MARKETING MANAGEMENT

UNIT-3 PART-V

Retail – 4 Main Theories

Like every other industry new retail firms have brought innovative approaches in retailing. Retail development can be looked at from different theoretical perspectives, as no one theory is universally acceptable. The reason for this unacceptability is mainly because of different market conditions and different socio-economic conditions in the market.

The theories are:

1. Wheel of Retailing

2. Retail Accordion Theory

3. Theory of Natural Selection

4. Retail life cycle

1. Wheel of Retailing:

This theory talks about the structural changes in retailing. The theory was proposed by Professor Malcolm P. McNair. This theory describes how retail institutions change during their life cycle. In the first stage when new retail institutions start business they enter as low status, low price and low margin operations.

As the retail firms achieve success they look in for increasing their customer base. They begin to upgrade their stores, add merchandise and new services are introduced. Prices are increased and margins are raised to support the higher costs. New retailers enter in the market place to fill the vacuum created by these retailers who move on to second stage of life cycle and continues to move ahead as a result of the success.

A new format emerges when the store reaches the final stage of the life cycle. When the retail store started it started serving low and price sensitive customers but when market grew their margins and price changed to higher side they moved on to serve upscale customers.

The theory has been criticized because they do not advocate all the changes that happen in the retail sector and in the present scenario not all firms start low to enter the market.

2. Retail Accordion Theory:

This theory describes how general stores move to specialized stores and then again become more of a general store. Hollander borrowed the analogy ‘accordion’ from the orchestra.

He suggested that players either have open accordion representing the general stores or closed accordions representing narrow range of products focusing on specialized products. This theory was also known as the general-specific-general theory. The wheel of retailing and the accordion theory are known as the cyclical theories of retail revolution.

3. Theory of Natural Selection:

According to this theory retail stores evolve to meet change in the microenvironment. The retailers that successfully adapt to the technological, economic, demographic, political and legal changes are the ones who are more likely to grow and prosper.

This theory is considered as a better one in comparison of Wheel of retailing because it talks about the macro environmental variables as well, but the drawback of this theory is that if fails to address the issues of customer taste, expectations and desires.

4. Retail Life Cycle:

Like products, and brands retail organizations also pass through identifiable stages of innovation, accelerated development, maturity and decline. This is commonly known as the retail life cycle. Any organization when in the innovation stage is nascent and has few competitors.

They try to create a distinctive advantage to the final customers. Since the concepts are new at this stage organizations try to grow rapidly and the management tries to experiment. Profits will be moderate and the stage may last for a couple of years. When we talk about our country's e-buying or online shopping it is in the innovation stage.

In the accelerated growth phase the organizations face rapid increase in sales, competitors begin to emerge and the organizations begin to use leadership and their presence as a tool for stabilizing their position. The investment level will be high as there are others who will be creating a lot of competition.

This level may go up to eight years. Hypermarkets, Dollar stores are in this stage. In the maturity stage as competition intensifies newer forms of retailing begin to emerge, the growth rate starts to decline.

At this stage firms should start recrafting strategies and reposition themselves to survive in the market place. Supermarkets, cooperative stores are in this stage. The final stage of the retail life cycle is the declining phase where firms begin to loose their competitive advantage. Profitability starts to decline further and the overheads starts to rise.

Thus we see that organizations need to adopt different strategies at each stage of life cycle in order to sustain in the marketplace.

WHOLESALING: IMPORTANCE, FUNCTIONS AND TYPES OF WHOLESALING

Wholesaling is the buying/handling of products and services and their subsequent resale to institutional users and in some cases to final consumers. Wholesaling assumes many functions in a distribution channel, particularly those in the sorting process. Manufacturers and service providers sometimes act as their own wholesalers.

Industrial, commercial and government institutions are wholesalers' leading customers followed closely by retailers:

(a) Importance of Wholesaling:

Wholesaling is a significant aspect of distribution because of its impact on the economy, its functions in the distribution channel and its relationship with suppliers and customers. In USA, wholesalers generate almost one-fifth of their total revenues from foreign markets.

Revenues are high since wholesaling involves substantial purchases by institutional consumers. There are larger numbers of retailers because they serve individual, disposed final consumers, and wholesalers handle fewer, larger and more concentrated customers.

From cost perspective, wholesalers have a great impact on prices. Operating costs for wholesalers include inventory charges, sales force salaries, rent charges and costs of advertising etc. Wholesaler costs and profits depend on inventory turnover, money value of products the functions performed and efficiency etc.

(b) Functions of Wholesaling:

Wholesalers carry out tasks ranging from distribution to risk taking.

Following functions are performed by wholesalers:

(i) Enable manufacturers and service providers to distribute locally without making customer contacts.

(ii) Provide a trained sales force.

(iii) Provide marketing and research supports for manufacturers, service providers and retail or institutional consumers.

(iv) Purchase large quantities, thus reducing total physical distribution costs.

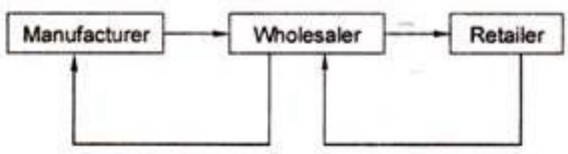
(v) Provide warehousing and delivery facilities.

(vi) Provide credit facilities for retail and institutional customers, whenever required.

(vii) Provide adjustments for defective merchandise.

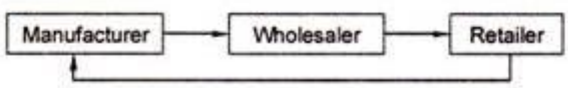
(viii) Take risks by being responsible for theft, deterioration and obsolescence of inventory. Wholesalers who take title of ownership of products and services usually perform all the above tasks.

(c) Relationship of suppliers and customers with wholesalers:



Selling to the wholesaler

The wholesaler is viewed as a customer who is researched and satisfied. The wholesaler is considered important.



Selling through the wholesaler

In this case the needs of the wholesaler are considered unimportant.

(d) Types of Wholesaling:

Three broad categories of wholesaling are discussed below:

(i) Manufacturer Wholesaling:

In this case a firm has its own sales offices and wholesale activities are done at these offices. Sales office may be conveniently located in a market place. This type of arrangement is preferred when the manufacturer desires more control on marketing and/or customers who may be few in number and each is a key account.

(ii) Merchant Wholesaling:

Merchant wholesalers buy, take title and take possession of products for further resale. Merchant wholesalers may perform full range distribution tasks. They provide credit, store and deliver products, after merchandising and promotion assistance, have a personal sales force, offer research and training support and provide all necessary information to customers and provide installation and after-sales services. This class is very commonly prevalent in durable consumer goods, pharmaceuticals and grocery items etc. Merchant wholesalers demand higher compensation for performing large number of functions.

(e) Agents and Brokers:

They perform various wholesale tasks, but do not take title of products, unlike merchant wholesalers. Agents and brokers enable a manufacturer to expand sales volume because of their special expertise and experience in the field.

Such agents and brokers may work for many firms and carry non competitive and complementary products in exclusive territories. Agents have little say on marketing and pricing. This class is prevalent in steel, cement, automobile and white goods. Voltas Ltd. works as wholesale agent for many white goods manufacturers.

(f) Present Trends in Wholesaling:

Due to phenomenal expansion of marketing activities and entry of many foreign exporters, the wholesaling has changed dramatically in India. The vast popularity of Internet and mobile phones have enhanced the importance of wholesalers in India.

These medias have also played a major role in selling books, CDs and PCs etc. Wholesalers are constantly looking for productivity gains to benefit their customers and themselves and protect their position in the market place. Wholesaler rendering after-sales service to customer is very important and it provides him the competitive advantage.