something which is consistent in this off-price retail, but they will get it at a better advantage.

So that can also arrange for vendor to produce special goods for a price retailer to reduce loss on fabrics and to keep subcontractors busy. Sometimes what happens is that the vendors that in this particular case the manufacturers have taken up, so let us say they have raw materials left or they are contracting with the raw material I would say supplier who said that okay I will not supply less than X quantity.

Let us assume that I produce a Nike or Adidas, let us say Nike and I buy cotton, top quality cotton from a particular vendor. Now that vendor say that see I will not sell you less than let us say hundred 100 meters or say less than 10,000 meters of cotton. So, if you want or less than x metric ton of cotton, that is the minimum that you have to buy, then the **(()) (21:09)** starts. But Nike is limited producer, Nike is not a mass producer. They think that what will I do with the rest?

I can produce X, from X I might probably require X by 3, the rest two third of the X amount what will I do? So that is reduced loss on fabrics, I have bought a lot of fabric, what will I do with that fabric? Or let us say in another case there will be a contractor who is a labour contractor. He says that okay I will give you 10 labourers for a month. Nike is thinking I would require 3 labourers in a month. What will I do with the rest of the 7, but the minimum I have to take is 10 laborers for a month.

So to keep the subcontractors busy or to make use of the rest of the raw materials which is left sometimes they come with a deal with off-price sellers that okay forget about thing I have not produced anything for my inventory, but for your appraise I will produce separately. So,

in one case if there is an inventory of finished goods which is not sold that is the number one case that I am saying that which is inventory of finished goods which is not sold.

And in another case, there is inventory of resources, I have not created the finished goods yet; resources can be human, resources can be raw material. Now, what will I do with these? So I can create a special probably lower quality products for off-price market specifically so that these things get used. So, the first one is of high quality because this was not originally made for off-price market, this was originally made for a normal traditional market which I am selling to a price market, but this is probably lower quality.

Now I as a customer, sometimes I am at a fix, I do not know whether the product that I am actually buying if I am not a person who can gauge the quality of the product, I cannot say that whether it is a good quality product or bad quality product, then I have a situation.

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Factory Outlet Strategy Mix

- **Location**
 - Out of the way site or discount mall
- **Prices**
 - Very low
- **Atmosphere & Services**
 - Very low
- **Merchandise**
 - Moderate width but poor depth of assortment; some irregular merchandise; lower continuity
- **Promotion**
 - Little; self-service



Now sometimes this is off-price retelling, the same thing that they do is through factory outlets. We will see that there are lots of factory outlets that are there of these prominent brands. So unlike here where the brand name is removed in this particular place brand names are not removed, brand names are kept. So if the brand names are kept in an off-price outlet, this cannot be done, only this thing can be done.

Because otherwise if the product is of lower quality in off-price outlet that you might not be happy that might impact the brand image of the original manufacturer. So in a factory outlet that is why it is run by the manufacturer themselves. Again, it is out of the way site or in

discount mall, it is not in a prominent location. While Reject Shop can be located in a prominent location because Reject Shop is not affecting anybody's brand image.

But factory outlets may impact brand image, the factory outlets are that is why located far away from somebody views. It is not located in prominent locations. Prices are very low. Atmosphere is very low, Merchandise is moderate width, but poor depth of assortment, some irregular merchandise, lower continuity. So, merchandise wise it is similar to as you say the off-price market, but off-price markets like Reject Shop and etc., will be located in a retail store they might, these guys will not be. Promotions are little and self-service.

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Factory Outlet Strategy

- Factory outlet as an outlet for unsold merchandise at traditional stores (ends, off season, returns, etc).
- Unspoken issue— making goods especially for factory outlet (less complaints from traditional retailers, but issue of comparative value). Can also diminish value of brand (Coach).
- Factory outlet as a means of bypassing off-price chains; also to control geographic distribution.
- Factory outlet as a means of attracting another market segment that retailer would normally not access.
- Factory outlet malls as cumulative attraction

What are the strategy factory outlet? So, factory outlet is an outlet for unsold merchandise at traditional stores. It is the same thing in case of off-price retailing, but there the brand names are removed, here the brand names are still there. This is an unspoken issue, making goods specially for factory outlets similar to the previous one as I told there are people, there are companies which creates products specially for factory outlets which might diminish the quality.


So, this is something that the manufacturer should be careful about. So, they are trying to use this strategy, the second strategy that I wrote here in this case, but here it might impact brand image, it can diminish the value of the brand, so that is very important. Factory outlet as a means of bypassing off-price chains, also to control geographic distribution. So, off-price chains have their own geographic distribution.

So you cannot focus, you cannot say that you do not sell this particular product in this store because I also have a retail store here. So, the same product if it is sold in your store which is a Reject Shop and my store which is a Nike shop then there is a problem, you cannot tell that to Reject Shop. But if you handle your own Reject Shop, if you handle your own factory outlet, then you can have that kind of distinction.

Factory outlet as a means of attracting another market segment that retailer would normally not access, so whatever is Reject Shops are accessing which is a different market. So, basically here remember the wheel of retailing, here the high-end market is accessing the low-end market or sometimes let us say medium end market by giving different kinds of services, but with the same brand name. And factory outlet malls as cumulative attraction. So, they actually try to create a cumulative attraction for different kinds of products together.

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Membership Club Strategy Mix

- **Location**
 - Isolated store or secondary site (industrial park)
 - **Prices**
 - Very low
 - **Atmosphere & Services**
 - Very low
 - **Merchandise**
 - Moderate width and poor depth of assortment; lower continuity
 - **Promotion**
 - Little, some direct mail; limited sales force.
- 

The next strategy under this domain is called membership club strategy. So, membership clubs are what? Again, these are isolated stores or secondary site. Prices are low. Atmosphere is very low. Merchandise is moderate with lower continuity, poor depth, so some products are available. Promotions are through direct mail or through limited sales force, so less promotions. Generally, membership clubs are like clubs where the members come together, make the purchases and consume.

So, it can be even let us say the stores for army that is there in India that can be a membership store. You have to have a membership club. You have to pay for the membership club and

also some subscription fees and then the products will be available at a very cheap rate because it is bought in volume.

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Membership Club Strategy

- Costco, BJ's and Sam's Club are key players
- Membership fee accounts for 85 percent to 100 percent of membership outlet's profits
- Costco- 14-16 percent gross margin versus 22 percent for supermarket and 50 percent for department store
- Will not accept higher profit margin due to concern for keeping 85 percent membership retention rate
- Response to Wall Street analysts that Costco is "too good to its customers and too good to its employees."

So, there are certain other clubs also which is open for other people like Costco or BJ's or Sam's Clubs are key players. Membership fee account for 85% to 100% of outlet profit. This is important. So, they do not make profit based on margin. They make profit based on membership fee. So, if that is the case then very low margin, so 14 to 16% gross margin versus 22% from supermarket and 50% in departmental store.

So margin of Costco is only 14 to 16% which is very low, means they are almost selling in at a price of the cost with some amount of let us say the administrative cost. So, if I can sell the product at a buying cost plus the admin costs whatever is the price in that price I am selling to the members and I am making profit from the membership fees. Will not accept higher profit margin due to concern of keeping 85% membership retention rate.

So, they want to retain their members, they do not want their members to go out. On response to Wall Street analysts that Costco is too good to its customers and too good to its employees. So, this is something that also creates a problem, sometimes they are too good to both their customers and employees as well.

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Flea Market Strategy Mix

- Location
 - Isolated site; racetrack; or arena
- Prices
 - Very low ✓
- Atmosphere & Services
 - Very low ✓
- Merchandise
 - Extensive width but poor depth of assortment; lower continuity; variable quality
- Promotion
 - Limited; self-service

- melas/fairs
- China town/
Chandni Chowk



And the last one in this strategy where I will stop about the traditional strategies are called flea market strategy. This is very common in India. There you can say these are melas that you see basically fairs that you see or this can be called as let us say flea market is also there in various, I would say, cities where certain like China Town market or in Kolkata there is something called Chandni Chowk. I think Chandni Chowk this is common, might be there in many other places.

So, these are places where in the road itself or in a particular location there are lots of I would say stores that comes up which are not permanent stores which are temporary stores, sells product at a very low price, very low atmosphere. And they are located in an isolated site or an arena as I told in a field or in the footpaths. Extensive width, lots of different kinds of products are sold, but very poor depth and lower continuity, variable quality.

Quality depends on whether you can see, whether you can gauge the product and that is why you can bargain a lot. The chances of getting cheated is also very high. So, these kinds of markets are also very prominent mostly in India. So that is where I will stop on the discussion on general merchandise store strategies. But there are other kinds of stores as well like let us say non-traditional stores or web-based stores. We will discuss that format in the next lecture. Thank you very much for being with me. See you in the next lecture.