

Retail Management
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Lecture – 8
Strategic Planning in Retailing

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Retail Strategy

- The overall plan or framework of action that guides a retailer
 - One year in duration
 - Outlines mission, goals, consumer market, overall and specific activities, and control mechanisms

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 2, this is lecture 8, and in this lecture we will discuss about strategic planning in retailing. So, what I discuss about retail strategy this is basically the overall plan or framework of action that guides our retailer.

So, overall plan, so generally when we do a strategic planning, there are tactical planning and strategic planning. Tactical a short term planning and strategy is a little bit long term planning. Now, in the retail context because the retail environment changes very quickly, the market changes quickly, generally we take one year as the duration for retail strategy. So, after one year the strategy can change, whatever decisions we are trying to take that can change.

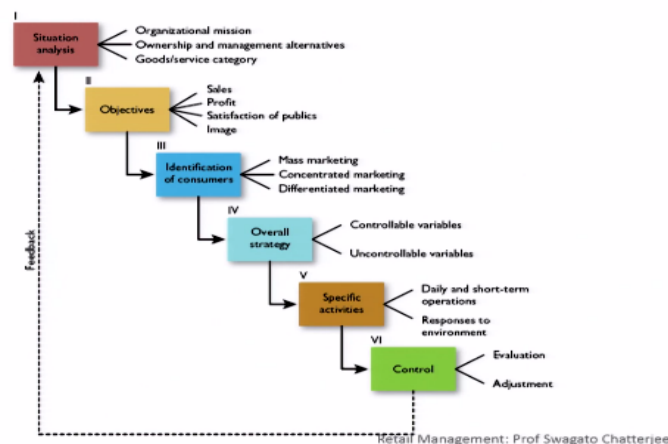
And any strategic plan, any marketing strategic plan or any overall business strategic plan will have to outline the mission, the goal, the consumer market, the overall and specific activities and control mechanism. So, these are the broad dimensions. So, you have to say the

mission and the goal; mission means something that you want to achieve, goal is how will you achieve that.

Consumer market from where you will achieve basically an overall and specific activities that you have to do and you have to also control those activities. That means, you have to measure and see that the activities are working properly or not and if it is not working properly, then you have to take corrective mechanism so that you can again come back to the strategy. So, this is overall retail strategy.

(Refer Slide Time: 02:16)

Elements of a Retail Strategy



So, when you do the strategic plan, we start with the situational analysis. It is like a doctor, let us say when you go to a doctor, you go inside the doctor's chamber and doctor asks you about your symptoms. So, your symptoms is the situational analysis of your body and doctor also knows that what is happening outside the world, means which kind of diseases are more prevalent now.

Whether it is a viral fever that is going on or whether there is some bacterial fever that is going on in the current locality, at your age what kind of diseases are more relevant and you might get affected by which kind of diseases. So, all of these things are situation analysis. Similarly, here the organizational mission, the ownership and management alternatives that the organization has and the goods and service category that he is playing with are the basic situational analysis.

Now, depending on these what you want to be, what you are today, and what kind of goods and service that you are trying to sell based on these choices, you go and set your objectives. Your objectives are generally sales, profit, growth, satisfaction of the customers, image, brand image. So, these are certain objectives that you want to achieve over time. To achieve this, you have to identify the customers.

So, the basic identification of the customers have three steps; mass marketing, concentrated marketing, and differentiated marketing. We will talk about these three terms as we go ahead. And then you take an overall strategy. Now you have an objective, you have certain customers you have identified that you will target certain customers, now you are making your overall objective; some of them are controllable variable overall strategy and some of them has uncontrollable variable.

So, you measure both controllable variable and uncontrollable variable, but for uncontrollable variables you take action so that it does not affect adversely to you. For controllable variables you maximize your profit or maximize your objective, you change the controllable variables so that you can maximize your objective. And there are certain specific activities as well like daily short term operations what do you do in response to the environment.

Like let us say somebody has complaint, you have to take a response to that complaint, immediate response is required that is a specific activity. And you are trying to create a response management system for all different kinds of customer feedbacks that you create that is the overall strategy. Now, in this overall strategy of customer feedback management that you are doing in a retail store, there will be certain controllable variables like your response time,

In how much speed you will respond or let us say what kind of language you will speak in and whether the person will have his own independence to take actions or he has to only escalate into somebody else, who will take the action. So, in this overall complaint management, there are certain activities which are controllable and there are certain activities which are uncontrollable.

For example, in the controllable activities, let us say what will be your response time, in what speed he will respond or what language you will respond, how polite the respondent will be

and let us say the person who is responding, the BPO person let us say whether he or she can take the decision on their own or they have to escalate it to somebody else, who will take the decision, so how much independence that particular person has.

These are certain controllable variables in the management of complaint or management of feedback reviews, etc. But there are some other variables which are uncontrollable for example in what speed a complaint becomes viral, you have no control on that. Certain particular complaints can become viral because who have posted it, certain other things can be vital because of the context of the particular complaint, so you do not have any control on that.

So, virality management you cannot do. So, these are some of the steps that you take and then you do a control. Control has two steps evaluation that is after the measurement, you evaluate the measurements, evaluate the matrixes and see that what could have been done better and the adjustment. So, doing those changes and that goes back to the situation analysis again. So, this loop, this feedback loop is something that is there in the retail strategy.

Basically, these are steps of any strategic management, whatever in any business in any sub category or department of the business you implement strategic steps, you have to follow these five six steps in them. So, in the retail context, we are explaining this thing.

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Ownership and Management Alternatives

- **Sole proprietorship** is an unincorporated retail firm owned by one person
- **A partnership** is an unincorporated retail firm owned by two or more persons, each with a financial interest
- **A corporation** is a retail firm that is formally incorporated under state law; it is a legal entity apart from its officers

Now, the first one that I told, so after you have decided your organizational mission, so we in marketing courses and etc you know what is vision, what is the mission. Vision is what you

want to be in let us say 25 years down the line. Mission is how we will achieve it in 5 years, I would say in a five year time period, and to achieve that you have to take strategic decisions which is goals for strategic decision which is one year time period.

So, once you have set that what is your vision and mission and how to set that will be is a discussion point as well. So, we say that when somebody is customer oriented, some particular business is customer oriented, they always puts the customer in their mind. So, if you put the customer needs and desires and whatever is their preferences in your mind, what and about the profitability of the goals that we have written here.

If your goal is to ensure of the customers enrichment, then that is something which makes you work customer oriented business. A customer oriented business is where the whole organization is focused towards the customers enrichment. So in that case, let us say I am talking about Walmart, Walmart could have told okay my vision is to become a cheap retail provider. I give the products in low cost, no they do not say that.

They say that that we will give best value to average Americans. So whatever in their mind is the average American they will give the best value. No value in the last videos I discussed value has two things. Value has benefit and value has price. So cheap and value for money or cheap and some thing which provides benefit or value or two different thing altogether. So, you might not expect something to be cheap.

So they give the products at a lower cost, but lower cost in comparison to other providers or in comparison to the benefits that is provided by the product or service that is what they keep in mind. So, why they are given better value? To make their life better, to make the average American's life better. So the major goal that they have is to make your life better. On the other hand, let us say if I talk about Disneyland.

Disneyland is has lots of let us amusement park, Disney has their own I would say movies and etc. Disney also does retailing, they sell their merchandise, their movie, I would say movie CDs and etc. Now when they are doing the retailing or in overall organization's vision is what dream comes true. So you are basically letting everybody dream whether they are going to Disneyland, whether their kin or kids, parents.

You are making them dream and you are trying to make sure that that dream comes true that the dream become true whether that is through the merchandise which is almost true like or let us say the movies which is now 3D and you can get immersed in it and or whether you go for a Disneyland visit. So here what I am trying to say that they are not saying that okay we are fun and entertainment seller. They are saying that we are dream seller.

So, we are trying to sell dreams or we are trying to make sure that the dream comes true. So, these are different kind of way to see this situation and keeping this kind of viewpoint in mind where the customer remains at the top of your viewpoint if you try to create your vision and mission statement that is basically a customer oriented vision and mission that you are trying to take, ideally we should take.

Once that is done then comes to the decision of what kind of management ownership will I take. So, there are various kinds of ownerships. For example, in India also you will probably know there are different types of entities that are there. There are solo proprietors, you can be a solo, in single person who is the person and the company are no different, they are same. So it is an unincorporated retail firm owned by a person.

Majorly our kirana stores, retail stores that small, small retail stored that you see in the I would say corner mom-and-pop shops are like this. Then a little bit if the moment you become a corporate there can be two different kinds of corporate, it can be a partnership. Partnership can be full liability partnership or limited liability partnership in India LLP or partnership firm or you can be a corporate which is a company.

A company can be one person company, a company can be a normal company or a section 8 company. Section 8 company are non-profit company. So non-profit retailing is also there, we will discuss about that at a later point of time, but one can basically I would say incorporate themselves like that as well. What is the partnership? A partnership is an unincorporated retail firm.

It is are unincorporated but registered, the partnership deed is registered, somebody has the particular deed or agreement in their hand. So, in incorporated return firm owned by two or more persons each with a financial interest. The moment you register as a limited liability

partnership form the liability becomes limited that means whatever is the money that you are paying that will be your liability.

The amount of I would say capital that you promised to contribute that becomes your liability up to that much is your liability. And the partnership firm and the individuals or the partners are two different entities basically. Similarly, a corporation is a retail firm which is formally incorporated under state law. Different states have different laws, state means different, I would say same countries or in countries also there can be different states and it is a legal entity apart from its officer.

So it is a separate entity which has its own presence as well. So these are some of the ownership strategies that you can take when you are going for a retail store. There are other formats also like franchising and etc, we will talk about that as we go ahead.

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Image and Positioning

An **image** represents how a given retailer is perceived by consumers and others.

Positioning Approaches

- **Mass merchandising** is a positioning approach whereby retailers offer a discount or value-oriented image, a wide or deep merchandise selection, and large store facilities.
- **Niche retailing** occurs when retailers identify specific customer segments and deploy unique strategies to address the desires of those segments rather than the mass market.

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Next what? What is the next decision? The next decision that you are taking is basically you see that what kind of goods and service category that you will be selling. What kind of goods and products that we will give that is the next decision. So, basically this is what will impact your image and position, how are you positioning yourself in the market. So, an image represents how a given retailer is perceived by consumers and others.

And what are the various positioning approach? There are different kinds of positioning approach. We will talk about first two. One is basic differentiation is mass versus niche. Mass means it is a positioning approach whereby retailers offer a discount or value oriented image.

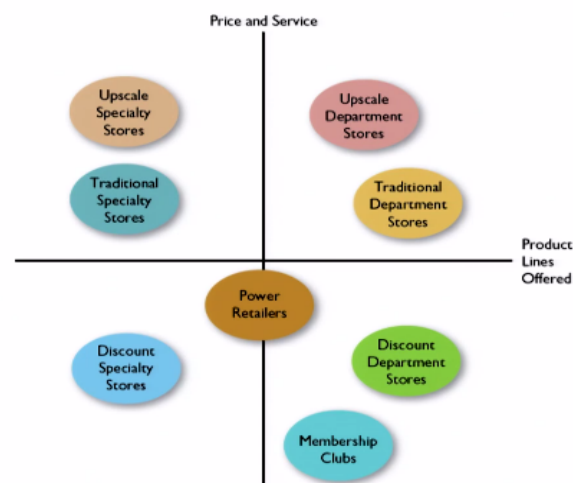
The image that is creating is value oriented like Walmart as I just discussed and a wide and deep merchandise solution.

That means either it is wide or deep, for example Decathlon is a deep merchandise solution, it is not wide, they are only focusing on sports but in sports everything. Or if you go for a wide like Walmart is a wide, they are not going deep in a particular product category, but they have very different kind of broad categories and the store facilities are very large. So, this is a march merchandise kind of view, positioning is like that.

But in the niche retailing, when retailers identify specific customer segments, they do not basically sell to everybody and deploy unique strategies to address the desires of those segments rather than the mass market. So they focus on certain segments and not to everybody by providing value for money, no they do not do that, they basically select certain customer segments and stick to that.

(Refer Slide Time: 16:55)

Retail Positioning Strategies



Now based on other things, for example the price and service the one that just another way of looking the same thing and product lines offered, lots of product lines offered or a few product lines offered. Based on these two dimensions, we can basically have different positioning. For example, if I talk about when the price is high and the service is high, but the product line offers are low this is basically a niche.

Niche kind of market where the prices and services are high but the product line are low. So which is like upscale speciality store or traditional speciality store. So any kind of speciality

store will be a nice retailing strategy. But the same thing when it is high price and wide product variety like let us say Shoppers Stop, then that will be an upscale departmental store. A traditional departmental store will be a little bit less price, high price will be upscale departmental store.

Similarly when the price is medium, it is a traditional specialty store versus traditional departmental store. Traditional specialty store can be let us say like probably upscale specialty store will be Fab India let us assume and a traditional specialty store will be let us say any other ethnic provider in the retail setup. There are lots of, there is Kauvery Emporium something like that which is only selling apparel, but it is traditional.

Then when I come down further, the price comes down further, when the price is also medium and the product lines of offers are also medium these are power retailers. These can be like Big Basket you can consider as a power retailer. Then when you further come down, there are discount specialty stores and discount departmental stores like there can be discounts specialty stores which we can consider like Best Buy can be something like that.

But their product lines are basically Best Buy should not be there, product line are generally wide for certain discount specialty stores, it is not coming to my mind. But discounts departmental stores are very common, let us say the one which is like you can the Penny retailers where you can pay a penny or 1 dollar or in India 100 rupees and everything is sold in 100 rupees let us say, those kinds of retailers can be called as discount departmental stores.

And further down comes basically the membership club. The membership clubs can be here, membership club can be at the top as well depending on what kind of membership clubs you are going for. It can be very high price and very high services as well that kind of membership clubs are also present in the retail powre situation. Now you have to decide which positioning you will go for.

Till now you have just decided the positioning that is all, positioning means of hard kind of product variety will I have, where I have depth or breadth or I will have none of them and what kind of price and services will I provide. See, the price is often basically I would say proportional to the service. Given a product category it is the service that matters for the price, you will see that is why price and service goes together hand in hand.

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Target Market Selection

- Three techniques
 - Mass marketing
 - Concentrated marketing
 - Differentiated marketing

Now, the next strategy as I told go ahead now the objectives are sales, profit depending on what kind of market you are and where you are right now. If you have just introduced you will be focusing on sales. If you have been there for quite some time, let us say 2 years 3 years are gone, then you will focus on profit. If you are going through a change, then you will focus on image. So, depending on situation your objectives will change.

Now, based on your situation and the objective you are deciding what to do, identify the customers. Now, when you are choosing the customers the target market selection, there are three techniques again. One is mass marketing. Mass marketing means everybody is your customer. Concentrated marketing means very specific people are your customer who are very concentrated who do not talk with each other, I would say who created almost like cliques within themselves like when in niche groups or differentiated customer.

Differentiated customers are not like very I would say coherent customers. They are different, different groups who are I would say more or less spread within the world, but they are differentiated, they are not mass. They do not go for commodity. So, these concentrated is one end, mass is another end, in between that differentiated customers comes into the picture. So, you have to choose at what level we will be lying.

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Strategic Implications of Target Market Techniques

- Retailer's location
- Goods and service mix
- Promotion efforts
- Price orientation
- Strategy

Now, when you are doing these what are the strategic implications of target marketing techniques? So, depending on which kind of technique will you choose these four or five things gets affected. The retailer's location gets affected where will you open your retail store. The goods or services mix gets affected, what kind of products will you keep? What kind of services will you provide? What kind of promotions will you do? What kind of prices will you charge? These are all different kinds of strategies which get affected depending on what customer segment you are targeting.

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Target Marketing Techniques and Their Strategic Implications

Strategic Implications	Mass Marketing	Concentrated Marketing	Differentiated Marketing
Retailer's location	Near a large population base	Near a small or medium population base	Near a large population base
Goods and service mix	Wide selection of medium-quality items	Selection geared to market segment—high- or low-quality items	Distinct goods/services aimed at each market segment
Promotion efforts	Mass advertising subscription	Direct mail, E-mail, and segmented social media	Different for each segment
Price orientation	Popular prices	High or low	High, medium, and low—depending on market segment
Strategy	One general strategy for a large homogeneous (similar) group of consumers	One specific strategy directed at a specific, limited group of customers	Multiple specific strategies, each directed at different (heterogeneous) groups of consumers

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How let us talk about that. Let us say when the retailers when you are mass marketing generally your retailer's location is near a large population base. And the goods and services are wide selection of medium quality, medium to low basically quality of items that you try to target. The promotional efforts are majorly based on price, mass advertising subscription. The

prices are generally popular prices that means whatever price most people are happy with you go for that.

And the strategy is one general strategy for a large homogeneous group of customers. Generally, we can do it for day to day products, not for speciality products, not for unique products, mostly for utilitarian products we can go for this mass marketing strategy. Then comes the concentrated marketing strategy. In the concentrated marketing strategy, it is generally near a small or medium population because they are very concentrated in one particular place.

Selection geared to market segments, high or low quality items. So, in that particular segment if it is high quality or it is low quality, then you will basically sell the products according to that. Let us say this is a pattern that we can see in India at least, India has lots of prejudices. But people have same religion or same caste or same occupation sometimes stays together. For example let me give an idea. Let us say IIT Kharagpur.

IIT Kharagpur people out of same occupation stays together because it is a campus at the end of the day. So it is a concentrated market, very small population base, more or less people are all a middle class, probably an upper middle class and are almost probably let us say 20,000 upper middle class people will be living together in one place. And the people who are outside Kharagpur campus, there are villages in and around Kharagpur campus, there will be a stark difference in the economic activity.

The purchasing power in these two markets to different markets, although that market is bigger than this one. So, in that market people do mass marketing and when a mass marketing bought vegetables, grocery items, this, that and often we the people in the campus also go to those kinds of markets because that is where probably we will get things for cheap, you have to bargain.

You have to know your product because there will be no services, there will be very less services, but the prices are popular. But in a concentrated marketing place because this particular market is let us say where people are well to do the prices are higher, well to do than other markets prices are higher. The selection is focused on the fact the market segment

is trying to buy so that is why let us say the fish market, the type of fish that is available here or the type of vegetables that is available here are probably of high quality.

And the promotional efforts are very targeted, like again the retailers know the people personally. They know that okay this professor stays in that particular quarter or this particular person comes to my store I know his face, so I will do a concentrated marketing. And the strategy is one specific strategy directed at a specific limited group of customers.

Now if I talk the same thing at a lower level let us say I am talking about a particular community which stays together, they are very coherent community and they generally stay together in one place and let us say that particular places a slum, it is not a very I would say well do kind of a place, it is a slum. But people have the same ethnic background, same religious background.

So, if they have the same religious background living in a slum, you know that okay I will have to give low quality items because they cannot spend a lot, the prices will be low, but the other things like communication will be still very targeted. So, whatever binds them, my communication will be in sync with that. If it is the race then race, if it is the religion then religion, my communication will be in sync with that.

And I will try to target that particular segment that is called concentrated marketing. Differentiated marketing comes in between. It is generally near a large population base again, but distinct good and services aimed at each market segments. So, there are different market segments available and with different concentrated markets available within the differentiated market and you have to sell different products and services to these different markets.

The promotional efforts are different, the prices are different and the strategies are multiple. So, for each of them, you have a separate strategy. So, you might choose depending on which kind of retailer you are and what is your market, you might choose any one of these strategies.

(Refer Slide Time: 28:17)

Retail Strategy–Cost Control

- Removal of bad costs
- Use of private label products to reduce costs of national/manufacturer brands
- Reduce product proliferation
- Obtain best net price instead of focus on promotional monies, trade incentives and forward buying
- Supply chain initiatives
- Low promotional expense (everyday low pricing)
- Proper employee utilization

Another strategy that we actually think about in the context of the activities is called a cost controlling. So till now we were talking about the marketing, but there is cost accounting part also which comes into the business and which is very important for retailer because the retailer's many small small activities which has associated costs, and if you do not control them that creates problem.

So removal of bad costs, use of private label products to reduce cost of national manufacturers or national brands, reduce product proliferation that means product gets expired, you want to reduce that. Obtain best net price instead of focus on promotional monies, so get your net price that is something that is important or trade incentives and forward buying.

Supply chain initiatives that is something which can also reduce the costs to optimize your supply chain to get the products at your doorstep at a lower cost. Low promotional expense and popular employee utilization. These are some of the strategies like low promotional expenses something that Walmart follows. Walmart says that I will not promote any kind of low prices, every day is low prices.

So that everyday low price is a target so that is the promotion that they are doing so that they do not have to promote for low prices separately. Proper utilization of employees you can probably I would say efficiently use the employee time as much as possible by doing multitasking, by properly scheduling the arrival and departure of the employees and etc. So,

these are stuff where probably supply chain will come into the picture and finance will come into the picture, but cost control as a strategy is very important part.

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Retail Strategy–Differentiation

- Well-thought out private labels (Trader Joe's, Target, King Arthur flour, etc.)
- Hiring right employees (value-profit chain)
- Empowering employees
- Use of a fun atmosphere
- “Little things that mean a lot”
- Money-back guarantees

Another retail strategy is differentiation strategy. So, it is this particular strategy that does focus on the costing part. It is focusing on the profit part because profit will come when you can differentiate your offerings from other people's offering and you can charge money for the differentiation. For example, if you come up with well thought out private levels, private level brands are basically the retailer owned brands.

If the retailer owns certain brands and it is powerful brand then it can put those brands beside a manufacturer own brand, a manufacturer owned brand will have lesser margin because some amount of money will be taken by the manufacturer, but a retailer own brand will have more say because the most amount of money will be taken by the retailer. Manufacturer, even retailer own brand is often a probably unorganized person or MSME sector, so they will generally get less amount of money.

So the major chunk generally comes to the retailer. So, that is why the private level brands are more profitable to the retailer, as much as you can use it the better for the retail. So that is the differentiation strategy. Hiring the right employees, empowering the employees, use of a fun atmosphere within the shop. So these are some of the strategies they have to take. You can also give small small services, which are very important like little things that mean a lot.

Like for example let us say wish on happy birthday or let us say somebody have come with his baby, Devander was giving example in the last day. One was shopping mall was not being able to handle the special need of a lady who has visited the shopping mall. So if you could do those things, which is small thing but it makes a lot of difference in the outcome that you will get. Money back guarantees and etc.

So this is where I will stop in the retail strategy. There are more to talk about strategy, the retail strategy the whole week we will discuss about that, but I will discuss that in the next lecture. Thank you very much. I will see you in the next lecture.