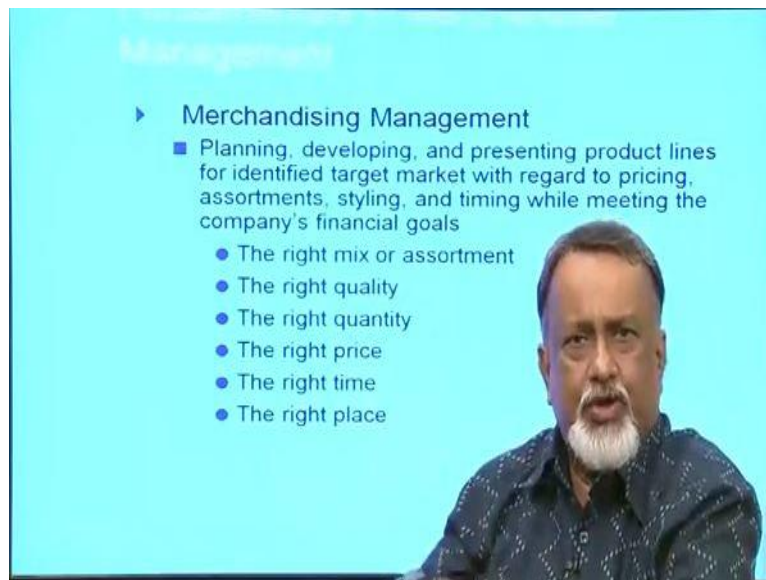


**Marketing Management - II**  
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**Lecture No. W7-L1**  
**Retail Marketing Management**

Hello! Welcome to the seventh week of this course Marketing Management II. And last week we had been discussing marketing channels distribution and then we concluded with various issues relating to retail marketing. Now in this retail marketing management there are a couple of other interesting sides which we would be discussing in this session and maybe in the next session. The top first topic that I want to take up is this concept of Merchandising Management.

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Merchandising as a term is very closely associated with retailing. Because it fundamentally means planning, developing and presenting product lines for identify target retail markets with regard to pricing assortment, styling, and timing. While meeting the company's financial goals that is the definition that you have on this screen. So, as you can see here it is like all the functions of marketing or the goals of marketing, when applied to the area of retailing and with respect to particularly fast-moving consumer goods.

So, merchandising what we want to do therefore in this planning, developing and presenting product lines for identify target markets. So, we must find the right mix or assortment, right mix of products which will be on the shelves, the right quality, the right quantity, the right price, the right time, the right place. So, it is a holistic approach to fast moving consumer goods retailing. Very interestingly these are products where there are like for example you see here a new item right time.

Because these are items were seasonality for example, different festivals will need more supply of edible oil or ghee and other kind of frying agents in particularly in India. Because all festival food will be usually fried in the South Asian environment and therefore consumption of edible oil goes up. So, the merchandising managers will be arranging bigger stocks for such items during Diwali or Durga Puja and such festivals.

And then again, the availability at the right place like for example, if there is a Kumbh Mela in Allahabad, then there will be certain kind of merchandising like whether it is a soap or whether it is a tea or whether it is packaged milk, all these demand will steeply go up. During that period of couple of months and therefore at that point of time in Allahabad in all at all distribution points, at retail points these items should be available in plenty.

Because the demand will be exceptionally different and higher at this point of time. So, time occasion based decisions on quality, quantity product mix on retail shelves that is the job of the merchandising management.

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Category Management

- ▶ The process of managing a retail business with the objective of maximizing the sales and profits of a category.
- ▶ 20/80 principle
  - 80% sales come from 20% products.



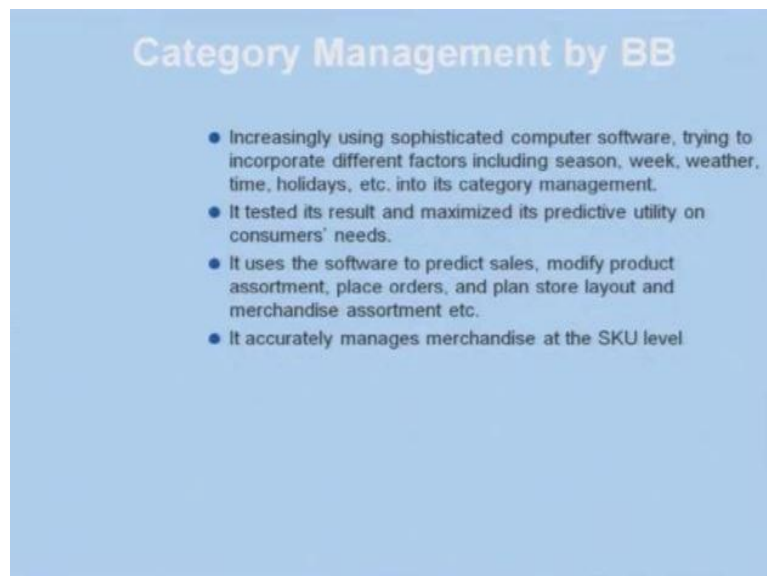
So, the whole idea is that, we want to maximize the sales and profits of a particular category. Now this category is also a new terminology that we are introducing category management very closely associated with merchandising management.

So, category usually means that say for example, all kinds of sauces as you see on the picture you know, tomato sauce ketchup, chili sauce, maybe as sweet and sour sauce all kinds of sauce. So, this is a category of sauce and during the winter festive seasons, where these will be in much higher demand. And this category management means, it follows the 20/80 principle that means 80% of the sales and possibly profits also will come from 20% products.

And which 20% that may change time to time, that may change place to place. So, the category management in Mumbai or western India will be different from category management in southern India. So, the sale of these kind of sauces will be much higher in western India or maybe in northern India. But in southern India, there may be a corresponding related category of various kinds of packet chutneys and so on.

So, the composition of the category will change depending on the geography, depending on time of the year, depending on the other regional festival occasions and so on.

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So, category management by say somebody like, big bazaar is actually a highly technical function. So increasingly a lot of computer analytics of real time data coming from the point of sale and all the detail outlets are analyzed using various kinds of tools and models. And

based on that different factor like season, week, weather. So, if there is a sudden chill and the demand for tea will perhaps go up.

So, all these correlations and to what extent it affects I mean, if five degree fall in temperature in what percentage it will increase the demand of tea or sugar. These are the kind of models and analytics that are provided today by modern powerful, this kind of category management software.

And so real-time data collection from the point of sale and aggregating the data over time to observe patterns, to observe seasonality, to off, to understand different types of events that are coming up based on that predictive analytics. So, this is a very important area which has vastly improves the financial performance of retail marketing and particularly merchandising.

And so, the category management and the merchandising management people in large retailers like, big bazaar across the nation will be using all these results to maximize the predictive utility to understand the consumer needs and its variations over time geography and so on. So, they will be changing in big retailers like, big bazaar or reliance fresh or Spencers they will be changing their assortment and the number of items available in each category and the varieties is available in each category.

They will be changing those dynamically based on the inputs that they are receiving from the analytical software. So today these software and are powerful enough that we can actually guide, merchandising managers, category managers even at the SKU, Store Keeping Unit. That means a particular type of soap, how many of those soaps, in what all sizes should be stored at a supermarket near say IIT, Kanpur can be determined by this kind of software. By observing the consumption pattern over time and by doing analytics of real time data.

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## Category Management

### ■ Advantages

- Evaluates different brands and products and provides the best product assortment.
- Better usage of shelves and capital.
- Decrease the chance of becoming out of stock
- Increase the sales and profits of categories
- Better capture market changes and responses to consumers' needs

So, obviously the advantages are many. These category management evaluate trends and brands and products and provides the best combination which we call product assortment a better usage of shelf space in the store. In fact, many times we will be measuring the performance of a retail outlet, by inventory turnover, per square feet or per shelf, how much, what turnover is happening of.

That means, how many rupees have been turned, how many times of a particular shelf the items stored on that shelf. That maximization of that turnover is obviously the aim of category management. So that we have the best optimal usage of our shelves as our working capital which is blocked in that inventory that is on the shelf. And its purpose is to see that, we are not out of stock as well as we are not overstocked.

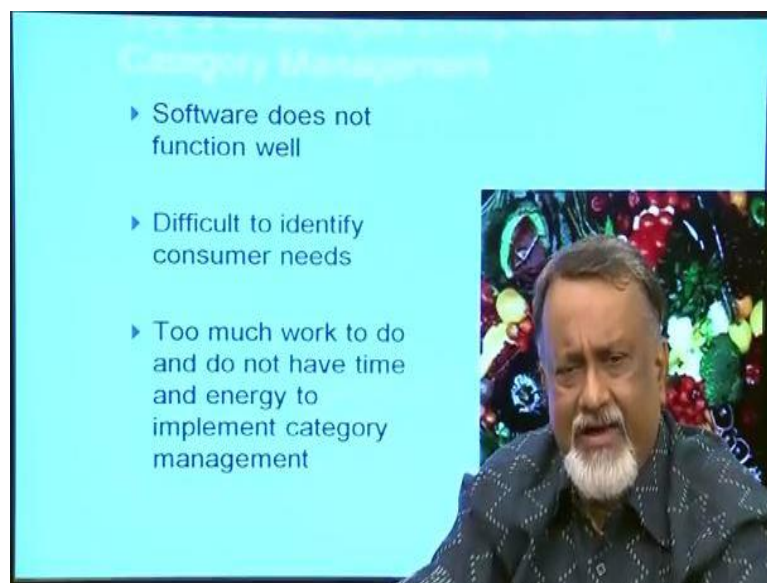
That means, the inventory should not be slow moving or becoming sluggish. On the other hand, we should not lose the sales opportunity that we have to turn away customer. Because we are out of stock. So, it is a intricate, it appears that the statement is simple. But to achieve it, if you think about an organization like big bazaar or Spencer who have outlets across the country and so many shelves, so many thousands of square feet of shelves where thousands and thousands of different types of SKUs are stored.

So, you have to see that each square feet, each square inch is giving us the optimal return is sound simple. But that not being out of stock and not being overstock is needs a very fine control and it needs sort of real time control and as you can understand. So today, if 20 items are from one shelf is sold, you would like that by night those 20 items are replenished on the

shelf. But if the time of the year is different than if today 20 items are sold, maybe the restocking should happen at the level of 10 SKUs.

These are the predictions that are provided by merchandising and category management, software and the professionals who use those analytics to provide that input. And they have to be backed up by the supply chain management, transportation arrangement, the location of the warehouse from where replenishment will be made. All these will have to operate as a total integrated synchronized system to see that this per shelf, we optimize the turnover.

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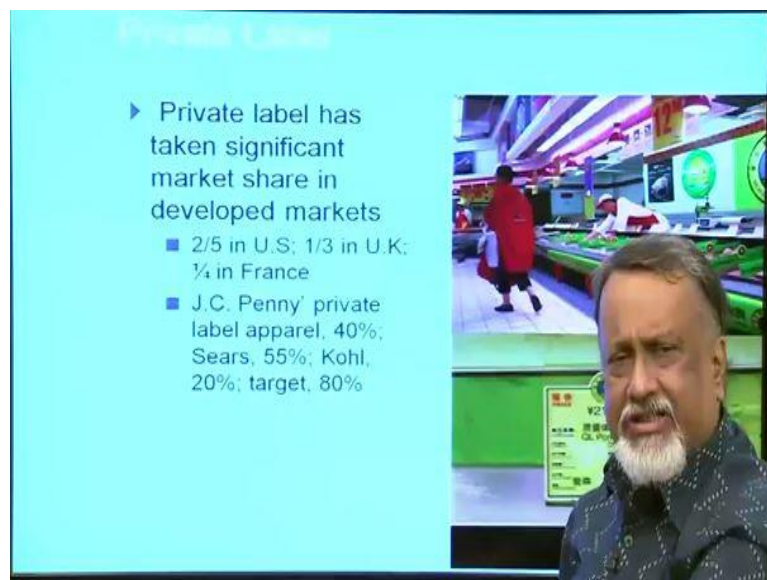


And the whole idea is that we should be able to capture changes ahead of time. So that we are in position, next day when the store opens with respect to the demand, we are likely to face. There will be some leniency with respect to, there may be some plus, minus error zone. But then only that is the whole idea. The problems obviously you can see that Y category management may not fully work is that the software may not function very well and it is often human beings are not really predictable.

You can observe patterns, but there can be big change certainly due to sudden drop in temperature and sudden spurt in certain types of demands. So, in winter as if suddenly the temperature is much higher than what you would have expected with respect to the sale of say thermal wear or certain types of warm clothing may not happen. It may then the demand will be sluggish.

So, and also there are so many you can see this picture, suppose this is a fresh vegetable outlet and like somebody like reliance fresh and if they have to do category management, they have to manage the possible demand pattern of so many different items. So, it takes a lot of time and energy even though you the software will help you it may go wrong. So, you have to make the decision to what extent you will plan and to what extent you will let it be.

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The slide is titled "Private Label" and contains the following text:

- ▶ Private label has taken significant market share in developed markets
  - 2/5 in U.S.; 1/3 in U.K.; 1/4 in France
  - J.C. Penny' private label apparel, 40%; Sears, 55%; Kohl, 20%; target, 80%

The slide also features a photograph of a man with a beard and a dark patterned shirt, standing in a grocery store aisle. In the background, there are shelves stocked with various products, and a person in a red jacket is visible in the distance.

I will now discuss also in merchandising this issue about private label, we discussed this point a little it to some extent in an earlier session. But today this is becoming very important in developed countries like 2/5 in US, 1/3 in UK, 1/4 in France, this is the kind of market share which at private labels. Private label means that, we discussed retailers own label which will be competing with the national brands. So, whether say spices as we were discussing the other day may be competing with other famous brands of spices.

So, Spencer will have their own brand of spices which will be competing with Everest or other national brands of spices and they will be co-located on the shelf. And the big brand owners are now compelled to accept this coexistence of a competitive brand from the retailer. Because of the power that the retailers are continuously gaining.

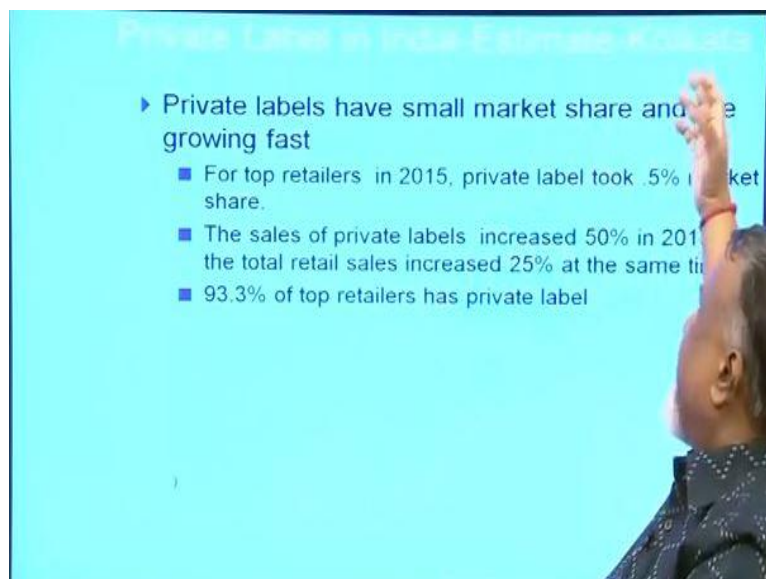
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The private label advantages are you know, it can help to develop some kind of closer relationship with the customer brand loyalty, higher profit and but the disadvantages is that these will not be as strongly promoted in national media. So therefore, and they will have to operate at a lower price level. That is true for even countries like Japan, China, India everywhere if that happens.

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And this is a rough study made from Kolkata our students did this study and we found that private labels, today in India is still has a very small market share even though it is growing very fast. So, we found that in 2015, a private label had only about half percent market share. But the relative growth was almost 50%, 2014 to fifteen as supposed to overall growth of about 25% in organized retailing.



I think we did two, three categories like spices and some packaged noodles and some of these other types of food items, beverage items. But almost all the top retailers whether big bazaar, whether Spencers, whether reliance, they do have. So, 93.3% of course just as I said, a rough data from one particular city, they all have private labels. So basically, we can see that the private label businesses today small but it is rapidly growing and over the years this will form an important part of merchandising.

And obviously this being the retail stores own brand they have a better control of their supply chain. So, from a merchandising or a category management perspective, the private labels provide a little better facility. So, that is our conclusion of our session on merchandising category management in retail marketing and we will take up the next topic tomorrow to conclude our discussion on retail marketing. Thank you!