

Unit III

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IMPORTANCE OF LOCATION DECISION:

Location decision is important for any business and retail in particular, because it has a direct bearing on the cost as well revenue in several ways. Location is a major cost factor because it

- Involves large capital investment
- Affects transportation cost and
- Affects human resource cost, eg. salaries
- It is a major revenue factor as affects the amount of customer traffic and
- Affects the volume of business

A location decision is influenced by the flow of pedestrian and vehicular traffic, which determine the footfalls in a retail store. Footfalls refer to the number of customers who visit a store in a defined time period.

Other importance of location decision:

1. **Expansion** : If the company wants to expand and diversify its activities, it will have to search for a new-location for setting up its new business unit. In this case, it will need a location planning.
2. **Cost advantages** : If an existing plant is not near a market place, it will increase the transport cost. This will also increase the cost of the product. So, to avoid this, the company will search for a new plant location which is near the market. Such location of plant must be convenient to the employees and must have a regular supply of water and electricity. Overall, this will result in reduction of the cost of production.
3. **Discovery of raw-material** : Generally, a plant must be located at a place where raw-material is available. For example, if oil and gas are found at some place, then a new petrochemical plant has to be set up there for processing purpose.
4. **Additional facilities** : Plant location-related decisions will have to be taken if the organization wants additional facilities. New facilities may be necessary to improve the quality of work, to meet rising demands, etc.
5. **Mergers** : Mergers, joint-ventures, and Amalgamations may lead to start a new unit at a new-location. It may even require closure of an existing plant unit. In mergers, production is mostly started at a new place as per the new-agreement.
6. **Political and social changes** : Each political party has its own philosophy. Political changes can lead to changes in economic policies of the government. This may make the existing location unattractive for doing business. Social changes may require production of eco-friendly goods. This may require a change in location.
7. **Increasing product demand** : Demand for the company's product may increase at other places, especially in abroad countries. So, the company will have to start a branch in another state or in foreign countries. This would lead to a search for new location of plant.
8. **Avail tax benefits** : Government may announce some tax benefits for starting a business in rural areas. This may motivate entrepreneurs to start their business units in remote areas.

TYPES OF RETAIL LOCATION DECISION:

The decision to locate a store is associated with site selection. There are three types of site. The retailer's task is to identify the type of site that suits his business. The retailer should assess the strengths and weaknesses of each type of site.

I. Solitary site

As the name itself suggests, the solitary site is a single free-standing outlet isolated from other retailers. Generally, it is positioned on a road or street. A solitary site is preferred by convenience stores, garages, fast-food restaurants or warehouses.

Merits:

The advantages of solitary site are as follows:

- (i) Competition is less
- (ii) Rental costs are less
- (iii) Operating costs are less.
- (iv) The shops located in solitary sites are visible to passers-by on the road.
- (v) Large companies find solitary site convenient as it offers a large display area and a store layout suiting their own specifications
- (vi) Free standing stores emphasis location. Consumers are not tempted to go to the nearest store.

Demerits:

The solitary site suffers from the following demerits:

1. As a single outlet, it may not have a great deal of gravitational pull. So, it is difficult to attract new customers.
2. As it is isolated from other retailers and positioned on a road or street can share the costs of security, ground maintenance or environment improvement with others. Promotional costs are, therefore, higher.

II. Unplanned shopping area site:

Unplanned retailing has emerged in a gradual or piecemeal pattern. Residential buildings are or converted into retail shops. Unplanned retail centres are fragmented among a number of companies or owners. Central shopping areas in cities or towns and small shopping areas are unplanned. The unplanned shopping area site is a retail location with two or more outlets in close proximity to each other

Merits:

The merits of the unplanned shopping area site are given below:

- (i) It offers a variety of retail choices in a single area. So, shopping in unplanned area is convenient for buyers.

- (ii) Buyers can compare the price of products by visiting a number of shops which are close to one another.
- (iii) Retailers can attract a large number of buyers from higher level of pedestrian traffic.
- (iv) There is access to public transport system.
- v) Buyers can save time by shopping in different stores in the same location.

Demerits:

Unplanned shopping area has the following limitations:

1. In unplanned shopping area, a number of retailers coexist. It leads to excessive concentration of same business types.
2. There are problems of traffic congestion and parking, organising deliveries high rents and taxes, poor conditions of properties, etc.
3. If travel to the shopping area is expensive, recruiting and retaining staff is a problem.

III. Planned shopping area site:

The planned shopping area is a deliberately developed site. It has been designed to house a number of outlets. There is an amalgamation of different retailers reflecting the market catchment area. The plan is aimed at some large key brand stores and a smaller number of diverse retailers. The centre is operated a single unit. Adequate parking facilities will be available There is also a balance between the types of stores represented in the centre. Retailers rent space such a way so as to complement other retail business on the basis of quality and types of good or service offered.

Merits

Planned shopping area offers the following advantages.

- (i) Retail offers are comprehensive and balanced to the advantage of buyers.
- (ii) Buyers feel free to shop in comfort
- (iii) Buyers can buy all their requirements in one place.
- (iv) Planned shopping area projects a single unified image and sense of place.
- (v)Planned shopping area funnels consumers into a zoned location. It means it makes people to conveniently move from one shop to the other in a narrow but comfortable passage.
- (vi) It ensures safety to the buyers by increasing security and reducing theft.

Demerits

The following weaknesses are present in the planned shopping area:

- (i) The rental agreement lays down certain rigidities which cause inconvenience to the retailers. For example, there is inflexibility in opening hours.
- (ii) Rents are higher than in other locations.
- (iii) Restrictions are placed on the types of goods which may be sold by different stores operating in the planned shopping area.

iv) Smaller stores find it difficult to compete with larger stores.

Types of planned shopping area:

Planned shopping area reflects the modern trend. Owing to its growing popularity, planned shopping area has witnessed the emergence of re-test formats of retailing business. The retail park and shopping malls are two important types of planned shopping areas.

1. The retail park:

A retail park is established on the outskirts. It consists of a purposefully built cluster of free standing stores with parking facilities. Usually, a minimum of three warehouse type stores are based in a retail park. The retail park area may be of 50,000 square feet which is let as a retail entity.

Retail parks emerged in developed countries in the early 1980s. Later, they were developed alongside leisure facilities such as cinemas. The retail park is different from the shopping mall. The mall is a single building and marketed as an individual place. The mall contains small retail outlets. But a retail park has retail units of at least 10,000 square feet.

2. The shopping mall:

A shopping mall consists of a number of retail outlets in large building of at least 1,00,000 square feet in size. The mall is a covered building with open pedestrian walkways which are lined with shops linking the retailers' site. The success of a mall depends upon the range and quality of shops it can attract. The mall is likely to attract even non-discount retailers.

LEVELS OF LOCATION DECISION AND ITS DETERMINING FACTORS:

The following are the three levels:

1. Selection of a city.
2. Selection of an area or type of location within a city
3. Selection of a specific site

I. SELECTION OF A CITY :

The following factors play a significant role in the selection of a particular city for starting or relocating an existing business

1. Size of the city's trading area:

A city's trading area is the geographic region from which customers come for shopping. A city's trading area would comprise its suburbs as well as neighbouring cities and towns. Cities such as Mumbai and Delhi have a large trading area as they draw customers from far off cities and towns.

2. Population or population growth in the trading area:

The larger the population of the trading area, the greater the potential of the city as a shopping location. A high growth in population in the trading area also increases its retail potential. For instance, cities such as Delhi, Bengaluru, Mumbai. and their satellite towns (Noida, Gurgaon, and Thane) have registered phenomenal growth of retail business. This is mainly attributed to high infliux of young and working population in these centres.

3. Total purchasing power and its distribution:

The retail potential of a city also depends on the purchasing power of the customers and its distribution networks in its trading area. The rapid growth in purchasing power and its distribution among a large base of middle class has contributed to a retailing boom around major cities in India. Most modern retail formats such as hypermarkets, supermarkets, and malls are coming up in A-class cities with promising business set ups that ensures ever increasing disposable incomes in the hands of its population. Noida, Gurgaon, and Bengaluru are good examples, having attracted major retail investments because of their prosperous populace.

4. Total retail trade potential for different lines of trade:

A city may become renowned due to its speciality in certain lines of trade and attract customers from far and wide. Moradabad, for example, is an important retail location for brassware, whereas Mysore is famous for its silk sarees.

5. Number, size, and quality of competition

A retailer also considers the number, size, and quality of competition before selecting a city. Unlike other large department store chains in India, Globus opened its first store in the mid-sized city of Indore, where it became popular as the only large department store.

6. Development cost

The cost of land, rental value, and other retail developmental costs also affect attractiveness of a city as a retail location. In India, large organized retail chains such as Food World and Reliance fresh preferred to start their activities in metros such as Chennai and Bengaluru since realty and other developmental costs were more reasonable in these cities than in Mumbai and Delhi'

II. SELECTION OF AN AREA OR TYPE OF LOCATION WITHIN A CITY.

In the selection of a particular area or type of location within a city, evaluation of the following factors is required:

1. Customer attraction power of a shopping district or a particular store:

Major shopping centres such as Chandni Chowk in Delhi, Colaba in Mumbai and Commercial small in Bengaluru attract customers from far off, whereas, small shopping centres located in colonies attract customers from immediate neighbourhood.

2. Quantitative and qualitative nature of competitive stores:

Retailers would like to evaluate the product lines carried by other stores, number of stores in the area, etc., before selecting the area. Thus, Nai Sarak in Delhi would be a suitable location for retailing paper and stationery products since it has become a specialized destination for these products.

3. Availability of access routes The area or shopping centre should provide easy access routes. There should not be traffic jams and congestion, and it should be approachable. MG road in Bengaluru provides easy access from different parts of the city, and hence has become popular.

4. Nature of zoning regulations: The retailer should also consider the zoning regulations in the city. They should examine the plans of zoning commissions and municipal corporations regarding the development of shopping centres, residential areas, flyovers, etc.

Ambience Mall in Gurgaon suffers its business because of a toll post and flyover, contributing to major traffic jams that act as deterrent to many customers.

5. Direction of spread of the city : The retailer should consider the direction in which a city is developing while selecting the location for his or her store. For example, Mumbai's suburbs and Navi Mumbai are growing at a fast rate. Gurgaon and Ghaziabad to the south and east of Delhi, respectively, have similarly grown into attractive retail locations.

III. SELECTION OF A SPECIFIC SITE :

The choice of a specific site within a locality is particularly important. In central and secondary shopping centres, non-anchor stores depend on customers coming to the market and the traffic generated by anchor stores. Large stores in turn depend on attracting customers from the existing flow of traffic. The following factors need to be considered while selecting specific site:

1. Adequacy and potential of traffic passing the site: The volume of vehicular traffic and pedestrian shoppers who pass by the specific site should be assessed since they represent the potential customers.

2. Ability of the site to intercept the traffic flow in the site. The vehicular or pedestrian traffic moving in the site would be attracted only if it represents the segment the store is targeting. Thus, a large number of school children moving past the site may not mean much to a store selling designer menswear. The presence of other shopping centres or stores in the vicinity can also influence the ability of the site to attract the flowing traffic.

3. Complementary nature of adjacent stores: The site will have greater potential if the adjacent stores sell complementary products. Thus, a store selling school uniforms would have greater potential if adjacent stores sell school books, stationery, etc.

4. Adequacy of parking: Before finalising the site, it should be ensured that there are adequate facilities available in the vicinity, especially if the store expects substantial vehicular traffic.

5. Vulnerability of the site to unfriendly competition: The retailer should consider the possibility of emergence of an unfriendly competition, which could be in the form of a large discount store resorting to aggressive pricing strategies to threaten the nearby retailers.

Issues to be considered in site selection:

The location strategy should consider the following issues:

1. Consumer choice:

Consumer choice is the most important factor to be considered while selecting the site of the store. Customers are in the habit of visiting a store as a place of doing business for themselves. Their decision of where to shop is largely influenced by the location of the store.

2. Competitive advantage:

An intense competition prevails in the retail market. The decision on retail location is of strategic importance as retailers can gain long-term competitive advantage by selecting the best location.

3. Social and structural changes:

Any decision on location should take into account the current social and structural changes in the society. Increased use of motor car, the importance of out of town shopping, the image and power of retail brands are some important factors which cause changes in society and consequently, the buying pattern of consumers.

4. Huge investment:

Development of a retail site requires huge investment. The land cost has escalated. Alternatively, if retailers obtain land on lease basis, they have to pay high rents. A newly established retail store gains

profitability only in the long-run. The presence of all these factors in retail business bears long term financial implications for retailers.

5.Assets of the company:

The assets owned by the company are as important as its turnover. The value of such assets should keep growing in the long run. So, it is important to select carefully the location of a retail store.

6. Paucity of sites:

Government applies restrictions on development of sites of retailers for their operations. Obtaining permission is also not easy.

Merchandise Management

Merchandise management deals with the planning and controlling of the retailer’s inventories. It strikes a balance between the financial requirements of the company and merchandise purchasing.

Definitions of merchandise management:

In the words of David Gilbert, merchandise management is "the planning and implementation of the acquisition, handling and monitoring of merchandise categories for an identified retail organization". This definition points out certain key points:

- 1) A merchandise has to be acquired for future purchase opportunities.
- 2) Forward planning is needed in relation to changing consumption tastes and purchases.
- 3) The merchandise needs to be handed in an appropriate way that it is sold in perfect conditions.
- 4) The financial aspect of buying merchandise can be treated as an investment decision.
- 5) Merchandise management is to ensure adequate returns on merchandise operations.

Phases in developing a merchandise plan:

Developing a merchandise plan is wholly dependent on consumer expectations. The customer will have expectations of an assortment profile with issues of choice (width and depth), sizes, quality, exclusivity, availability and cost. After these expectations are understood, they are translated into a particular structure for the buying organization.

The Phases in developing a merchandise plan considerations are listed in below table:

S.No	Phase	Considerations
1	Marketing Considerations	Store and image, trading format, environment, retail propositions, fashion trends, customer base, potential buyers.
2	Merchandise strategy options	Availability based upon, assortment profile and issues of choice (width and depth) estimated cost, promotional agreement.
3	Type of customer base	Items purchased, range purchased, length of season, average transaction value for different lines, frequency of visits and purchases.
4	Financial Considerations	Profitability and sales performance projections, stock investment and stock return, type of contract and payment terms, corporate objectives and pricing.

Concept of Private label:

The Private Label Marketing Association defines store brand products as

“All merchandise sold under a retail store’s private label. That label can be the store’s own name or a name created exclusively by that store. In some cases, a store may belong to a wholesale buying group that owns labels, which are available to the members of the group. These wholesales-owned labels are referred as controlled labels.

Thus, a private label can be classified as under:

Store Brand

which carries the retailer's name, such as Westside, Food World, Big Bazaar,

An Umbrella Brand

where a common brand name is used across multiple categories example splash (Lifestyle), Bare (Pantaloon),

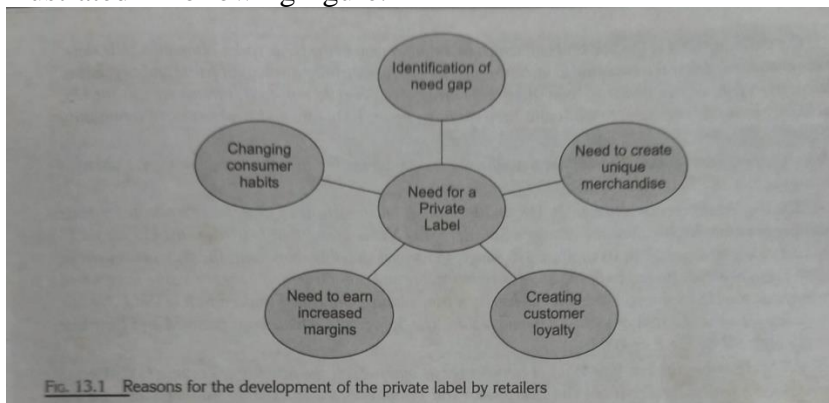
Individual Brands

where specific brand names are created for specific market segments and/or categories. While store brands offer a choice to the end consumer, for the retailer, they are a tool for increasing business and winning customer loyalty. Retailers have realised that while consumers can buy a national brand anywhere; they can only buy their store brand at their store.

A private label is more than a product with the name of the retailer/store-it needs to be seen by the end consumer as a different product. There must be a clear perception that 'it is produced by is store'. Private labels or store brands exist in a wide variety of industries, from apparel to food to health and beauty aids.

THE NEED/REASONS FOR A PRIVATE LABEL

Very often, the need to develop a private label brand by a retailer is due to the reasons illustrated in following figure.



The changing consumer tastes and the need to fill a gap in the product offering is the key reasons for retailers to opt for offering a private label. This gap may be due to the non-availability of a particular product/category. The retailer may also seek to create a competitive advantage in his domain by aiming to offer a product that is unique and thus, also build in on customer Offering a product or a range within a product, which gives the customer newer reasons to visit the store every month or week, is something that every retailer would aspire for. Private labels also allow the retailer to build a brand which is associated with the store and therefore, with an experience.

The most significant advantage that a private label allows a retailer is that of earning a level of margin which may be higher than what is offered on other brands that he chooses to retail. A private label basically involves the retailer doing the designing, merchandising, sourcing and distribution. Thus, his costs are under his control and spread across a limited range of activities. Promotions are mainly done in-store and thus, his cost of goods sold is much lower compared to that of a national brand. Finally, the retailer may also vary the offerings of the private label across geographical boundaries on the basis of the variation in consumer preferences or to seek a competitive advantage in a new geographical region.