

# **Chapter 4 : Types of Retail Formats**

# Learning Objectives

- The definition of a retail format
- Classification of various retail formats
- The methods that are used to buy merchandise for different formats
- Concept of multichannel retailing and its challenges
- Retail evolution and emergence of new formats
- Concept of retail life cycle

# Retail Format

- **Retail format** is basic structure of a retail business conceived, designed and developed to cater to needs of end consumer.
- New retail formats keep emerging with time.

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# Retail Format

- **Purpose of a retail format**
- The different types of retail formats allow the retailers to compete by offering different benefits to consumers.
- Retailers succeed and prosper when they are able to serve the customer more effectively than competitors.

# Retail Concepts

**Retail Mix** : The most basic characteristic of the retail format is defined as the combination of elements the retailer uses to satisfy customer needs. The 4 elements of the retail mix are :

- Type of merchandise offered
- Variety and assortment of merchandise
- Level of customer service
- Price strategy followed

# Retail Concepts

- **Variety or Breadth of merchandise** : It is the number of merchandise category a retailer offers.
- **Assortment or Depth of merchandise** : It is the number of different item in a merchandise category.
- **Stock keeping unit (SKU )** is the each different item of the merchandise.

# Variety vs Depth

- A retailer offering a wide breadth and depth of merchandise is favoured, but product price would be exorbitant as the retailer will incur costs to offer variety and hold so much inventory.
- Services are a costly component and retailers have to decide the level of service they can offer .
- Even sales people in the store cost.
- There is a trade-off between variety of merchandise and additional costs of inventory and services.
- They have to carefully plan the retail mix balancing the costs and benefits of offering variety to the customer.

# Evolution of Retail Formats

- Retailing in India started in the form of the weekly haats, mandis and village melas. These served a dual purpose of catering to daily necessities as well as entertainment.
- With the emergence of towns and cities, the neighbourhood kirana stores became popular as they were convenient.
- The first phase of modern retail in India started in late 1990s with the advent of department stores.

# Evolution of Retail Formats

- The second phase of growth was post 2005 when hypermarkets, supermarkets and convenience stores started.
- 2008-2010 major growth took place when modern retailing became popular. Many malls were launched along with cash -and-carry format and specialty stores.

# Evolution of Retail Formats

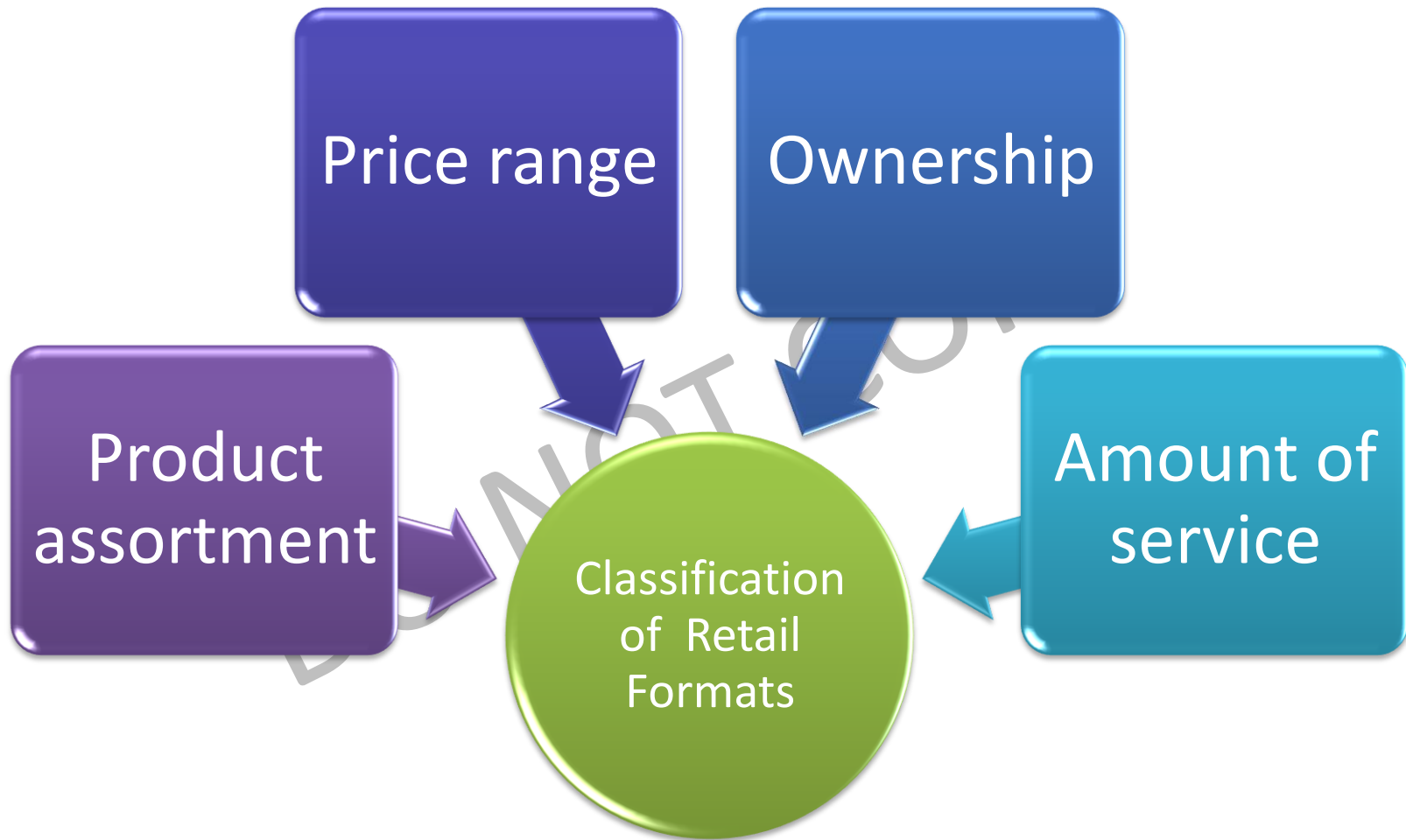
- 2010 saw entry of many international players, remodelling of existing formats and change in the Indian shopping basket.
- The last decade has seen a phenomenal change in the retailscape of India. New retail formats have emerged.
- Online retail and buying via the mobile phone has caught the fancy of Indian consumer.

# Classifying Retail Formats

An easy method to classify retail formats is based on the following characteristics :

- ✓ product assortment that they offer to consumers
- ✓ price range
- ✓ the organisation or ownership of the store
- ✓ the amount of service offered to the consumers

# Classifying Retail Formats



# Classifying Retail Formats

**BASED ON PRODUCT ASSORTMENT** - Classifying formats using their product assortment or merchandise range.

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# Retail Formats based on Product Range



# Specialty stores

- **Specialty stores** deal in a single category of merchandise (jewelry, shoes).
- They deal in complementary merchandise categories and related products (clothing /accessories or sporting equipment /active sports apparel).
- Specialty store offers a narrow product line but with deep assortments in that product line.
- This is more efficient to manufacture in bulk.
- Lacoste, Adidas

# Department store

- **Department store** specializes in selling a wide range of products without a single predominant product line.
- It carries a broad and deep assortment along with customer service.
- It caters to multiple needs of several groups of customer under one roof.
- They earn profit by the huge sales volumes.
- They concentrate on mass market.
- Lifestyle, Westside.

# Department store

- Department stores may further be classified into three tiers :
  - ❖ Upscale, high fashion chains that house exclusive designer products and offer a high level of customer service.
  - ❖ Traditional stores that sell moderately priced products with less customer service.
  - ❖ This tier consists of stores that offer value for money by catering to price sensitive consumers.

# Super markets

- **Super markets** are large, low cost, low margin, high volume, self service operations designed to meet the need for food groceries and other non- food items like health and beauty merchandise.
- Perishable food items like baked stuff, meats and dairy products form the majority of their merchandise.
- Have a large number of frequent customers
- Sell low cost products at a low margin.
- Follow the self service format.
- The profit margins are low.

# Convenience stores

- **Convenience stores** cater to people at odd hours from easily accessible locations. Eg; at petrol pumps, airports, train stations.
- They enable the consumer to purchase quickly without having to browse through a huge array of products.
- They stock basic things but charge high price for the convenience offered.
- They keep limited assortment of high turnover, convenience goods.

# Hyper market

- **Hyper market** / multi department store is a superstore which combines a super market and a department store. It is a large retail facility which carries an enormous range of products under one roof.
- They carry a larger proportion of food items with emphasis on perishables.
- At least 35% of selling space devoted to non grocery products. They also sell hardware, garments, sports equipment, furniture, appliances and electronics.
- It is the largest version of retail.
- Hypermarkets focus on high-volume but low –margin sales.
- Spencers or Hypermart

# Category Specialists

- **Category Specialists/ Killers/Power retailers** offer a narrow but deep assortment of merchandise.
- They have a self-service approach but may offer some assistance to customers in some product categories like electronics.
- They are able to buy merchandise at lower prices due to their buying power based on volumes.
- The Home Store, Croma.

# Classifying Retail Formats

**BASED ON RELATIVE PRICE** – Stores sell at lower prices because of lower operational costs due to Self service, No free home delivery, No mail/telephone orders and use of Low rent locations

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# Retail formats based on Relative Price



# Full line discount store

- **A full line discount store** keeps a wide assortment of garments, furnishings, health and beauty products and gives huge discounts on all merchandise.
- They offer goods at lower price as compared to all departmental stores.
- There may be minimal or even no customer service and no product returns policy.
- Eg; Walmart.

# Extreme value retailers

- **Extreme value retailers** are primarily discount stores that have a limited product range at very low prices. Thus their merchandise is wide but shallow.
- The target customer is the low income group.
- Manufacturers create smaller size packaging for extreme value retailers.
- Eg; Dollar Store .

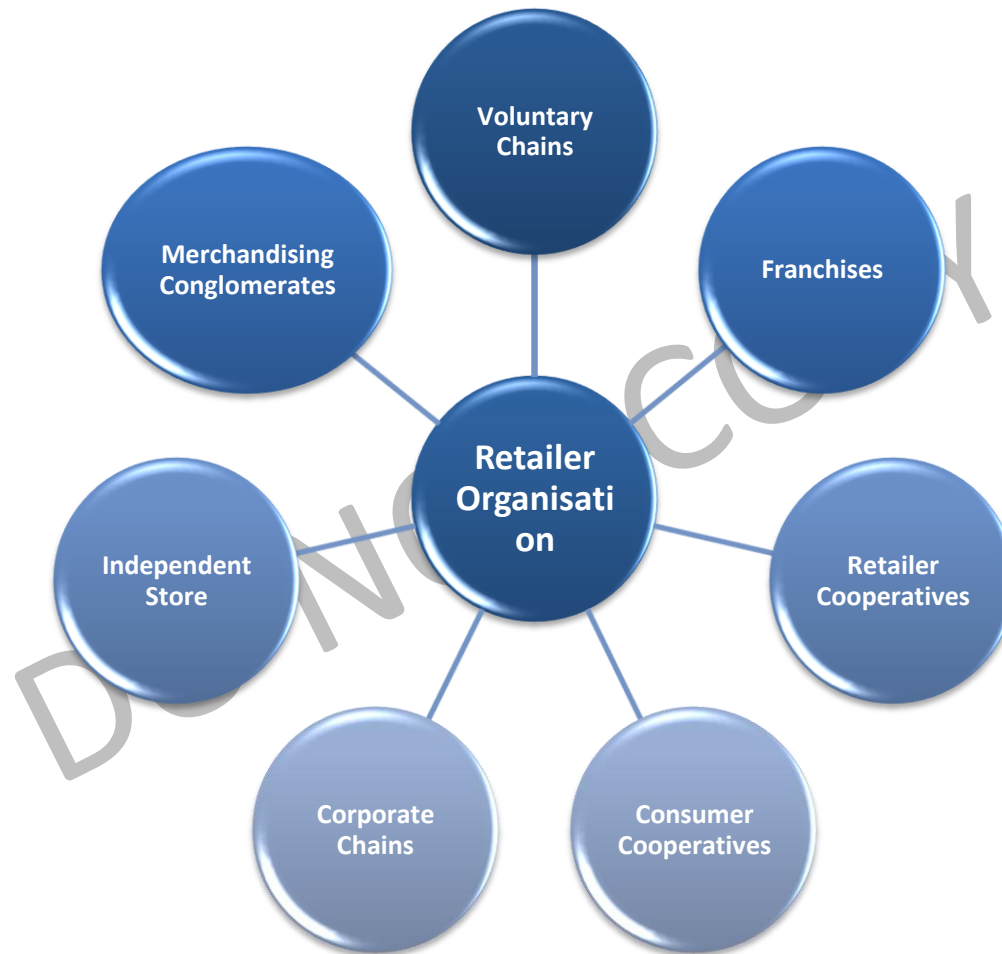
# Off price retailer

- **Off price retailer** or close out stores deal in an inconsistent merchandise at very low prices. They buy irregulars, off-ratios, cancelled orders and seconds goods at a low cost directly from the manufacturer and sell at a low price.

# Manufacturers or factory outlet

- **Manufacturers or factory outlet** is a special category of off price retailers.
- Manufacturer gets into retailing to sell off production overruns, leftovers, incomplete assortments, returns from retailers, irregulars, cancelled shipments, odd sizes to improve their revenues.
- Manufacturers use space within their building, thus lower overheads rather than renting a store.
- Need to sell seconds/rejects.
- Thus prices are lower than the MRP .

# Classification By Retail Organization



# Independent retailer

- **Independent retailer** /mom and pop store especially if it is a small one.
- Is usually family owned and operates only one retail outlet.
- Owner is in direct contact with customer and understands them.
- Decision making vests with the owner who can react quickly to changes in demands and needs of customer. This results in a very flexible and quick responding marketing mix.
- The flip side is that the business relies on one person's skills alone. This can be dangerous for the retailers survival.

# Chain store

- **Chain store** has two or more stores that are commonly owned and controlled. They have centralized operations, employ central buying and merchandising, sell similar merchandise in store units that are standardized.
- They buy at a lower price and the promotion cost is spread all over the retail chains.
- They can negotiate lower prices due to large volumes.
- Have a broader management base with specialists handling different aspects of the business.
- Fabindia, Westside, Spencers

# Franchise

- **Franchise** is a contractual agreement between 2 parties - a franchiser and a franchisee. It gives the franchisee the right to sell franchisers product line or service.
- The franchise is purchased by the franchisee for a price based on the franchise's success records and growth potential.
- The franchiser provides a set of operating procedures and a national advertising program.
- KFC, McDonalds.

# Leased department

- **Leased department** is a department in a retail store that is rented to an outside party.
- The proprietor of the leased department is responsible for all aspects of the business and pays a percent to the retail store as rent.
- This format is used to widen the product offerings.
- Allows win-win strategy for both the leased department operator and retail store.
- W, Biba

# Merchandise conglomerate

- **Merchandise conglomerate** is a cooperation which combines different retail formats under a central ownership.
- It consists of 2 or more different type of retail stores owned by 1 owner.
- Eg; Future Group which owns Food Bazaar and Big Bazaar and many more retail formats.

# Consumer Cooperative

- **Consumer Cooperative** is owned by its customer members who invest, manage the firm and share the profits.
- Cooperatives form only a small part of the retail sector as they involve consumer initiative and drive.
- SEWA (Self -Employed Women's Association) and KVIC (Khadi and Village Industries Commission) are cooperatives.

# Classifying Retail Formats

## BASED ON AMOUNT OF SERVICE

Services that a retailer offers can range from sales personnel, home delivery, returns policy, packing, schemes, membership, loyalty programs, valet parking, gift wrapping.

- Self-service
- Limited services
- Full services

# Non store retailing

- **Non store retailing** is retailing through any mode other than a physical store.
- It offers increased possibilities for those who lack time or enthusiasm for conventional shopping.
- Main problems of non store retail :
  - Security issues in use of credit cards
  - Consumer cannot touch and feel the product especially fabric and colors

# Non store retailing

- **Non store formats**
  - **Catalog /mail order retailers** - sells through a catalog. Eg; Tupperware.
  - **Electronic retail** – electronic shopping thru a TV or telephone
  - **Internet Retailing**
  - **Kiosks** are stalls put in any location that is likely to have heavy footfall.
  - **Direct selling** - Personal selling , Party plan and Network marketing eg; Tupperware, Avon, Amway
  - **Vending machines or automated selling**

# Emerging Formats

Reasons for emergence of new formats :

- The limited penetration of brick-and-mortar
- Urban consumers have very little time to shop
- Retailers in India are experimenting with new formats.

# Emerging Formats

- **Wholesale Clubs:** purchase in bulk and look out for substantial discounts.
- **Recycled Merchandise Retailers:** sell used and reconditioned products. The merchandise in these stores is either new, nearly new or gently used.
- **M-Commerce :** is purchase of products online by using the mobile phone. Many retailers have made *apps* (applications) that are downloadable on the mobile phone device from the internet. The purchases are then made via these apps.

# Emerging Formats

- **Liquidators or undertakers** : They liquidate leftover merchandise when an established retailer shuts down or downsizes. They either purchase the entire inventory in advance or agree to pay a percentage after sales.
- **Rentals** : Consumers either do not have enough cash or prefer not to overspend especially in times of recession. They prefer to rent the product instead of buying it . This is common in expensive or designer apparel and accessories. Thus, many online as well as offline rental retailers have emerged.

# Multi Channel Retailing

- **A multichannel retailer** is one that sells its merchandise through more than one channel.
- By using a combination of channels, the multichannel retailer can overcome the limitations of each retail channel thus serving a wider customer base.

# Benefits of Multichannel Retailing

- Increase customer satisfaction and loyalty
- Increase their geographic presence.
- Effective in overcoming the limitations of the existing retail channel being used
- Collect search-behavior and maintain a database of the same

# Challenges for multichannel retailers

- To provide a seamless interface across channels.
- Providing an integrated shopping experience across the multiple channels
- Difficult task of managing different retail strategies for the different channels for the same merchandise

# Methods of Buying Merchandise

- Retail buying is a complex task wherein every product will have to be handled differently every time.
- **Centralised buying** means centrally buying for all stores of a corporate chain. Similar product stores join together and decide the buying strategies. It is suitable for staple and non seasonal products.

# Methods of Buying Merchandise

- **Decentralised buying** is followed by retailers whose range consists of products with a stable demand. Individual stores order merchandise based on sales pattern of that store. eg; newspapers, fresh produce . Responding to local preferences in this manner improves customer satisfaction level. This method is highly adaptable, hence faster.

# Methods of Buying Merchandise

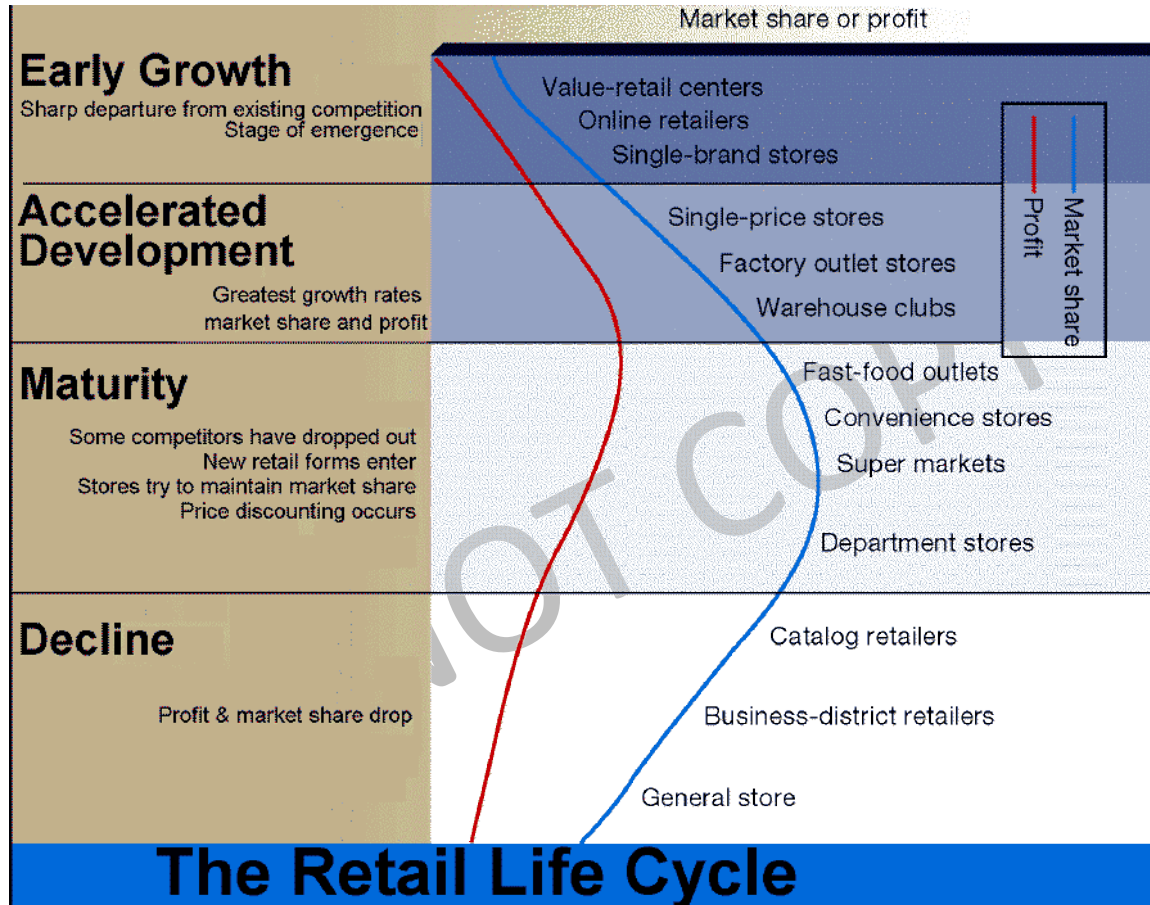
- **Group buying or cooperative buying** - An order placed at same time by a group of stores for the same merchandise. This helps get a better price and quality, timelines and delivery terms. It can be used when the sources are not near, then an agent can buy on behalf of a number of stores.

# Buying for different types of Retail Formats

- **Buying for an Independent Store**
  - Small – informal buying
  - Large – formal buying
- **Buying for a Chain store** - centralised buying for staple merchandise and decentralised buying for products that have a local demand or for perishables.

# Retail Life Cycle

- Retail institutions have a life cycle.
- Stages that the retail institution progresses through:
  - Introduction : profits are low, despite increasing sales levels.
  - Growth : High sales and profits
  - Maturity : Market share stabilizes and profits reduce
  - Decline : the idea or product does not appeal anymore

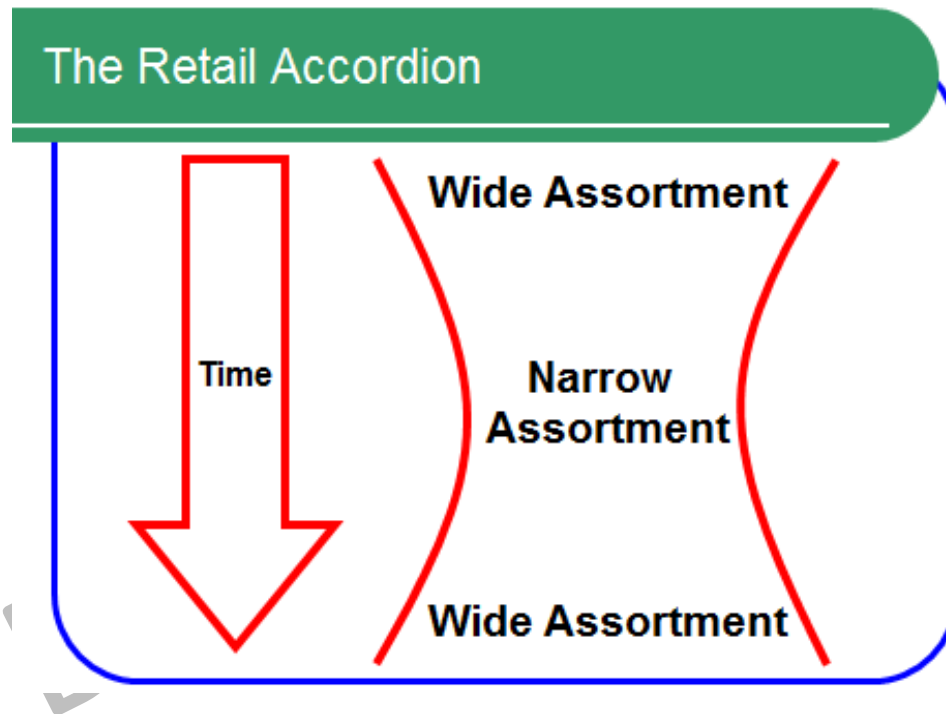


# Retail Accordion

- This concept describes how retail institutions evolve from outlets that offer wide assortments to those offering narrow assortments, called specialized stores and continue repeat the pattern.

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# Retail Accordion



# The Wheel of Retailing Theory

- This theory describes how new types of retailers enter the market as low-status, low-margin, low-price operators. However, over time as they meet with success, these new retailers gradually acquire more sophisticated and elaborate facilities, and thus become vulnerable to new types of low-margin retail competitors who progress through the same pattern.

# The Wheel of Retailing Theory

