

**Retail Management**  
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**Lecture – 15**  
**Retail Institutions by Store-Based Strategy Mix – Continued**

Hello everybody, welcome to this NPTEL Swayam course on retail management. This is Professor Swagato Chatterjee from VGSOM, IIT Kharagpur, who is taking this course for you. This is week 3 and we are in lecture 15 and we are discussing retail institutions by store-based strategy mix. So, we have discussed about different kinds of strategy mixes food based and general merchandise.

But more generally what we have discussed in this particular week were based out of brick-and-mortar stores. So, now, we will discuss about something which are nontraditional stores or web-based store which is not basic brick-and-mortar store that we can see in our surrounding. So, let us discuss about them. So web, non-store-based and other forms of nontraditional retailing is what we will discuss.

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## Non-store Retailing

- Retailing strategy that is not store-based
- direct marketing
- Web-based retailing is the fastest- growing area
  - M/SMS-commerce
  - Social commerce

So, what is non-store-based retailing? So, retailing strategy where is no store is there. One of the major one out of these broad umbrellas of non -store-based retailing is direct marketing and there is also web-based retailing which is also highly growing. It can be m-commerce or it can be e-commerce or social commerce. So, what is direct marketing let us talk about that first and then we will slowly come to this m-commerce and social commerce.

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## Direct Marketing

- Customer is initially exposed to a good or service through a non-personal medium and then orders by mail, phone, fax, smart phone, or computer
- Annual U.S. sales exceed \$475 billion (including the Web)
- Other leading countries include
  - Japan
  - Germany
  - Great Britain
  - France
  - Italy

So, in direct market marketing customer is initially exposed to a good or service through non-personal media and then orders by mail, phones, fax, smartphone, etc., computer are taken. One easy example will be next let us say Naaptol if you have heard about it. Naaptol what to do? They will do the retailing over TV which is a non-personal media, it is a mass media right. So Naaptol will basically connect with you in a non-personal media and then that orders will be taken.

After you get attracted with Naaptol or that kind of a TV based retailing where lots of advertisements or product descriptions or product demos and customer testimonials are displayed in the television and after it is displayed you get interested and once you get interested you want to try it out and you will send the order via phone or via fax and you pay via online transactions. Then the product comes to your house. So, this is called direct marketing.

So annual US sales exceed 475 billion including the web under this direct marketing. And what are the other leading countries? Like Japan, Germany, Great Britain, France, Italy these are some of the countries which are first world countries have heavily adopted these direct marketing as their technique. So now one of the major advantages is that you will have no fixed cost in terms of maintaining the let us say brick-and-mortar store or having employees who will handle the brick-and-mortar store, so those costs go down a lot.

But you have to run TV programs that there are some costs involved. So, advertisement costs are very high for direct marketing. At the same time, you have very low inventory costs because only when the order comes you take certain days of time let us say 15 days or 20 days and you can go for make to order also. You can stock it out or you can go for make to order. That means whenever the order is coming you can call your personnel, you can call your suppliers and get the orders delivered.

But you can have a long-term agreement with them that in a year I will take these many products from you at X costs. So, there are advantages and disadvantages around direct marketing for the retailer.

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## Characteristics of Direct Marketing Customers

- Married
- Upper middle class
- 35-50 years old
- Have access to wifi and broadband Internet
- Are multi-screen shoppers
- Desire convenience, unique items, good prices

What are the characteristics of direct marketing customers? So, see this will be based on TV programs majorly and TV programs will be displayed in TVs, normal working people might not have enough time to watch TV. And if they watch TV, they will watch the programs that they like. So, somebody will basically notice these or basically spend some time in actually seeing these kinds of ads or programs in TV only when they have ample time.

So if you have to target those group of customers, this can be let us say married, housewives or household people or older people who stays back at home, somebody else is working let us say for the particular family and that family member whoever is sitting back at home they might have some money for them to spend on, some extra disposable income in their hand, but they are bored basically.

So, they will focus on these kinds of TV ads, they might want to get interesting product ideas from those TV ads and want to focus on them. So, majorly also Naaptol or these kinds of companies focus on products which are innovative, daily usage kind of products or they give offers like bulk offers, you buy 4 bedsheets at X price or 10 shorts at X price. So, these are often household items, apparel items.

So if that is the case mostly married people, mostly people who have a family will focus on this kind of products or this kind of programs. So, then the target customers are married, they are upper middle class because they should have certain amount of disposable income. They should also be ready to take a little bit of risk in terms of buying the product because they are not touching the product, they are just seeing the TV program and based on that they are giving the orders.

Mostly middle aged as they are married and have a family and the products are also family products, mostly middle-aged people come here. Have access to Wi-Fi or broadband internet because that is how you actually give the order or pay for this. They are multi-screen shoppers that means they have access to different kinds of like TV or mobile or laptop and desire convenience, unique items, good prices.

Unique items, innovative items which will differentiate, which will attract attention and differentiate the program or differentiate the product that is being sold in the program from the products that are available in the market. The more you differentiate them, the more you attract the customers to stop by and watch your program. So, the items have to be unique and desire for those unique items is something that attracts the customers to stay back.

The product price has to be lower than the market and this product should give convenience to the customers because they are not interested in going out or they might not be able to go out and look for those kinds of innovative products on their own in different malls. If they had that option, they would have gone there. But because they do not have an option for whatever issue, sometimes it is a mobility issue, sometimes there are lots of other responsibilities that they have in the family, they have to stay back at home.

So, these kinds of problems come up and that is why convenience becomes a very important factor for these kind of customers. These are very big chunk in a growing economy or also in

a full-grown economy it is a very important chunk which you can target because slowly you will see even in India this has become rampant. Let us say in India if I talk about while here men and women both are working right now, but majorly we will see in the households, probably still patriarchy exists and mostly men in the family work.

So female will stay back and when female stays back at home, upper middle class female I am talking about, they sometimes might have a mobility issue in a middle age because of multiple business because of let us say kids coming back from school and they have to take care of them or let us say in certain cases there might be certain physical issues like let us say this vitamin D and these kind of problems are very rampant and people have mobility issues a lot nowadays.

So if I have responsibility or mobility problem, probably convenience is something that I will seek a lot. And now that you are competing with web-based retailing, why web-based metering is actually in your fingertips, you sit back and search and then give an order. You have to provide those convenience that is how you compete in a non-traditional market.

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## **Strategic Business Advantages of Direct Marketing**

- **Reduced costs**
- **Lower prices**
- **Large geographic coverage**
- **Convenient to customers**
- **Ability to pinpoint customer segments**
- **Ability to eliminate sales tax for some**
- **Ability to supplement regular business without additional outlets**

What are the strategic business advantages? As I told reduced costs, lower prices. Large geographic coverage that I forgot to mention because see Naaptol can actually deliver the product all over India. So, like the same thing that Amazon has, but Amazon has their website, they have to maintain it, they have to basically keep a server running, Naaptol does not do that. Naaptol does something else, what they do is probably running a program which will keep on giving ads.

Convenient to customers is another advantage that they are providing. Ability to pinpoint customer segments, so this is very important. Because you are running a TV program you can know that who watches my TV program and what products are being watched more. So, you can basically segment the customer based on their behaviour of watching the TV. So, if you have that kind of facility that enables you to segment customers properly.

Ability to eliminate sales tax for some. So some of the cases you can ensure that you can, in fact there are provisions to manage with the VAT or sales tax or now GST and ability to supplement regular business without additional outlets. So, if you have a regular business already existing let us say for a Big Bazaar who have regular business, now if you still want to access certain more markets where Big Bazaar is not existing but you can probably deliver.

So you can use a Big Bazaar kind of program which can help you. Now this is something that happens beyond let us say Naaptol or Big Bazaar. If you see let us say home kitchen or there these kind of companies which are coming up where kitchen products, they run programs, not daylong TV programs, but certain part of the program they will bring in shapes who are very well known and they will use the products, let us say electronics products or kitchenware products of the company and they will show how to make beautiful dishes.

Now, the persons who are looking and watching those things will be getting interested with that tool ads as well, with the machine as well because they will know that now this machine is giving me very healthy and tasty food very easily without lots of effort and this chef is using it. So, a public endorsement is happening and through that it is a non-traditional market, you might also have an existence of traditional market.

You might have your own shops or you might sell your products through normal retail chains, but through this kind of program you are also making sure that there is an additional revenue that you can generate without additional costs of opening up a new outlet. So, those kinds of programs are also becoming very common. You can search, there are lots of kitchenware related programs that are coming up.

There are lots of I would say food organic food items related programs that are coming up who might have an already existence in the-real life situation in a brick-and-mortar store, but this is the top up of that.

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## Strategic Business Limitations of Direct Marketing

- Products often cannot be examined prior to purchase
  - Costs may be underestimated
  - Response rates to catalogs under 10%
  - Clutter exists
  - Long lead time required
  - Industry reputation sometimes negative
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And then there are limitations as well, some problems as well. So, products often cannot be examined prior to purchase. So, as I told the touch and feel is not there, so the customers have to take certain amount of risk. So, when the products are such that the risk is very high, customers will not be interested to buy the product and that is why you are bound to put prices at a lower level.

You cannot increase the price because as the price increases the risk also increases and customers may become very; I would say they might not want to go for these purchases. Costs may be underestimated, you might think that there will be lower cost, but running a program is very costly. Paying an endorser, paying a person, a celebrity will be further costly, so it depends. Response rates to catalog are under 10%.

So, the number of persons who watch it and number of persons who buy is very low, so conversion rate is low that is why they go for mass media and mass media require cost as I told. That clutter exists because lots of products are shown, at one point of time Naaptol was the only retailer in this particular domain in India at least, but now there are lots. So, as a customer I may become very, I would say, confused whom to see, whom to believe or not to believe and that clutter might create a problem.

Long lead time required as I told, so it is often makes to order. You give an order, then they give the order to the supplier and based on that the delivery so that it takes a lot of time, delivery time is longer and industry reputation is negative. So that is something that you also have to overcome because over time there were people who have bought this product, taken this risk and then failed in that risk attributes.

So, these are something which are important about direct marketing. You have to think about that whether this is important, whether this is the strategy that you are going ahead and doing it. So, I would suggest for normal retailers, for big retailers I would say this is a very good strategy as a top up, it should not be taken as only single strategy unless you are that kind of a company only. So it is better to have it as a top up over and above your other kind of existence.

Like even Naaptol you will see nowadays they have an online existence and they consider it as a top up or let us say Big Bazaar has online and offline both kind of existence and they probably will use it as a top up. So as long as you are using it as a top up, it is good. Otherwise, you should be careful how to overcome these limitations. So that is all about direct marketing. We will go ahead and discuss about other kinds of non-traditional retail stores in the coming lectures. Thank you very much. See you in the next video.