

Retail Management
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Lecture - 05
Value-based Retailing

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. We are in week 1 and this is lecture 5. We will be discussing value-based retailing. So in the introduction to retailing, value is something which becomes very important when we discuss about value-based retailing.

What is value? Value is the core benefit that the customer can get. Now retailing activity is basically buying the product or any kind of services from somebody and then sending it to the customer, that is the retailing activity. But along with just providing the solution at the right time at the right moment, there can be other associated aspects, which can be considered as value as well. So we will be discussing about that in this particular lecture.

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Definition of Value

- **Value** = (Results + Process Quality) -
(Price + Customer Access Costs)
- **Results** = Overall quality, instructions, ease of assembly, taste/quality/health, warranty, product testing by retailer
- **Process Quality** = Wide aisles, ease of finding, high in-stock position, fun experience, short waiting times
- **Price** = Costs + delivery + assembly + credit
- **Customer access costs** = Warehouse club membership fees, inconvenient location, poor store hours, inadequate parking

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So value if you know, if you understand that value is total value minus total cost that creates the total benefit that you get minus the total cost that creates the value. So the benefit comes from two things. Benefit comes from the product and the service. We

call the outcome and the process. So outcomes are the final results and the process is through which you are getting that result.

For example, let us say you might be in a normal context beyond retail. Let us say you want to reach to Darjeeling let us say. You are planning to have a trip to Darjeeling. So one point so and you are booking let us say one car from New Jalpaiguri or let us say Bagdogra airport or New Jalpaiguri station to Darjeeling, which is the nearest railway station or nearest airport.

So when you book a car from this particular places to Darjeeling, the car is providing you two things. One is the car is providing you an outcome that it is letting you reach Darjeeling. So reaching Darjeeling is an outcome. If you reach Darjeeling by that car, then you will be happy. If you reach within time, within let us say three hours time whatever he says, then you will be happy, there is no problem in that.

So that is one part of the benefit that you are getting. But let us say there are two cabs. Both are making you reach Darjeeling in three hours from this to nearest airport or the nearest railway station. Both are going on time. But one person is actually showing you, he is stopping as per your requirement. It is a hilly path, it is ghati path basically. So you might feel a little bit nauseous.

Sometimes your baby might cry who will be traveling with you. Now let us say at some point of time at a particular place in the roadway, you have seen a very good scenic beauty and you want to take a picture of that particular beautiful scenery and the car is stopping at the right location. He is taking care of the safety of yours.

He is telling you do not go to that place, do not go to up to that much close to the I would say end of the edge of the road. So he is guiding you properly, the driver is guiding you properly so that you can enjoy. On the other hand, there is another car who will also reach at the right time but he does not want to do all these things. His job he knows that okay, my job is a driving job.

I am a driver, why will I look at all those stuff. If you are saying to stop I will just stop. If you are saying to go I will just go. I will not care about anything extra whether your baby is crying, whether you are feeling nauseous. My job is to make you reach in three hours. Now that is that part is called process. Now if somebody is, both are giving you the outcome, the final outcome is same.

But the way they are giving it might be different and the way they are giving it from there also you incur certain values. That is called the process quality. So both the outcome and the process from both you incur certain kind of benefit. Now which one you will get, it is similar experience you can have with doctors. Let us say one doctor, both the doctors are good enough.

Both the doctors are giving you the right medicine. But one doctor is very patient. He wants to hear whatever, he or she wants to hear whatever problem that you are facing and she is very empathetic to you. She is taking care of whatever insecurities that you have in terms of while you are talking about your ailments and etc. Another doctor is very particular. He or she thinks that okay, you are basically a machine in front of him.

So his job is not to take care of the emotions of the machines, but the actual state of the machine and he treats you like that. So if you have seen Munna Bhai MBBS that movie, it is like that. So outcome is something and process is something, we incur value from both. Now in the context of retail, what are the outcomes that you are asking? You are asking for overall quality.

You are asking for instructions at the right place, ease of assembly, that okay the products are probably well assembled. Taste, quality, health, warranty, product testing by the retailer. So retailer already doing the testing for you. So these are some of the outcomes which are trust oriented outcomes or quality oriented outcomes that is what you are expecting.

But that is something that you are expecting after you have bought it and came out to your house, you might be probably expecting all this type. But during the retail process, you might expect something else also like wide aisles. You want that the, you should not have any problem while walking through the retail stores, or ease of finding products, or a high in-stock position.

That means it is not a stock out kind of thing that you are getting. You are looking for a product and that is not there, that kind of a inventory management is done properly. That kind of problem is not being faced by you that is something is also process quality. Then fun experience. There are lots of let us say sudden activities, fun activities is going on in the retail store.

Sometimes it happens in big I would say malls and etc., there are certain fun experiences that keeps on happening. Short waiting time. This is something which is very important, because you try to check out and you generally checking out is the last step in the retail process. And you generally do not want to spend any more time from it because after that you will not get any results.

Whatever results that you are seeking for, you have already picked up your products. So waiting line is just an activity which where you are not bothered about payment. The payment, who is bothered about the retailer is bothered about. So for you that particular waiting is basically while you are waiting for the checking out, that particular waiting is a painful activity, because you have nothing to gain from that activity.

So the shorter that is the better. So together this kind of benefits can be given. Now when these kinds of benefits can be given there are certain costs also that the customers has to incur. What are the costs customer can incur? One is price and price means the cost of the product, then the cost means the MRP of the product, let us say. The delivery cost, the assembly cost, the credit cost.

Sometimes we buy it in credit, the interest of that will all everything will be accumulated as price. But these are monetary things. So monetary costs, but there can be costs that the customer will incur which are not exactly monetary. For example, let us say membership fees for club membership fees or inconvenient location where it is very difficult to go there or poor store hours or inadequate parking facilities.

These are some of the costs that the customer can incur. Now I as a retailer has to ensure that the customers benefit, the results and process quality keeps on increasing and in some way or other I am decreasing the price. If I cannot give the customer access cost, if I cannot reduce that then I have to reduce the price. So all of these things basically gets balanced.

And the customer at the end of the day chooses that whether I will go to retailer one or retailer two, that depends on whether the value that you get from retailer one and value that you get from retailer two, which one is higher. And value of each of these retailer is a tug of war between the results, process quality, price, and customer access costs.

So you have to make sure that you are in a overall sense, all of these things taken together, overall sense better than your competing retailer. If you are doing that, then you are fine.

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What is Value?

Channel Perspective

- Value is a series of activities and processes (the “value chain”) that provide a certain value for the consumer.

Customer Perspective

- Value is a perception that the shopper has of the value chain.
- It is the view of all the benefits from a purchase versus the price paid.

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So what is value? So one thing that I just told as of till now is from the customer perspective. Now from the customer's perspective value is the perception that the shopper has of the value chain. So then the term comes up is value chain which I will be discussing later. It is a view of all benefits from a purchase versus the price paid, the one that I just discussed till now.

But from the channel perspective, there is something called value as well. A channel means, it starts with whom? Can you tell me from whom the channel starts? A retail channel, a sequence of people in the retail channel it starts from whom? I will stop for a, please stop this particular video for one minute and think about it. I have told about that in a previous video.

Please stop the video, think about it and write it down and then I will tell. So the retail channel starts from the manufacturer. What is the job that the manufacturer is doing? Manufacturer is understanding the customer's needs and wants and desires and creating a product according to that needs, wants and desires or probably preferences.

Warehouse guy, that means probably the supply chain people in between which is wholesaler and dealer are making sure that the product is whichever has been manufactured by the manufacturer at a particular retail store, particular factory is

delivered up to your closest retail store at a certain price. So the extra cost that you put on that is probably much lesser.

So he is trying to make sure that he will make the product reach to the nearest retail store efficiently. That is the benefit, that is the value extra value that this wholesaler and distributor is doing. Now understand this particular thing that he this wholesaler and distributor though they are in the retail chain, they are not making the product.

The making of the product, the product feature oriented benefits that you are getting is given by the manufacturer. And the wholesaler and distributor is giving you the location related or the cost related, the price related benefits. Because they whatever if they do it very efficiently, they can reduce the cost of getting it to your nearest retail store will go down and that will also impact your price.

Now what does the retailer do then? Retailer not only makes it reach to your doorstep or to your or he does not only make it available to you as per your requirement, retailer will also position it within the retail store in such a way such that it becomes visible, such a way such that all the benefits that I just told, that the instructions will be properly given, the comparisons can be given, the market testing can be done.

So all these kind of benefits the retailer is giving. Retailer is also not making the product. These are all add-on on this on the already prepared product. So one benefit which is manufacturer providing plus the benefits that the wholesaler and distributor providing plus the benefit that the retailer providing together is the benefit that you are getting. So that is called the value.

There each of them is giving extra value on that. And we were at one point of time if you remember there were in India at least there were VAT Value Added Tax. And this value added tax was basically the tax that was that could have been charged on this excess value that this particular company is providing in a value chain.

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Retail Value Chain

- Represents the total bundle of benefits offered to consumers through a channel of distribution
 - Store location and parking, retailer ambience, customer service, brands/products carried, product quality, retailer's in-stock position, shipping, prices, image, and other elements

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So then what is a value chain? A value chain and in case of retail represents the total bundle of benefits offered to consumers through a channel of distribution, the one that I just told. What are the benefits that the total benefits that it is it can give you? One is the product obviously, the product quality and etc. Another is the location. So locational advantage that it is providing, it is getting the product very close to you.

And the parking benefits which the retailer itself is providing. That is something that comes into this distributor channel. Retailer ambience, customer service, brands and products that the retailer can carry, which is also supported by the wholesaler and distributors, the quality of the product which is supported by the manufacturer.

Retailer's in-stock position which is supported by all these people in their supply chain, the shipping, the prices, the image of the product, and the other elements, all together that you get is called the benefit. Now that is why when we think about a retail activity, we have to think that up to what kind of benefits that retailer is providing, what somebody else is providing.

And a retailer has to also think about those benefits which somebody else is providing, because for the retailer, for the customer, the face is the retailer, the connection point is the retailer. The customer will not think that who was the

distributor, who was the wholesaler. Customer will think that whether the product was available in Big Bazaar or not.

So Big Bazaar has to think or bigbasket has to think if it is a e-commerce firm, it has to think that whether the wholesaler or whether the distributor are providing proper value to me or not or which I can pass on to my customers. If that is being provided, then you will be in this relationship. Otherwise, it is better for the retailer to not to be in that relationship with the wholesaler and distributor.

Because at the end of the day, not only the retailing activity is something that the customers are concerned about. The customers are also concerned about the every retail value that it is getting, the whole chain of the retail values that the customer is getting, customer will be concerned about that. Because they are paying prices for that. They are paying prices, they are incurring access costs because of this whole chain.

So if the chain is strong, if the chain is working for the customer, then the customer will be happy. So the retailer has to think a little bit in a broader sense. I will stop in this particular lecture at this point. Thank you very much. I will see you in a new topic with you in the next lecture.