GBA (S5) 02

Exam Code : SRM

Sales and Retailing Management

SEMESTER V

BACHELOR OF BUSINESS ADMINISTRATION

BLOCK - 2

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

Subject Experts

1. Professor Nripendra Narayan Sarma, Maniram Dewan School of Mangement, KKHSOU
2. Professor Munindra Kakati, VC, ARGUCOM
3. Professor Rinalini Pathak Kakati,Dept.of Busniess Administration, GU

Course Co-ordinator : Dr. Smritishikha Choudhury, Asst. Prof., KKHSOU

Dr.Chayanika Senapati, Asst. Prof., KKHSOU

SLM Preparation Team

UNITS	CONTRIBUTORS
8	Prof. Rinalini Pathak Kakati, Gauhati University
9,10,12	Dr. Smritishikha Choudhury, KKHSOU
11	Ms. Sangeeta Deka, Jagiroad College
13	Prof. Nripendra Narayan Sarma, KKHSOU

Editorial Team

Content : Prof. Nripendra Narayan Sarma, KKHSOU

Dr. Smritishikha Choudhury (For unit 13)

Language : Retd. Prof. Robin Goswami, Cotton College

Structure, Format & Graphics: Dr. Smritishikha Choudhury,KKHSOU

Dr. Chayanika Senapati, KKHSOU

June , 2019 **ISBN No.** 978-93-89123-70-8

This Self Learning Material (SLM) of the Krishna Kanta Handiqui State Open University is made available under a Creative Commons Attribution-Non Commercial-Share Alike 4.0 License (international): http://creativecommons.org/licenses/by-nc-sa/4.0/

Printed and published by Registrar on behalf of the Krishna Kanta Handiqui State Open University.

Headquarters: Patgaon, Rani Gate, Guwahati-781017
City Office: Housefed Complex, Dispur, Guwahati-781006; Web: www.kkhsou.in

The University acknowledges with thanks the financial support provided by the Distance Education Bureau, UGC for preparation of this material.

BACHELOR OF BUSINESS ADMINISTRATION

Sales Retailing Management

DETAILED SYLLABUS

BLOCK-2

UNIT 8: Sales Forecasting **Page : 101-119**

Definition of Sales Forecasting, Importance and objectives of sales forecasting, Factors affecting Sales forecasting, Process of sales forecasting, Methods of Sales forecasting

UNIT 9: Sales Planning and Budgeting **Page : 120-131**

Sales Planning Process, Sales Budget, Purpose of Sales Budget, Types of Sales Budget, Advantages of Sales budget, Procedures for sales budgets, Success of Budget Programme

UNIT 10: Retailing **Page : 132-146**

Defining Retailing, Functions of Retailing, Characteristics of Retailing, Classification of Retail firm, Retail Industry in India- different forms, Retail Merchandising, Strategy and Benefits in Retail Merchandising, Visual Merchandising, Vertical Marketing System

UNIT 11: Classification of Retail units **Page : 147-158**

Introduction to Retail Space Management, Optimum Space Use, Steps to be Considered for Using Floor Space, Merchandise Planning in Store Designing, Steps in Designing Store Layout Store Design, Storefront Design, Interior Design,Lighting Design, Sounds and Smells, Vertical Marketing system (VMS), Types of VMS, Scope of VMS, Importance and Drawback of VMS

UNIT 12: Wholesaling **Page : 159-165**

Concept and Importance of Wholesaling, Types of Wholesalers, Functions of Wholesalers, Latest Trends in Wholesaling

UNIT 13: Case Study on Sales Management **Page : 166-173**

BLOCK INTRODUCTION

This is the second block of the course “Sales and Retailing Management” of B.B.A. 5th semester. It will focus on the different aspects of marketing and Sales.

This course consists of six units.

The first unit of this block explains basic concept of sales forecasting.

The second unit is about Sales planning and Budgeting.

The third unit explains about the concept of Retailing.

The fourth unit explains about classification of Retail units.

The fifith unit explains about Wholesaling.

The last unit is about case study in Sales and Retailing.

While going through this block, you may also notice some text boxes, which have been included to help you know some of the difficult terms and concepts. You will also read about some relevant ideas and concepts in “LET US KNOW” along with the text. We have kept “CHECK YOUR PROGRESS” questions in each unit. These have been designed to self-check your progress of study. The hints for the answers to these questions are given at the end of the unit. We strongly advise you to answer the questions immediately after you finish reading the section in which these questions occur. We have also included a few books in the “FURTHER READINGS” which will be helpful for your further consultation. The books referred to in the preparation of the units have been added at the end of the block.

UNIT 8: SALES FORECASTING

UNIT STRUCTURE

8.1 Learning Objectives

8.2 Introduction

8.3 Definition of Sales Forecasting

8.4 Importance and objectives of sales forecasting

8.5 Factors affecting Sales forecasting

8.6 Process of sales forecasting

8.7 Methods of Sales forecasting

8.8 Let Us Sum Up

8.9 Further Reading

8.10 Answers To Check Your Progress

8.11 Model Questions

8.1 LEARNING OBJECTIVES

After going through this unit, you will be able to :

- describe the concept of sales forecasting
- explain the importance and objectives of sales forecasting
- discuss the factors affecting sales forecasting
- learn the process of sales forecasting
- discuss the various methods of sales forecasting.

8.2 INTRODUCTION

As we have already given an overview of sales forecasting in the study material of “Marketing Management”, it will be easier for you to understand this unit.

Sales forecasting is a tool of control in the hands of sales management. Sales forecasting is the primary responsibility of the top sales executive. The entire organization from the salesman upwards to the top executive has direct or indirect participation in sales forecast. It is that portion of the sales potential that the company attempts to achieve. It is based on an

assumed marketing programme for exploiting the market potential. Without a solid idea of what our future sales are going to be, we can't manage our inventory or our cash flow or plan for growth. The purpose of sales forecasting is to provide information that we can use to make intelligent business decisions.

In this unit we are going to discuss in detail about the various methods of sales forecasting.

8.3 DEFINITION OF SALES FORECASTING

Sales forecasting is normally considered as a function of the marketing management. It is an estimated sales volume under a given plan or marketing action for a specified future period. Sales forecasting is estimating what a company's future sales are likely to be based on sales records as well as market research. Information used for sales forecasting must be well organized and may include information on the competition and statistics that affect the businesses' customers' base. Companies conduct sales forecasting in hopes of identifying patterns so that revenue and cash flow can be maximized.

Sales forecasting is an essential part of marketing, sales, finance and accounting, production & purchase and logistics. They are explained in detail below:

i. The marketing plan of a company requires information regarding product changes, promotional efforts, channel selection and pricing. The marketing plans would essentially need inputs of sales forecasting.

ii. Sales as a function, is mainly concerned with setting goals for individual members of the sales force. It needs to define the sale territories of the sales force or people. Sales forecasting become an inseparable part for defining sales territories.

iii. One of the important finance functions is profit planning. Essentially profit levels can be planned with the help of sales forecasting because it is viewed in the context of market potential.

iv. Production and purchasing rely on sales forecasting both in the long run and short run. The long-term forecast is used for planning the

development of suppliers and plant and equipment. While the short term sales forecasting are mainly used for production planning schedule.



CHECK YOUR PROGRESS

Q 1: Fill in the blanks:

a. Sales forecasting is the.....of marketing management.

b. ..... and purchasing rely on sales forecasting

c. The ..... forecast is used for planning the development of suppliers and plant & equipment.

d. ..... sales forecasting are mainly used for production planning schedule.

e. Profit levels can be planned with the help of .....

8.4 IMPORTANCE AND OBJECTIVES OF SALES FORECASTING

IMPORTANCE OF SALES FORECASTING:

The importance of sales forecasting can be highlighted with the help of the advantages as enumerated below:

i. *Pricing aid:* Reliable sales forecasting is a first rate aid to proper pricing as cost depends on future sales volume.

ii. *Better inventory control:* It avoids the evils of under stocking or overstocking

iii. *Better tool of financial analysis:* It is a guide for financial analysis and planning. It facilitates planning of cash requirements.

iv. *Regulates fluctuations:* Seasonal or timely fluctuations may be easily met by averaging out production and employment over the years.

v. *Controls overtime work:* By maximum regularization of production, sales forecasting makes possible elimination or substantial reduction of overtime.

vi. *Balancing influence of supply and demand:* It balances supply and demand and enables the company to meet the increased demand expected for its product.

vii. *Allocation of advertising expenditure:* Sales forecasting is also used as a criterion in allocating advertising expenditure.

For sales forecasting to be valuable to business, it must not be treated as an isolated exercise. Rather, it must be integrated into all facets of the organization. In short, the sales forecast is critical for managers of the company because it allows them to make decisions in marketing, production, procurement and cash flow. Therefore, it must be prepared carefully, leaving aside the unbridled optimism or excessive moderation, because both can seriously affect the company as a whole.

OBJECTIVES OF SALES FORECASTING

The basic general objective of sales forecasting is to predict how much of a company's output can be sold during a specified future period in certain markets.

However, the first purpose of a sales forecast is to facilitate budgetary procedure. The effectiveness of the budget as a means of planning and control depends upon sales forecast. It also helps to establish sales quotas for the various operating units of the business. It should be noted that, in the absence of a sales forecast, quotas are fixed on the basis of past sales results, and a rough estimate is made of what the future holds in store. An accurate sales forecast and budget together enable the management to improve the co-ordination of its policies and practices in such areas as marketing, production, financing, inventory, personnel and purchasing. Similarly sales forecast is vital for fixing sales targets and for decisions on physical distribution, promotion and pricing. The other purpose of sales forecast is to provide information regarding operating decisions.

Thus, sales forecasting serves as the starting point for practically each and every activity. It enables the company to identify its precise position in the market which in turn facilitates optimum utilization of resources.

Companies that implement accurate sales forecasting processes realize important benefits such as:

- Enhanced cash flow
- Knowing when and how much to buy
- In-depth knowledge of customers and the products they order

- The ability to plan for production and capacity
- The ability to identify the pattern or trend of sales
- Determine the value of a business above the value of its current assets
- Ability to determine the expected return on investment

8.5 FACTORS AFFECTING SALES FORECASTING

A company prepares the forecast prior to developing strategic and tactical plans. The forecast of sales potential may cause the management to adjust some of its assumptions about production and marketing if the forecast indicates that

i. Current production capacity is inadequate or excessive, and
ii. Sales and marketing efforts need revisions.

Management, therefore, has the opportunity to examine a series of alternate plans that propose changes in resource commitments (such as plant capacity, promotional programs, and market activities), changes in prices and/or changes in production scheduling.

For the forecasting to be accurate, managers need to consider all of the following factors:

a. Business Environment: The term 'business environment' refers to the general conditions under which a company has to function. The marketing manager should, therefore, predict correctly the future market conditions which are likely to affect his sales favourably or adversely. He can do so only when he is aware of economic, political and business trends. An adequate knowledge of general business conditions will enable him to forecast with accuracy and precision. Market conditions should be carefully analyzed and past behavior of the markets must be properly evaluated before the forecasting exercise is undertaken.
b. Conditions prevailing in the industry: Industrial unrest, lack of raw materials, rigid government rules and regulations disturb industrial activity and generate uncertainties regarding production and sales. Such unstable conditions in the industry may hamper an accurate forecasting. Although consumer markets are often characterized as

being increasingly susceptible to segmentation in recent years, the condition of the overall economy is still a primary determinant of general sales volume, even in many niche markets. Forecasters incorporate relevant data that correlate well or demonstrate a causal relationship with sales volume.

c. Market position: Forecasting also considers the competitive position of the company with respect to its market share. In addition, forecasters also evaluate the quality and quantity of the customer base to determine brand loyalty, response to promotional efforts, economic viability, and credit worthiness.

d. Business competence: The ability of a company to respond to the results of a sales forecast depends on its production capacity, marketing methods, financing, and its ability to change each of these to maximize its profit potential. This may affect the level of sincerity for the sales forecasting initiatives in failure.

e. Sources and magnitude of product demand: Consumer attitudes and lifestyles anticipate product introductions and technological changes. Individual consumers are pushing technology to anticipate the needs of an increasingly segmented market. Demand based on anticipation is becoming the dominant feature of the technological age. The rapid pace of technological development and new product introductions have shortened product life-cycles. The combination of demographic considerations and technological change dominate consumer trends to a greater degree than in the past. This complicates the forecasting process.



CHECK YOUR PROGRESS

Q 2: Discuss four advantages of sales forecasting.

a. .....

b. .....

c. .....

d. .....

Q 3: State True or False:

a. Forecasting considers the competitive position of the company with respect to its market share. (true/false)

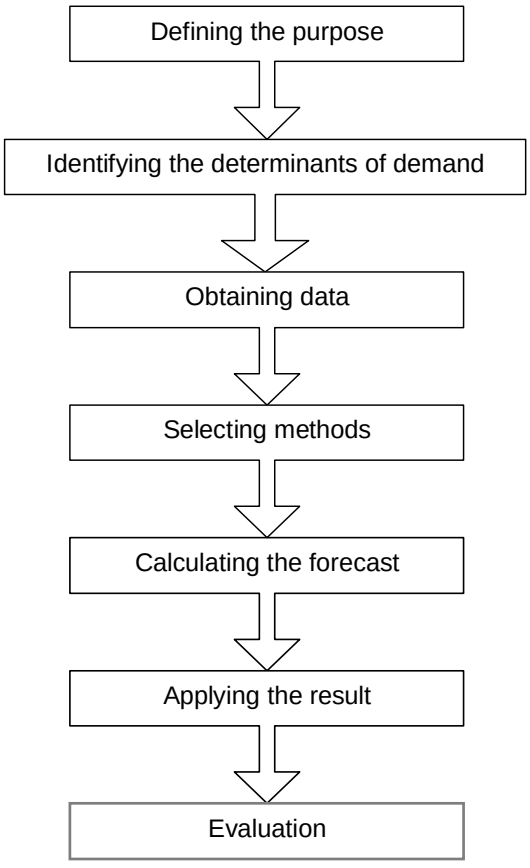
b. Forecasters do not evaluate the quality and quantity of the customer base to determine brand loyalty. (true/false)

c. Sales forecast is not important for fixing sales targets. (true/false)

d. The Purpose of sales forecast is to provide information regarding operating decisions. (true/false)

8.6 PROCESS OF SALES FORECASTING

Forecasting procedure varies from company to company. However, the steps discussed below are generally used as forecasting procedures:



Now, we will discuss the above elements of process of sales forecasting in detail:

a. Defining the purpose: The purpose of sales forecasting should be determined as the first procedural step. The purpose may be to assess the future volume and the probable long range profits. It may also be to plan for a sufficient number of sales personnel and their territorial assignments. Sales forecasting may aim at the salesman's compensation, the reliability of the forecast, and the different formats and terms of forecasting as some of the important purpose of forecasting.

b. Identifying the determinants of demand: Sales forecasting will not be effective if the potential demand is not taken into account. In forecasting, it is important to identify the market potential which will give information regarding the potential demand. Market potential is the total sales by all companies selling the same product in a given market, assuming that the ideal marketing effort is made. The following are some factors that help to determine demand:

1. Economic and psychological developments
2. Company strategy
3. Competitive and industry conditions

1. *Economic and psychological developments:* The demand for products comes generally from the consumers, and their behaviour whether to buy more or less has a direct link with the economic and psychological changes in the market. Unless the likely demand is estimated, no accurate forecasting is possible. Again, demand is influenced by the business cycle. The potential demand may be constant; but the actual demand may vary upward or downward in obedience to the changes in the business.

2. *Company strategy:* Future demand is controlled by the marketing strategy adopted by the company. This marketing strategy may not be the same in all the companies. One may prefer large sales through a low price appeal; the other may go in for less volume at a higher price because its product is of a superior quality and enjoys a high reputation.

Future demand varies, depending on the channel and the publicity campaign. To ensure that the forecast is precise and accurate, demand should be determined by taking the marketing strategy into consideration.

3. *Competitive and industry conditions:* The active role that the competitors offering similar product categories have a direct influence on the demand for a company's product. If a new manufacturer enters the market, or if an established one closes up, the demand for the remaining company's products will be affected. The technologically advanced equipment employed by competitors in manufacturing products at lower prices also has a direct bearing on demand. Competitive situations are, in general, difficult to foresee. Therefore, the forecaster must consider this factor well in advance before preparing his sales forecast.

c. Obtaining Data: The next step to be taken in the procedure is to collect the requisite data and evaluate how these data will enable the management to assess the probable sales in relation to the demand that has been determined. With a view to attaining this goal, the data and forecasting technique must be carefully chosen. Only then will the management be able to select a particular kind of forecast. Quantitative data may be obtained from different sources and categorized in three groups. The first source is the company's past sales which can be analyzed to determine cyclical trends. The second source relates to the independent variables that affect sales like income, population, and industrial activities etc. The third source for the collection of data on sales expectations are the sales managers and the field executives of the company.

d. Selecting Forecasting Methods: The next step is to select an appropriate forecasting method; which will influence the future sales of the firm. A seasoned forecaster, however, will make use of his own procedures which according to him may be standard methods of forecasting. However, it should be noted that forecasting procedures and methods are almost as diverse as the marketing mixes and

strategies employed by companies to achieve their sales targets. The selection of appropriate type of forecasting depends on several factors like:

1. *The degree of accuracy required:* If the decisions that are to be made on the basis of the sales forecast have high risks attached to them, and then it stands to reason that the forecast should be prepared as accurately as possible.
2. *The availability of data and information:* In some markets there are available sales information (e.g. clothing retail, food retailing, holidays); in others it is hard to find reliable, up-to-date information
3. *The time horizon that the sales forecast is intended to cover:* The Company must decide whether the sales forecast should be long range or short range. For example, will the forecast be next weeks' sales, or to forecast what will happen to the overall size of the market in the next five years?
4. *The position of the products in its life cycle:* For example, for products at the "introductory" stage of the product life cycle, less sales data and information may be available than for products at the "maturity" stage when time series can be a useful forecasting method. We shall discuss more of sales forecasting methods in a later section.

e. Calculating the forecast: The general practice followed by many companies is to employ more than one forecasting methods. The forecast can be improved by opting for a combination of methods, since no one method is perfect or foolproof. The results of different forecasting methods are blended in two ways. One way is to combine the results after all the methods have been completed; the second is a sequential process in which the results of one method form the starting point for another. For example, the sales manager prepares his preliminary forecast after getting estimates from the marketing research departments, product manager, and independent dealers handling the company products. The marketing research department prepares its own forecast. So does the product manager. The forecasts

prepared by different personnel are reconciled by the sales executive, who submits his version of these forecasts to a committee composed of the heads of operating divisions. It is this committee that reviews and modifies, if necessary all theses forecasts are given its final approval. It is in this way that the sales forecasts are prepared; and this step is deemed to be one of the most important procedures of forecasting.

f. Applying Forecast Results: The next step in the procedure is to apply the results of forecasting to different departments. So, as soon as the forecast approved, it is distributed to all executives in the company with a request to bear in mind all the particulars of forecast while preparing future department plans.

g. Evaluating the forecast: Evaluating the forecast is the last step the forecaster is supposed to take. In evaluating the forecast, one should see its accuracy and the economic consequences of forecast error on the company.



CHECK YOUR PROGRESS

Q 4: State True or False:

a. Evaluating the forecast is the last step in process of sales forecasting. (True/False)

b. Manager prepares his preliminary forecast after getting estimates from the marketing research departments. (True/False)

c. The purpose of sales forecasting is the third procedural step in sales forecasting. (True/False)

d. Future demand is controlled by the financial strategy. (True/False)

8.7 METHODS OF SALES FORECASTING

A great variety of sales forecasting methods are available for forecasting market demand and sales of a company. These methods broadly can be classified into qualitative and quantitative.

1. **Jury Method:** The jury method is one of the commonly employed methods for sales forecasting. It is also known as executive opinion method. A committee of top executives from finance, production, marketing and other departments is formed to make a sales estimate for a specific future period. The participants exercise their judgment and give their opinion. The final forecast is arrived at by averaging these opinions.

   Any forecast under this method is done in consultation with persons who are directly concerned with the problem. The responsibility is shared by many and the error of judgment is avoided to a great extent. It is based on the committee of approach, as a result better understanding and co-operation are expected in arriving at the most accurate decision. The method is simple because no study of statistical data, or economic analysis is necessary and because the forecast is the judgment of executives as well as their subordinates. In other words, experience and judgment are pooled in preparing the forecast. This approach to forecasting is particularly suitable for new products, which do not have any past history of sales. In such situations there is no other option except to depend upon the vast experience of these senior executives in providing the forecast for the new product.

2. **Sales Force Composite Method:** The Sales Force Composite Method is another approach which is fairly often utilized by the marketing professionals. This involves the organization asking its sales personnel, like salesmen and other field staff, to come with their demand forecasts for the future period(s). The underlying assumption here is that such a person, being in direct contact with the consumers and the distribution channel members, is better informed about the trends in the demand for the product. The various reports submitted by salesmen in each territory regarding sales prospects are combined to get an overall demand forecast at the organizational level. Under this method, greater importance is attached to the marketing department .Since the forecasts prepared by dealer-branches, district managers and salesmen are combined; every officer or person who

is asked to prepare his individual forecast should be made accountable to the management for results. This method may be considered to be more realistic than the executive opinion method, for the sales force is actively associated with the preparation of the forecast. In this method the estimates are practical and realistic. But the reports lack in information regarding economic and financial trends that are likely to influence the market potential. The salesmen are not trained or qualified to do research and hence this drawback. The task of preparing forecasts should be assigned to those who are specialists and experienced so far as the market conditions are concerned so that the management may get the benefit of their specialized knowledge to the fullest possible extent.

3. **Expert's Opinion Method:** The Expert's Opinion method is used quite often by commercial organizations for forecasting the future demand of their products. This method involves requisitioning the services of experts in that area which may include in-house marketing professionals, important members of the distribution channel like the distributors/dealers, and professional bodies like industry associations and marketing consultants. The methodology followed may be either a coming together of the experts and deriving a group demand estimate or pooling of individual expert estimates and deriving a single estimate from that. This method is used more for developing total industry forecast rather than company dales forecast.

4. **Survey of Buyers' Intentions /User Expectation Method:** As per the 'user expectation' method , the various users of the product under forecasting are listed first and then their individual likely demand for the product is ascertained .In 'survey of buyers intentions', a survey of the buyers is done to get an idea of the total likely consumption of the product . This will give an idea about of the likely market share for the company.

5. **Market Test Method:** The Market Test method involves a test launch of the product and subsequent observation of the actual buyer behaviour and sales. The result of such a test can be extended to the

whole market to derive a demand forecast .In this method, new products are introduced in selected markets on an experimental basis and the results studied. The typical market test involves placing a product in several representative geographical areas to see how well it performs and then projecting that experience to the market as a whole. Often this is done for a new product or an improved version of an old product. Many companies consider the market test to be the final gauge of consumer acceptance of a new product and ultimate measure of the market potential.

6. **Analytical and Statistical Methods:** A wide variety of analytical and statistical methods are available for forecasting. A few of these methods are discussed below:

   a. **Simple Projection:** The simple projection method is the one in which the current year's forecast is arrived at by simply adding an assumed growth rate to last year's sales. Some forecaster uses the growth rate of the industry. The major merit is that this method provides a quick estimate .It also has the advantage of being inexpensive. However, the demerit is that sometimes the forecast may not be correct as it is simply based on past sales.

   b. **Time Series Analysis:** This method is widely used in sales forecasting. A time series method looks at the patterns of the history of actual sales. It is a set of chronologically ordered raw data like the monthly sales of a product for a few years. This method helps to identify and explain four types of variations in sales: (i) Trends (ii) Systematic variations or 'seasonal variation' (iii) Cyclical variations and (iv) Irregular variations.

   Trend is a continuing pattern of sales increase or decrease and the pattern can be a straight line or a curve. Seasonal variation is the repeating pattern of sales increase and decrease within a one-year period or less. Seasonal patterns of longer than one year are typically referred to as 'cycles'. The part of sales history that time series method cannot explain is known as irregular variations. A time series may often exhibit a trend over a long

period, it may also display alternating sequences of points that lie above and below the trend line. Any recurring sequence of points above and below the trend line that last more than a year is considered to constitute the cyclical component of the time series—that is, these observations in the time series deviate from the trend due to cyclical fluctuations (fluctuations that repeat at intervals of more than one year). The seasonal component is similar to the cyclical component in that they both refer to some regular fluctuations in a time series. However, seasonal components capture the regular pattern of variability in the time series within one-year periods.

The main assumption in this method is that factors affecting sales will not change much over a period of time and that the future will reflect in the past. Statistical procedure is used to analyze historical sales data. A mathematical model describing the past behavior of the series is selected, assumed values for each of the variations are inserted and the sales forecasting is carried out.

c. **Regression Analysis:** Regression analysis attempts at establishing the nature of the relationship between variables, that is, to study the functional relationship between the variables and thereby provide a mechanism for prediction, or forecasting. Regression analysis can provide considerable insight into the various factors that affect demand and as a result, can be very useful in forecasting demand.

Regression analysis that employs one dependent variable and one independent variable and approximates the relationship between these two variables by a straight line is called a simple linear regression. Regression analysis that uses two or more independent variables to forecast values of the dependent variable is called a multiple regression analysis.

Regression analysis needs to build a regression model, which represents the relationship between the dependent variable (y)

and a set of independent variables (x_i). This model is a mathematical equation of the general form:

$Y = \beta_0 + {}_1 x_1 + {}_2 x_2 + \ldots.. + {}_k x_k$.

The values of the ${}_1$, the model parameters , are assumed to describe the relationship between the dependent variable and each of the independent variables. In case of sales forecasting, the dependent variable is mainly sales or market share. The independent variables considered are mainly economic factors, prices, and advertising expenditures and so on.

The major merit of this method is that, it will give more accurate forecasts than the trend method. However, all forecasters may not be able to use this method because of the complex mathematical relationship.

d. Econometric Models: Econometrics basically attempts to express economic theories in mathematical terms so that they can be verified by statistical methods and can be used for measuring the impact of one economic variable upon another in predicting the future events. These models consist of set of interdependent equations that describe and simulate the complete sales situation. The forecast is derived through these equations.

The major merit of these models is they can predict the turning points of sales (upwards and downwards) accurately. They are best use for forecasting industry level demand than company-level sales. The demerit is that econometric models are quite complex and difficult to develop.



CHECK YOUR PROGRESS

Q 5: State any three methods of sales forecasting.

a. .....

b. .....

c. .....

Q 6: Fill in the blanks:

a. ..... attempts at establishing the nature of the relationship between variables

b. Time series method of sales forecasting looks at the patterns of the ..... of actual sales.

c. ..... is also known as executive opinion method.



8.8 LET US SUM UP

In this unit we have discussed on the following:

- Sales forecasting is estimating what a company's future sales are likely to be based on sales records as well as market research.
- The following are the important benefits of sales forecasting:
  1. Enhanced cash flow
  2. Knowing when and how much to buy
  3. In-depth knowledge of customers and the products they order
  4. The ability to plan for production and capacity
  5. The ability to identify the pattern or trend of sales
  6. Determine the value of a business above the value of its current assets
  7. Ability to determine the expected return on investment
- For the forecasting to be accurate, managers need to consider all of the following factors:
  1. Business Environment
  2. Conditions prevailing in the industry
  3. Market position
  4. Business competence
  5. Sources and magnitude of product demand
- The following are the elements of process of sales forecasting:
  1. Defining the purpose

2. Identifying the determinants of demand
3. Obtaining Data
4. Selecting Forecasting Methods
5. Calculating the forecast
6. Applying Forecast Results
7. Evaluating the forecast

- Different methods of sales forecasting are:
  1. Jury /Executive Opinion Method
  2. Sales Force Composite Method
  3. Expert's Opinion Method
  4. Survey of Buyers' Intentions /User Expectation Method
  5. Market Test Method
  6. Analytical and Statistical Methods



8.9 FURTHER READING

- Richard R. Still, Edward W. Cundiff, Norman A.P. Govoni,Sandip Puri(2017) *Sales and Distribution Management,* 6th edition Pearson Education
- Jobber, David, Lancaster, Geoff (2018), *Selling and Sales Management*, Pearson Education.
- Manning, Gerald L., Reece, Barry L.(1997), *Selling Today : Building Quality Partnerships*, Pearson Education.



5.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: a. function b. production c. long-term
d. short-term e. sales forecasting

Ans to Q No 2: The four advantages are as follows:

a. Better inventory control

b. Regulates fluctuations

c. Better tool of financial analysis

d. Pricing aid

Ans to Q No 3: a. True b. False c. False d. True

Ans to Q No 4: a. True b. True c. False d. False

Ans to Q No 5: The three methods are:

a. Jury Method

b. Sales Force Composite Method

c. Expert's Opinion Method

Ans to Q No 6: a. Regression Analysis b. History

c. Jury Opinion Method.



8.11 MODEL QUESTIONS

Q 1: What is sales forecasting? Why we need to do sales forecasting?

Q 2: Discuss the benefits of sales forecasting.

Q 3: What are the external factors which influences in sales forecasting?

Q 4: Write short notes on-

a. Jury /Executive Opinion Method

b. Sales Force Composite Method

c. Expert's Opinion Method

d. Survey of Buyers' Intentions /User Expectation Method

e. Market Test Method

f. Analytical and Statistical Methods

*** ***** ***

UNIT 9: SALES PLANNING AND BUDGETING

UNIT STRUCTURE

9.1 Learning Objectives

9.2 Introduction

9.3 Sales Planning Process

9.4 Sales Budget

9.5 Purpose of Sales Budget

9.6 Types of Sales Budget

9.7 Advantages of Sales budget

9.8 Procedures for sales budgets

9.9 Success of Budget Programme

9.10 Let Us Sum Up

9.11 Further Reading

9.12 Answers To Check Your Progress

9.13 Model Questions

9.1 LEARNING OBJECTIVES

After going through this unit, you will be able to :

- explain sales planning
- define Sales Budget
- describe the form and content of Sales budget
- explain the budgetary procedure
- outline the factors involved in preparation of Sales Budget.

9.2 INTRODUCTION

In the earlier unit, we have discussed different methods of sales forecasting. In this unit we are going to discuss sales planning and budgeting. A sale planning provides direction and helps sales people to improve their performance. The sales manager observes the performance of the sales people and measures the deviation of performance from the plan if any, for the necessary corrective actions. Again sales budget is a financial sales

plan outlining how resources and selling efforts should be allocated to achieve the sales forecast. A sales budget is a detailed schedule showing the expected sales for the budget period. An accurate sales budget is the key to the entire budgeting in some way.

9.3 SALES PLANNING PROCESS

Planning helps in minimizing environmental shocks, such as the sudden shortage of energy and critical raw materials, or major changes in government policies etc. Accurate and precise planning will improve the quality of decision making. The shorter the time period covered in a particular plan, the more accurate the plan tends to be.

Planning of sales makes the sales manager to be proactive rather than reactive to the future.

Following are the different stages of sales planning:

- **Analyzing the situation:** The planning process begins with an analysis of where the organisation is today and where it seems headed if no changes are made. It includes analysis of market characteristics, competition, sales, cost, customers, and promotion and distribution system.
- **Setting goals and objectives:** Ssales goal and objective should be realistic and specific. Organisations usually have multiple goals and objectives. All units and personnel within an organisation should understand the overall goals and objectives as well as the individual goals and objectives if decision making is to be consistent and complementary in striving for these ends.
- **Determining market potentials:** After goals and objectives have been set, the next step is to assess the market potential and sales potential. Both market and sales potentials are estimated for a specific period of time.



LET US KNOW

Market potential: Estimated maximum total sales revenue of all suppliers of a product in a market during a certain period.

Sales Potential: The portion of the market potential that a particular firm can reasonably expect to achieve.

- **Forecasting sales:** A sales forecast predicts future sales for a prescribed period as an integral part of a marketing plan, which is based on a set of assumptions about the marketing environment. Since an accurate forecast is vital to an organisation, most firms are constantly striving for more reliable sales forecasts and sales forecasting techniques.
- **Selecting strategies:** After organisational objectives have been determined and the sales forecasts developed the next step is to determine the best way to achieve these targets. Strategic planning is the process of setting the organisation's overall objectives, allocating total resources, and outlining broad course of actions.
- **Developing detailed activities:** After the overall strategy has been decided, the planning process must incorporate more detailed activities. Sales managers must work with the sales people to ensure that individual sub plans are compatible with the overall strategy of the sales department and the company.
- **Allocating necessary resources:** Once the detailed sub plans are developed resources must be allocated to carry out the plans. The budget is the forecast of expenditures required to buy the projected revenues. For meaningful sales management the sales forecast has to be supported by the sales budgets. If resources are inadequate, the entire plan must be scaled down.
- **Implementing the plan:** Goals, objectives, strategies and tactics need to be well communicated through out the organisations, One simple method for ensuring timely implementation of a plan is to show the tasks to be accomplished in a time sequence format.

- **Controlling the plan:** Controlling of a plan means checking the progress of the work with the plan and if there is any gap between the plan and the actual performance then providing corrective actions have to be initiated to get back on track.



CHECK YOUR PROGRESS

Q 1: State true or false for the following statements:

a. Generally, large organisations have informal planning and small organisations have formal planning. (True/False)

b. The sale planning process begins with analyzing the situations. (True/False)

c. Sales forecasting means analysis of past data. (True/False)

Q 2: Define sales planning.

.....

.....

.....

.....

9.4 SALES BUDGETS

A sales budget is a financial sales plan outlining how resources and selling efforts should be allocated to achieve the sales forecast. Sales forecasts and sales budgets are interrelated and interdependent planning tools that demand close coordination with other marketing activities. If the sales forecast is increased the sales budget must be increased too.

Sales budget gives details of the sales estimates of the business enterprises during a given period. The information given in the sales budget is usually based on test sales, forecast of market trends, salesman's estimates and other business conditions during a given period.

In essence, the sales budget triggers a chain reaction that leads to the development of the other budgets. The selling and administrative expenses

budget is both dependent on and a determinant of the sales budget. This reciprocal relationship arises because sales will in part be determined by the funds committed for advertising and sales promotion.

The sales budget is the starting point in preparing the master budget. All other items in the master budget including production, purchase, inventories, and expenses, depend on it in some way.

9.5 PURPOSE OF THE SALES BUDGET

Sales budgets serve three primary purposes: planning, coordinating and controlling the selling activities.

a. **Planning:** To achieve sales department's goal and objectives, sales manager must outline the essential sales tasks and estimate their costs. Thus, budgeting is a type of profit planning in which an operational plan is expressed in financial terms and designed to provide a guide for action toward achieving the organisation's objectives. Generally the budgeting period is of one year but short range budget may cover periods of six or even three months.

b. **Coordinating:** To obtain the synergistic results of a coordinated marketing mix, sales budgets need to be closely integrated with the budgets for other marketing functions. Promotional budget must be allocated according to the tasks assigned to each element.

c. **Controlling:** Sales budgets also provide financial standards for evaluating actual results versus budgeted figures. Any differences are budget variances. Favourable variances indicate areas in which the sales manager might reduce future budgets, while unfavourable variances reveal unanticipated costs requiring analysis and corrective actions. The sales managers are responsible for generating sales and controlling costs.

6.6 TYPES OF BUDGETS

As budgets serve different purpose, different types of budgets have been developed. The following are the different classification of budgets developed on the basis of time, functions, and flexibility or capacity.

(A) Classification on the basis of Time:

1. Long-Term Budgets
2. Short-Term Budgets
3. Current Budgets

(B) Classification according to Functions:

1. Functional or Subsidiary Budgets
2. Master Budgets

(C) Classification on the basis of capacity:

1. Fixed Budgets
2. Flexible Budgets

As we have already discussed in detail about budgeting in your "Cost Accounting" paper of B.B.A. 4th semester, here we will discuss budgeting only related to sales.

A. Flexible sales budgets: Flexible sales budgets make use of standard costs (based on past records or managerial judgments) for different revenue forecasts. Flexible budgeting permits the manager to continuously monitor financial performance in terms of standard cost ratios.

B. Zero Base Budgets: In many organisations it is a common practice to prepare the budget request by following two unwritten rules: request more than you need, and spend all you get. Subordinate sales managers fear that budget surpluses will be taken away in future budgets. So much wasteful spending often takes place near the end of the budget period as managers scramble to spend the rest of the budget allocation. Zero based budgeting (ZBB) is an alternative approach that is sometimes used particularly in government and not for profit sectors of the economy.

One approach to slowing this perpetuating budget growth pattern is zero base budgeting. Zero base budgeting does not take for granted the continuous existence of the sales organisation or its separate activities. Sales managers using zero base budgeting start from the ground up by identifying necessary activities, including their associated benefits and costs, in their areas of responsibility. Finally funds are

distributed by priority down the array of activities until all available monies are allocated.

Zero base budgets are most appropriate for activities that are flexible such as selling and advertising, rather than for mandatory expenditures such as direct labour and material costs for production.

As ZBB can be applied in sales budgeting process, let us discuss its advantages and disadvantages:

(a) Advantages of zero based budgeting process:

- It is an efficient allocation of resources, as it is based on needs and benefits.
- It drives managers to find cost effective ways to improve operations.
- It detects inflated budgets.
- It is useful for service departments where the output is difficult to identify.
- It increases staff motivation by providing greater initiative and responsibility in decision-making.
- It increases communication and coordination within the organization.
- It identifies and eliminates wasteful and obsolete operations.
- It identifies opportunities for outsourcing.
- It forces cost centers to identify their mission and their relationship to overall goals.

(b) Disadvantages of zero based budgeting method.

- It is difficult to define decision units and decision packages, as it is time-consuming and exhaustive.
- It is necessary to train managers. Zero based budgeting (ZBB) must be clearly understood by managers at various levels to be successfully implemented. Difficult to administer and communicate the budgeting because more managers are involved in the process.
- In a large organization, the volume of forms may be so large that

no one person could read it all. Compressing the information down to a usable size might remove critically important details.

- Honesty of the managers must be reliable and uniform. Any manager that exaggerates skews the results.

6.7 ADVANTAGES OF SALES BUDGET

The Following are the advantages of sales budget:

- Ensuring a systematic approach to allocating resources (human, material and financial).
- Developing the sales manager's sensitivity to profitable resource utilization.
- Creating awareness of the necessity to coordinate selling efforts with other segments of the organisation.
- Establishing standards for measuring the performance of the sales organisation and its subdivisions.
- Involving the entire organisation in the profit planning process, since each subdivision must submit a proposed budget.

9.8 PROCEDURES FOR SALES BUDGET

Most sales organisations have specified different procedures, formats, worksheets, and timetables for developing the sales budget. Several steps can be identified in preparation of sales budgets, which are discussed as follows:

1. Review and analyse the situation beginning with the last budget period's variances.
2. Communicate sales goals and objectives and their relative priorities to all management levels to ensure that managers are developing their budgets by using the same assumptions and general guidelines.
3. Identify specific market opportunities and problems so that resources are budgeted in a way that enables sales managers and sales people to exploit the opportunities and deal with the problems on a timely basis.

4. Develop a preliminary allocation of resources and selling efforts to particular activities, customers, products and territories. Some sales territories for example new territory may require higher budgetary allocation.
5. Prepare a budget presentation to "sell" the budget proposal to higher management.
6. Implement the budget and provide periodic feedback to responsible subordinate managers and supervisors so that they have time to take corrective action on budget variances.

9.9 SUCCESS OF BUDGET PROGRAMME

If a budget programme is to be successful, it must have the complete acceptance and support of the persons who occupy key management positions. If lower or middle management personnel sense that top management is showing little interest about budgeting, or if they sense that top management simply tolerates budgeting as a necessary evil, then their own attitude will reflect a similar lack of enthusiasm

The budget should be used as a positive instrument to assist in establishing goals, in measuring operating results, and in isolating areas that are indeed of extra effort or attention. Any misgivings that employees have about a budget programme can be overcome by meaningful involvement at all levels and by proper use of the programme over time. Administration of a budget programme requires a great deal of insight and sensitivity on the part of management. The budget programme should be designed to be a positive aid in achieving both individual and company goals.

Management must keep clearly in mind that the human aspect of budgeting is of key importance. It is easy to become preoccupied with the technical aspect of the budget to the exclusion of the human aspects. Indeed, the use of budget data in a rigid and inflexible manner is often the greatest single complaint of persons whose performance is evaluated using budgets. Management should remember that the purposes of the budget are to motivate employees and to coordinate efforts.



CHECK YOUR PROGRESS

Q 3: Define sales budget.

.....

.....

.....

.....

Q 4: What is zero based budget? Mention two advantages and disadvantages of zero based budgets.

.....

.....

.....

.....



9.10 LET US SUM UP

In this unit we have discussed in detail sales planning and budgeting. Sales planning is a primary function of the sales manager. The sales plan provides basic guidelines and direction for all other sales decisions and activities. Again, sales budget planning is also a vital part of the sales planning process. Essentially, the sales budget is a financial sales plan outlining how resources and selling efforts should be allocated to achieve the sales forecast. Basically sales budget serves three primary purpose like planning, Coordinating and controlling. Two types of sales budget are used by companies which are flexible sales budget and zero based budgeting. Budgeting helps in the systematic allocation of resources.



9.11 FURTHER READINGS

- Richard R. Still, Edward W. Cundiff, Norman A.P. Govoni,Sandip Puri(2017) *Sales and Distribution Management,* 6th edition Pearson Education

- Jobber, David, Lancaster, Geoff (2018), *Selling and Sales Management*, Pearson Education.
- Manning, Gerald L., Reece, Barry L.(1997), *Selling Today : Building Quality Partnerships*, Pearson Education.



9.12 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: (i) False (ii) True (iii) False

Ans to Q No 2: A sale planning is a process which helps in minimizing environmental shocks, such as the sudden shortage of energy and critical raw materials, or major changes in government policies etc. Accurate and precise planning will improve the quality of decision making.

Ans to Q No 3: A sales budget is a financial sales plan outlining how resources and selling efforts should be allocated to achieve the sales forecast.

Ans to Q No 4: Zero based budgeting (ZBB) is an alternative approach that is sometimes used particularly in government and not for profit sectors of the economy.

Advantages:

- Efficient allocation of resources, as it is based on needs and benefits.
- Drives managers to find cost effective ways to improve operations.

Disadvantages:

- It is time-consuming and exhaustive process.
- Forced to justify every detail related to expenditure. The research and development (R&D) department is threatened whereas the production department benefits.



9.13 MODEL QUESTIONS

Q 1: What is sales planning?

Q 2: Explain the sales planning process.

Q 3: Write short notes on

(i) Flexible sales budget

(ii) Zero based sales budget

Q 4: Write the advantages of sales budget.

*** ***** ***

UNIT 10: RETAILING

UNIT STRUCTURE

10.1 Learning Objectives

10.2 Introduction

10.3 Defining Retailing

10.4 Functions of Retailing

10.5 Characteristics of Retailing

10.6 Classification of Retail firm

10.7 Retail Industry in India- different forms

10.8 Retail Merchandising

10.9 Strategy and Benefits in Retail Merchandising

10.10 Visual Merchandising

10.11 Vertical Marketing System

10.12 Let Us Sum Up

10.13 Further Reading

10.14 Answers To Check Your Progress

10.15 Model Questions

10.1 LEARNING OBJECTIVES

After going through this unit, you will be able to :

- define retailing
- explain characteristics and functions of retailing
- explain different aspects of retail industry in India
- outline different environmental issues related to retailing
- explain the classification of Retail Units
- describe merchandise planning and
- discuss visual merchandising in retail marketing
- explain the importance of Vertical Marketing System in Retailing.

10.2 INTRODUCTION

In the earlier units we have obtained a fairly good insight into sales

budgeting. This unit introduces you to the different retailing strategy of marketing. Retailing means the sale of goods or commodities in small quantities directly by consumers. Retailers are the person who convinces the customers to purchase the product. Retailing consists of the sale of goods or merchandise from a very fixed location, such as a departmental store, or by mail, in small or individual lots for direct consumption by the purchaser. Retailing may include subordinated services, such as delivery of goods and services. Again retail purchasers may be individuals or businesses man.

Retailing industry in India is growing very rapidly. The retailing environment is influenced by both micro and macro factors. In this unit we shall discuss all these aspects.

10.3 DEFINING RETAILING

Retailing is the sale of goods and services to the ultimate consumer for personal, family or household use. It is the last stage in the distribution process. Thus, retailing involves more than selling tangible products. The purchase of a service such as a haircut or hotel service is also a retail transaction. Purchases for business or industrial use are not retail transactions. In commerce, a "retailer" buys goods or products in large quantities from manufacturers or importers, either directly or through a wholesaler, and then sells smaller quantities to the end-user. Retail establishments are often called shops or stores. Marketers see the process of retailing as a necessary part of their overall distribution strategy. The term "retailer" is also applied where a service provider services the needs of a large number of individuals, such as a public utility, like electric power.

Today, retailing is at a growing stage with a lot of challenges ahead.

The word ‘retail’ is derived from the French word retaillier, meaning ‘to cut a piece off’ or ‘to break bulk’.

A retailer is a person, agent, agency, company, or organization which is instrumental in reaching the goods, merchandise, or services to the ultimate consumer.

Retailing again involves only the sale of products in stores, however it also includes the sale of services like those offered at a restaurant, parlour, or by car rental agencies. Retailing encompasses selling through the mail, the internet, and door-to-door visits-any channel that could be used to approach the consumers.

10.4 FUNCTIONS OF RETAILING

A retailer is supposed to provide utilities to the customer. In order to create value for the customer, the retailer has to carry out a number of functions .Some of these are listed below:

Functions of Retailing:

1. It should be at convenient location.
2. A retailer should provide an ***assortment*** of different goods.
3. Breaking of bulk items into small quantities.
4. Holding of stock for instant availability at relatively stable prices.
5. A retailer provides information to consumer as well as supplier.
6. A retailer provides product guaranties, after sales service and deals with customer complaints.
7. A retailer provides credit and hire purchase facilities.

10.5 CHARACTERISTICS OF RETAILING

Retailing can be distinguished from other businesses in following ways:

- There is a direct end –user interaction in retailing.
- It is the only point in the value chain to provide a platform for promotions.
- Sales at a retail level are generally in smaller unit sizes.
- Location is another critical factor in retail business.
- There are a large number of retail units compared to other members of the value chain. This occurs primarily to meet the requirements of geographical coverage and population density.

10.6 CLASSIFICATION OF RETAIL FIRMS

Retail firms can be classified into a number of categories based on the

following:

1. **Legal form:** There are three basic legal forms of ownership are exists in retailing. They are sole proprietorship, partnership and limited liability Company (private or public).
2. **Operational structure:** There are normally three operational structures in retailing. They are independent trader, multiple chain stores and consumer co- operatives. Franchise mode is also evolving.
3. **Range of merchandise**: Some retail businesses offer a wide range of goods, for example- Vishal Mega Mart. On the other hand, some retail outlets concentrate on narrow ranges like- health food, leather goods or greetings cards etc.
4. **Degree of service:** Although many retail outlets have been converted or built to self service or self selection standards, there are others that offer their consumers service such as delivery, credit, gift wrapping, repairs etc.
5. **Pricing Policy:** Some retailers choose to set low price rather than the service element of their retailing mix.
6. **Location:** With the increasing cost of real estate, many retailers have selected outskirt locations also. The rural and semi urban market are also growing.
7. **Method of customer contact:** Most retail transactions are conducted by face to face contact in retail stores. But non store retailing can also be conducted through mail order catalogues, telephone selling, vending machines, door to door selling, mobile shops, and through internet. There are several ways in which consumers can receive goods from a retailer.

- **Counter service:** Here goods must be obtained from the seller. This type of retail is common for small expensive items (e.g. jewelry) and controlled items like medicine and liquor.
- **Delivery of goods or services:** Here goods are sent directly to consumer's homes or workplaces. Ordering by telephone is now common, either from a catalog, newspaper, television advertisement or a local restaurant menu, for immediate service (especially for pizza

delivery). Direct marketing, including telemarketing and television shopping channels, are also used to generate telephone orders. Online shopping started gaining significant market share in developed countries in the 2000s. For example, Avon or Amway products, Asian sky shop products etc. can be easily got at home.

- Door-to-door sales, where the salesperson sometimes travels with the goods for sale.
- Self-service, where goods may be handled and examined prior to purchase became more common since the 1920s.Diffrent departmental stores are good example of self service retail outlet.



CHECK YOUR PROGRESS

Q 1: State True or False for the following statements:

1. Retailer sells the goods to the wholesalers. (True /False)
2. Retailer does an assortment of different goods for consumers. (True /False)
3. Most retail transactions are conducted by face to face contact in retail stores. (True /False)
4. Retailer does not break the bulk items into small quantities. (True /False)

10.7 RETAIL INDUSTRY IN INDIA-DIFFERENT FORMS

A. Growth of Indian Retail: Retailing is one of the pillars of the economy in India and accounts for 35% of GDP According to the 8th Annual Global Retail Development Index (GRDI) of AT Kearney, India retail industry is the most promising emerging market for investment. In 2007, the retail trade in India had a share of 8-10% in the GDP (Gross Domestic Product) of the country and it is growing at a faster rate.

The retail industry is divided into organised and unorganised sectors. Organised retailing refers to trading activities undertaken by licensed

retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.

B. Major Retailers in India

a. Pantaloon: Pantaloon is one of the biggest retailers in India with more than 450 stores across the country. Headquartered in Mumbai. In 2001, Pantaloon launched country's first supermarket 'Big Bazaar'

b. Tata Group: Tata group is another major player in Indian retail industry with its subsidiary Trent, which operates Westside and Star India Bazaar. Established in 1998, it also acquired the largest book and music retailer in India 'Landmark' in 2005.

c. RPG Group: RPG Group is one of the earlier entrants in the Indian retail market, when it came into food & grocery retailing in 1996 with its retail Foodworld stores. Later it also opened the pharmacy and beauty care outlets

d. Reliance: Reliance is one of the biggest players in Indian retail industry. More than 300 Reliance Fresh stores and Reliance Mart are quite popular in the Indian retail market. It's expecting its sales to reach Rs. 90,000 crores by 2010.

C. Retail formats in India: Hyper marts/supermarkets: large self-servicing outlets offering products from a variety of categories.

1. Mom-and-pop stores: They are family owned business catering to small sections; they are individually handled retail outlets and have a personal touch.

2. Departmental stores: They are general retail merchandisers offering quality products and services.

3. Convenience stores: They are located in residential areas with slightly higher prices for the goods due to the convenience offered.

4. **Shopping malls:** The biggest form of retail in India, malls offer customers a mix of all types of products and services including entertainment and food under a single roof.
5. **E-trailers:** They are retailers providing online buying and selling of products and services.
6. **Discount stores:** These are factory outlets that give discount on the MRP.
7. **Vending:** It is a relatively new entry, in the retail sector. Here beverages, snacks and other small items can be bought via vending machine.
8. **Category killers:** They are small specialty stores that offer a variety of categories. They are known as category killers as they focus on specific categories, such as electronics and sporting goods. This is also known as Multi Brand Outlets.
9. **Specialty stores:** They are retail chains dealing in specific categories and provide deep assortment. For example, Mumbai's Crossword Book Store and RPG's Music World etc.

D. Major Indian Retailers: Indian apparel retailers are increasing their brand presence overseas, particularly in developed markets. While most have identified a gap in countries in West Asia and Africa, some majors are also looking at the US and Europe. Arvind Brands, Madura Garments, Spykar Lifestyle and Royal Classic Polo are busy chalking out foreign expansion plans through the distribution route and standalone stores as well. Another Denim wear brand, Spykar, which is now moving towards becoming a casualwear lifestyle brand, has launched its store in Melbourne recently.

The low-intensity entry of the diversified Mahindra Group into retail is unique because it plans to focus on lifestyle products. The Mahindra Group is the fourth large Indian business group to enter the business of retail after Reliance Industries Ltd, the Aditya Birla Group, and Bharti Enterprises Ltd. The other three groups are focusing either on perishables and groceries, or a range of products, or both.

E. Challenges facing Indian retail industry: Indian retail industry has

been facing a numbers of challenges as shown below:

- The tax structure in India favours small retail business
- Lack of adequate infrastructure facilities
- High cost of real estate, regulations restricting real estate purchases, and cumbersome local laws.
- Dissimilarity in consumer groups
- Restrictions in Foreign Direct Investment, Automatic approval is not allowed for foreign investment in retail.
- Shortage of retail study options
- Shortage of trained manpower
- Low retail management skill
- Intrinsic complexity of retailing – rapid price changes, constant threat of product obsolescence and low margins.

F. **The future:** The Indian retail industry is the fifth largest in the world. Comprising the organized and unorganized sectors, India retail industry is one of the fastest growing industries in India, especially over the last few years. Though initially the retail industry in India was mostly unorganized, however, with the change of tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. With the growing market demand, the industry is expected to grow at a pace of 25-30% annually. The Indian retail industry is expected to grow from Rs. 35,000 crore in 2004-05 to Rs. 109,000 crore by the year 2010.



CHECK YOUR PROGRESS

Q 2: Explain a few challenges faced by Indian Retail Industry.

.....

.....

.....

.....

10.8 RETAIL MERCHANDISING

Retail merchandising is the process used in order to conduct retail sales by using such devices as display. As part of the process, the merchandiser pays close attention to the types of products offered for sale, how to best present those products to consumers, and determining what a reasonable retail price is for each unit sold. While retailers have traditionally engaged in the task of retail merchandising in a physical location, the Internet has now made it possible to apply these same basic principles in a virtual setting.

Retail merchandising is about establishing working relationships with manufacturers who will provide the goods or services that are ultimately sold by the retailer. This type of retail buying involves determining what products will be carried in the retail establishment, negotiating the unit price that will be charged by the manufacturer, and arranging for the delivery of those goods.

Depending on the number of units the retailer can afford to purchase at a given time, it may be relatively easy to obtain a discounted unit price, making it easier for the retailer to be competitive in the local marketplace.

Once the goods are secured, the retailer must determine the unit price that he or she will assign to the products. In all cases, this retail price will be higher than the cost of purchasing the goods from the supplier. It is this difference between the wholesale price and the retail price that allows the retailer to make a profit and remain in business. Some retailers follow a formula of setting the retail price at a fixed percentage above the acquisition price, while others base the retail pricing on factors such as the desirability of the items and the amount of competition from other retailers in the immediate area.

After setting the retail price, the process of retail merchandising moves on to the task known as setup and display. This process is concerned with displaying the goods within the retail setting to the best advantage of windows, elevated platforms, and colorful backdrops to attract the attention of shoppers, the retailer increases the chances of selling units quickly. Setup

and display are often considered especially important with fashion merchandising and similar retail settings, in that the visual display is often the key means of attracting customers who are highly likely to make a purchase. Quick sales lead to higher profits and the chance to secure more products that will result in more sales.

10.9 STRATEGIES AND BENEFITS IN RETAIL MERCHANDISING

Let us consider the following two strategies connected with retail merchandising:

A. **Marketing** is an important aspect of any retail merchandising strategy. Engaging in a publicity campaign to reach prospective customers may involve something as simple as advertising in local publications as well as electronic advertising on local radio and television stations. Direct mail is also a common strategy in retailing, as the mailings make it possible to reach people in their homes and places of business rather than relying on them to approach the retailer first. In order to be successful with retail merchandising, it is necessary to provide consumers with a couple of key benefits. First, the products must be of high quality; this helps to ensure the customer will return for more purchases in the future. Along with the quality, the retailer must also sell the products at prices the consumer finds reasonable. By providing quality products at affordable prices, the retailer has a much better chance of standing out from the competition and remaining in business for many years to come.

B. **Merchandise Planning** is a strategic and systematic approach used by retailers, particularly in fashion and non-food areas. It is aimed at maximizing return on investment, through planning and monitoring sales, margins and inventory in order to increase profitability. It does this by maximizing sales and margin potential and minimizing losses from markdowns and stock outs, whilst taking into account existing constraints of space and other key resources.

The term Merchandise Planning covers a variety of sub-processes which

may vary according to the type of business. These normally comprise:

- Strategic Planning
- Category Level Open to Buy Planning
- Channel Planning
- Store Grading
- Range Planning
- Assortment Planning
- Key Line Planning



CHECK YOUR PROGRESS

Q 3: Fill in the blanks with appropriate words:

a. There is a ..... end–user interaction in retailing.

b. ..... is a strategic and systematic approach used by retailers.

c. The word 'retail' is derived from the French word .....

d. ..... is another critical factor in retail business.

10.10 VISUAL MERCHANDISING

It is an important concept related to store designing. And so it is necessary to know what visual merchandising is. Visual merchandising is the activity of promoting the sale of goods, especially by their presentation in retail outlets; this includes combining products, environments, and spaces into a stimulating and engaging display to encourage the sale of a product or service. Visual merchandising starts with the store building itself.

The management then decides on the store design to reflect the products the store is going to sell and how to create a warm, friendly, and approachable atmosphere for its potential customers. So, in a way store design is related to visual merchandising. Many elements can be used by visual merchandisers in creating displays, including colour, lighting, space, product information etc.

Recently visual merchandising has gained in importance as a quick and cost effective way to revamp retail stores.

10.11 VERTICAL MARKETING SYSTEM (VMS)

Vertical marketing is a term used to define a company's approach towards targeting that focuses on specific industries. A vertical marketing system (VMS) is one in which the main members of a distribution channel—producer, wholesaler, and retailer—work together as a unified group in order to meet consumer needs. In other words, one of the most significant recent channel developments is the rise of vertical marketing system. Conventional marketing channel comprises an independent producer, wholesaler and retailer. Each is a separate business seeking to maximize its own profit, even if this goal reduces profit for the system as a whole. When the effort of one channel member to maximize profits comes at the expense of other members, conflicts can arise that reduce profits for the entire channel. In such a case, VMS arose as a result of strong channel members' attempts to control channel behavior and eliminate the conflict that results when independent members pursue their own objectives.

VMS achieve economies through size, bargaining power and elimination of duplicated services. We will be discussing about the different types of VMS in next unit.

VMS holds both advantages and disadvantages *for small businesses*. The main advantage of VMS is that a company can control all of the elements of producing and selling a product. In this way, one is able to see the whole picture, anticipate problems, make changes as they become necessary, and thus increase the efficiency. However, being involved in all stages of distribution can make it difficult for a small business owner to keep track of what is happening and the arrangement can fail if the personalities of the different areas do not fit together well. In this way it becomes a disadvantage to the company.



CHECK YOUR PROGRESS

Q 4: What are the different types of VMS?

.....

.....

.....

.....

Q 5: What is Visual Merchandising?

.....

.....

Q 6: Give two Characteristic of Retail units

a. .....

b. .....



10.12 LET US SUM UP

In this unit we have discussed about retailing. Retailing is a function through which exchange of goods and services takes place with the customer. Retailers are responsible for providing information to the customer as well as to the manufacturer as they have direct contact with the customer. The retail outlet should be at convenient place so that customer can easily get the product or services. The Indian retail industry is growing very rapidly which also creates employment opportunities for many people.

Also under this unit we have studied how retail sales can be done in an effective way through retail merchandising and the important role played by visual merchandising too.

Again, Visual merchandising is the way one displays 'goods for sale' in the most attractive manner with the end purpose of making a sale. "If it does not sell, it is not visual merchandising." Visual merchandising is the art of implementing effective design ideas to increase store traffic and sales volume. VM is a tool to achieve sales and targets, a tool to enhance

merchandise on the floor, and a mechanism to communicate to a customer and influence his decision to buy.

And finally, the unit covers the role of Vertical Marketing System in Retailing. A vertical marketing system by contrast, comprises the producer, wholesaler and retailer acting as a unified system. VMS arose as a result of the strong channel members' attempts to control channel behavior. It eliminates the conflict that results in when independent members pursue their own objectives.



10.13 FURTHER READING

- Richard R. Still, Edward W. Cundiff, Norman A.P. Govoni,Sandip Puri(2017) *Sales and Distribution Management,* 6th edition Pearson Education
- Jobber, David, Lancaster, Geoff (2018), *Selling and Sales Management*, Pearson Education.
- Manning, Gerald L., Reece, Barry L.(1997), *Selling Today : Building Quality Partnerships*, Pearson Education.



10.14 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: (i) false, (ii) true, (iii) true, (iv) false

Ans to Q No 2: Challenges faced by Indian Retail Industry

a. Lack of adequate infrastructure facilities

b. High cost of real estate

c. Dissimilarity in consumer groups

d. Restrictions in Foreign Direct Investment

e. Shortage of retail study options

Ans to Q No 3: a. direct b. Merchandise planning

c. retailer d. Location

Ans to Q No 4: Corporate, Administered and Contractual,

Ans to Q No 5: Visual merchandising is the activity of promoting the sale of goods, especially by their presentation in retail outlets.

Ans to Q No 6: a. It is the only point in the value chain to provide a platform for promotions.

b. Sales at a retail level are generally in smaller unit sizes.



10.15 MODEL QUESTIONS

Q 1: Define retailing. Explain the characteristics and functions of retailing.

Q 2: On what basis can we categories different retailers.

Q 3: Explain the retailing environment.

Q 4: Write short notes on retail industry in India.

Q 5: Write in details the scope and importance of Vertical Marketing System.

Q 6: Write Short notes:

a. Store designing.

b. VMS

c. Retailing

*** ***** ***

UNIT 11 : CLASSIFICATION TO RETAIL UNITS

UNIT STRUCTURE

11.1 Learning Objectives

11.2 Introduction to Retail Space Management

11.3 Optimum Space Use

11.4 Steps to be Considered for Using Floor Space

11.5 Merchandise Planning in Store Designing

11.6 Steps in Designing Store Layout

Store Design

11.6.1. Storefront Design

11.6.2. Interior Design

11.6.3. Lighting Design

11.6.4. Sounds and Smells

11.7 Vertical Marketing system (VMS)

11.7.1 Types of VMS

11.7.2 Scope of VMS

11.7.3 Importance and Drawback of VMS

11.8 Let Us Sum Up

11.9 Further Reading

11.10 Answer to Check Your Progress

11.11 Model Question

11.1 LEARNING OBJECTIVES

After going through the unit, you will be able to

- discuss retail space management
- explain store layout and its types
- discuss steps in designing store layout
- discuss Store design
- explain vertical marketing system in Indian Retail.

11.2 INTRODUCTION

In this unit we are going to discuss about Retail space management.

Retail space management is the process of making proper use of the floor space which is used to display and sell the merchandise. Managing a retail space isn't just about putting your products out there and waiting for people to come and buy them. Proper planning out the space encourages the customers to visit the store to purchase the products. The way a product is displayed helps either to attract or repel your customers.

Retail space management is the process of managing the floor space adequately to facilitate the customers and to increase the sale. Since store space is a limited resource, it needs to be used wisely.

Retail Space management plays crucial role in today's retail sector as it has a direct impact on the sales volume and gross profitability depends on the amount of space used to generate those sales. A well-organized shopping place increases productivity of inventory, enhances customers' shopping experience, reduces operating costs, and increases financial performance of the retail store. It also elevates the chances of customer loyalty.

11.3 OPTIMUM SPACE USE

While allocating the space to various products, the managers need to consider the following points "

- Product Category "

  Profit builders–The product that has high profit margins but low sales. Allocate quality space rather than quantity.

  Star performers–Those Products that exceeding sales and profit margins. Allocate large amount of quality space.

  Space waster – Those products that has low sales and low profit margins products. Put them at the top or bottom of shelves.

  Traffic builders–the products that have High sales and low profit margins. These products need to be displayed close to impulse products.
- Size, shape, and weight of the product.
- Product adjacencies " It means which products can coexist on display?
- Product life on the shelf.

11.4 THE STEPS TO BE CONSIDERED FOR USING FLOOR SPACE

Following steps need to be considered for using floor space effectively:

- Measure the total area of space available.
- Divide this area into selling and non-selling areas such as aisle, storage, promotional displays, customer support cell, (trial rooms in case of clothing retail) and billing counters.
- Create a **Planogram**, a pictorial diagram that depicts how and where to place specific retail products on shelves or displays in order to increase customer purchases.
- Allocate the selling space to each product category. Determine the amount of space for a particular category by considering historical and forecasted sales data. Determine the space for billing counter by referring historical customer volume data. In case of clothing retail, allocate a separate space for trial rooms that is near the product display but away from the billing area.
- Determine the location of the product categories within the space. This helps the customers to locate the required product easily.
- Decide product adjacencies logically. This facilitates multiple product purchase. For example, pasta sauces and spices are kept near raw pasta packets.
- Make use of irregular shaped corner space wisely. Some products such as domestic cleaning devices or garden furniture can stand in a corner.
- Allocate space for promotional displays and schemes facing towards road to notify and attract the customers. Use glass walls or doors wisely for promotion.

11.5 MERCHANDISE PLANNING IN STORE DESIGNING

You may have heard this well-known retail statistic: 90% of people turn right turnwhen they walk into a store. That's a mind-boggling insight into

shopping behavior.

Anthropologists, experience designers, interior designers, brand managers, and data scientists have spent countless hours searching for the perfect bones and outer-layers of a store layout. Those hours of work have uncovered some amazing insights into human behavior that have developed into best practices for retail. Retailers designed their spaces to drive foot traffic and increase sales with maximum impact.

Store layout: Layout refers to how various merchandise or group of merchandise are arranged within the stores for the convenience of the shoppers. This should be customer friendly in the sense that it must offer adequate space for the customer to move through the stores as we for the effective display of the merchandise. Good store display will motivate the customer to move through the stores and even look at things which were not in their shopping list.

Types of stores layout:

1. **Grid layout:** Grid layout traditional form of store layout.Grid consists of rows and columns types of arrangement and is followed in all conventional shops. Here the customer can easily locate the items of their choice and is suitable for the customer who frequently do shopping, say three times in a week. This arrangement makes the best use of the available space.
2. **Free Form layout:** The simplest type of store layout, the fixtures and aisles are placed asymmetrically and this provides informal setting and customers feel comfortable to browse and shop. This is also called “boutique layout”
3. **Race track layout:** Customer visiting stores with this format will be made to go through specific paths and therefore they will be made to visit as many departments as possible.They will be exposed to large number of products and promotion materials. This is also known as loop layout. Loop design encourages implosive purchase as shoppers are exposed to items other than what they came into buy.
4. **Combination patter:** The combination pattern incorporates both grid and free flow formats to create atmosphere suited to the style of

products and shopping behaviour of the customer. Each has distinct advantages and disadvantages. While the grid uses the available space efficiently, it generally does not encourage browsing. The reverse is generally true of the free flow pattern. To decide on the most appropriate method for the store it is necessary to first study the traffic flow and observes how customers move through the store. Using this as a guide, develop the layout that suits the store image are to be created and the type of product to be sold.

11.6 STEPS FOR DESIGNING STORE LAYOUT AND STORE DESIGN

Planning a store layout involves the following steps:

1. Determine the accessibility of space in the facility.
2. Determine the space required for selling and non-selling areas.
3. Fitting space needs to available space to achieve a good traffic flow and maximize sales per square feet.
4. The kind and extent of departmentalization, (if any) space requirements of the departments, location of the departments
5. Types of displays to be used and their space requirements.
6. Type of traffic flows.
7. Types of merchandise presentation technique.
8. Types of non-selling activities, its space and location requirements.
9. Special provision for self service.

Store Design

In order to create a unique, noticeable and memorable store image, store design plays a vital role.It includes both the exterior and interior of the store.

The exterior includesthe store signage, store front, and entrance to the store. These are the first visibleimages that will help in enticing the passing shoppers and inducing them to enter thestore. Thus, these factors are critically important in a store design.

The interior of thestore design will include store wall, ceiling and flooring along with the surface finishingon these structural elements.

Store Design consists of:

1. Storefront Design
2. Interior Design
3. Lighting Design
4. Sounds and Smells

11.6.1 Storefront Design

The store front must be soimpressive as to be noticeable by every passing shoppers whether in the mall or on theshopping street, and even by passing motorists. It should provide the idea about the name of the store, the kind of merchandisebeing sold inside the store, and the target consumers for the said store. Generally thestore front will include the overall structure or architecture of the storefront, the exteriorfront signage or board, display windows, if any, and the entrance.

The window display plays an important role in making the customers understand the nature of merchandise being sold, provides direct or indirect hint on the price range of the products that are on offer, thereby the cues to the target customers. Hence, the retailer has to make effort in ensuring that the window display is done with attractive visuals that will pull the customers inside the store. The window display needs to be changed regularly to reflect fun and excitement for shoppers.

11.6.2 Interior Design

Interior design influences the customer to stay a little more time within the store.

Hence, every aspect of interior needs to bedesigned in a manner that will make the customer feels not only comfortable withinthe store but also appeal to his sensory tastes. This will make him/her to spend time inunderstanding more about the product range on display.The interior designing helps in creating the desired ambiencewithin the store which makes the customer stay more time in the store.

11.6.3 Lighting Design

Lighting the key component in makes the customers feel at home and enticing them to buy.The right lightning does much more than simply illuminating the retail space. It sets the mood and atmosphere, guides shoppers to key areas and provides an overall experience.

Lighting designer must keep in mind the store image, merchandise, and finances whilemaking the decision. In earlier times fluorescent lightings were preferred for overall lighting effects and incandescent lighting for highlighting the products. In fact it was a rule in many of the apparel stores which is seen even today in normal middle class targeting apparel stores to use fluorescent tube-lights fixtures for creating a bright environment in the store. This gives the impression of day-light clarity to shoppers. The lighting designer presently has many different options to choose from.

Fluorescent lighting is still the most economical light source, but isnot considered the best choice for fashion apparels and for many life-style products.The present day technology offers energy-efficient lighting at affordable cost. This makes it possible to create an attractively lit environment at a substantially lower cost than in the past.

11.6.4 Sounds and Smells

When it comes to driving sales in a retail store, ambiance matters a lot.There is no doubt about it – a store that has the right scents and sounds associated with it will make more money than one that doesn't.Effective store design is the one that appeals to sight, sound, smell and touch.Smell is believed to be most closely linked to memory and emotions. Hence,retailers use it to draw the customers into the right 'mood'. Automated retail store sound systems on escalators can deliver safety, directional,instructional & department store ad messages. Sound View Electronics automatedmessaging system offers malls and department store operators the most advanced systemsfor communicating with their escalator riders.Use of piped

music in the retail stores have been in use for generations. It is believedthat a musical backdrop will create a more relaxing environment and will encouragecustomers to stay longer in the store. For example a men's wear store selling clothing toadult will play classical music, which is soothing and encourage customers to shop longerand select more expensive merchandise. But, the same music will be inconsistent witha trendy store selling sportswear to younger crowds.

11.7 VERTICAL MARKETING SYSTEM

We have already got a fair idea about VMS in earlier unit. Now we will be discussing it in detail.

Definition: A **Vertical Marketing system (VMS)** comprises of the main distribution channel partners- the producer, the wholesaler and the retailer who work together as a unified group to serve the customer needs.

In conventional marketing system, the producer, wholesaler and the retailer worked separately with the intention to maximize their profits even at the expense of one another. This led to the unending conflicts between the channel partners resulting in less profit for the business as a whole.

In order to overcome these conflicts, several firms have started using a vertical marketing system wherein producers, wholesalers and retailers have joined hands with each other and are working in unison towards the accomplishment of the business objective as a whole. This has led to the increased profits for each involved in the channel of distribution.

11.7.1Types of Vertical Marketing system

1. **Corporate Vertical Marketing System**– In Corporate VMS, one member of the distribution channel be it a producer, a wholesaler or a retailer Owns all the other Members of the Channel**,** thereby having all the elements of production and distribution channel under a single ownership.**For example,**: Amway is an American cosmetic company, which manufactures its own product range and sell these products only through its

authorized Amway stores. Here the ownership of production and distribution is with the company itself.

2. **Contractual Vertical Marketing System**– In Contractual VMS, every member in the distribution channel works independently and integrate their activities on a **Contractual Basis** to earn more profits that are earned when working in isolation. The most common form of Contractual VMS is **Franchising.** In franchising, the producer authorizes the distributor to sell its product under the producer's name against some annual license fee. **For example,**Mc-Donalds, Dominos, Pizza Hut, etc. are all forms of the franchise which are working on a contractual basis.
3. **Administered Vertical Marketing System**– Under Administered VMS, there is no contract between the members of production & distribution channel but their activities do get influenced by the Size and Power of any one of the member. In simple words, any powerful and influential member of the channel dominates the activities of other channel members. **For example,** Big brands like HUL, ITC, Procter& Gamble, etc. command a high level of cooperation from the retailers in terms of display, shelf space, pricing policies, and promotional schemes.

Thus, through a vertical marketing system, the channel partners establishes a close contact with each other and work in unison towards the accomplishment of common objectives thereby enjoying more profits which they would have been earning when working alone.

11.7.2 Scope of Vertical Marketing system

The vertical marketing system arose as a result of strong channel member's attempts to control channel behavior. It eliminate the conflict that results when independents member pursue their objectives. VMS achieve economies through size and bargaining power. It also encourages elimination of duplicated services. Business buyers of

complex products and systems have been shown to value the extensive exchange of information they can obtain from a VMS.

11.7.3 Importance and Drawback of of Vertical Marketing system

Importance :

- A centralized management has direct control over all aspects of the business, anticipates problems and makes necessary changes to increase efficiency.
- VMS eliminate competition and conflict. A good communication and coordination is crucial to the success of VMS, as these organizations are larger and their operations are more complex.
- VMS applies to both small and large companies. Small businesses benefit from VMS by building a strong relationship with their suppliers, distributors and retailers. Once these small businesses grow, they can start making acquisitions and developing their own vertical marketing systems.
- Provide clear lines of authority and a tight span of control as a company can control all of the elements of producing and selling a product, which can lead to high operating efficiency.

Drawback of VMS

- Employees at the bottom of a vertical structure may feel less valued than those higher up in the chain.
- It can also take a great deal of time for top management decisions to filter down through multiple layers, reducing the organizations ability to react quickly to a rapidly changing business climate.
- Because of the centralized control of power, weak leadership at the top can hamper the effectiveness of the entire organization.



CHECK YOUR PROGRESS

Q1. What are the profit builder products?

……

Q2. What is free form layout?

……

Q 3. State one advantage of VMS?

……

Q 4. State one example of corporate vertical marketing System.

……



11.8 LET US SUM UP

- Retail space management is the process of managing the floor space adequately to facilitate the customers and to increase the sale.
- Store layout designing a refers to how various merchandise or group of merchandise are arranged within the stores for the convenience of the shoppers as it will motivate the customer to move through the stores and purchase those things which were not in their purchase list.
- Grid layout, free form layout, race track layout and combination patter are different types of layout which is used by the retail shops.
- Store design consist of Storefront Design, interior design, lightening design and sounds and smell which influence a shopper to stay a longer duration in the shop and purchase products.
- A **Vertical Marketing system (VMS)**comprises of the producer, the wholesaler and the retailer who work together as a unified group to serve the customer needs.
- Vertical marketing system comprises of Corporate Vertical Marketing

System, Contractual Vertical Marketing System and Administered Vertical Marketing System.



11.9 FURTHER READING

1) Pradhan, S. (2010). *Retailing Management: Text and cases* (3rd Edition). New Delhi: Tata McGraw Hill Education.

2) Singh, H. (2009). *Retail Management: A Global Perspective* (1st Edition). New Delhi: S. Chand and Company Limited.

3) Sivakumar, A. (2007). *Retail Marketing* (1st Edition). New Delhi: Excel Books.

4) Berman, B.R. & Evans, J.R. (2013). *Retail Management: A Strategic Approach* (13th Edition). Singapore: Pearson Education.



11.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Product that has high profit margins but low sales.

Ans to Q No 2: In free form layout the fixtures and aisles are placed asymmetrically and this provides informal settings.

Ans to Q No 3: VMS eliminate competition and conflict.

Ans to Q No 4: Amway.



11.11 MODEL QUESTIONS

Q 1: What do mean by retail space management?

Q 2: What is store designing?

Q 3: Explain is VMS and its types?

Q 4: What are the types of store layout?

*** ***** ***

UNIT 12: WHOLESALING

UNIT STRUCTURE

12.1 Learning Objectives

12.2 Introduction

12.3 Concept and Importance of Wholesaling

12.4 Types of Wholesalers

12.5 Functions of Wholesalers

12.6 Latest Trends in Wholesaling

12.7 Let Us Sum Up

12.8 Further Reading

12.9 Answers To Check Your Progress

12.10 Model Questions

12.1 LEARNING OBJCTIVES

After going through this unit you will be able to

- define the concept of wholesaling
- explain the importance of wholesaling
- describe various types of wholesalers
- explain functions of wholesalers
- outline the latest trends in wholesaling

12.2 INTRODUCTION

In this unit we are going to discuss about wholesaling. Wholesaling is the sale and distribution of goods to specific customer types such as those most commonly referred to as retailers. Retailers the persons who will resell the good to an end user. Generally in wholesaling activity, the buying or selling of goods takes place in large quantities, especially in order to sell them in shops or supermarkets compared to the retailing. In this unit we will briefly discuss it's various types and functions of wholesaling and latest trends in wholesaling.

12.3 CONCEPT AND IMPORTANCE OF WHOLESALING

Wholesaling refers to all those activities which involve selling the goods or services to those who buy for reselling or for other business purposes. Wholesaling excludes the retailers as they are concerned with selling to ultimate consumers in small quantities and manufacturers as they are involved in production most importantly. The wholesalers deal with business customers rather than final consumers so they pay least attention to promotion, location and the atmosphere. The transactions involved in wholesale are larger than in retail and also the trade area is large. Also the legal regulations and taxes are different for wholesale and retail. So, wholesalers (also known as distributors) and retailers differ from each other in a number of ways.

Wholesaling is an important aspect of distribution. It has a significant impact on the economy and also it plays a tremendous role in the distribution channel and creates a strong relation with suppliers and customers.

Operating costs for wholesalers include inventory charges, sales force salaries, rent charges, advertising costs etc. So, from the cost perspective the impact of wholesalers on prices is high. The profit of wholesalers depends on inventory turnover, money value of products, the functions performed etc.

Institutional buyers make considerable purchases from the wholesalers for which revenue increases.

12.4 TYPES OF WHOLESALERS

All wholesale firm belong to either manufacturer owned or independent middleman. The major types of wholesalers are as follows:-

- Merchant Wholesalers
- Agents, Brokers and Manufacturer's Sales branches and offices.

1. Merchant Wholesalers- Their businesses are independently owned and the title is taken to the merchandise they handle. Full-service and limited service jobbers, distributors and mill supply houses come under

this category.

2. ***Full- service Wholesalers –*** They carry stock, maintain a sales force, offer credit, make deliveries, and provide management assistance. Wholesale merchants sell to retailers and industrial distributors sell to manufacturers and provide credit and delivery services.
3. ***Limited -service Wholesalers- Cash and carry*** wholesalers sell limited line of fast moving goods to small retailers, ***truck wholesalers*** sell and deliver limited line of semi perishable goods to supermarkets, grocery stores ,hospitals, restaurants, hotels, ***drop shippers*** provide services to bulk industries such as heavy equipment, coal etc., ***mail-order wholesalers*** helps to send catalogs to retail, industrial and institutional customers by mail, rail, plane or truck.
4. ***Specialized Wholesalers-*** Agricultural assemblers, petroleum bulk plants and terminals and auction companies fall under specialized wholesalers.

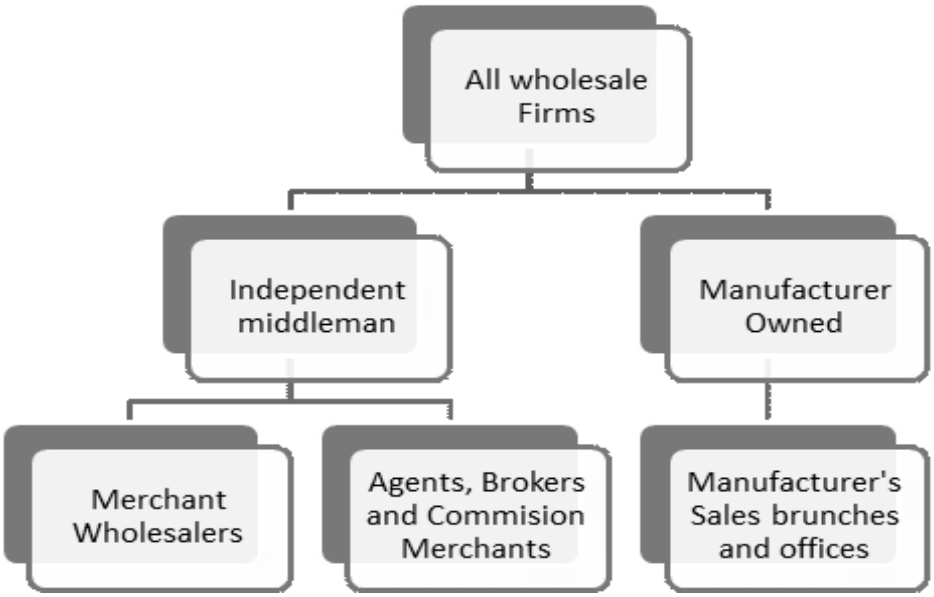


Fig: 12.1 Different types of Wholesaler

12.5 FUNCTIONS OF WHOLESALERS

In the process of marketing of goods, the wholesalers perform a number

of functions which are mentioned below:-

a) ***Assembling and Buying***- The wholesalers assembles or collects small lot of scattered agricultural production for economic bulk buying. At the same time they select the manufacturers to place orders on them and making special purchase in case of seasonal products.

b) ***Warehousing***- Wholesalers hold inventories as there is always a gap between time periods of production and consumption. In order to reduce risks and inventory costs, this warehousing by wholesalers helps the retailers and the producers a lot.

c) ***Transporting***- Wholesalers can provide the quicker delivery to buyers as they are closer to them. This transportation is done either through their own fleet or through hired common carriers. In the activities of assembling, warehousing and resale the wholesalers undertake the transportation tasks.

d) ***Financing***- By granting credit to the customers and financing the suppliers by ordering early and paying bills on time the wholesalers undertake financing tasks.

e) ***Risk bearing***- Risks are unavoidable in business which needs to be borne and shifted. The risks of loss of change in prices, of damage, quality deterioration, pilferage, theft, fire, and like are borne by the wholesalers. They also bear the risks of under payment or non - payment by the retailers.

f) ***Grading, Packaging and Packing***- Grading is an important tasks of wholesalers wherein the stocks are sorted in terms of different sizes, qualities, shapes, and so on. To meet the small lot requirements of the retailers bulk breaking is done and also repacks for the consumers as per retailer's order reduce the operating costs and invest in advanced materials, handling technology, information systems and the internet.

g) ***Dispersing and Selling***- Wholesaler's sales forces help the manufacturers to reach the small business customers at a relatively low cost. The assembled goods and the stocked ones are meant for dispersing and selling. The retailers buy from the wholesalers.

h) ***Providing Market Information***- Information regarding competitor's activities, new products, price developments and so on are supplied by wholesalers to suppliers and customers.



CHECK YOUR PROGRESS

Q1. Define wholesaling.

……..……..……..……..……..

.....…….....……..……..……..

Q2. Mention the types of wholesalers

.....…….....……..……..……..

.....…….....……..……..……..

12.6 LATEST TRENDS IN WHOLESALING

Manufacturers often have some issues or problems with wholesalers for which they bypass their services or replace with some better and efficient ones. Major complaints against the wholesalers are: manufacturer's product lines are not aggressively promoted by the wholesalers; customer's orders are not filled fast enough as the wholesalers do not carry enough stock; up-to-date market, customer and competitive information not provided by wholesalers; high-caliber managers are not hired and they charge too much for their services.

Even direct-buying programs were designed by the large manufacturers and retailers for which the wholesalers had a significant decline. In order to meet the changing needs of the customers and suppliers the successful wholesalers had to adapt their services and add value to it. Some of the major trends in wholesaling are discussed as follows —

1. The distribution between large retailers and large wholesalers continues to blur. While many retailers now operate formats such as wholesale clubs and super-centers that perform many wholesale functions, many large wholesalers are setting up their own retailing operations. For example, with a majority of its business derived from supplying grocery products to independent grocery retailers.

2. Wholesalers will continue to increase the services they provide to retailers—retail pricing, cooperative advertising, marketing and management information reports, accounting services, online transactions, and others.
3. Both the recently sluggish economy and the demand for increased services have put the squeeze on wholesaler profits. However, the increased use of computerized, automated, and Web-based systems will help wholesalers contain the costs of ordering, shipping, and inventory holding, thus boosting their productivity.



12.7 LET US SUM UP

In this unit we have discussed about wholesaling. Wholesaling refers to all those activities which involve selling the goods or services to those who buy for reselling or for other business purposes.

The wholesalers deal with business customers rather than final consumers so they pay least attention to promotion, location and the atmosphere. The transactions involved in wholesale are larger than in retail and also the trade area is large.

Operating costs for wholesalers include inventory charges, sales force salaries, rent charges, advertising costs etc. So, from the cost perspective the impact of wholesalers on prices is high. The profit of wholesalers depends on inventory turnover, money value of products, the functions performed etc.

The major types of wholesalers are as follows:-

- Merchant Wholesalers
- Agents, Brokers, Manufacturer's Sales branches and offices.

The wholesalers perform a number of functions which are mentioned below:

- Assembling and Buying
- Warehousing
- Transporting
- Financing

- Risk bearing
- Grading, Packaging and Packing

The latest trend of increase in price and absorbing the competent suppliers based on cost and quality, the position of wholesaling industry is at risk.



12.7 FURTHER READING

1) Sontakki C.N. (1992). *Marketing Management*. New Delhi. Kalyani Publishers.

2) Kotler Philip & Keller K.L. (2007). *Marketing Management*. New Delhi. Prentice Hall of India Private Limited.



12.8 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Wholesaling is the sale and distribution of goods to specific customer types such as those most commonly referred to as retailers.

Ans to Q No 2: Merchant Wholesalers, Full- service Wholesalers, Limited -service Wholesalers and Specialized Wholesalers.



12.9 MODEL QUESTIONS

Q 1: Discuss briefly different types of wholesaling.

Q 2: Explain the functions of wholesalers.

Q 3: Explain the importance of wholesaling and the latest trends of wholesaling.

*** ***** ***

UNIT 13 : CASE STUDY ON SALES MANAGEMENT

Case Study 1

Online selling of Assamese jewellery

According to a report by Deloitte India and Retailers Association of India, e-commerce is expected to be the next level of consumer growth driver and India is expected to grow to a size of a $1.2 trillion market by 2021. The report said that the Indian retail market would grow at a CAGR (compound annual growth rate) of 7.8% between 2021 and 2026 despite the stress faced by the rupee and the rising crude oil bill. India's e-commerce marketplace is currently growing at CAGR 32%. It will go further as the e-commerce space is growing at a massive pace. The growth projection is attributed to changing purchasing patterns, increasing internet penetration and corresponding growth in the number of online buyers. The report also indicated that m-commerce (mobile commerce, commerce with the help of mobile handset) is growing at an exponential pace. The m-wallet transactions in India increased from Rs. 200 billion in the financial year 2016 to Rs. 3000 billion in the financial year 2018.

Mrs. Suranjana Gogoi, engaged in the business of traditional Assamese jewellery, was reading about the key findings of the report of Deloitte India and the Retailers Association of India. She has a retail outlet in Fancy Bazar, the commercial hub of Guwahati. She procures the items from carefully selected suppliers and tries to maintain an image of authenticity. Many times, she feels constrained as her business is concentrated only in one location, though that is considered the gateway of North-East India. She was thinking of opening branch outlets in Nagaon, Jorhat, Tezpur and Dibrugarh, prominent business places in middle and upper Assam. However, maintaining the chain of retail outlets in different places has a number of challenges. In view of this, she is currently contemplating the idea of floating her business by having strong presence in the online domain. However, she is not fully convinced whether this option would provide her the avenues to satisfy her expectations regarding the growth of her business.

Question: What should Mrs. Suranjana Gogoi do?

*(**Source of data:** Ecomm market set to touch $ 1.2 trillion by 2021; The Economic Times, Kolkata, February 27, 2019, p.7)*

Case Study 2

Training in exclusive outlet

Jatin Kumar is the Manager of an exclusive outlet of a leading multinational company dealing in electronic products. The company keeps stocks of all the product items in the exclusive outlet. Maintaining the store ambience is very important. There are specially designated places for display of newly launched items. Sale of all kinds of products as made available by the company are important. Maintaining the exclusive image of the outlet is also very important. The customers visit the outlet to buy items. Some of the customers eagerly await for new arrivals. The interactions with the sales persons in the store may not always result in sales. It is always desirable that the store visitors leave the store with a positive feeling.

The company has a strong presence in the market space. There are many online reviews of its products. The online reviews indicate that the prospective buyers are well received at the dealers' premises and they are well explained about the features and benefits of different products. Mr. Kumar keeps track of the consumer reviews. In his store, there are ten staff members who are taking care of functions like store display, safe keeping, accounts etc. On Sunday, the store remains close. The staff is entitled for 25 days of leave in a year. As regards the profile of the staff, there are some diversities in respect of age and educational qualification. All the staff members are male. Two of them are more than fifty years old. Three of them are below 25 years. Two of the staff members are postgraduate. Two of the staff members are below VIIIth standard.

Mr. Kumar knows it that customer service is very important in an exclusive outlet. He also believes that training of staff members can play a very useful role in rendering customer service. The company has trained some of its staff about features and benefits of the products.

However, Mr. Kumar feels that all the staff members should be imparted training on how to deal with the regular visitors, difficult customers, major

customers etc. Moreover, he strongly feels that the staff members should work in the outlet as a team.

Mr. Kumar wants to submit a proposal to the multinational company for imparting a one-day training programme to the staff of the exclusive outlet.
Question: What are the aspects that Mr. Kumar should consider while writing the proposal for the training programme?

Case Study 3

Rubilex Ltd.

Mr. Chittaranjan Haldar was honoured as the best Salesperson of M/s Rubilex Ltd. in the year 2015. He was awarded as the Best Salesperson again in the year 2017. He was very dependable and could always achieve the sales targets. Mr. Haldar could achieve the target for sale of new and slow moving products also. The number of customer complaints in his sales territory was also very negligible compared to the number of complaints received in the sales territory of other salespersons.

The year 2018 was not at all good for Mr. Haldar. He could not meet the sales targets. The number of sales orders collected from the retail outlets was also small. The number of orders for large size orders was negligible. It was a matter of concern for Mr. Benarjee, the Sales Manager, whom Mr. Haldar reports. The sales position in the other territories of the company was not a matter of concern for Mr. Benarjee.

In order to understand the problems in the sales territory of Mr. Haldar, the Sales Manager reviewed the daily call reports of Mr. Haldar for two weeks. From the review, Mr. Benarjee observed the following-

a) Total number of sales call made: 108
b) Buyers not available: 22
c) Buyers not currently interested: 31
d) Will have to be visited again: 28
e) Complaints raised regarding products of the company: 12
f) Complaints received about inadequate advertising support: 5
g) Complaints received about inadequate merchandising support: 5
h) Sales order (small size) collected: 32

i) Sales order (large size) collected: 2

j) Compliments received for company products: 6

k) Compliments received for competitors' products: 10

Mr. Benarjee wants to have a discussion with Mr. Haldar.

Question:

i. Identify the areas of sales performance, which should be covered during the discussion.

ii. What should be the strategy of Mr. Benarjee while dealing with Mr. Haldar so that the weak performance of Mr. Haldar could be improved?

Case Study 4

Hemaprabha Enterprise

Mr. Gauranga Kar of Hemaprabha Enterprise is a distributor of FMCG products. He deals in products manufactured by five different companies. Mr. Kar proudly claims that all the companies that have given him distributorship are nationally reputed companies. While dealing with these companies, he has to handle many issues pertaining to the areas of settlement of claims, payment of taxes, market coverage, stock rotation, distributor and retailer margin, promotion and distribution of sales offers and schemes etc.

For the last five years or so, Mr. Kar has observed that doing business with one company namely Abantika Ltd. has not been profitable. His main concerns are as follows:

a) **Market coverage**: Abantika Ltd. wants maximum coverage of retailers. Hemaprabha Enterprise finds that with the little distributor margin, many outlets cannot be covered as it is not economically feasible. Abantika Ltd. believes in volume sales and large-scale market penetration.

b) **Damage claim:** A number of retailers in the area under the jurisdiction of Hemaprabha Enterprise regularly complain about damaged and expired products, which have not been replaced for long. Hence, they are not interested in keeping fresh stock. The Area Sales Manager of Abantika Ltd. believes that the damaged and expired products are due to overselling by Hemaprabha Enterprise.

c) **Advance payment and bank guarantee:** The other companies that Mr. Kar deals with never insist on advance payment and bank guarantee. Abantika Ltd. never extends credit. Rather it insists on a bank guarantee also. Mr. Kar feels that this has created a problem in working capital management.

Mr. Gautam Goenka, the Area Sales Manager of Abantika Ltd. is aware of the concerns of Hemprabha Enterprise. While dealing with other distributors in the city, he has not come across the problem of damaged and expired products. They complain about the low margins. However, with volume sales they can improve their profit while Hemaprabha Enterprise has not been able to do. It is a policy of Abantika Ltd. to insist on advance payment and bank guarantee.

Mr. Goenka and Mr. Kar will sit together shortly for an in depth discussion regarding the issues.

Question: What should be the focus of discussion?

Case Study 5

Mall Culture

The mall culture in India is rising. The pertinent question is how many of the malls will succeed? No doubt, organised retailing is growing. Tier II and Tier III cities are witnessing hectic activities in the small space. The Indian retail market is an emerging market for investment in the retail sector.

Mall management is not only controlling security and crowd. The activities start from planning and designing of mall. It is very important to understand the demographics of the mall area. Super luxury malls will not be attractive in an area where purchasing power is small.

India has registered an impressive growth of its middle class. The middle class comprises three sub classes- the upper- middle, the middle- middle and the lower- middle.

Mall development activity is being pursued aggressively across metros and high growth cities with significant investments in pipeline. Cosmopolitan population in cities with rising aspiration and growing income is driving force behind increasing consumption and usage of high end products.In South

India, Cochin in Kerala has a number of very large malls in the country. Many small towns also have malls. Favourable demographics combined with increasing disposable incomes are progressively changing consumerism in India. The growth drivers of the mall phenomenon in India may be stated as follows:

i. High disposable income and high purchasing power
ii. Increasing urbanization
iii. Young working population with discretionary income
iv. Easy availability of credit
v. Change in life style
vi. Wide availability of product varieties
vii. Supply chain efficiency

Pantaloon Retail (India) Ltd., Shoppers' Stop Ltd., Reliance Retail Ltd. are the key players in Indian retailing context. Normally retailing is the last stage of the distribution process.

Question: Assume that you are the Area Manager of a large retailing company in India. You have been asked to improve retailing penetration in North East India. What are the factors would you consider for improving retailing penetration in North East India for your company?

---

*(**Source**: The case let is adapted from the Applied Case Study titled "The Great Indian Retail Story under Test by S. Shahjahan, published by Primus Books, 2011, pp. 349-398)*

Case Study 6

Technology enabled retailing

Future Group started its journey as a fashion company in the late 1980s, selling mainly menswear brands. They launched a network of franchise stores. Few years later, they opened large format retail stores dealing in fashion products. Then Big Bazaar came in. During these years, the group developed their own brands in the fashion, footwear, food, FMCH and home wear categories. In 2018, they were having 50% of their sales from their own brands. Most of these brands also sell through other retail networks.

Mr. Kishore Biyani, Founder and CEO of Future Group is currently contemplating for business transformation. He believes that technology and data sciences can help them in achieving the goal. With technology, customer relationship can be strengthened. He believes that technology has to be at the heart of everything that they do. Technology can enhance their organisational abilities and human capital as well. For a 21st century organisation, technology is the most important ingredient to succeed, Mr. Biyani believes.

Question: How can technology enable business transformation in a large-scale retailing organisation like Future Group?

***(Source**: Interview with Kishore Biyani; The Economic Times, Kolkata, February 27, 2019, p. 7)*

Case Study 7

7-Eleven in India

7-Eleven, the world's largest convenience store chain and India's Future Group has announced a partnership to open their small format stores starting with Mumbai in 2019. They are having plans to offer fresh food, and beverages, over-the-counter products and to have cafes within the outlet. The Japanese owned, US headquartered 7-Eleven at group level had an annual sales of about $ 100 billion from over 67,000 stores in 2018. The global retailer generates nearly a third of its sales from Japan that has over 20,700 stores followed by Thailand and US. Given the consumer base, India is expected to offer huge potential for growth of 7-Eleven stores.

The Future Group's latest offering 7-Eleven will be pitched against round the clock convenience store chain Twenty Four Seven promoted by Modi Enterprise and In & Out which is run by state owned Bharat Petroleum.

Question: Comment on the scalability (ability to do in large scale) of the proposed 7-Eleven model in India.

---

*(**Source:** Shop at 7-Eleven in India, Mumbai to go 1st this year; The Economic Times, Kolkata, March 1, 2019; p. 5)*



FURTHER READING

1) (***Source of data:*** *Ecomm market set to touch $ 1.2 trillion by 2021; The Economic Times, Kolkata, February 27, 2019, p.7)*

2) (***Source****: The case let is adapted from the Applied Case Study titled "The Great Indian Retail Story under Test by S. Shahjahan, published by Primus Books, 2011, pp. 349-398)*

3) ***(Source****: Interview with Kishore Biyani; The Economic Times, Kolkata, February 27, 2019, p. 7)*

4) (***Source:*** *Shop at 7-Eleven in India, Mumbai to go 1st this year; The Economic Times, Kolkata, March 1, 2019; p. 5)*

*** ***** ***



REFERENCES (FOR ALL UNITS)

1) Philip Kotler, Kevin Lane Keller, Abraham Koshy, and Mithileshwar Jha (2007), *"Marketing Management"*, Pearson Education

2) Bajaj, Chetan, , Nidhi Varma, Rajneesh Tuli Arya (2004)*Retail Management*.OUP India, 1st edition

3) Jobber, David, Lancaster, Geoff (2018), *Selling and Sales Management*, Pearson Education.

4) Manning, Gerald L., Reece, Barry L.(1997), *Selling Today : Building Quality Partnerships*, Pearson Education.

5) Richard R. Still, Edward W. Cundiff, Norman A.P. Govoni,Sandip Puri(2017) *Sales and Distribution Management,* 6th edition Pearson Education

6) Tyagi, C.L. and Kumar, Arun (2005), *Sales Management*, Atlantic Publisher and Distributeres.

7) Sandeep Sareen,(2001); *Marketing And Sales Management*; Ivy Publishing House

8) S. C. Bhatia, (2008);*Retail Management* ; Atlantic publisher

9) Kujnish Vashisht, 2006; *A Practical Approach to Sales Management*; Atlantic publisher

10) Pradhan, S. (2010). *Retailing Management: Text and cases* (3rd Edition). New Delhi: Tata McGraw Hill Education.

11) Singh, H. (2009). *Retail Management: A Global Perspective* (1stEdition). New Delhi: S. Chand and Company Limited.

12) Sivakumar, A. (2007). *Retail Marketing* (1st Edition). New Delhi: Excel Books.

13) Berman, B.R. & Evans, J.R. (2013). *Retail Management: A Strategic Approach* (13th Edition). Singapore: Pearson Education.