Indira Gandhi National Open University
School of Vocational Education and Training

BFDI-073
Introduction to Fashion Industry

Block

3

FASHION RETAILING

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UNIT 9 OVERVIEW OF RETAILING

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9.0 INTRODUCTION

This is the first of the three units of Block 3 on Fashion Retailing. It provides an overview of the apparel and fashion retailing business with special reference to India. Although this course is about fashion design, this unit will deal with both apparel and fashion retailing because they are closely intertwined in the business world. In this unit, the focus is on explaining the essential characteristics of the apparel and fashion retailing activities as well as the key principles of retail marketing. The unit concluded with description of Indian retail industry.

9.1 OBJECTIVES

After studying this Unit, you should be able to :

- define the terms 'retailing' and 'retailer' and explain the special features of the 'Apparel & Fashion Retailing' business;
- distinguish between organised and unorganized retailing
- identify different types of apparel/fashion retailing channels, formats and outlets;
- describe the different parts of the retailing value chain
- understand the basic concepts and terminologies used in apparel/fashion retailing;
- explain the essential principles of retail marketing and describe their relative roles;

9.2 WHY STUDY RETAILING

Retailing has always been a very essential economic activity necessary providing products and services to the consumers. Without retailing, producers would be required to take their products to each consumer personally. Alternatively, consumers might have to travel to the producers to purchase what they need. Retailing helps in solving the problems of both producers and consumers. It enables producers to specialise in producing the goods and services and the consumers to purchase whatever they want conveniently.

Clothing is one of the essential requirements of human life and apparel retailing has, therefore, become an important component of every economy. The apparel/ fashion retailing sector is also a significant contributor to the national income and employment in several countries. An efficient apparel retailing sector also serves as the backbone for a strong textiles industry in several countries.

9.3 CONCEPTS AND DEFINITIONS

In the section, we will discuss about the basic concept and definition of retailing and retailer.

9.3.1 Definition of 'Retailing and Retailer'

Retailing

Retailing refers to all the activities involved in the selling of goods to consumers of any product or service for consumption. Retailing usually takes place at a point of sale where the seller exchanges the product against the payment of the price paid by the consumer. Retailing also involves selling of the products in small units.

Retailer

A retailer is a business or person engaged in the retailing activity. Retailers are the last link between the producer and consumer. They make it easy for the consumers to buy what they want. They assess what their customers are likely to buy and at what price points and arrange for the availability of such goods at convenient locations. They also carry out advertisement and promotion campaigns for attracting more customers.

A retailer is different from a wholesale dealer or a trader. A wholesaler usually obtains goods from the producer in bulk and distributes it to the retailers in smaller quantities. A trader is a person or business that buys and sells goods for profit. A trader may buy from anywhere and sell to anyone.

9.3.2 Special Features of Apparel/Fashion Retailing

Every retail business has some special features which the retailers must keep in mind. Apparel/fashion retail, however, has several unique features and requirements. The following are some of the important unique features of apparel, which require special attention in retailing:

Product variety and diversity

Apparel is one of the few products that have so much variety. Both demand side and supply factors are responsible for the wide variations in apparel design and its construction. On the demand side, the needs of different apparel vary because of the consumer's differences in gender, age group, cultural background, socio economic status, climatic conditions, body shape/types and other special needs. On the supply side, apparel producers add to product variety in their attempt meet the preferences of different groups of consumers in fashion, brands, styles, fabrics and construction methods for gaining special reputation.

High level of personal involvement with the product

Personal involvement with the apparel is not limited to the comfort and fit factor only. People often develop an emotional involvement with the clothes that they wear. Emotional involvement can be because of one's own perceptions of self-image or one's desire for receiving appreciation from others. Emotional involvement is also influenced by situations and occasions. People tend to choose clothes depending on their mood and the kind of people from whom they want appreciation. This also leads to wide variety of buying behaviours. People who are self-confident tend to shop alone. Apparel/fashion retailers should be aware of the level of emotional and psychological involvement of their customers with the clothes they buy.

Desire for touch and feel

Since clothes often come into contact with skin and can create a feeling of comfort or discomfort on wearing, apparel consumers prefer having a good idea of the kind of feeling that they would get. Touching and feeling the clothes before buying has become a popular habit since it can be done without damaging the clothes. The sensory factor has also become very important because of the wide variety of fabrics used in garment manufacturing. Apparel consumers often use the touch and feel method to identify the type and quality of fabrics. Many buyers also use the touch and feel factor to assess the suitability of the fabric for different climatic conditions. Some buyers may also be able to use the touch and feel factor to check allergies caused by the fabric or the dyes used.

Trying out and fitment

Because of the extreme differences in body types as well as personalised preferences relating to the comfort factor, apparel buyers prefer to try out the clothes personally. This method is used generally to check the overall appeal and fitting. Trying out the clothes before buying becomes a necessity for people who do not conform to the standard size charts. Trying out clothes is also related to the cost of the apparel as well as the significance of the occasions on which these are worn. High fashion clothes that are worn by celebrities are tried out by the fashion designers themselves to achieve perfect fitment. Similarly, clothing to be worn on special occasions like marriage are test fitted to achieve perfect fitting.

Short product life cycle

People's preferences for fashion, design, style, fabrics and finishing keep changing very often. The major challenge of these changes is their unpredictability. Fashion trends can spread like wild fire. One of the main reasons for the short product

life cycle is the ease with which apparel manufacturers can change the design, styling, fabrics and finishing. An equally important reason is the ease with which people can discard old clothing and replace it with newer ones that are trending. A basic reason for the short product cycle is the growing desire for novelty. While some people want to set trends, there are many others who want to be in the front line of such trends. A major factor responsible for the shortening of the product life cycle is growing income levels. As incomes grow, people do not mind discarding clothes that are not in fashion. Very rich people also do not want to wear the same clothes again particularly for social functions.

Value additions by retailers

Unlike many other products which are sold in the same form or packaging supplied by the producers, apparel retailers add value to the clothes by offering alteration as per size of the respective customer. They add value by having trial rooms that help buyers in checking how the clothes look and feel on wearing. They also add value by providing an organised display of clothes according to brands, sizes and categories. Both window and in-store displays on mannequins and dress forms help buyers to assess the design and style of garments. Designer houses, ateliers, boutiques and custom tailoring shops often have in-house or outsourced design and manufacturing for maximising the value they give to their customers.

Check Your Progress 1

Note: a) Space is given below for writing your answer

b) Compare your answer given at the end of the Unit

1) List the three distinguishing features of retailing.

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9.3.3 Organised and Unorganized Retailing

Retailing has been a traditional business activity in the country. Local stores catering to the needs of the neighbourhood population have dominated the Indian retailing scenario for long. Despite a rapid growth of cities and towns, traditional shops account for over 90% of retailing business in the country. This contrasts with over 85% share of the organised sector like the United States. Grocery shops account for most the unorganized sector stores.

Characteristics of Unorganized Retailing

1) These are owned by individuals or households and are run as proprietary firms, which do not require any legal formalities for setting up.

2) The primary focus of unorganized retail business is to keep their costs low so that they can make adequate profit even on a small sales turnover.

3) These are very small having less than 500 Square Foot of space. They also do not use modern product display systems.

4) These employ fewer people, usually less than 10 persons and generally they also do not employ skilled/professionally trained human resources

5) Customers normally stand outside the store and in front of sales counter and the ordered items are brought to the counter by store assistants for billing and delivery. Apparel boutiques/shops, however, provide better access to the clothes and even include sitting space along with body measurement areas and trial rooms.

6) Unorganized retailers do not make use of the best practices recommended by management experts but rely mainly the conventional family wisdom gained through practical experience.

7) They are also slow in adopting new technologies.

8) They make use of manual accounting and book keeping. Computerisation accounts is, however, steadily increasing in the unorganized sector

Characteristics of organised retailing

1) These are owned and managed by companies established under relevant Govt. laws

2) The stores are relatively larger and the bigger organised retailers may occupy as large a space as a shopping mall

3) Organised retail stores are generally located in more than one location and operate across the country

4) Organised retailers might also make use of franchise store operators besides having own stores

5) These stores usually develop and promote their own store brands besides selling products of brands belonging to the manufacturers

6) They make use of well-trained human resources and corporate management structures

7) They also make use of computerised accounting and management information systems

8) Their corporate structure gives them access to larger financial resources in the form of bank loans and investments including foreign direct investment (FDI)

Check Your Progress 2

Note: a) Space is given below for writing your answer

b) Compare your answer given at the end of the Unit

1) State the top five differences between organised and unorganized retailers

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9.3.4 Classification of Retailing Channels, Formats, and Types of Outlets

Retailing business has been evolving over time in response to consumer preferences, technological changes and business requirements. As of now retailing is carried out in a wide variety of models. These are classified into different categories based on their common characteristics. These classifications help in understanding the way of their functioning as well as their mode of operations. Such understanding is also helpful to both consumers and suppliers in dealing with them.

Channel based classification

Classification of retail businesses based on the channels in which they operate is of recent origin and started with the introduction of the Internet based online e-commerce channel.

Following are the well known channel based classification of retail businesses

1) **Offline Channel:** This refers to those retailers who sell only through physical stores or other traditional means like direct selling or mail order without making use of the Internet based information technology solutions in any way

2) **Online Channel:** This refers to those retailers who sell through their virtual store fronts accessible over the world-wide web or through mobile applications.

3) **Multi-Channel:** This refers to those who make use of both online and offline channels for selling. There is however no integration of these channels. Buyers can make use of either channel independently.

4) **Cross Channel:** Uses a variety of word to the retailers who sell simultaneously on both the offline and online channel and allow customers to do parts of the buying process in the online channel and the remaining in the offline channel and vice versa.

5) **Omni Channel:** This is a new development facilitated by the advancements in the virtual reality technologies. The Omni channel model aims at providing the same kind of shopping experiences in both the online and offline channel with the help of virtual reality technologies.

Ownership based classification

The following is the ownership-based classification of retail businesses:

1) **Independent retailer:** An independent retailer owns and operates only a single retail outlet. Independent retailers account for most of the retail businesses in the unorganized sector. Typically, these businesses are run as proprietary firms employing family members and residents. These are set up primarily with the help of family savings or loans from family and friends.

2) **A chain retailer:** When multiple retail stores having the same name or brand located at different locations are under a common ownership or management and are dealing in the same or similar goods, these are categorised as chain

retail stores. Usually chain retail stores not only sell the same kinds of goods but also have a similar appearance and common business strategies and customer relationship policies.

3) **Franchise Retailer:** When an independent or chain retailer enters into a contractual agreement with another retailer or manufacturer for selling their products as per the terms and conditions imposed by the brand owners/ manufacturers/retailer based on a mutually agreed revenue or profit-sharing formula, they become a franchise retailer. Like a chain retailer, franchise stores share a common look and follow a single business policy. A franchise store would source all the items it sells only from the franchise owner.

4) **Leased Department Retailer:** This is typically as store inside a shop. When large departmental stores give out on rent sections of its store to third parties for selling a mutually agreed product category or product/service, those operating in the rented space of a departmental store are known as leased department retailers. Their contractual agreements with the Departmental store would usually stipulate the terms and conditions for running the store.

5) **Consumer Co-operatives:** Independent or chain store type retail outlets may also be owned by consumer cooperatives. The primary aim of these cooperative retail outlets is to eliminate the margins included in the selling price and charge only a cost price that covers the cost of the merchandise and the operational costs of the outlets. Consumer cooperatives sell either exclusively to their members or have different prices for members and non-members.

Merchandise based Classification

Classification retail stores based on what they sell helps consumers in knowing what they can hope to buy from the concerned outlet and what would be its commercial policies.

1) **Departmental Stores:** Generally, departmental stores deal in multiple product categories, which customers are likely to buy in a single shopping trip. Departmental stores may also lease out space to third parties for adding more product variety for enabling their customers to buy whatever they want under a single roof. Departmental stores aim at enhancing the overall shopping experience of their customers through high quality customer service, in-store displays and promotions, loyalty programmes, easy return and exchange policies and after sale support services.

2) **Convenience stores:** As the name suggests, the focus of these types of stores is on selling items that people would prefer to buy at convenient locations and timings. These stores, by and large, would be located inside or adjacent to residential areas with easy accessibility. They usually stock items of daily use particularly those that people cannot or do not prefer to shop and stock for long. They would also hold limited stocks of items, which the residnets might want to replenish at short notice or for which they might not want to make special shopping trip to any far away store. These stores are also likely to remain open for longer hours or 24/7 if the law permits. However, the convenience they offer and the small scales of their operation, their prices may be relatively higher.

3) **Super Markets:** These are like departmental stores but relatively smaller in size and dealing in fewer product categories. Their focus would be on selling in high volumes at lower costs. They try to minimise the selling price by lowering margins, adopting the self-service model for controlling the staff cost and by increasing the volume of sale per item. Super markets would also be located at locations near residential cluster, which are conveniently accessible through public and private transport.

4) **Hyper Markets:** Also, known as 'big-box' stores or super stores, hyper markets combine business models of the Departmental Stores and Super Markets into a single model of success. Hyper Markets are the largest retail outlets having 5000 to15000 Square Metre of space. Their approach is to maximise the number goods that shoppers could buy and stock in a single shopping trip. Like the Super Markets, they aim at offering items at the lowest possible price by selling in huge volumes, adopting the self-service concept to minimise the operational cost and choosing store locations in the outskirts of major cities for minimising retail space costs.

5) **Speciality stores:** These stores focus have very narrow product category focus with a view to maximises buying options for those looking for choices. However, since the per unit volume of sale would be limited, they are most likely to go by the manufacturer's pricing and discounting policies.

6) **Off-Price Retailers:** The aim of these stores is simply to bring to market merchandise at the lowest possible price. There would be, however, no constancy or consistency in the brands or quality of goods sold. They usually buy manufacturers' seconds, overruns or off seasons at a deep discount and pass on part of the resulting benefits to their customers. These stores remain the favourite of consumers who are always on the lookout for attractive deals.

7) **Warehouse Retailers:** Their pricing strategy is like that of the Off-price retailers offering products at deeper discounts. However, unlike off-price retailer they deal in consistent product categories. They specialise in high volume retailing of fast-moving goods and they cut their retailing costs by cutting out the frills of normal retailing stores.

Classification of Non-store retailing

Non-store retailing involves selling goods to consumers without the medium. Ancient traders did only direct selling. They travelled to distant places to find wealthy customers and carried the goods along with them. In recent times, several non-store retailing formats have been popular. With the advent of the world-wide web, a wholly mew medium of non-store retailing has emerged. Internet based electronic retailing is growing rapidly and competing with the traditional store-based retailing. The following are the different types non-store retailing operations.

1) Direct Selling: It is one of the oldest forms of retailing, which is still in vogue. It is also very different from store-based retailing since the direct seller goes in search of the buyers and after finding them engages in interactive negotiations before concluding the sale.

2) **Mail order:** In the beginning mail order retailing was carried out with the help of the postal communication system. Product brochures were sent as a postal mail and the buyers placed the order in a return mail. Then the product was dispatched as a Value Payable Parcel. The payment was collected by the postman. However, with Internet and online payments becoming more accessible and affordable modern mail order business is done through emails or websites and the payments are collected online or by the courier companies.

3) **Telemarketing:** In this case products are advertised on televisions and the buyers are given a telephone number or a website or registering their orders. Products are delivered by couriers, who may also collect the payments, if the buyer had not paid online and had chosen the cash on delivery option.

4) **Automatic Vending:** These function like ATM of banks. Vending machines loaded with a select number of packaged products and these machines dispense the items on receipt of the payment in cash. Vending machines accept cash and return the balance after dispensing the item.

5) **Electronic retailing:** It is also known as e-commerce or internet retailing or simply e-tailing. It involves websites or portals that display the product information along with the price, shipping costs, discounts, etc. Buyers access the website/portal through web browsers or mobile applications and place their orders. They also get the facility to make the payments online or choose to pay the price on the delivery of the product. The e-commerce operators provide an acknowledgement of the order and the payments if any made. They also inform the buyer about the delivery plan along with an online link for tracking the delivery schedule. E-commerce sites also provide customer service, which includes return of the item and refund of the price paid.

Retailing formats unique to apparel

While apparel/fashion retailing is carried out in almost all the popular in-store and non-store retailing formats, there are also certain types of that are unique to the apparel/fashion industry. While retailing serves as the last link between the producer and consumer in most cases, it becomes the only link between the producer and consumer since the retailer also takes on the function of the producer. These include the following:

1) **Designer Houses:** Designer Houses specialise in high fashion garments and couture collections. They look after everything from design to delivery. Retailing of couture garments involves primarily direct selling. However, fashion garments created for the mass markets are retailed through normal retailing channels.

2) **Ateliers/Boutiques:** They also function like designer houses in dealing with customers but serve very localised clients and markets. Their scale of business as well as their brand image is also very limited.

3) **Custom Tailoring:** Custom tailoring shops continue to be significant player still in in smaller cities and towns. They also function as a one stop shop for designing and delivering garments. The main difference between ateliers and custom tailoring shops is that customers often choose and buy the fabrics that get stitched by the custom tailoring shops.

Check Your Progress 3

Note: a) Space is given below for writing your answer

b) Compare your answer given at the end of the Unit

1) Discuss the classification of retail stores.

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9.3.5 The Retailing Value Chain

Most of the retail value chains start with inventory management required for maintaining the desired assortment of products and end with delivery and fulfilment of the order. This four-part value chain consisting of 1) inventory management and distribution, 2) store management, 3) Marketing and sales and 4) delivery and fulfilment is also applicable to the apparel/fashion retailing done through regular channels. Product design gets prefixed as it is the greatest value addition activity in the retailing of designer wear and custom wear. A support component also gets suffixed since alterations and fitment are equally important value addition activities in apparel/fashion retailing.

9.4 RETAIL MARKETING

Retail marketing helps the retailers in attracting new customers and retaining existing customers. Retail marketing strategies aim at motivating customers to buy more and more from the outlet. Retail marketing strategies are executed through advertisements and campaigns that create awareness interest among the potential customers about the store, a brand, product or a promotional scheme.

Retailers generally make use of a combination of strategies covering the product, its pricing, its placement and promotions to persuade the likely buyers to visit the store and make the purchase. These factors are also collectively known as the 'Retailing Marketing Mix'. Retailers always have the option to use any single or a combination of these factors to increase the footfalls and sales.

9.4.1 Product

Customers go to retail stores to buy products that they want. How well the store meets the customer's needs for products, therefore, becomes critical for the success of the retail outlet. A successful product strategy involves understanding and making available the products that the target customers need. For making effective use of the product based retail marketing strategy, the retailers should develop a proper understanding of two relevant concepts namely product assortment and product life cycle.

Product assortment

Also, known as product mix, product assortment starts with the choice of the product lines that the store wants to sell and under each product line the width, depth and length up to which it would offer specific products. The product line means a distinct product category with varieties under it and each variety having specific items. The width refers to the number of product lines/categories carried by the store; the depth indicates the number of products under each line or category; and the length represents the total number of products offered.

Product Life-cycle

Product life cycle refers to the likely variations in the rate of demand from the time of its introduction in the market. There are four distinct phases in the retailer's product life-cycle namely 1) introduction, 2) growth, 3), maturity and 4) decline. It takes time for new products to attract the attention of the consumers. Not all consumers would be adventurous enough to try out new products. Most usually wait for others to try the product and give their feedback. If the product is good, it would steadily get accepted by consumers and enter the growth phase. This phase also raises profits. But once all the potential consumers have bought and used the products, the curiosity factor would go away and people would start adopting a rather need based approach and look for optimum prices. As a result, profit margins would come down and the overall demand might also begin to decline. This phase is referred to as the maturity phase. The maturity phase also does not last for long. The overall demand might fall sharply making it uneconomic for the retailer to sell the product.

The concept of product life-cycle is particularly very relevant for apparel/fashion retailing since fashion and seasons always keep changing and people's preferences might also change accordingly. In areas like apparel and fashion novelty plays an important role and whatever is in fashion is also the most in demand. For successful operation of apparel/fashion retail outlets, it would be very necessary for them to understand the life-cycle of the garments they sell and decide to sell more of items in the growth phase and less of those in the decline phase.

9.4.2 Place

How conveniently customers can reach the store as well as find the items inside the store is a very important factor relevant for the success of any retail store. The store location and layout is also important for improving the efficiency and profitability of the store.

Store Location

There are several factors that determine the suitability of a store location. 1) Foremost among these is the availability of the potential customer base in the vicinity and effort required to pull the target customers to the store. 2) The location must also be easily accessible for the customers by private and public transport without getting caught in frequent traffic jams. It must not be also next to or surrounded by shops or anything that are likely to put off the visitors psychologically. The store must also be easily accessible to vendors and logistics service providers. 3) It would be also necessary to ensure that there are adverse competitors nearby. While it may be advantageous to be amidst a cluster of outlets

selling same or similar products, it may not be a good idea to be in the neighbourhood of those who wilfully indulge in unfair practices 4) The cost of the location must also be considered carefully. Rentals cannot be so high that the retailer is left with limited funds for promoting the business. 5) The overall ambiance of the location, its access roads and entry points should be welcoming and guarantee safe and relaxed shopping experience.

Store Layout

The inner layout of the store needs to be even more welcoming for the customers to give them a fulfilling shopping experience. There are two conflicting objectives that influence the store layout design. From a profitability perspective, the store layout must be designed to make the customer buy the maximum. However, from a customer convenience point of view, the store layout must enable customers to minimise the time it takes for them to buy what they had planned to buy. A fine balance must be achieved between these objectives to make every customer want to visit and buy from the store the very next time also.

9.4.3 Price

Price is a very important aspect of the retail marketing mix particularly in the case mass market items and price sensitive customer segments. While price would not be important in the up-market and high fashion segments, it plays a crucial role in the buying decisions of the middle class and lower income groups. While high prices would raise profits, it could lead to fall in sales. A fine balance will need to be maintained in the pricing of products to maximise both sales and profits optimally. To fix prices in a pragmatic way, the retailers must develop a better understanding of all the factors having a bearing on the retail prices as well as the different models of pricing, which may be adopted.

Key considerations in the fixing of prices

1) **Cost:** Prices must cover all costs and include a reasonable profit margin.

2) **Demand:** How the demand responds to changes in prices is a key factor governing the setting of retail prices.

3) **Competition:** The price charged by competitor for similar product needs to be used as reference point while fixing retail prices. While higher prices would lead to a loss of customers, lower price might start a price war with the competitors.

4) **Marketing Objectives:** Retailers may aim at achieving very different short-term and long term marketing objectives while fixing prices such as a higher market share, regaining lost customer base, beefing up the brand image, etc.

5) **Price Regulations:** Government or local authorities may also impose ceilings on the maximum prices for any product. In such cases, competitive pricing would be possible only with the help of cost reduction.

Pricing models:

Retailers have the option to use different types of pricing models depending on the business conditions or objectives. These include the following:

1) **Cost Based Pricing:** In this method, the desired profit margin is added to the cost price. If a garment costs Rs. 800 to a retailer and if the desired profit margin is 25% then retail selling price will be Rs. 1000 (800+ 25% of 800).

2) **Competition Based Pricing:** In the case of competitive markets with very little difference in the quality of products, price is usually fixed closer to that of the competing brand. For example, both Coke and Pepsi are sold at the same price.

3) **Demand Based Pricing:** In this case, price is fixed primarily in relation to the demand irrespective of the cost. For example, the front row tickets in a movie theatre is sold at the least price as compared to the back rows. On the contrary front row tickets in drama theatre is sold at highest price while the back-row tickets are sold cheaper.

4) **Objective Based Pricing: T**his method is used when profit maximisation is not the objective. When a new product is launched or when company wants to gain a larger market share, prices are fixed competitively disregarding the costs and loss of profits.

9.4.4 Promotion

The promotional marketing mix consists of a variety of initiatives that retailers take to communicate with their current and potential customers. These include both advertisement and promotional campaigns, which they do both inside the store and at locations away from the store. The objective of both types of campaigns is the same and that is attract more customers to the store and encourage them to buy more from the store.

Off-store Advertising and Promotional Campaigns

Retailers who cater to local clientele may use advertising methods such as:

- **Signboards/billboards:** These are placed at strategic locations such as railway stations, crowded areas, heavy traffic crossings, bus stands, near cinema halls, residential areas and so on.
- **Direct mail advertising:** Promoting the online and offline retail through email has become very popular because of the low costs and wide outreach.
- **Ads in newspapers/shopping guides:** Retailers advertise in leading newspapers or magazines or in the local shopping guides
- **Distribution of flyers:** Home delivered or local newspaper delivery personnel.
- **Radio, television ads:** Growing television viewership and radio audience has turned these into valuable advertising medium. However, these are costly and therefore used only by large retailers.
- **Web based advertisements:** Internet now offers a wide variety of advertising options that are affordable to small retailers also
- **Social media:** A variety of social media platforms now offer very attractive advertisement options.

- **Roadshows/fashion shows:** Apparel/fashion retailers make use of fashion shows to publicise their new collections.

Store based Advertising & Promotional Campaigns

In store advertisements and promotions have been found to be very effective for increasing sales. Some of the popular methods include the following

- **Signage:** Signage are placed at vantage points including the point of sale to attract the attention of customers.
- **Announcements:** Promotional messages are relayed to shoppers' verbally, typically via a public-address system.
- **In-store display:** Special displays of selected merchandise inside or along the outside walls help attract the attention of shoppers.
- **Packaging:** Specially designed packaging with promotional messages and schemes to prospective consumers
- **Printed content:** These may include in-house flyers or leaflets.
- **Live demonstrations and free samples:** These help in creating an engaging product experience for the shoppers.
- **Personal Selling-interaction with store personnel:** Personal selling refers to the presentation of goods and services before the customers and convincing or persuading them to buy the products or services. It involves face-to-face interaction and physical verification of the goods to be purchased.
- **Sales promotion:** In-store sales promotion activities include window displays, product and promotional material.
- **Flash sales:** It is an offer promotional pricing that lasts only for a limited time. Many retailers are now adopting this strategy to sell more products and get rid of surplus stock.

Check Your Progress 4

Note: a) Space is given below for writing your answer

b) Compare your answer given at the end of the Unit

1) List the four important retail pricing models

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2) State the two major types retail marketing promotions with three examples each

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9.5 STRUCTURAL CHANGES IN THE INDIAN APPAREL/ FASHION RETAILING SECTOR

Some of the important structural changes taking place in the in the apparel retailing industry are as follows:

Rapid rise in the share of organized sector: The share of organized retailing, which was below 1 percent by the turn of the century increased to 3.5 percent in 2006 and further to 5.5 percent in 2011. Although the share of organised apparel retailing in India is still very low as compared to the developed countries, organised apparel retail industry is growing in India and is expected to have a share eight percentage in 2016.

Rapid growth of malls: A major factor contributing to the growth of organised retailing is the growing role of shopping malls that have become the home of new retail chain stores, which sell apparels exclusively or have large apparel sales. Retail chains like Pantaloon, Lifestyle, West side, Shoppers Stop and the like have major retailers of apparel. Besides these, there are also large number of Indian and foreign brand stores selling apparel either exclusively or largely. These include stores like Marks & Spencer, W, BIBA, etc.

Emergence of mega store brands: Traditional retail stores have relied mainly on the trust and reputation they built among the local population. Not many of these stores have adopted a brand building strategy. On the other hand, modern retail outlets are clearly focused on developing their own store brands. Most of the departmental stores have established their own store brands. Some of the traditional retailers are also following the example set by mega retail stores. Some of the departmental stores have also created in store apparel brands. Retail chains like Pantaloon, Shoppers Stop, West Side, Lifestyle etc. have their own store brands besides selling well-known apparel brands.

Rise of Indian fashion designers: Growth in organised retailing and the overall rise in the disposable incomes of people particularly in the high income group, many of the Indian fashion designers have been able to establish themselves and create a sizeable market for high fashion garments. Indian fashion designers are also now able to create fashion trends through their fashion shows and by designing costumes for the Indian film industry.

Foreign direct investment (FDI) in multi brand retail: The government has recently changed the FDI policy and permitted the entry of foreign investments in multi brand retail stores in addition to the single brand stores which had open for FDI earlier. This new policy is likely to attract major international organised retail companies like Walmart, Metro, etc. to set up retail stores. Because of their vast experience and great capacity to invest, it is expected that their entry would lead to far higher growth in the organised retail segment. Apparel retailing is also likely benefit significantly through this growth.

Apart from the above mentioned structural changes some major trends are also becoming visible. These trends have the potential to bring about further structural changes in the apparel retail industry. Some of the major trends that must be taken note of include the following:

- **Increased spending on clothing**: Indian consumers are now spending a greater share of their consumption expenditure on clothing. As against spending only 4 to 5% expenditure on clothing in 2001, they are now spending about 6 to 7% of their expenditure on clothing as of 2011. As compared to this people's spending on food has come down from about 48% to 32% during this period. This implies that the apparel-retailing sector will continue to grow faster in future. The apparel-retailing market is expected to double its size between 2011 and 2016

- **Greater integration of export and domestic markets for apparel**: The rapid growth in the apparel exports of the country and apparel retailing segment within the country, there is already significant integration of the Indian apparel-retailing market with the world. Many foreign apparel brands and fashion labels have entered the Indian market successfully. Indian apparel brands are also now trying to find international markets.

- **Rise in consumer expectations**: While in the initial phase of organised retailing between 1995 and 2000 it was the new entrants who drove the growth in organized retailing, it has led to growing consuming expectations since the start of the new millennium.

- **New value propositions for consumers**: The focus of a majority of the traditional retailers has been on serving the price sensitive consumers. However, modern retailers and retail formats focus on offering the consumers a bouquet of value propositions besides 'value for money'. Iimportant new value propositions offered by the new retail formats include higher levels of convenience and customer care. They are also able to attract customers through regular discount sales and loyalty programmes. Many of the departmental stores in India have also introduced loyalty schemes to promote repeat purchases and build a loyal customer base. Departmental stores like Shoppers' Stop and Big Bazaar have joined hands with banks to offer their loyal customers co-branded credit cards with additional benefits.

- **Spread of franchise stores**: With the arrival of MNCs, the Indian market has woken up to the concept of franchising as a way of doing business. Some of the foreign companies as well as Indian companies with strong brand presence have adopted franchising. Franchising has become an important tool to expand the reach of well-established brands to a larger number of retail customers. With the adoption of franchising, both designer labels and other mass apparel brands will become available even in shopping areas, which were so far dominated by local stores. This phenomenon is also likely to affect consumer preferences with respect to store choice.

- **New formats of retail**: The retailing industry in India is in a transition stage, with the retailers trying to rework their formats. The retail sector in India is witnessing a huge revamping exercise as traditional markets make way for new formats such as departmental stores, hypermarkets, supermarkets and speciality stores. Western-style malls have begun appearing in metros and other cities across the country.

- **Increased brand consciousness**: Brand consciousness is intimately connected with people's desire to differentiate and seek different identities.

A brand is not merely a statement of the financial status of a person but reflects more than the attitude and taste of a person. Today's consumers want better and innovative offerings that are customized to their needs. They seek differentiation and rarely stick to a brand if they do not get a perceived value proposition from it.

- **Increased role of e-tailing:** Over the past few years, many online stores have also come up selling Indian apparel. There is also considerably more advertisement and promotions of these online stores than before. Online stores like myntra.com, jabong.com, flipkart.com have become popular. E-tailing of apparel can also be expected to grow faster now.

Check Your Progress 5

Note: a) Space is given below for writing your answer

b) Compare your answer given at the end of the Unit

1) List the top five emerging trends in the Indian retailing sector

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9.6 LET US SUM UP

This unit attempted to give you give you an overview of the retailing activity to create a foundation on which you can build additional knowledge on the subject. The section on concepts and definitions should have given you clarity about the different types commonly used terminologies in relation to detail. Although retailing is a generic term, it covers a wide variety of retailing formats that have their own distinctive features. For example, considerable differences exist between the organised and unorganized retailing outlets. Apparel retail stores have different sets of challenges as compared to the rest. Retail stores and operations can also be classified based on parameters such as the channels in which they operate, the type of ownership, their merchandise, the physical or virtual nature of their point of sale or the special formats pertaining to specific categories of products. In spite of the genuine difference among the various retailing formats, there is a common value chain. The differences among the retailers often arise depending on the exact part of the value chain that the concerned retailer is focused on.

After studying the next section on retail marketing, you should become very aware of the specific types of strategies that the retailers would need to adopt for maximising value additions made along the value chain. This section focused particularly on four factors namely Product, Place, Price and Promotion, which are also popularly known as the 4 'P' s of marketing. This section should have given not only a clear understanding of each of these principles but also given you a realisation about the need for strategically combining all of them in a customised way to suit the requirement of the different types of retailing operations.

Lastly, you would have also had the opportunity to relate the conceptual and theoretical knowledge gained from the previous two sections to the real-life retailing scenario in our country as well as in the context of the structural changes that are taking place in the Indian retail market. You should assess your learning from this unit based on the foundational perspectives that you gain, which are very necessary to assimilate the additional knowledge about retailing, which you will be getting from the next two units of this block.

9.7 CHECK YOUR PROGRESS: THE KEY

1) a) It is the last link between products and the consumer
   b) It involves selling to the actual consumers
   c) Products are sold in smallest possible quantities

2) a) An unorganized retailer operates in a single location while the organised retailers are in multiple locations
   b) Organised retail stores are relatively larger while unorganized retailers use limited space
   c) Self service is the popular mode in organised retail but unorganised stores serve customers over the counters
   d) Organised retailers make and sell their own brands while the unorganised sell only products/brands of others
   e) Organised retailers are generally registered companies but the unorganized are mostly proprietary

3) a) Chanel/s of retail operation
   b) Type of ownership
   c) Categories of merchandise sold
   d) In-store or Non-store operations

4) **A)** a) Cost based pricing
   b) Competition based pricing
   c) Demand based pricing
   d) Objective based pricing

   B) a) Off- store promotions such as 1) newspaper or television advertisements; 2) Home delivered flyers; 3) Roadshows/fashion shows
   b) In-store promotions such as 1) Special product displays; 2) Flash Sales; 3) In-store Audio announcements

5) a) Rising share of the organised retailing segment
   b) Rapid growth in shopping malls
   c) Emergence of mega store brands
   d) Increasing popularity of Indian fashion designers

e. Rise in the flow of foreign direct investment (FDI) into organised retailing.

UNIT 10 RETAIL OPERATIONS

Structure

10.0 Introduction

10.1 Objectives

10.2 Importance of Retail Operations

10.3 Key Components of Retail Operations

- 10.3.1 Store Management
- 10.3.2 Merchandise Management
- 10.3.3 Employee Management
- 10.3.4 Customer Management
- 10.3.5 Inventory Management

10.4 Role of Retail Operations Manager

10.5 Let Us Sum Up

10.6 Check Your Progress: The Key

10.0 INTRODUCTION

In the previous unit, we discuss about the overview of retailing. In this unit, we will explain retail operations. Retailing is a complex business since it involves direct interaction with customers. To be able to achieve success in a retail business, it is imperative that all the procedures and policies required for a smooth and effective functioning of the retail organization are well planned, integrated and executed. This unit on 'Retail Operations' seek to introduce and explain the various retail operations that are performed in an organization. Simply defined, operations are the activities put in order to actually run the business organization. In this unit, all these activities and policies have been defined and explained with clarity and in detail. The content of the chapter have also been supplemented with relevant example, which would help the students comprehend the subject with precision and depth.

10.1 OBJECTIVES

After going through this Unit, you should be able to:

- Define retail operations and its importance in the retail business organisation
- Understand and describe the various components of retail operations
- Define the terminology used in retail business operations
- Discuss the role of retail operation manager

10.2 IMPORTANCE OF RETAIL OPERATIONS

The retail store is a place which the consumer visits to purchase a product. The ultimate experience of a consumer in the retail store is of paramount importance as it influences the decision of a consumer to whether make a purchase or not. In the fast moving world of today, the customer is a king with many choices and therefore, it is very important for a store manager to ensure the customer

satisfaction and delight. A delighted customer will not only revisit the store in future for all his needs but will also recommend it to others.

Thus to survive against competition and to ensure high rate of customer satisfaction and loyalty, the retail store operations are very important part of retail business management.

Retail store operations is daily execution of plans and policies, from the receiving of new merchandise to following up on the customer's purchase. It also includes the management of the store premises, product display and pricing and the ensuring the courteous staff.

Well managed retail operations create and sustain loyal customers and thus secure the future of the retail business organization.

10.3 KEY COMPONENTS OF RETAIL OPERATIONS

To ensure that the course of all the retail operations runs smoothly, it is vital that the management clearly defines all the policies of the organization and the processes to be performed and have the resources to implement them. All retail organizations have their operations manual which entail the processes and all the details of the tasks to be performed including the responsibility of the personnel and the time frame in which the action needs to be performed

In general, the following operations are usually performed in any retail organization:

10.3.1 Store Management

In retail operations, the first and foremost thing is to examine the facility from an internal perspective, beginning with actual space – whether brick-and-mortar or an Internet click site. There are a number of operational issues that relate directly to the actual location of the business. These include:

1) Store layout and design
2) Store procedures and
3) Premises maintenance

1) Store layout and design - The retail store being the fundamental source of revenue and the place of customer interaction, is vital to the retailer. The success of a retail store is influenced by its layout design and the ambience (atmosphere) created by the retailers. The basic functional principle of a retail store is to display the products and sell the product. Both these activities require a space to accommodate products, services and people. The space within a brick-and-mortar retail operation can be divided into four types of space:

i) The sales floor – space that contains merchandise for the sales

ii) The customer service area – includes dressing rooms, lounges, rest rooms, coffee and juice bars, credit departments, merchandise return & exchange stations and checkout stations.

iii) The merchandise warehousing and handling zone – include receiving areas, space that holds merchandise off the sales floor, and alteration departments.

iv) The staff personnel area – include offices, lunchrooms, conference rooms, and training areas.

Not all retail business needs every kind of listed space allocations. On of the key managerial duty of the retail store manager is to determine, first, which operation actually need space and second, how much space to allocate for these operations. The amount of square footage to be allotted for showing and storing merchandise to be sold is referred to as selling space. The remaining areas are called no selling space. Estimating how much selling and non selling space to allocate is a major decision to be taken by the entrepreneur. In general, a store dedicates 65% -85% of its space to the actual selling of merchandise.

Apart from space allocation, the space design and layout are the two most important aspects of the store administration. A well-planned store layout allows a retailer to maximize the sales for each foot of the allocated selling space within the store. It is important for a retailer to consider the smooth mobility of the customer while designing a store layout. Customer mobility is the ability of customers to enter the outlet, move around the store and find the product they are seeking. It is also about accessibility for customer with physical limitations. It is the store manager's responsibility to ensure that the customers with physical restrictions can move through the aisles, comfortably use a dressing room or rest room and move to the cash counter with ease. To ensure smooth mobility, store layout should have circulation plan. Circulation is an invisible force which revolves around the customers so that they cover the entire range of merchandise under display leading to maximize the purchase. The main aisles should be wide enough to avoid cramping during peak shopping seasons. Care should also be taken to ensure that the furniture has no sharp edges and the flooring is not slippery.

Another important aspect to be considered while designing the space layout is to accommodate the duties of the staff in order to make the operation run smoothly. For example, if the trial rooms are located far from the sales floor, the sales associate has run a marathon by the time the workday is over. Similarly, if the merchandise is congested on the selling floor, then the sales associate cannot monitor the inventory, leading to episodes of theft.

2) **Store procedures –** The store procedures are as important as the retail store itself. Managing the operations of a retail store starts by determining how the tasks pertaining to the premises are to be performed. Managing procedures includes the following tasks:

i) Determining hours of operation: It majorly depends upon the target audience, retailed merchandise, and store location. For example, a grocery store near residential area should open earlier than a fashion store. An early morning opening of a fashion store will unlikely to elicit much customer traffic. Also, a solitary store can be open as long as the owner wants to but a store in a mall has to adhere to working hours set by the mall management.

ii) Managing store security: Security of the premises and the merchandise is very important. The level of security required for a business operation is dependent upon the size of store, the product, and the location of store. A small retail store may not require security operations while a large retail outlet may require high level of security. Protecting the facility may include a security system, or a security guard. Also procedures for operating the security system need to be developed for personnel who open and close the business.

The security of a merchandise helps in avoiding inventory shrinkage. To ensure the security of merchandise, a large number of retailer across the world use specially designed electronic tags attached to products. These tags are sensed by the specially designed electronic devices to detect them at store entrance and exits. If an attempt is made to take the product out of the store without removing these tags, an alarm goes off, thus alerting the store personnel. Another device used for monitoring the movement of staff and customers is video cameras. Some retailers also provide separate entry and exit for personnel so that they can be checked each time they leave and enter the store premises. To avoid inventory shrinkage following policies should may also be adopted:

- Not to display the merchandise at the entrance or exit of the store.
- Expensive products like watches, jeweler, precious stones, mobile handsets and so on must be kept in locked cabinets.
- Customers should be asked to deposit their carry bags at the entrance itself.
- Customers should not be allowed to carry more than three dresses at one time to the trial room.

3) **Premises maintenance** - With growing demands for retail outlet and chains, maintenance is becoming important issue for retailers. Premises maintenance deals with various aspects like the cleanliness of the store premises, maintenance of the store façade and the display windows etc. The retailers can check the products entered into the retail store and arrange products in an appropriate place. Segment the products into different categories and put the products as per nature. Also, the retailer should estimate and anticipate various other operational costs such as water, electricity etc. for financial plan. He may want to identify measures to control these expenses. For example – light and temperature controls set to turn off when the business is closed, can reduce the cost of utilities. All maintenance expenses thus must be incorporated into the monthly financial plan.

Check Your Progress 1

Note: a) Space is given below for writing your answer

b) Compare your answer given at the end of the Unit

1) Define retail operations. Briefly discuss the importance of retail operations.

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10.3.2 Merchandise Management

The merchandise management is one of the most important retail operations performed in retail management. AMA – American Marketing Association has defined merchandise management as "Planning involved in marketing right merchandise, at right place at right time in the right quantities at the right price". The management of the merchandise is done by the merchandise manager, category manager as well as the other assisting staff. Operational procedures need to be defined and established for receiving, recording, inspecting, marking and preparing merchandise for the sales floor. Cost, accuracy and time efficiency are the vital goals for the entrepreneur when addressing receiving and ticketing of merchandise. For example; if a t-shirt style that sells out is ticketed with an incorrect style number, the manager may reorder the wrong t-shirt; if it takes five days to receive, ticket and send a shipment of dresses for the sales floor, there is a lost week of five days on this order. The merchandise management operation involves the following tasks:

1) **Preparing a merchandise plan** - A merchandise plan is based on demands and specialty of the store. Micro details such as type of products, brands, cost etc. should be planned. The basis of such plan is past sales records, consumption habits and change in fashion. While making such plan, the manager must also consider the financial implication of investment on merchandise to meet the profit targets.

2) **Selection of the vendor -** Merchandiser has to select vendors or suppliers who meet his requirements in terms of price, quality, delivery and reliability. He has to search the list of suppliers available locally or at regional or international level depending on his need and select the supplies who meets his demands. Merchandiser has to negotiate with the vendor the terms of buying price, terms of delivery, payment base.

3) **Receiving products from the vendor** – The purchase order is a document that depicts when the merchandise was shipped. The completion date is the last day authorized by the buyer to the vendor to ship the merchandise. On receipt of goods, the purchase order is checked, and it is the buyer's decision whether to accept or return the merchandise shipped past the cancellation

date. Sometimes, in case of late shipment, instead of returning the merchandise, the buyer negotiates for reduced price with the vendor. If the completion date is acceptable, the invoice is checked against the purchase order and the goods are examined for colour, style, size, price and number of units. In the case of most large retailers, using a hand held scanner, the merchandise is scanned and the system is updated for the stocks received. When the paperwork provided by the vendor has been reconciled with the purchase order, the merchandise is checked into inventory. Any discrepancies, such as shortages or overages, are noted on the purchase order for adjustments by the employee responsible for accounting.

4) **Marking goods** – after the merchandise is checked in, tickets with the necessary information are prepared and attached to the products. Ticketing can be done by ticket-making machines, computer software, or by hand.

5) **Merchandise display** – After ticketing, the merchandise is folded or hung, steamed or pressed, and transported to the sales floor. Product placement is a key to sales and security. The best merchandise may lie unsold if it is not displayed in a manner that is appealing and accessible to the customer. At the same time, the placement of products and fixtures may encourage or discourage shoplifting. In general the following guidelines are followed for effective merchandise display in a fashion retail store:

   - New merchandise is usually displayed at the front of the store to gain customer's attention. The manager may also decide to display new merchandise in windows and on mannequins and key fixtures.
   - In any fashion retail outlet the cut sizes (those garments for which the entire set of sizes/colours have been sold out) are kept at the lower level. The newly arrived styles are kept at the eye level and the less demanded products are kept at high level of shelves.
   - In case the fashion retail store is running any theme promotion, sale or campaign, the products on offer need to be displayed correctly, and replenished once sold.
   - On-the-fly-purchased products such as socks, handkerchiefs, waist belts, etc. are placed near payment counters.
   - To ensure safety of the products, the inventory and displays should be designed in a manner that employees are able to monitor all sections of the sales floor.

10.3.3 Employee Management

Employees are the real assets of any business organization. The success and failure of any business is dependent upon the quality and quantity of its employees. Employee management is the attempt to facilitate employees does their best work every day in order to achieve the larger goals of the organization. The following tasks are performed under employee management:

1) Selection
2) Monitoring

3) Communication

4) Training

5) Incentives

6) Discipline

Selection - Selection involves finding and appointing the right candidates to fill vacant positions to keep an organization running smoothly. The eligibility and number of employees required to effectively run a retail business is dependent on several factors such as:

Check Your Progress 2

Note: a) Space is given below for writing your answer

b) Compare your answer given at the end of the Unit

1) Enlist the various components of retail operations.

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2) What are the different elements of store management. Discuss in brief.

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3) What do you understand by the term merchandise management. Enlist the important tasks performed under merchandise management.

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4) 'Product display is a key to sales and security'. Explain

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- Size of the retail store
- Number of customers in the store
- Level of assistance required by the customers
- Amount of financial resources available for payroll
- The need for product security
- The timing of the store and the working hours of the employees

1) **Monitoring** - Monitoring involves the continuous performance evaluation of an employee.

2) **Communication** – It includes various aspects such as staff meetings, memos, and meeting with the entrepreneur to communicate job expectations, company culture, feedback etc. The entrepreneur or store manager should be available to answer questions, discuss problems and suggest solutions when the employees require support and guidance.

3) **Training** – Training is very necessary to apprise the employees on the methods of the particular business. Whether the task is assisting a customer, processing shipments, arranging merchandise or operating a computer, there should be a systematic procedure to be followed. Many companies develop employee procedures manual which enlists business policies and procedures. Some companies on the other hand teach employees the principle and give them plenty of freedom to develop. The aim in training employee is to guide them fairly, constantly, and discreetly. Employees should know what is expected and how they are performing. Regular employee reviews help communicate this information.

4) **Incentives** – This aspect of employee management involves rewards given to the employees to provide the consistent motivation needed to exhibit high performance. Incentives given by the organization should not be restricted to cash prizes and may include other forms such as recognition, bonus, an item from stock as a reward or a special merchandise discount. Merchandise discounts are mutually beneficial because they encourage the sales person to purchase and wear merchandise carried by the business. Salespersons are, in essence, walking advertisements for the company.

5) **Discipline** – Finally, discipline includes all the procedures that manager takes to advance low performance, correct mistakes and implement company policies. These measures could be as simple as one-on-one meetings, or they could be as serious as termination or legal action.

10.3.4 Customer Management

Customer service is the core component of retail store operations. Operational design must be formulated for the consistent and efficient management and interaction with customers. In order to build a friendly relationship with the customer, well defined procedures should be developed for approaching and assisting the customer, ringing up a sale, processing a return or exchange, follow-up on purchase, and attending the consumer grievances. All these attempts on part of the retailer boost the confidence of sales personnel and in generating repeat business. Customer service in a retail store can be broken down into five categories:

1) Approaching and assisting the customer
2) Transaction flow system
3) Handling returns and exchanges
4) Following up on sales
5) Dealing with consumers' grievances

1) Approaching and assisting the customer – Every retail business has its own selling strategy that has been imbibed into their sales personnel. Employees must be informed about the sales policies and procedures of the strategic activities and how to promote them. For example some businesses develop customer shopping programs like complimentary alterations and purchase deliveries, and invitation to exclusive fashion events. There may be variations of this actual plan. In all variations, however, the technique for selling is usually the same. According to most strategy the ten steps to sell a merchandise are as follows:

- Approaching the customer, and gain his/her attention.
- Build a rapport
- Identify the customer's need through patient listening
- Provide the merchandise he/she looking for by emphasizing its benefits.
- Deal with customer concerns, gain commitment, and close the sale.
- Make the "extra sale" of an accessory or an additional service by suggestive selling.
- Ring up the sale, and package the merchandise.
- Reinforce the purchase decision, and thank the customer.
- Walk the customer to door, invite him /her to return soon, and follow up on the sale.

The sales personnel should be well trained to operate all these steps to ensure sales of the merchandise and customer return.

2) Transaction flow system - An important facet which influences a customer's perception of the retail store is the experience that he has while billing the products purchased by him. Most business now-a –days operate on a computerized system. A customer transaction is a cash or credit sale, a bank transfer, or a mobile payment. Long queues may result in some disgruntled customers. Store operations need to be geared to handle such a situation. All sort of transactions require different policies and procedures. The organization must clearly define these, before the company actually opens for business. Cash transactions are the simplest. The customer's purchase is entered into the computer, and a cash receipt is generated.

If the business accepts credit cards, the procedure must be clearly explained to the cash manager by a representative of the bank providing the service to the business. The appropriate forms and telephone contact numbers and an employer identification number are tools the sales associate must have to make the transaction run smoothly.

Retail transaction flow continues to evolve with advances in technology. The consumer can now also purchase goods and services remotely without physical presence at the point-of-sales (POS), such as via the Internet (example- through various shopping applications like Amazon shopping, Flipkart, Jabong etc.) or a telephone/mobile phone. Payment instruments for retail purchases of goods and services have expanded beyond traditional vehicles (i.e., cash, checks, and credit and debit cards) to prepaid cards, contactless debit and credit cards, and other contactless devices such as key fobs, mobile phones. In addition, merchants may convert checks to electronic form at the POS, and use the ACH (Automated clearing house) system for clearing and settlement. **ACH** is a way to move money between banks without using paper checks, wire transfers, credit card networks, or cash

For fast transaction flow, many retailers have also introduced express check outs for customers who have bought a limited number of products. This ensures that a customer who needs to buy only one or two products does not have to wait in the same queue as a person buying a large number of items.

3) **Handling returns and exchanges** – The retailer must define the return policy for the business organization. Such policy should entail aspects such as who will be authorized to accept returns, specify the acceptable circumstances under which the merchandise can be accepted for return. For example: time limit (Hush puppies clearly specifies 15 days time for return or exchange of goods, from any of their store), whether a receipt will be required, whether the item must have the tag attached, and whether the return goods are redeemable for cash or a company credit. In today's fast competitive scenario, a retailer does not want to lose out their customers to other organizations. Therefore, most retail organizations are formulating liberal return policies as expected by most customers. For example – a customer brings a child's dress she purchased back to the retail store because the hemline frayed when the garment was laundered. Rather than immediately refunding the customer's money, the retail manager might offer to have the garment repaired. The repair would cost as much as the shipping fee to return the garment to the manufacturer.

4) **Following up on sales –** In today's competitive world, it is very important for a retailer to entice new customers and keep them happy to ensure customer's loyalty. Otherwise, it is very certain that a dissatisfied customer may purchase similar goods from other retail stores, or through Internet. A follow-up call can help generate repeat business and encourage word-of-mouth promotion. Another method of following up on the sale is maintain a client file. Such file contains information about the customer, contact data, size, brand, past purchases etc. Such information enables the sales personnel to contact the customer on arrival of new merchandise or at the time of discount sales for an early look at the items. For example – Shoppers Stop sends a SMS alert to all of their 'First Citizen Membership' card holders for an early view at the items at the time of sales and also offer additional discount on selected merchandise of the store. Another example of use of such information is to send gifts to the customer on their birthday or on wedding anniversary. In general, this strategy encourages the sales of the retail store and ensures the customer loyalty.

5) **Dealing with consumers' grievances** – Employees should be trained on how to handle grievances. The retailer should inform employee to whom to approach in case they feel that they cannot resolve the complaints themselves. All sorts of complaints including personnel, merchandise, and general business needs to be communicated clearly to the manager by the staff for resolving it quickly and efficiently**.**

Check Your Progress 3

Note: a) Space is given below for writing your answer

b) Compare your answer given at the end of the Unit

1) What are the key tasks involved in employee management?

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10.3.5 Inventory Management

The inventory is one of the business's most significant assets. Inventory refers to the merchandise stocked in a retail store for future use. Every retail organization has its own warehouse to stock the products to replenish the existing merchandise in the store.

The inventory management is a system of recording how much stock is in the store, which vendors are selling or not selling, and which customers are buying or not buying. Careful inventory management is very important in a successful fashion business. This is because, on the one hand, each piece of merchandise, whether on the sales floor or in the stockroom, represents money that has been spent and losing value due to perishable nature of fashion goods. On the other hand, if there is an inadequate amount of inventory, the retailer may lose his customer. In today's fast moving world with growing competition, a retailer cannot afford to lose his customer on account of non-availability of merchandise. In order to succeed, the retailer must make sure that each customer leaves his store with a smile. Unavailability of merchandise, empty shelves leave a negative impression on the customers and they are reluctant to visit the store in near future. Inventory management prevents such a situation.

Maintaining the right amount of inventory is a balancing act. Information is the key to finding the correct balance. One of the most common methods of inventory management in a fashion business is 'Just-in-time system'. Just-in-time inventory control is dependent upon the vendor-retailer relationship and appropriate communication system. Under this system, inventory is shipped as it is sold. It is used to increase efficiency. The process involves ordering and receiving inventory for customer sales only as it is needed and not before. This type of inventory management provides many benefits, but relies heavily on factors such as a strong,

fast and efficient network of suppliers. For example – Hanes offer just-in-time inventory management system. The retailer provides sales data to Hanes as soon as the merchandise is sold, usually through computer. Because the retailer has developed a model stock with vendor, vendors can automatically fill-ins for sold merchandise. As a result, inventory is maintained, customer receives what they want and buyer does not have to spend time recording and tracking inventory and placing reorders.

In general, following points should be considered while managing inventory:

- The retailer must keep the track of all the merchandise on the sales floor.
- While managing inventory, he should also prepare himself for situations which are beyond control like transport strikes, curfews etc. The retailer should have ample stock as a result of judicious inventory management even at the time of crisis.

Important terminologies used in Inventory management

1) **Stock Keeping Unit (SKU) –** refers to a unique code assigned to every product available at the store. It helps in the identification and tracking of the products at the retail store. The retailer feeds each and every SKU in the master computer and can easily track the product in the stock just by entering the SKU Number. For example SKU for a "Numero Uno" shirt will be 'NU – M-38-FL-B

   Where:

   NU stands for Numero Uno

   M - Men

   40 - Collar Size

   FL - Full Sleeves

   W - White (Colour of the shirt)

   Simply typing NU – M–40-FL-W would let the retailer know whether the particular merchandise is available with him or not.

2) **New Old Stock (NOS) -** The merchandise which is never been sold by the retailer and now not even being manufactured encompasses the new old stock. Such products do not have customers and may not be manufactured anymore.

3) **Stock out -** refers to a situation when the retailer fails to fulfill the customer's requirement due to lack of availability of the merchandise in the inventory..

4) **Physical inventory count –** refers to formal, item-by-item analysis of the operation's stock on hand. The selling price of each merchandise and, possibly, the vendor and style numbers are recorded, and then all prices are totaled to create a physical price inventory dollar valuation.

5) **Book inventory** – The financial record of the stock.

6) **Shrinkage/ Shortage** – If the physical inventory is less than the book inventory, the difference is referred to a shortage. Shortages may be caused by theft and book keeping errors, such as not recording employee discounts or markdowns. Following are few ways to prevent the steal of merchandise:

- Checking the bags of the employees before they leave the store.
- Avoid multiple exits for the customers as well as the employees
- Checking garbage before dumping.
- Keep proper and correct record of the inventory.

7) **Overage** - If the physical inventory is more than the book inventory, the difference is referred to overage. An overage indicates that there are clerical errors in one of the accounting functions, such as recording receipts, posting markdowns, or returning goods to the vendor.

10.4 ROLE OF A RETAIL OPERATIONS MANAGER

Retail operations manager has the key role in a retail business organisation. He occupies the most significant position as the 'Leader' of the store and plays a dual role in a retail environment. On one hand he deals with his team and staff who reports to him at the store level. On the other hand he is also responsible to ensure that the guidelines of the organisation as defined by the management are also complied to. Thus, the success of any retail store is dependent on the efficiency of the manager and his proficiency in execution of the policies and guidelines as defined by the management.

The retail operations manager five basic functions to facilitate the transaction between the retailer and the customer:

1) **Business planning, continuous review and action planning** – The store manager is responsible to ensure that the goals are achieved through proper planning of inventory, expenses and organisation of staff, both for short and long term success. He should continuously monitor the ongoing progress of the store and review the planning and execution strategy to protect the company's inventory and assets. He must also write performance appraisals for assisting staff working below him.

2) **Store maintenance and hygiene** - The store manager is responsible for proper and adequate product display as well as maintaining cleanliness in the store. It is not that the store manager has to perform these tasks but it is his responsibility to check that the store premises are clean and well managed. Apart from hygiene and proper product display, he is also responsible to ensure that the adequate sock of merchandise is available in the store.

3) **Communication** - The responsibility list of the retail store manager also includes his timely communication with:

   - Head offices/ regional offices with reference to sales, services, events and local issues.
   - Customers to recognize their requirements, and complaints
   - Staff to encourage their morale and motivate to achieve sales goals. Also, to delegate the work load among the team members aptly and effectively.

4) **Customer service** – The retail store manager should strive to develop a virtuous cycle of warmth for his customers. He should ensure that his staff

is well trained and active in dealing with customers need. He himself should also be available to all his customers to communicate and identify their requirements and to address their concerns and grievances.

5) **Legal compliance** – The manager of the store should also make certain that the store is in compliance with employment laws. This includes laws regarding human rights, labour wages, working hours and equal employment opportunities. It also becomes his utmost responsibility to maintain safe and conducive working conditions for the employees and the customers coming in the store. He should ensure that the store is safe from both internal and external theft by way of installing CCTV cameras inside and outside the store premises and also by hiring security staff. In case of any emergency safety concerns, he must also be able to resolve it swiftly and quickly.

All the above functions performed by retailers help to increase the value of the goods and services they sell to the consumers and facilitate the distribution of these products and services for the manufacturer.

Check Your Progress 4

Note: a) Space is given below for writing your answer

b) Compare your answer given at the end of the Unit

1) Define the following terms: Overage, Physical inventory count, Stock keeping unit, and Shortage

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10.5 LET US SUM UP

This unit endeavoured to acquaint the students about various types of operations involved in a retail business. Planning operations for a business signifies defining how the actual day-to-day activities of the company will be executed. Retail operations are the fundamental units of any retail business. Without a clearly laid out foundation, the business will have difficulty in flourishing. In planning retail operations every component of the business is evaluated from store management to merchandise receipts, employee management to customer's requirement. Operational procedures need to be accurately planned and clearly spelled out for smooth, consistent, and accurate functioning f the business.

The first component requiring operational standards is the store. Next, the entrepreneur must develop clear methods for managing the merchandise. Employee management help ensure that the staff is effectively trained, committed, rewarded for their efficient performance and are satisfied. Customer management deals with defining policies to assist the customer and help them have exceptional

shopping experience. Finally, inventory management help to make certain that the right merchandise is available to the customer whenever required.

The retail manager plays a very significant role to ensure that all the above mentioned operations are planned effectively and executed smoothly. The role of retail manager entails planning, continuous review and action planning of the store functions. Alongside, he/she is also responsible for communicating with customers and employees to solve their problems and to motivate staff personnel for high sales. He should also ensure that the business is in compliance with employee laws and design policies to certain the security of the store as well as the merchandise.

10.6 CHECK YOUR PROGRESS: THE KEY

1) Retail store operations is refer to as daily execution of plans and policies, from the receiving of new merchandise to following up on the customer's purchase. It also includes the management of the store premises, product display and pricing and the ensuring the courteous staff.

   Every business aims to achieve success. The success of any retail business depends upon its strategy to make its customer happy and loyal. A customer loyalty can only be assured by efficiently servicing him/her and keeping them happy. Well managed retail operations are thus very important to create and sustain loyal customers and thus secure the future of the retail business organization.

2) A) Components of retail operations: Store management, Merchandise management, Employee management, customer management and Inventory management.

   B) Different elements of store management: (i) Store layout and design, (ii) Store procedures, (iii) Premises management

   C. Merchandise management is defined as "Planning involved in marketing right merchandise, at right place at right time in the right quantities at the right price" by American Marketing Association (AMA)

   Important tasks performed under merchandise management: (i) Preparing a merchandise plan (ii) Selection of the vendor (iii) Receiving product from the vendor, (iv) Marking product (v) Merchandise display

   D) Product display is a key to sales and security'. To ensure sales of merchandise, it is important to make sure that the customer must be able to locate the merchandise in the store. The best merchandise may lie unsold if it is not displayed in a manner that is appealing and accessible to the customer. At the same time, the placement of products and fixtures may encourage or discourage shoplifting.

3) Key tasks involved in employee management are: (i) Selection, (ii) Monitoring, (iii) Communication, (iv) Training, (v) Incentives, (vi) Discipline

   Transaction flow system is considered as important aspect of customer management because, in a fashion retail business, the customer is the 'king'. To ensure customer's

4) **Overage-**If the physical inventory is more than the book inventory, the difference is referred to overage. An overage indicates that there are clerical errors in one of the accounting functions, such as recording receipts, posting markdowns, or returning goods to the vendor.

Physical inventory count - Physical inventory count – refers to formal, item-by-item analysis of the operation's stock on hand. The selling price of each merchandise and, possibly, the vendor and style numbers are recorded, and then all prices are totaled to create a physical price inventory dollar valuation.

Stock Keeping Unit (SKU) – refers to a unique code assigned to every product available at the store. It helps in the identification and tracking of the products at the retail store. The retailer feeds each and every SKU in the master computer and can easily track the product in the stock just by entering the SKU Number.

Shortage – If the physical inventory is less than the book inventory, the difference is referred to a shortage. Shortages may be caused by theft and book keeping errors, such as not recording employee discounts or markdowns.

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UNIT 11 CUSTOMER RELATIONS

Structure

11.0 Introduction

11.1 Objectives

11.2 Customer's Buying Behaviour

11.3 Customer Relationship Management

- 11.3.1 Phases of CRM
- 11.3.2 CRM Process

11.4 Customer Services

- 11.4.1 Customer Expectations
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- 11.4.7 Service Recovery

11.5 Let Us Sum Up

11.6 References & Suggested Readings

11.7 Check Your Progress: The Key

11.0 INTRODUCTION

In the previous two units of this Block, we discuss about the overview of retailing and retail operations. This is the last unit of this Block. We will explain about customer relation in this unit. Presently, the concept of customer relationship management (CRM) is widely being used to define the relationship between the retailer and the customer. We will describe various phases and detailed process of CRM. A customer service is the crux of any CRM process. These activities increase the value customers receive from the merchandise and services they purchase. We will discuss in detail about customer expectations and various customer service activities provided to the customers. Methods for monitoring and measuring service quality, challenges in providing consistent high quality services and different customer service approaches will be highlighted. Towards the end of unit, four different gap models will be explained for improving customer service quality and service recovery.

11.1 OBJECTIVES

After going through this Unit, you should be able to:

- state the various factors which influence customer buying behaviour;
- define the concept and phases of customer relationship management;
- describe the various steps involved in customer relationship management;
- list the customer expectations and customer services activities provided by various retailers;

- explain the customer service approaches, need for monitoring and measuring service quality and the challenges faced; and
- discuss various gap models for improving customer service quality and steps employed for service recovery.

11.2 CUSTOMER'S BUYING BEHAVIOUR

For any business to flourish, customers play a very significant role. They can no longer be taken for granted. It is customer who is using the products and services provided by the various companies and analysing its performance and quality. Therefore, it is important to understand the customer's buying behaviour with respect to what, where, when and how customers buy. Therefore, all retail strategies should be planned to target those individuals who would be more likely to buy the merchandise and services offered.

In retail, customer is the boss and main reason for existence. Proper research is required to understand the customers and the various factors which influence their decision-making. These variables include thinking and behaviour pattern of customers, place of residing, their demographic characteristics etc.

Thoughtful analysis of the information gathered can help in developing consumer-centric marketing programmes to attract more and more customers. However, customer needs and preferences keep changing from time to time which requires flexibility in responding to these changing circumstances.

Traditionally, retailers were using mass-media advertising and promotional activities to encourage large number of customers to browse through their offline (at retail outlets) and online (retail websites) collections. This approach targeted all the existing and potential customers which received same promotional messages. However, in present scenario, retailers are more focussed on developing customer loyalty by extending more value to their best customers. This leads to goodwill towards the retailer which encourages repeat-purchase behaviour among these best customers. Retailers can add personalised touch to enhance customer loyalty by improving brand image, by providing convenient shopping locations, attractive and value for money merchandise, personal attention by the salesperson, inviting best customers to grand openings, offering free alterations and shipping facilities etc.

As a result, customers are committed to buy from the specific retailer and also recommend it further to their family and friends. At the same time, loyal customers do not get tempted by the offers extended by the competitors. Researches also support that increasing sales to the best customers is more profitable as compared to generating sales from marginal existing or new customers.

Following four factors influence customer's purchase decisions:

Demographic factors: It takes into consideration the customer data with respect to age, gender, income, marital status, family size, occupation, education, type and number of vehicles owned etc. which in turn influence customer's decision making.

Psychological factors: It is important to understand customer psychology to get an insight into his/her buying behaviour. Different customers will respond differently towards the same promotional strategies as they differ in their respective perception about the merchandise/service, their motives, personality, attitudes, knowledge and level of involvement.

Environmental factors: It includes all the physical and social characteristics surrounding the customer's external world. Physical characteristics refer to the outlets and the good/services available, proximity of the outlets, parking facility, the assortment of merchandise, its display in stores etc. Social characteristics refer to the interactions among various people in the society which influence the customer's preference for specific brand or store. Customers interact with their family members, friends, relatives, co-customers, reference groups or opinion leaders and salespersons to gain knowledge about the performance of merchandise/service they are considering for buying. Also, facility of easy credit and payment in instalments has influenced the state of economy leading to increased buying of durable goods and automobiles.

Lifestyle: Individual's mode of living as per his/her interests, opinions and activities he/she is involved in, is referred as his/her lifestyle. It further gets influenced by the occupation of the individual and the social group he/she belongs to. Families in metropolitan cities where both husband and wife are earning, generally shop at super malls due to time constraint. At the same time they have food and entertainment options also available in malls.

Check Your Progress 1

Note: a) Space is given below for writing your answer

b) Compare your answer given at the end of the Unit

1) Describe, in about 8 lines, the difference between traditional and present day retail marketing strategies.

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11.3 CUSTOMER RELATIONSHIP MANAGEMENT

Customer relation can be defined as development of relationship between a company and its customers by providing adequate support and technical assistance through various customer services. The company strategically promotes its resources by constantly interacting with the existing as well as new customers.

Also called Customer Relationship Management (CRM), is not a personal or one time transaction relationship between the supplier and the customer. A relationship is built when the customer prefers to buy from same store or brand again and again. In order to build this continuous relationship, company aims to identify customer expectations and try to fulfil these.

Thus, CRM is a broadly recognized, widely implemented strategy of managing and nurturing a company's interactions with customers, clients and sales prospects (Singh, 2011). According to Levy, Weitz and Pandit (2012), CRM is a business philosophy and set of strategies, programmes and systems that focuses on identifying and building loyalty with a retailer's most valued customers.

11.3.1 Phases of CRM

Through CRM, the business aims winning new customers, nurturing and retaining the existing customers, attracting former customers back and reducing the overall cost of marketing and customer services. Hence, it can be divided into following three phases:

Acquire: Well planned CRM targeting different types of customers can help in acquiring new customers for any business.

Enhance: Due to the ever-increasing competition among various businesses, CRM should focus on excellent customer services and convenient shopping experience.

Retain: Further, in order to retain the loyal customers, certain rewards and benefits are extended as a part of CRM.

11.3.2 CRM Process

CRM process comprise of four activities which focus on increased customer loyalty. These include collection of customer data, analysis of customer data to identify target customers, development of CRM programmes and implementation of CRM programmes.

Collection of customer data

Constructing a customer database is the first and the foremost step in the CRM process. The firm or company collects all the data about its customers which acts as a basis for further planning and implementation. The customer database should contain complete information of the purchase transactions done by the customer (purchase date, merchandise purchased, price paid, profit margin etc.) as well as the interactions that the customer made with the retailer through in-store inquiries, visit to the websites, customer calls and direct mails sent to the customers. Transaction and contact data can be further analysed to understand the customer's response to various marketing activities. Additional information on demographic and psychological attributes of customers can be used to develop market segmentation.

Different modes can be used to gather information regarding the customers. These have been summarised below:

Customer database in online shopping: When the customer is buying merchandise through online shopping channels like catalogue , websites etc., they need to give contact information (name, address, contact number etc.) so that the purchases can be delivered to them. This data is stored by the businesses to be further used for planning strategies.

Customer database in offline/store-based shopping: When customers make in-store transactions, they pay through cash, cheque or credit cards like Visa or Master Card. Hence, retailers do not have any identifying information about their customers. To overcome this problem, retailers adopt any of the methods mentioned below:

- Sales associate ask for contact information while generating a bill of the merchandise bought. The details like name, address and contact number can be used to generate customer database and link with further transactions.
- Retailers, at times, prefer to use biometrics where scanned fingerprints are used as database instead of any contact information.
- Retailers offer membership cards to the frequent shoppers. Customers have to furnish few details about themselves and their family when the membership card is issued to them. They are given additional incentives or reward points for making purchases. The database generated is used for communicating promotional schemes to the customers.
- Retailers cannot identify the transactions done by customer when payment is made through credit cards in stores. However, if the customer is using the same credit card for online shopping at the retailer's website, retailer can link the credit card transaction with its in-store purchases and create a database.

Analysis of customer data to identify target customers

The second step in a CRM process is to analyse the customer data and draw information which would help the retailer in extending higher value to their customers. Patterns in the data can be identified which would increase the effectiveness of decisions related to allocation of merchandise in stores and sales forecasts.

Retail analytics, a statistical application, is used to determine customer purchase patterns and give recommendations for further improvement. One such type of analysis is market basket analysis which examines the various products purchased by a family during a single shopping visit. The findings are used in determining the location of various products in a store.

Retailers use the customer data to identify their best customers and focus on their requirements for earning more profit margins. **Customer lifetime value (CLV)**, a commonly used measure to give a score or number to each customer is statistically calculated from the data on past purchase behaviour of the customers. It is assumed that future purchase pattern of the customer would remain same as in past. Customer buying apparel only during sale would have lower CLV as compared to a customer who is willing to pay full price for the same number of merchandise and buy from fresh stock.

Based on the CLV scores of the customer, retailers can classify their customers into four segments:

- Platinum segment is composed of most profitable and loyal customers with top 25% CLV's. They purchase large variety of merchandise irrespective of higher prices and expect quality customer service.

- Gold segment include the customers which fall in the next quarter. They are not considered as loyal as platinum customers and their profitability level is comparatively less. They prefer to compare the prices among the retail competitors before making a purchase decision.
- Iron segment customers purchase few of the merchandise, but their profitability to the retailer, loyalty and spending power is less. Hence, they do not get special treatment from the retailers.
- Lead segment includes least profitable customers with lowest CLVs. They buy lot of merchandise on sale, demand lot of attention, criticize return policies and keep complaining about the retailer to others leading to negative impact on the retailer.

Another type of analysis to identify the best customers, generally used by catalogue retailers or the direct marketers is the **RFM Analysis (frequency, monetary analysis).** The customers are divided into different groups based on the number of orders placed in last one year, amount of merchandise bought and how recently the order was placed. It helps to highlight the response rate and the average profit margin received from various customers, thus estimating the CLV.

Check Your Progress 2

Note: a) Space is given below for writing your answer

b) Compare your answer given at the end of the Unit

1) Briefly explain the different method of data analysis to identify target customers.

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Development of CRM programmes

After careful analysis and categorisation of customers based on their CLV and RFM Analysis, next step is to develop appropriate CRM programmes for different types of customers. The focus of these programmes should be retaining best customers, converting one-time customers into repeat customers and getting rid of unprofitable customers.

- Retaining best customers

  Retailers generally employ following four approaches to retain their best customers and increase the profit margin:

  Frequent shopper programmes: These programmes are used to encourage loyalty among the customers. It is suggested that rewards points and discounts should be offered according to the volume of purchases made. For example, 10% discount to be given on purchase of one apparel, 20% on two and 30%

on purchase of three apparel items. Also, customer gets reward points on each purchase transaction which can be accumulated and redeemed later. Further, offering choices in the rewards proves to be quite effective as all customers do not like same rewards. Linking the programmes to charitable contributions where certain percentage of profit margins is utilized by the retailer for some social cause, could also prove beneficial in retaining best customers. The rules regarding the rewards should be clearly stated to avoid any confusion. This would further encourage the customers to make repetitive purchases in order to get the desired rewards and free gifts.

Special customer services: Best customers value good quality customer services rather than discounts. Services like invitation to private parties to view newly launched clothing line, complimentary tailoring, alteration facility, preferred mailing, free parking and delivery and many more attract the loyal customers.

Personalisation: The programmes and marketing strategies developed for specific market segment may not be appealing to all the customers in that segment. Each individual is unique and differ in needs from each other. Requirements of a 25 year old single woman would be quite different from a 45 year old working mother. Using the customer database, retailers can develop programmes for smaller groups and extend benefits to individual customers. These types of programmes are referred to as 1-to-1 retailing. Salesperson develops personal relationship with their customer, understands their requirements and offer merchandise accordingly.

1-to-1 retailing can be automated to target individual customers in online shopping. Retailer's websites allow the customer to selectively search for the products they are interested in, flash specialised promotions according to the customer's search, customize its homepage and display the product range based on analysis of past buying behaviour. This unique information regarding its individual customers cannot be used by its competitors and thus acts as an advantage for the retailer.

Community: A sense of community can be developed among the customers for building better retention and loyalty. In any retail brand community, group of customers having a common interest are bound together and participate in activities engaged by the retailer. Members help each other by sharing their product knowledge and experiences and also attract new members.

- Converting one-time customers into repeat customers

  Some customers might be first time customers when they make some small purchases at the retail outlets. These existing customers with low CLV in the iron and gold segment are targeted for add-on selling so that they are converted into platinum segment. More products and services are offered to these customers based on their shopping history which in turn would increase the sales and retailer's profit margin.

- Getting rid of unprofitable customers

  Customers in the bottom tier i.e., lead segment hardly purchase any product, are committed to other retailers and have negative CLV. They follow the

attractive offers provided by different retailers and keep juggling adding to the cost of reacquisition. They keep returning the merchandise purchased online which adds to the cost of processing returned items for the retailer. Some customers buy an expensive dress, wear it once for any special occasion and return back. Therefore, retailers should reduce promotions which target these customers, discourage their undesirable behaviour by charging some additional amount for frequent returns and offer less costly services.

Implementation of CRM programmes

Effective implementation of the CRM programmes is most important for increasing sales and profits. There has to be close coordination among different departments in any retail organisation. The relevant customer data and the planned marketing strategies should be readily available to the implementing team which include sales associates and the service providers who are in direct contact of the customers. These people should be well-trained and remain focussed on delivering personalised services to the target customers.

Following benefits can be attained through effective implementation of CRM programmes:

- Well planned marketing process and streamline sales
- Integrated assistance across channels
- Add-on selling leading to higher sales productivity
- Customer retention and loyalty
- Customized products and services
- Improved customer service efficiency and effectiveness
- Increased customer care call centre efficiency
- Improved profiling and targeting of profitable customers
- Improved pricing, reduction in expenses and increased market share
- Overall higher productivity

Check Your Progress 1

Note: a) Space is given below for writing your answer

b) Compare your answer given at the end of the Unit

A) Special customer services like invitation to private parties to view newly launched clothing line, complimentary tailoring, alteration facility, preferred mailing, free parking and delivery are provided to which type of customers?

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B) Using the customer database, retailers can develop programmes for smaller groups and extend benefits to individual customers. What are these programmes known as?

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11.4 CUSTOMER SERVICES

The customer service provided by any business can be assessed through the facilities provided by the retailer and how well these services are offered to customers. Hence, customer service usually has two aspects:

- The services (for example facility of alteration in a garment store)
- The service (for example good quality alteration within the promised time frame)

The retailer needs to clearly define service objective and promote service culture within the organisation. Right service standards and strategies need to be planned, systems should be well managed and people delivering services should be well-trained. Any service is considered good when it is offering a little more than what costumers expect. Therefore, it is important to study customer profile and expectations.

11.4.1 Customer expectations

Customer expectations can be of following types:

- Basic: Most essential attributes of a shopping experience.
- Expected: Associated attributes which a customer takes for granted.
- Desired: Attributes which are not expected but known to the customer and appreciates if included.
- Unanticipated: Attributes that add value beyond customer's expectations.

Customer service process is initiated when the customer expresses his/her need and continues until the need is fulfilled. Areas of improvement are identified, processes are redesigned, new standards and design methods are set and each department in an organisation function progressively with full focus on the customer. A garment store, for example, found that it could increase customer satisfaction by getting the garment altered in half an hour as compared to its current 24 hours delivery time. As a result, retailer sets up the required infrastructure and hires experienced tailors for timely service delivery as promised.

Thus, customer service is defined as the provision of service to customers before, during and after a purchase. It is a series of activities designed to enhance the level of customer satisfaction i.e., the feeling that a product or service has met

the customer expectation (Singh, 2011). According to Levy, Weitz and Pandit (2012), customer service is a set of activities and programmes undertaken by retailers to make the shopping experience more rewarding for their customers. These activities increase the value customers receive from the merchandise and services they purchase.

11.4.2 Monitoring and Measuring Service Quality

In order to ensure the success of service goals and strategies, its quality should be monitored and measured. It is a continuous process and helps to know how well the task has been accomplished. The objective of this exercise is to evaluate customer's level of satisfaction and determine the following:

- Adequacy of service strategy
- Customer-friendly systems and policies
- Customer-centric culture in the organisation
- Committed support extended by the managers
- Level of empowerment among the staff

It is not enough to measure service quality performance at the store level only. A truly service-oriented organisation would do so for all its departments, both at the front and back ends. Results are carefully studied and analysed to generate appropriate feedback and plan corrective actions. For example, employees responsible for distribution, make sure that adequate stock of merchandise is available at retail stores. Employees responsible for location of store and merchandise display contribute to customer service by making it more convenient for customers.

Retailers should provide adequate assistance in selecting right product, be honest about the services and have good communication with its customers. These attributes of superior service translates into repeat purchase behaviour among the customers.

11.4.3 Customer Service Activities

Wide variety of services are offered to both online and offline retail customers. These can range from basic service offerings to those which are quite complex and luxurious. Basic services as expected by customers include convenient store locations and hours of operation, cleanliness, security, availability of product information etc. Whereas, additional luxury services cover adequately staffed service desk, well-informed salesperson, toll free service number, frequent shopper reward programme, free alteration, gift wrapping, shipping and delivery etc. Type of services offered can vary from retailer to retailer, based on the product range, its price and the target customers.

Customer service activities can also be categorised as pre-transaction, transaction and post-transaction services. Pre-transaction services provided by the retailer focus on providing necessary facilities to the target customers. Transaction services are delivered to the customer while he/she is making purchase transactions in the retail store or through its website. Post-transaction services

are after purchase services provided to the customers to ensure consistently high levels of satisfaction (Table 11.1). As a result, customers would prefer to buy from the same retailer in future. Also, sharing of good shopping experiences would generate positive image of the retailer and attract new customers. But if the customer experience dissatisfaction, he/she would start patronizing other retailers/brands and also spread negative image by sharing it with his/her family and friends.

Table 11.1: Customer service activities

Pre-transaction services	Transaction services	Post-transaction services
Convenient retail location/ easy access to retailer's website	Product availability in stores (breadth and depth of assortment) and its display	Liberal return/refund policies
Convenient hours of operation	Number of brands stocked/quality of line	Availability of toll-free number/customer care services
Clean facilities	Store directory/signage to locate and identify merchandise	Easy exchange of merchandise
Security specially for online retailing	Sales person communicating the merchandise to the customer in realistic manner	Guarantees/warranties
Restrooms	Personal assistance in selecting merchandise	Listening to customer
Information on product availability in a specific store	Fitting rooms	Providing a fair and quick solution
	Shopping carts/bags	
Parking facility/valet parking	Adequately staffed service desk	
Child play area	Free home delivery	
Store layout and décor	Free gift wrapping/free shipping	
Eating facilities	Free alteration facility	
ATM terminals	Frequent shopper reward program	
Facilities for shoppers with special needs (having physical disability)	Credit services Billing procedures Special offers and discounts Product pricing	
	Experienced and courteous associates	

Check Your Progress 4

Note: a) Space is given below for writing your answer

b) Compare your answer given at the end of the Unit

1) Categorize and briefly explain different types of customer service activities?

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11.4.4 Challenges in Providing Consistent High-quality Customer Services

It is difficult to provide consistent high-quality customer service and it can vary from salesperson to salesperson within a store. Their performance cannot be controlled because they are human being and not machines. They may have good or bad days leading to great service to one customer and poor to another. Moreover, most of these services are intangible i.e., assistance provided by the sales associate cannot be easily measured or checked before delivering to customers.

11.4.5 Customer Service Approaches

In order to develop sustainable customer service, combination of personalized and standardized services are offered by the retailer.

Personalized service: The services which are tailored to meet individual customer's personal needs are called personalized services. Success of such services are dependent on the judgement and capabilities of the sales associate in retail stores or on personalization offered by electronic channels in online shopping. Such services can be inconsistent (vary from person to person) and costly as it would require skilled service providers and advance computer softwares for its implementation.

Fifty years ago, retails knew their customers personally and offered products they would like to buy. This aspect gradually disappeared of retail chains emphasizing self-service and low cost products. However, the automated recommendation engines in online shopping have reintroduced the concept of personalization which suggests a product relevant to the customer. Amazon was a pioneer in this and had a competitive advantage over other websites.

Standardized services: These services are based on establishing policies, procedures, store and its website design and layout leading to implementation of high quality service. Such services are consistent and cost effective. In many cases, customers are aware what they want and do not utilize personalised services. The design, layout, signage used and information on display are adequate enough to enable customer in locating and buying the right merchandise.

11.4.6 The Gap Models for Improving Customer Service Quality

When the customer's perception regarding the service provided by the retailer does not match with the customer's expectations, it results in service gap. Following are the four types of service gaps:

Knowing what customer wants: the knowledge gap

It is important to have adequate knowledge about the customer's wants, needs and expectations so that this information can be used to improve customer service. Lack of information can lead to wrong decisions. Retailer can employ variety of approaches for understanding its customers. These include:

- Surveys conducted immediately after any retail transaction helps to know about the service experience of the customer. The feedback received by the customer can be used for rewarding good service provider and correcting poor service provider.
- A panel of 10-15 customers are invited for discussion on their shopping experiences and offering suggestions for improvement. The panel generally consist of customers making large and small purchases so that their viewpoint can be taken to gain insight into their expectations and perceptions.
- Interaction of sales associates with the costumers at the point of sale can be a useful tool for understanding their service expectations and problems.
- The views about the merchandise and the services provided by different retailers posted on the social media like facebook and whatsapp are a great source of information.
- Customer complaints should be well tracked as these help in acquiring detailed information on goods and services provided. Reasons for complaint or return should be recorded and used for further improvement.
- The affordable information technology has enabled even the small retailers to create a customer database and track their buying history.

All the information collected through different sources should be analysed and distributed to all the departments related directly or indirectly with the customer service. This would lead to better understanding of customer expectations and reduce the knowledge gap.

Setting service standards: the standards gap

Having gathered information regarding customer expectations and perceptions, it should be utilised to develop standards for delivering high-quality service. Retailers can overcome standards gap:

- For excellence in service, top management should demonstrate commitment and be willing to accept the difficulties and even incur the initial cost for improving quality standards. This commitment should percolate to store managers and sales associates for effective implementation. Additional bonus and incentives should be extended to the service providers based on the level of service provided.

- The role of service provider should be clearly defined stating what excellent service means. Otherwise, he would be clueless about the retailer's expectations.

- Service goals and standards are established by the retailer which acts as a guide for the service provider. These goals should be specific and measureable and service provider should participate in setting the goals so that they have better understanding and acceptance. For example, as per the policy of a retailer, when more than three customers are waiting at each checkout lanes, a new checkout lane should be opened. This will result in less waiting time for customer leading to better shopping experience.

- The service quality should be assessed continuously through surveys ensuring that the set goals are achieved. At times, retailers hire mystery shoppers (professional shoppers), who shop in the store and assess the service provided by its employees. The mystery shopper reports about the timely interaction, his/her interest in providing service and amount of knowledge about the merchandise.

Meeting and exceeding service standards: the delivery gap

Delivery gap exists when there is difference between the standards specifying service to be delivered and the actual services delivered. Therefore, to reduce this gap and deliver high quality service, retailers must give adequate skills and training to the service providers, extend necessary instrumental and emotional support, improve internal communications to reduce conflicts and empower the store employees to take decisions in best interest of both the customer as well as the retailer.

- Adequate skills and training should be given to the service providers with respect to retailer's service standards, the variety of merchandise offered, customer's needs and expectations and also strategies to deal with different types of customers. Informed service provider will be well equipped to answer customer queries, suggest appropriate merchandise and confidently handle difficult customers.

- It is important to extend necessary instrumental and emotional support to the services providers. Instrumental support includes appropriate systems and equipments like computers, internet connection, efficient billing counters etc. Data access through computers can help in determining whether the specific merchandise, brands and sizes are available in store. Salesperson can also check the availability of desired merchandise in its other outlets or on the retailer's website at a click of button in case it is out of stock. Interactive wall mounted touch screens installed in the outlets can be used to get complete product information and comparisons. Emotional support and concern of well-being provided by the co-workers and supervisors can prove beneficial in dealing with the pressure and stress caused while interacting with the difficult customers.

- Further, in order to reduce the delivery gap, internal communications among the employees should be improved to give a clear picture of its policies concerning service. This will reduce the amount of conflicts occurring

between the consumer's expectation and retailer's needs. For example, sales associates are expected to encourage the customers to make expensive and multiple purchases. But costumers are interested in best-value purchases which fulfil their needs. This can lead to conflict between meeting retailer's and customer's expectations.

- Empowering store employees at all levels, authorize them to take important decisions while interacting with customers which would result in better service quality. Sales associate should use their best judgement to act both in interest of customers and the retailer. Incentives can also be used effectively as a reward for the salesperson who provides high quality customer service.

Communicating the service promise: the communication gap

When there is difference between the service promised and its actual delivery, communication gap occurs. Salespersons often overstate the service offered to attract more customers which raise their expectations. This can lead to dissatisfaction among the customers when their expectations are not met by the service provided and lead to reduction in repeat business. Realistic commitments and managing customer expectations can overcome this gap.

- Poor communication between the marketing department developing promotional programmes and store employees delivering the service can lead to mismatch between promises made and actually fulfilled by service provider.
- Customer expectations can be managed by providing accurate information regarding the merchandise, its performance and additional benefits if any. This can increase customer satisfaction in long run. At times, the attitude of customer can be the cause of service problem like not checking the fit of garment accurately or having it altered or not following care instruction while washing. Therefore, communication programmes should educate the customer about their roles and responsibilities in getting satisfactory service, tips such as best times to buy and policies/procedures for handling customer issues.

11.4.7 Service Recovery

Due to inconsistent pattern of service delivery from salesperson to salesperson, there are chances of failure. These problems and complaints should be considered as excellent source of information about the merchandise and service offerings. Using this data, required changes can be made to increase customer satisfaction and retention, demonstrate retailer's commitment towards high-quality service, strengthen relationship and positive word of mouth.

If the identified problem is corrective like defective merchandise, retailer can apologize, offer replacement, exchange of merchandise or give cash refund. However, service recovery might be difficult when cause of problem is hard to identify, not correctable or result due to unusual expectations of customers. The steps for effective service recovery are:

Listen to customers

Customers generally get quite upset when the merchandise purchased does not fulfil their expectations. The service provider should allow them to express their complaints without any interruption. He should respond sympathetically and thank the customer for bringing the problem to their attention. Service provider should also try to determine the expected fair solution for their problem.

Provide fair solution

While resolving consumer complaints, store employee should provide a fair solution to retain its customers. This leads to favourable impressions about the retailer. Customer tends to evaluate the procedure undertaken by retailer to solve the problem by comparing it with experiences of other customers or retailers in similar problems. These evaluations are based on distributive fairness and procedural fairness.

- Distributive fairness: Customer expects right value or benefit received in comparison to the money paid by him/her. They prefer tangible solutions to their complaint like additional reward, discount etc rather than a verbal apology. When tangible solutions are not possible, customer should be assured that the complaint has been noted and conveyed to the manager for necessary action in future.

- Procedural fairness: This involves the process used to resolve the complaint based on the company's guidelines. Customers feel more satisfied when they are being treated alike. But service provider has to be flexible enough to avoid negative effects.

Resolving problems quickly

Quick response to the complaints and timely resolution can go a long way in customer satisfaction. Time taken can be minimized when less number of people are involved in the process. Lot of time is wasted when customers are referred to different employees and also there are chances of conflicting responses by different employees. Service provider who is in direct touch of the customer should be made self-sufficient to handle the problems. The service provider should give clear instructions on what needs to be done for resolving a problem. Also, the language used should be familiar to the customer and company jargons should be avoided.

Check Your Progress 5

Note: a) Space is given below for writing your answer

b) Compare your answer given at the end of the Unit

1) Describe, in about 8 lines, the two customer service approaches.

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11.5 LET US SUM UP

This Unit has attempted to introduce you to the importance of customer relations in the field of fashion retailing. In retail, customer is the boss and main reason for existence. Demographics, customer's psychology, his/her external environment and lifestyle are the key factors in determining customer's buying behaviour. Customer Relationship Management (CRM) is a broadly recognized, widely implemented strategy of managing and nurturing a company's interactions with customers, clients and sales prospects.

You have seen that CRM process comprise of four activities which focus on increased customer loyalty. These include collection of customer data, analysis of customer data to identify target customers, development of CRM programmes and implementation of CRM programmes. Thus, through CRM, the business aims winning new customers, nurturing and retaining the existing customers, attracting former customers back and reducing the overall cost of marketing and customer services.

Customer service is defined as the provision of service to customers before, during and after a purchase to enhance the level of customer satisfaction. Wide variety of services are offered to both online and offline retail customers and can be categorised as pre-transaction, transaction and post-transaction services. When the customer's perception regarding the service provided by the retailer does not match with the customer's expectations, it results in service gap which can be of four types. The steps for effective service recovery are listening to customers, providing fair solution and resolving problems quickly.

11.6 REFERENCES & SUGGESTED READINGS

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11.7 CHECK YOUR PROGRESS: THE KEY

1) Traditionally, retailers were using mass-media advertising and promotional activities to encourage large number of customers to browse through their offline (at retail outlets) and online (retail websites) collections. This approach targeted all the existing and potential customers which received same promotional messages. However, in present scenario, retailers are more focussed on developing customer loyalty by extending more value to their best customers. This leads to goodwill towards the retailer which encourages repeat-purchase behaviour among these best customers.

2) Different methods for data analysis to identify target customers are:

   - Retail analytics, a statistical application, is used to determine customer purchase patterns and give recommendations for further improvement.
   - Customer lifetime value (CLV), a commonly used measure to give a score or number to each customer is statistically calculated from the data on past purchase behaviour of the customers.
   - RFM Analysis (frequency, monetary analysis) is used to identify the best customers, generally used by catalogue retailers or the direct marketers.

3) A. Best and loyal customers, B. 1-to-1 Retailing

4) Customer service activities can also be categorised as pre-transaction, transaction and post-transaction services. Pre-transaction services provided by the retailer focus on providing necessary facilities to the target customers. Transaction services are delivered to the customer while he/she is making purchase transactions in the retail store or through its website. Post-transaction services are after purchase services provided to the customers to ensure consistently high levels of satisfaction

5) The two customer service approaches are:

   - **Personalized service:** The services which are tailored to meet individual customer's personal needs are called personalized services. Such services can be inconsistent , costly and its success depends on the judgement and capabilities of the sales associate in retail stores.
   - **Standardized services:** These services are based on establishing policies, procedures, store and its website design and layout leading to implementation of high quality service. Such services are consistent and cost effective.

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