

**Retail Management**  
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**Module No # 06**  
**Lecture No # 33**  
**Merchandising in Retail**

Hello everybody welcome to this NPTEL swam course on Retail Management. This is Professor Swagato Chatterjee from VGSOM, IIT Kharagpur, who is taking this course for you. We are in week 6 this is lecture number 33 and we will be discussing merchandising in retail in this particular class.

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## Merchandising

Activities involved in acquiring particular goods/ services and making them available at the places, times, prices, and quantities that enable a retailer to reach its goals.

- It should reflect
  - Target market desires
  - Retailer's institutional type
  - Market-place positioning
  - Defined value chain
  - Supplier capabilities
  - Costs
  - Competitors
  - Product trends



So, what is merchandising? that is activities involved in acquiring particular goods and services and making them available at the places, times, prices, and quantities that enable a retailer to reach its goals. So, both acquiring the product and service and selling the product and the service at the right place at the right time both together considers as merchandising.

It is not like just putting the products inside the retail stores aisles and various storage places, that is not only merchandising also getting the right product and purchasing them at the right price will also be part of merchandising. What should it reflect it should reflect Target market desires because you want to sell to the target market. retailers institutional type. Because depending on what how I am positioning my retail store based on that my merchandising the products that I am putting and how I am putting them will vary.

The Market-place positioning the Defined value chain so how what is the exact value I am providing and who is providing what value in my value chain. Supplier capabilities so how much the supplier can give me whether costs the competitors and the product trains, so these are some of the things that we try to do try to signal or the merchandising will depend on some of these factors in a retail context.

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## Scope of Merchandising Responsibility

- Full array of **merchandising functions**
    - Buying and selling
    - Selection, pricing, display, customer transactions
- OR
- Focus on **buying function only**

Now what is the Scope of Merchandising what are the responsibilities that are there. So fully full array of merchandising functions are both buying and selling first of all buying the product and selling the product, and that is why selection, pricing, display, and customer transactions which are probably part of this buying and selling procedure. So you focus on the selection which product to focus on, or which product to sell through your retail channel, at what price.

What should be the display options, how it will be put in your storage facilities, or in your IELTS, or in the displays. And what are the customer transactions? that means that how much money they are you will be paying in what will be the transactions limit, what will be the nature of transaction.

Whether you will sell it in credit, whether you will sell it in full upfront payment, whether it will be bundled with some other product, so all different kind of things will come under merchandising function. Now earlier days this merchandising term was not there and buying and marketing were 2 different ball games altogether, people used to focus on buying separately and people used to focus on retailing and selling and the marketing part separately.

Buying means the sourcing guys will focus the purchase managers will sit in that particular position and they will try to find out the products of best quality available at the lowest possible price, and that was their job. Up to the purchase from the purchase up to the delivery to the inventory that was their job, and from inventory to ultimately get it sold in the retail store was the job of the marketing persons.

But often there was some level of I would say conflict between the people between these 2 operations. Because buyer's job was to get as many products as low cost possible, but marketers did not like those kind of products in the inventory probably. Because they wanted those products which will be sold, they did not want those products which will be available at a lower price.

So, their focus was on the revenue generation, or profit generation, not cost minimization. So, buyers focuses on cost minimization revenue person revenue generation is what the marketing guys focus on these 2 are 2 different focal point basically. Now, if we can join them together and if we can make sure that both buyer and the seller talks with each other, and they sell that product which has optimal price, and optimal buying cost, that will be the product that they should get an inventory of.

So that is why the merchandising came in over and above the buying kind of a thought process or buying kind of a philosophy.

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**The following is found with a merchandise-oriented philosophy:**

- 1. The buyer's expertise is used in selling.**
- 2. Responsibility and authority are clear.**
- 3. The buyer ensures that items are properly displayed.**
- 4. Costs are reduced.**
- 5. The buyer is close to consumers due to selling involvement.**

**The following is found when buying and selling are separated:**

- 1. Specialized skills are applied to each task.**
- 2. The morale of store personnel goes up as they get more authority.**
- 3. Selling is not viewed as a secondary task.**
- 4. Salesperson—customer interaction is better.**
- 5. Buying and selling personnel are distinctly supervised.**

So what are the things that is found in 2 different kinds of philosophy so in the merchandise-oriented philosophy. The buyer's expertise is used in selling and similarly probably the seller's expertise will also be used in the buying possibility. responsibility and authority are clear whose responsibility is what is absolutely clear, the buyer ensures that items are properly distilled displayed.

So not only he buys and purchases and puts in the inventory the buyer also makes sure that those items are displayed properly in the marketing side of the story. Costs are reduced and the buyer is close to consumer due to selling involvement, because buyer is involved in the selling process, he knows what are the products that the customers are asking for, what kind of pain points they have, what kind of expectations they have.

So when they go and buy the products for them for the next round they have all those things in mind so they get better knowledge about the consumer. Which is not the case in buying and selling when they are separated, there are Specialized skills are applied to each task so it was more focused on their personal goals. The morale of store personnel goes up as they got more authority in the previous one you see the buyer has lots of sale.

So sometimes marketers or the store personal marketers I would not say but the person who is just standing in the store that person might not like it, because for him it is like a day-to-day job, he is he or she is coming and putting the products in the display and taking it off in the evening that was his or her job.

Now when marketer is allowing the buyer means the display manager, or the let us say floor manager, or the marketing manager, is allowing the purchase manager to put their nose in the display how the products are displayed then they have multiple bosses. And now this particular person who is standing on the floor who is basically a store personal will not like to have multiple bosses poking their nose in their day-to-day job.

So that is something that gets affected when you are going for a purchase of merchandise-oriented strategy. But if you are buying and selling separate oriented strategy, they get more power they give more authority. Selling is not viewed as a secondary task because buying and selling are 2 different separate tasks it is selling is not a secondary task that is considered.

Salesperson and customer interaction is better which was other case in the merchandise-oriented philosophy where buyer and the customer was talking more, and buying and selling personal are distinctly supervised. So they get separate supervision from 2 separate people. Now which one is good which one is bad telling that is very difficult there are always pros and cons of both the systems. And it is better that is why to get depending on the situation of the retail store it is better to get a combination of it.

Buyer has no idea about the customers liking, or buyer has no say about the display that is also not good. But everything you are giving the power to the buyer and you are letting the front-end managers to basically not do anything or you are not giving any authority to them that is also not good. So, one kind of mix and match will be better when you are trying to go for either buying and selling oriented or merchandise-oriented strategy in the retail store.

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## Micro Merchandising

Retailers adjust shelf-space allocations to respond to customer differences and other differences among local markets.



Now there are different kinds of merchandising, some of them becomes important some of the names terms becomes important, one is called Micro Merchandising. What is Micro Merchandising? Retailers adjust shelf-space allocations to respond to customer differences and other differences among local markets. Let us say I have a retail chain, I am Big Bazaar I have retail chain, and I know there are people who are from let us say Calcutta, there are people who are from South India, North India, and different.

And people who are from Calcutta and versus let us say people who are from Punjab or you will find out there are lots of focus on dairy items, they will eat a lot of let us say milk and lussy and ghee and these and that. So you will have a prominent display prominent

self-allocation will be higher for this kind of dairy items. now if you come to Calcutta probably in a calculus context people are more oriented to non veg food.

Let us say people will like to have meat and fish there should be a separate say place in the retail store, many retail stores have that a separate counter where lots of ah fish and meat will be available. Now the space allocation for that particular part where fish and meat and etcetera will be available in the inside retail store has to be higher in case of a geographical location which is let us say West Bengal.

Versus if I say Punjab or if I say Southern India at certain parts, because that the it is more focused on the particular region's preferences. Now these are very big let us say I can do even a smaller further focused special occasion. Let us say in Calcutta there are three to four different Big Bazaar at different locations, let us say one is in business district which is let us say new market and this kind of an area another is in posh area which is where multi-storey buildings are coming up like let us say somewhere in highland park.

And then another particular store which comes up which is in a old it is also in posh area, it is also in a residential area, but the people who lives there are old residential citizens means they have been there for quite a few generations probably 2, 3 generations at least. So North Calcutta or South Calcutta if I talk about (()) (11:18) or if I talk about (()) (11:20) or something like that.

Now if you can pick that up and put that in a different cities context also, let us say I again I am talking about a retail store which is out of Hyderabad or Secunderabad let us say. And then there one Big Bazaar is in high old city of the Hyderabad, another Big Bazaar in Secunderabad city where high-residential buildings are coming up, and then another Big Bazaar is in basically Gachibowli kind of area which is absolutely new absolutely fresh and only office goers and IT people and etc are staying in this particular places.

So these 2, 3 zones will have different kind of preferences from the consumers, so consumers will like different kinds of products. For example, let us see in a Gachibowli which is IT area, or let us say if I talk about Rajabhat or Newtown in in case of Calcutta which is IT area people are busy people do not have time to do marketing and etcetera. They probably stock one week's food in the fridge, and sometimes they have ready-to-made items.

So those kind of food items ready-to-made probably processed food and packed or refrigerated meat items will be more sold in this kind of areas. On the other hand, if you go to a district business district kind of a location which is Newtown or let us say in in lower South Mumbai, South Bombay that kind of a location you will find that these are more of office areas.

So people will not buy vegetables there they will buy various kinds of other kind of products which are general merchandise products, or sometimes they will buy for apparel they will buy certain household utensils or certain other items luggage's, bags, this kind of stuff will be more sold on those areas. So the focus on food based retail will be lower in this kind of areas and general merchandise retail will be further bigger.

So now what you are doing that in within the same city, within the same broad geographical location, depending on the micro locate location, or definitely the demographics of the retail store surroundings, you are changing which kind of products you will put that is called micro merchandising. now this can vary now these are I am only talking about geographical variation this can vary depending on the time variation also.

For example, during the festival times I will focus on more on food and apparel, during non-festival time let us say October to December more focus on food and apparel, probably January, February or march this kind of time I will focus on again general merchandising, in the even probably in the monsoon season general merchandising.

So the things will change which kind of products you will put which kind of I would say products we will allocate the space to will change depending on the preferences of the consumers, not only geographically varied. But also temporarily varied so that part is called micro merchandising.

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## Cross-Merchandising

Retailers carry complementary goods and services to encourage shoppers to buy more.

What is Cross Merchandising? So in case of micro merchandising you will see that there are certain parts of the whole merchandise you might not change the whole retail setup there are certain items which will be absolutely. Same but certain aisles certain particular aisles of that particular display spaces that you have will basically vary depending on the changing preference of the consumers.

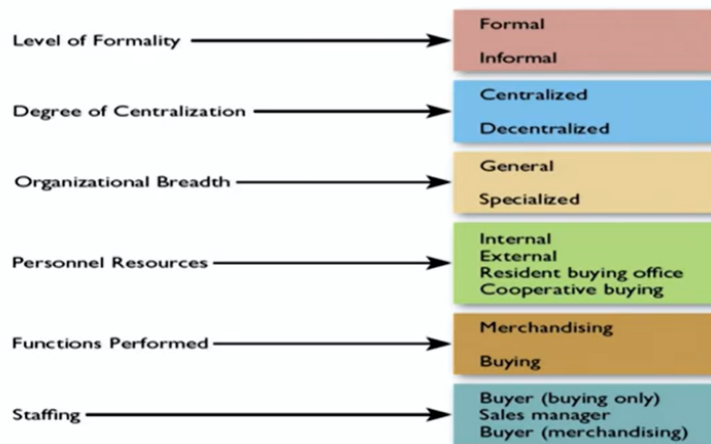
Now what happens in Cross Merchandising, cross merchandising is also putting products but you try to put such kind of products which are complementary to each other. For example, you will put this dishwashers and dispersing scrubs or dispersing I would say the gels and etc just beside the dish. So somebody these are two very basic example of complementary products.

So somebody who is buying dish will also want to wash their dish and that is why dishwashers are important. So retailers carry complimentary goods and services to encourage shoppers to buy more, that is called cross merchandising often this kind of things you will be seeing in your retail store.

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## Attributes and Functions of Buying Organizations



Now attributes and functions of a buying organization, so when you are not a merchandising organization, when you are a buying kind of organization, buying organization means the buying and selling are two separate attributes. Then what kind of things that you do so first is that you are you what are the characteristics by which I can define it you can define it based on the Level of Formality how Formal your organization is Formal versus Informal.

Then what will be the degree of centralization, centralized or decentralized what kind of organization you will be. The breadth of the organization whether you are a general buying kind of an organization, or very specialized purchase purchasing kind of an organization. Then what your personal and personal, relations will depend on the internal personal, the external personal, the resident buying office, and the corporate buying office.

So all these 4 different kinds of places how the personal resources you have how much resource you have and what is that your relations with those 2 resources are another way of defining or categorizing a buying organization. Then what kind of Functions that you generally perform merchandising or buying. And then this last one is Staffing what kind of staffing that you do you are only buyer only so only focus on buying stuff.

Or you also do staffing for sales managers or you basically, one way of doing it is that you can keep it for to the external people who will just allocate certain organization certain personal in you are organization and they will do the job, or you can hire them on your own. And then buyer which are merchandising so these are broad way that you can define the organization.

Now we are majorly focusing on such kind of organization we are talking about Buying Organization. When the functions performed are buying and the buying only buyers are majorly focused on buying only that kind of stuffing that you trying to do, this is the organization when we focus on buying specific organization.

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## Forecasts

These are projections of expected retail sales for given periods

- Components:
  - Overall company projections
  - Product category projections
  - Item-by-item projections
  - Store-by-store projections (if a chain)

## Types of Merchandise

- Staple merchandise
- Assortment merchandise
- Fashion merchandise
- Seasonal merchandise
- Fad merchandise



Now what are the various aspects that comes under merchandising activity, one very important aspect that comes under merchandising activity is called forecasting. So, these are projections of expected retail cells for given period for any particular product. Now this is a separate game altogether, forecast comes from various aspects, forecast comes from you are past sales behaviour, you can get a little bit of idea about what the future is going to be from the past sales behaviour.

The future forecast will also depend on the economic socioeconomic condition whether the inflation is going up, whether the GDP is going up, whether people have more liquid money in their hand, those are some of the examples so some of the things that can impact your sales projections. Sales projection will not only depend on your price it will also depend on somebody else's price your competitor's price, so when it depends on your competitor's price, we call it cross elasticity.

The effect of your competitor's impact in your sales when your own price impacts yourselves, we call it elasticity. So, both these types of things will impact your sales at the end of the day. Now when we do the forecasting there are different levels of forecasting that

we can do we can do overall companies projections that whether this overall organization will grow at what speed, or a particular zone will go grow at what speed?

What will be the sales volume, whether the sales revenue will go up and go down. Then we can also do the projections for a particular product category, let us say food and beverages will go up or not, apparel will go up or not, general home and kitchen items will go up or not, personal item personal hygiene items will go up or not, FMCG products will go up or not. So this kind of sales projections for different product category is also done.

These are strategic level decisions based on this people take very long term let us say 6 months to 1 year decisions based on what is going to happen at a company level or a product category level. But we also use analytics to try to predict the item-by-item projections or store-by-store projections in the context of a chain the store-by-store projections comes into the picture.

For example, if I focus some item by item within FMCG there will be different kinds of a (( )) (20:47) different kinds of stock keeping units. So this (( )) (20:52) use which one will go up in the price in the sales, and which one will come down will depend on this item to item projection. You will probably do it using and there will be seasonality component in it, there will be price impact on it, there will be macro factors impact on it, so all of these things will ultimately give you an item-to-item projection.

Similar thing you can do for store by store, and in the stores context what are the factors that depends is what are the other stores available which is nearby. And what is the change in the population of a particular location, or what is the change in the income pattern of a particular location, not overall India. But a particular location where the store is located how the demographics are changing there that might be your input variables when you are doing the store-by-store projections.

But these projections and forecasts are very important to start with, this is somewhere you generally take help of marketing analytics consultant's organizations who can help you get these projections. Now based on these projections you decide which product to buy which product not to buy at what price so that you can make the highest amount of profit. Now when you do merchandise there are different kinds of merchandise as well.

So, I talked about merchandising technique, merchandising means buying and selling of a particular product merchandise means that particular product itself. So, what are those products it can be a staple merchandise day-to-day activities merchandise, or it can be a assortment merchandise that means it can be of different kinds of products. So stable merchandise will be let us say which are related to your day-to-day needs.

For example, let us say cooking oil, or grains, or pulses, or let us say some basic detergent, or some basic floor wash, so this kind of items which you will require every day. In Bengali there is a term called Maska Bari. Maska Bari means monthly every month you purchase this particular product; you go you give this list to the grocery store nearby grocery store and there is a huge list of products that you need every day every month irrespective of whatever happens in that particular month you will need that particular list.

And you give it to the grocery store manager and they gives you the whole delivers you the whole product. And then whenever you need some extra item all of a sudden for some small fluctuations in your demand you probably go to the convenience store to buy. Now the first item the first block base of items that you buy every month that is called a staple merchandise, and this fluctuating item I totally like you do not want to have let us say chapati and sabji I want a little bit of Maggi.

Now this Maggi is not a staple item if it depends on your mood, that whether you will like Maggi or not in a particular day or a particular week, so on that day or than that week you probably purchase Maggie. Sometimes people store it many a times people not store it and purchase it then and there or probably 1 day 2 day ahead of the consumption. So that is called assortment merchandise which is not stable.

Then comes fashion merchandise obviously apparel products accessories anything that you wear which is not related to your day-to-day consumption, whether food or whether any kind of FMCG that is called fashion merchandise. Seasonal merchandise, sudden merchandise comes grows up and goes down, in the demand goes up and goes down, a sudden part of the year the demand will go up in certain other part of the year the demand will go down so those are examples of seasonal merchandise.

And then comes the fad merchandise, (( )) (24:59) merchandise is such kind of merchandise but the demand goes shoots up a very high very quickly at a very high speed, and then it also

comes down at a such a in a similar high speed, means it the demand is very high in a particular week and then it goes down. So that kind of a merchandise which where you can make money only in particular month is called fad merchandise.

For a basic example is let us say the colour that you use the organic colours that you use during Holi. So, them or Dias that you that you generally put during Diwali so the moment Holi is gone, or the Diwali is gone, all the merchandise that you have bought to be sold in your little store will have zero demand. So, the demand goes up goes up goes up or it is at the peak probably 1 day or 2 days ahead of the festival the moment the festival is gone the demand is zero.

So that kind of merchandise is called Fad merchandise it is remain the demand goes shoots up like anything for a very small period of time and then it goes down. So, there are more to talk about merchandising in this particular context, I will stop here for this particular video and I will see you in the next video again, and will complete various different kinds of merchandising techniques in this particular lecture, thank you very much see you in the next video.