Retail Management
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Lecture - 04
Relationship Management in Retailing

Hello everybody, welcome to the 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 1 and this is lecture 4. This is introduction to market, Introduction to Retail Market Management and we are discussing about Relationship Management in Retailing.

So till now we have discussed how the retail has changed over time, what kind of omnichannel techniques that we have created, what kind of futuristic techniques or tools that are coming up. We have also discussed about the different kind of distribution channels that are possible, distribution strategies that are possible.

In this particular class a specific very, I think that we are going to discuss is very specific to marketing side of retail. Now marketing has two activities as you can understand. Marketing one activity over in under the overall domain of marketing one important activity is customer acquisition, which is getting your customer.

Another important activity under the marketing domain is called customer retention, which is retaining your customer, keeping your customer with you. Now the second one becomes very important for lots of reasons. Why the second one becomes important, why retaining a customer becomes important?

Because once you retain customers, a customer who is loyal to you, a customer who is who wants to stick back with you creates lots of different kinds of benefits. What kind of benefits? One, for every additional sales, you have to spend a lot of money for the new customer. But for a existing customer, you might not have to pay that amount of money.

So relationship management is almost like personal relationship management. So if you are married, let us say or if you have a girlfriend or boyfriend let us say, just think about the earlier days of your relationship and think about the current time if the relationship length is longer. So I will give an example of my own personal example.

Let us say when I had a girlfriend when who is right now my wife, in the initial days of our relationship I had to spend a lot and I am pretty sure she had to spend a lot of time to know me to understand me to understand our goods and bads, our strengths and weaknesses we had to know each other a lot.

And we had to also sometimes probably invest in learning, invest in changing ourselves so that we can be together, so that kind of activities, that kind of efforts has to be put. So that is why getting any value out of that relationship in the initial days were more costly. You had to invest a lot to get something back of the relationship in the initial days.

But now the relationship is stable. We are married, we have a kid and etc., etc. We have travelled a long path. We are hoping to travel further longer path but we are we have traveled a lot quite a lot. Now in now we know each other, we know what we like, what we dislike, what kind of movies we will enjoy, where do we want to go to travel, when we will require a personal time, when we will require a family time etc., etc.

All the thing, most of the things are known to each other. And that is why to get a value out of this relationship is much easier now. Extra additional value, additional effort is not required to get that additional value out of this relationship. You can have, you can maintain the relationship at a, it becomes much easier. So exactly the same case in the context of customer also.

In the initial days when you are acquiring a customer you do not know who this customer is. You do not know what he likes what he dislikes. You do not know what

kind of preferences he have, does he have. Whether this particular customer will stay back with you or not. Knowledge is low. When knowledge is low, selling a new product or an additional sales becomes difficult.

But the same thing becomes easier when the customer is there with you for quite some time. You have learnt what the customer is liking, what the customer is disliking. Now retail is that kind of an activity. Retail you do not get the value from the customer from one single purchase.

A customer came to you, bought 100 rupees or 200 rupees or 1000 rupees or for let us say a common family who goes to a retail store in India's context of three people let us say, who is going to a retail store, let us Big Bazaar or Spencer or something like that, in a family grocery will be how much? At max 4, 5000.

Out of that if your margin is, if the retailer's margin is 10%, 15% he gets how much? 15% of 5000 is 750 rupees or let us say 1000 rupees at max. For one customer you are making 1000 rupees per month. But you have to understand it is per month. If the customer keeps on coming to you, that is where you are making money.

If he just comes for one time, for acquiring to that particular customer, you might have probably have spent more than 1000 rupees, quite a lot more than 1000 rupees. So that is where the context of relationship management comes. And you have to create a relationship with this particular customer. Now relationship comes from what? See the product that you are selling is somebody else's product.

You are just bringing the right product at the right time at the right price. But still you have other than understanding the demand, other than understanding the preferences of the customers, what kind of product I should keep in my retail store, at what price I should sell it, although those are very important things, often times you have limited control on them.

Because ultimately the manufacturers are also there. There are lots of parties involved in this activity. The manufacturer is there, the wholesaler is there, distributor is there, everybody has to work properly. They have to do their own branding activity, their own marketing activity, so that the pool gets created. With that pool the customer comes and that is why they purchases the product.

So that should happen, then only the sales will happen. So this part of the story is less controlled by the retailer, more or less control means this lack of control becomes further more when the brand is a well to do brand. If it is a well to do brand, well-known brand, it has its own pool, it has its own marketing activity.

Anyway you will get less margin out of those particular products, but their volume will be high, their number of units that will be sold for that particular product will be high, the revenue generated will be high. That is why even if your margin is low, you will make quite a bit of money. So all you have to do for those kind of products is to keep them.

But they will not be your profit generator. They will create, they will give you income but per unit profit or per space profit let us say, per square foot profit in a brick and mortar retail store has to begin by something else. And that is where the services comes up. So customer service that is why is one of the very important factors of retail store.

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Customer Service

- Activities undertaken by a retailer in conjunction with the basic goods and services it sells. This includes:
  - Store hours
  - Parking
  - Shopper-friendliness
  - Credit acceptance
  - Salespeople

What are the customer services available? So activities undertaken by a retailer in conjunction with the basic goods and services it sells are called customer service. Like the store hours, the parking facility that they give you, the shopper friendliness in terms of the people, the personnel inside the retail store, that they are available, the credit acceptance, the sales people's behavior, all of these things together, create customer service.

There can be so many different kinds of customer service that are possible, we will discuss about that. But customer service is one of the major way you can attract customers, you can make sure, you can create value for the customers. Now other than this, what you can do to manage relationship with the customers is called a loyalty program.

So before I go ahead and discuss about loyalty program, we have to define what is loyalty? What do you mean when we talk about loyalty in the context of customer services or in the customer retail? Actually this definition is true in other context as well, but we here we are focusing on retail. What is loyalty?

Loyalty means that first of all there are two types of loyalty. One is called attitudinal loyalty and another is called behavioral loyalty. Attitudinal loyalty means the

customers has positive attitude towards you, behavioral loyalty means he has the customer has positive, he is actually showing the positive behavior towards you.

Not always the attitudinal loyalty will convert to a behavioral loyalty. It might not happen. And in the behavioral loyalty, we are talking about three things. I think I have discussed it in the previous classes. There are three things. One is called the repatronage. That means, repeat purchase that means, I am purchasing repeatedly. Second is patronizing behavior.

So even if my other competitors are giving some lucrative offers I am not shifting to them. And the third one is called positive word of mouth. I am speaking good about this particular retail store. So all these three behaviors together create a loyal customer. Now the reward programs, the loyalty reward program generally try to encourage these three behavior.

So we have to ensure that whatever your program or loyalty program that we try to create will either increase the attitudinal loyalty, that means people will be more happy with me, along with that they will show that happiness in the behavior. So you encourage them to show that happiness in their behavior, you reward them for the behavior.

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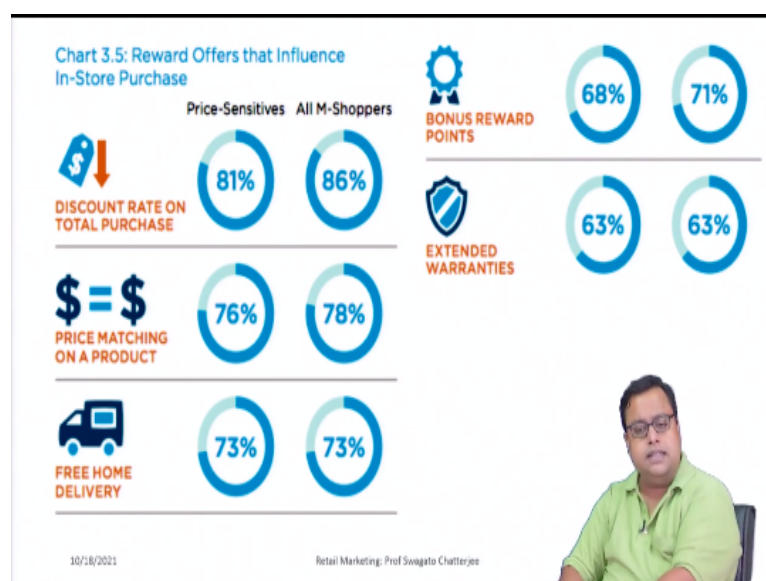
Why it is important? Reward offers that influence in-store purchase. For example one is discount rate on total purchase. So when somebody makes total purchase, when you give discounts on total purchase, it impacts. 81% price sensitive people and 86% of all mobile shoppers are actually looking for discounts.

So this is a very basic, you do repeat purchase, your purchase volume goes up, you will get discount. So this is a very transactional, very straightforward kind of benefit. You give me more business, I will give you more money. But another kind of reward technique is called price matching on a product.

So this price matching on a product is something is also comes from, it also signals trust or trustworthiness of that retail store. That this product, this particular product of the same variety and same model number and blah blah blah, if you can find the same product in a different retail store at a lower price I will match that price.

So if I can if I give this kind of a guarantee, where we call it price guarantee or price matching guarantee, then what happens is that people do not go out. The informed and uninformed customers, there are two groups of customers. Informed customers goes out and finds out lower prices and generally they will look for those kind of products and they will get certain benefits.

But majority of the customers are uninformed customers, they will not even search. They will believe on you, the trustworthiness of the retailer goes up. They will believe on you and they will patronize you. Even for informed customers if they are loyal, if they are loyal, they will say that okay that particular retail store, though the another retail store is giving lower price, there must be something bad in that retail store.

This particular retail store service is good or their behavior is good, I should buy from here only. So this kind of behavior can be seen in loyal customers. Another thing that you give is free home delivery, which is again very transactional. But we generally encourage that so that people come to your retail store and do not go to the online.

So to reduce the chances of showrooming we generally give this free home delivery kind of behavior. Then what, bonus reward points. So reward points are very common, and extended warranties these are very common. So that you can see that the effects are coming down slowly. The most important one is discount rate on total purchase.

Because this is instantaneous. The more the reward is instantaneous, like the one that you can see, the discount, then the price matching, then the home delivery, these are instantaneous benefits. Bonus reward point is some benefit that you can only redeem after a certain point of time, in your next visit probably. So that is why it has lesser effect.

Extended warranty you can get the benefit of that one year two year down the line. So their impact on purchase is less. The most important one is basically the discounts that you can give.

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What are the things that you can do for the customer so that the relationship becomes stronger? You can get checklist. Do we trust our customers? Do we stand behind what we sell? This is very important. So do you believe what you are selling? You means everybody in your organization.

You means the company sales person, the company's checkout person, the company's security, retail company's security person, everybody has to believe that the product that they are selling, or the thing that they are doing is for good. Is keeping commitments to customer important to our company? Do we value customer's time? This is again another important thing. So how much importance you give to the delivery at the right time.

Or bringing the product at the right time at the right place. Do we communicate with customers respectfully? Do we treat all customers with respect? Again this is a very critical thing. I have seen lots of retail stores, food retail, big even apparel retail, which treats different customers at a different way. Means there is no standardization there.

Depending on what kind of color you are, what kind of product you are currently wearing, who you have come with, at what time of the year you have come in. Based on that the respect that they show to the customers vary and which is very bad in the context of retail. Do we thank customers for their business?

Do we respect our employees? Again, so it is both way. You cannot just only rely on your customers. And you cannot say that okay, my employees are good for nothing, they have to always say customer is king. No, it is not true. Because if your employees are not respected, they will not also give respect to somebody else.

So in the both ways those things, those balance should be there, which becomes very critical in a human intensive environment, which is retail.

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Relationship Retailing

- Retailers seek to establish and maintain long-term bonds with customers, rather than act as if each sales transaction is a completely new encounter
  - Concentrate on the total retail experience
  - Monitor satisfaction
  - Stay in touch with customers

Now what is relationship retailing? Retailers seek to establish and maintain long-term bonds with customers rather than act as if each sales transaction is a completely new encounter. So that is not generally encouraged. It is not like one sales is one particular transaction and that is over. It is not like that, you generally look for long-term engagement. And for that concentrate on the total retail experience.

So it is not only the product that matters, the overall retail experience that this person got from the very moment he stepped inside the retail store, he has kept his bag in the security boxes, and he got the trolley or something, and he got all the directions of whatever is kept where, the overall experience and he collected the product.

Sometimes he tried the product, the experience in the trial room, then he or she came in the checkout counter, the experience in the queue management, the experience in the service rate of the checkout counter, everything together creates the retail experience. So the transaction, the how much money the customer is currently doing the expenditure is not something that we are looking for.

You are rather more interested to find out that how much money you will spend in the next and next and next encounters. So that the next encounter happens and so that the customer keeps in mind that I have to spend a lot here because this is a very beautiful

place to do shopping, you have to give a complete package to him. And that is where the total retail experience comes in.

And you have to monitor the satisfaction. You cannot just say that okay, I have given all these things, we are doing this and that for our customers, so our customers must be happy. That should not be the case. You should monitor that every day, every encounter you should monitor and find out that whether customers are happy and if they are unhappy, why. And this is again very important.

We will talk about that in a later class that customers do not always complain. Most of the customers will not complain. The one who complains looks for resolution. The one who complains actually wants that something will be done for his complaint. But most of the customers do not even expect any resolution.

They do not complain and move around and go to another retail store. They even not even come to know that they are unhappy. And that is why monitoring happiness is very important at every step, even for loyal customers. So that you will know that whenever the loyalty is slowly dropping, the chance of dropping is happening you should take some action, stay in touch with customers.
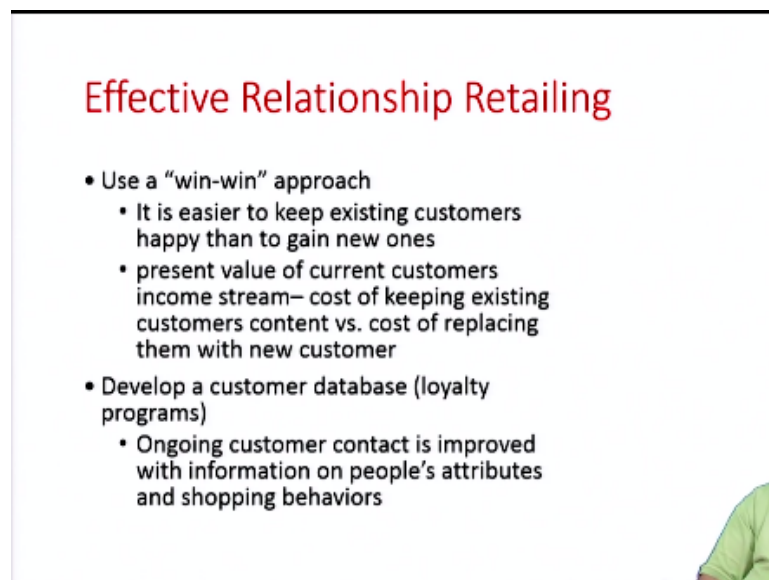
So these are the activities which is beyond common retailing. Retailing means what? You buy the product from the manufacturer, you sell it to the customer. But that is not the crux of retailing. Crux of money making in retail store is this, the relationship building. You will see in the grocery store, in our local grocery store, the grocer who is sitting in the grocery store has very good relationship with the locality people.

He knows in which person's house how much income is happening, how many mouths are getting fed. Why he know that because he know what is the basket size. He know who has money, who does not have money. How he knows that, who is buying in credit.

He knows, this particular grocer knows that okay, when this particular person goes for any kind of income activity or his professional activities, because the time of the purchase he know. So he knows what is happening in and around. He has created that kind of relationship. He does not give credit to everybody. He knows whom to give credit, whom not to give credit. So that relationship he has built.

And that is why you sometimes keep on going to the same retailer, which is a small grocer inside your locality. The same thing applies here. You should know who the customer is, what he likes, when he starts disliking you, why he is disliking you and etc.

So effective retailing, relationship retailing as I just told, it is a win-win approach. The cost that you incur to, the value that you generate from a loyal customer and the value that you generate from the new acquisition, generally loyal customer is more, you get more money out of it. And that is why one of the key activity, one of the easy thing that you can do is develop a customer database.

Now retailers are actually doing that in today's world scenario. We will talk about retail analytics in a different day. But retail analytics is basically focused on these that which customers are profitable. Why they are profitable, what they are looking for, at

what price. So ongoing customer contact is improved with information of people's attributes and shopping behaviors.

You should understand people's attributes. That means people's characteristics and their behavior, what kind of shopping behavior they are doing. The more you understand the customers the better. So you can understand the customer as a segment level. Now we are also talking about micro segmentation, each customer is one segment. We can think about at that level, because of our computational ability.

We can do data analytics at that level today. So that I can do very sniper shot kind of targeting. Each person will be getting a different kind of product features and etc. We can create those kinds of opportunities in nowadays. So the recommendations in Netflix let us say, that comes to your channel and my channel in my portal are very different.

That is micro segmentation. What is Netflix? Netflix is a retailer of content. They are getting content from some somebody else. Sometimes they also create their own content and they are selling the content to us. And for the viewership of that content, that particular content maker is getting paid. Now they are giving the content recommendations in your view based on even inside the same account.

Let us say I have an account, which were me, my wife and my kid, all of these three people watches. So if they if we watch in three different accounts, we have three different preferences. And we our views are different. So they are doing micro segmentation within the same family. So that is, that level of understanding, that level of relationship building is slowly coming up in today's world.

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Relationship Management Among Retailers and Suppliers

- Disagreements may occur in the following areas (channel conflict):
  - control over channel (private label)
  - profit allocation (resale price control)
  - number of competing retailers (exclusive, selective or intensive distribution)
  - product displays
  - promotional support (cooperative advertising funds and restrictions)
  - payment terms (payment on time)
  - operating flexibility
  - gray market sales
  - markdown, chargebacks by dominant retailers

Relationship management among retailers and suppliers. This is another level of relationship management. Till now I discussed about relationship management between the customer and the retailer. But another person that comes into the picture is the supplier who actually who tries to create the relationship with the retailer. So this is the backend side of the relationship management in the retail supply chain.

So the supplier or the manufacturer, let us say Lux or Dove or P&G or HUL, how they can create relationship with let us say Spencer or bigbasket. Till now we were talking about how bigbasket and Spencer will create relationship with you as a customer. Now I am talking about a B2B relationship here. How the HUL and P&G will create a relationship with the retailer.

So disagreements may occur in the following areas like control over channel like private label. The retailers are coming up with private labels, their own brands, which is competing. Let us say Aashirvaad atta and Aditya Birla's own atta which is unbranded with the private label. Private label means Aditya Birla tag is there. Now Aditya Birla has their own retail store.

They are putting that atta in a prominent location and they are putting Aashirvaad atta at the bottom. Then these people will start quarrelling. How can you do that, I am giving so much margin, I am giving so much revenue to you, how can you do that. So

all those kinds of problems can come up. Profit allocation. Now how much will be the margin?

Number of competing retailers. This is a classic problem of this exclusive, selective, and intensive distribution that I discussed in the last videos. Product display. Who will pay for this product display? Who will pay for the ads, in-store ads that comes up, whether the manufacturer will pay for it or whether the retailer will pay for it?

Let us say Coca-Cola ad is there for a retail store. Who will pay for that Coca-Cola's display ad. Whether the manufacturer is giving or supplier is giving any promotional support to the retailer or not? Promotional support can be many various things. Promotional support can be let us say advertisement which creates the pool.

Or let us say sometimes certain kind of racks and fridge, you have seen that for smaller retail stores, this Pepsi and Thums Up, Pepsi and Coca-Cola gives fridge, a freezer where you can store it. And you cannot, if there is a Coca-Cola freezer there should not be a Pepsi freezer in the same retail store. So there this promotional support is given and with certain clauses.

That if I am giving promotional support to you, you cannot keep a Coca-Cola in here or you cannot keep some other dairy items in my fridge. So promotional support with certain kind of rules and regulations are generally given. The payment terms, the operational flexibility, gray market sales, so there are lots of different things that are coming up between a retailer and supplier.

This is also a very important area of discussion. So we will stop here. But at this point, I will just ask you to search for a course on customer relationship management. This is also a NPTEL course. It is done, the older version is also there, you can search for it.

You know customer relationship management, we actually discuss about this B2C and B2B relationship management in a broader context, in a much deeper level, over 20

hours course. It is a similar NPTEL course. You should do the course which is given by me only. You should do the course.

Why that is important is that acts as a overall umbrella understanding about customer relationship management, how relationship management works. And if you understand that the relationship management aspect of retail marketing or retail management, both marketing side and a supply chain side will become much more easier to understand. There are mathematical concepts there.

There are certain kind of calculation of customer lifetime value that has to be done. There are certain techniques to identify who is my profitable customer, both in B2B and B2C. What matters more in a B2B relationship, whether the profit margin that you give to the retailer or whether the promotional benefit that you give or whether the various kinds of reward programs that will give to the retailers?

What matters more? What makes the retailer loyal to a brand? Not the customer, retailer. So retailer has multiple brands in his choice, no. They can sell Thums Up, they can also sell Pepsi. He has the choice which one he will push as a retailer. How will I make my retailer to sell Thums Up over Pepsi? Is it only money or is it something else as well? So these are classic problems that we have discussed in that course.

You can do that course as a top up on this one, which will help you understand about relationship management at a better depth. So that is all from me for this particular lecture. Thank you very much. I will see you in the next lecture.