

SEMIS,  
Marketing Management  
Retailing

Seed Enterprises Management Institute

University of Nairobi  
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# Retailing



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**Every day low prices**

# Who is Walmart?

- Largest retailer in the world
- Set up 1962 in the U.S.
- 2009 sales \$ 215 billion, in U.S. only from grocery sales
- Operations in 15 countries, 8,500 stores
- U.K., Japan, China, Germany, South Korea, Mexico, Brazil, Argentina, India

# Walmart



# Other major retailers

- Nakumatt, Kenya

The Nakumatt Ukay and Upper Hill branches are open 24/7

- Carrefour in France

- Sainsbury in the U.K.

- Takashimaya in Japan

- Aldi in Germany

- Uchumi, Kenya

# What is retailing?

- Anyone selling goods and services directly to the final consumers is engaged in retailing
- It can be done by a manufacturer, wholesaler or retailer
- Selling can be by a person, mail, telephone, vending machine or internet
- One of the best examples is a department store

# Types of retail stores

- Specialty Stores: narrow product line
- Departmental Stores: Several product lines
- Supermarkets: Low cost, low margin, high volume, self service stores designed to meet total needs
- Convenience Stores: Small stores in residential areas open 24/7
- Off Price Retailer: Leftover goods, overruns
- Superstores: Huge selling space, routinely purchased foods and household markets plus services (laundry, shoe repair etc.)
- Catalogue Showroom: High mark up, fast moving branded items

# Positioning by service levels

- Self service:  
Customers carry out locate-compare and select and save money
- Self Selection:  
Customers find goods on their own but can ask for assistance
- Limited Service:  
Retailers carry wider merchandise offer help for selection and also offer credit and return facilities
- Full Service:  
Customers are assisted at every step, wider merchandise and slow moving goods are available and in turn charged



# How to make shoppers spend

Paco Hill, M.D. of Envirosell Inc., U.S.A. says,

- Attract shoppers and keep them in store
- Honour “transition zone”
- Don't make them hunt
- Make merchandise available to “reach and touch”
- Men move faster across aisles, do not look at anything they have not planned to buy and do not ask question if they cannot find
- Women need space. They will usually not buy if they are brushed by another customer. So wider aisles is a must to induce women to buy
- Make checkout easy

# Breadth and depth of merchandise

- Product assortment breadth :  
Number of categories / product lines e.g.  
Toothpaste, shampoos
- Product depth:  
Variants and items in each category e.g.  
Colgate, Close-up,

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# Product differentiation strategy

Product differentiation strategy used by retailers

- Exclusive national brands not available elsewhere
- Mostly private branded merchandise
- Feature blockbuster merchandise in special shows
- Surprise r ever changing to attract frequent visitors
- Latest or newest merchandise, first
- Merchandise customising services
- Targetted merchandise – 3XL or even 4XL garments

# Service differentiation strategy

- Pre-purchase:  
Accepting orders on telephone and mail, advertising, window or interior display, fitting rooms, shopping hours, fashion shows
- Post-purchase service:  
Shipping and delivery, gift wrapping, adjustments and returns, alternations and tailoring, installations, engraving
- Ancillary services:  
General information, cheque cashing, parking, restaurants, repairs, interior decorating, credit, rest rooms, baby attendant service

# Service differentiation strategy

- Atmosphere:  
Physical layout (hard or easy to move around)  
Look (embody a planned atmosphere)  
Both must suit targetted consumers towards purchase
- Tempo of music:  
Affects average time spent in stores and average expenditure
- Fragrances:  
Heathrow airport pine needles fragrance to stimulate sense of holidays and week end walks  
Automobile sellers spray leather smell to make used cars feel new

# Memorable shopping experience

Many supermarkets differentiate by offering a memorable shopping experience:

- Welcome drinks
- Hot or cold towels
- Disney characters in childrens' clothes or toys shops
- Coffee shops in book stores
- Trained staff to greet customers, interpret their needs and handle complaints

# Pricing tactics

## Pricing tactics used by retailers

- Low prices on some items to attract customers
- Store wide sales
- Marked downs on slower moving goods
- A typical shoe retailer will:
  - 50% shoes on normal mark up,
  - 25% on 40% mark up and
  - remaining 25% at cost

# Everyday low prices ...

Research has shown that supermarket chains practising everyday low prices can be more profitable than high – low price supermarket chains because:

- Lower advertising costs
- Pricing stability
- Image of fairness
- Image of reliability
- Higher retail profits



# Procurement

Next, retailers establish merchandise sources, policies and practices

- Retailers employ specialist buyers or merchandise managers who establish brand assortments
- In some chains, buyers accept or reject new items
- In others, there are buying committees
- Individual stores in a chain have an option to keep a certain product or not keep it (typically, 1/3<sup>rd</sup> have to be stocked and 2/3<sup>rd</sup> at the shop manager's discretion
- Typically, store managers are influenced by evidence of consumer acceptance, adv and promotion plan and incentives

# Modern Technology: RFID

- RFID (Radio frequency identification) is a micro chip installed inside the product. It is like “a smart tag”
- It can alert manufacturers before the shelves go bare
- Gillette used RFID tags on its products. In its estimate retailers and consumer goods firms lose as much as \$ 30 billion in sales because of being out of stock
- Walmart feels that if its top 100 suppliers implement RFID technology, it will save \$ 8 billion
- According to IBM, RFID will help shrink inventories by 5 to 25%

# Future of RFID

- Benetton is able to inform the manufacturer which colour combination is moving fast from the shelf and which to take up for manufacturing, when. In the process, it has reduced inventory, costs and at the same time, increased sales and profits

Grover Fergusson, Chief Scientist, Accenture says that

“RFID could help inanimate objects the power to sense, reason, communicate and even act”

- Imagine your clothes telling your washing machine what settings to use
- Frozen dinners may tell the microwave which programme to use

# Seed Retailers in Africa

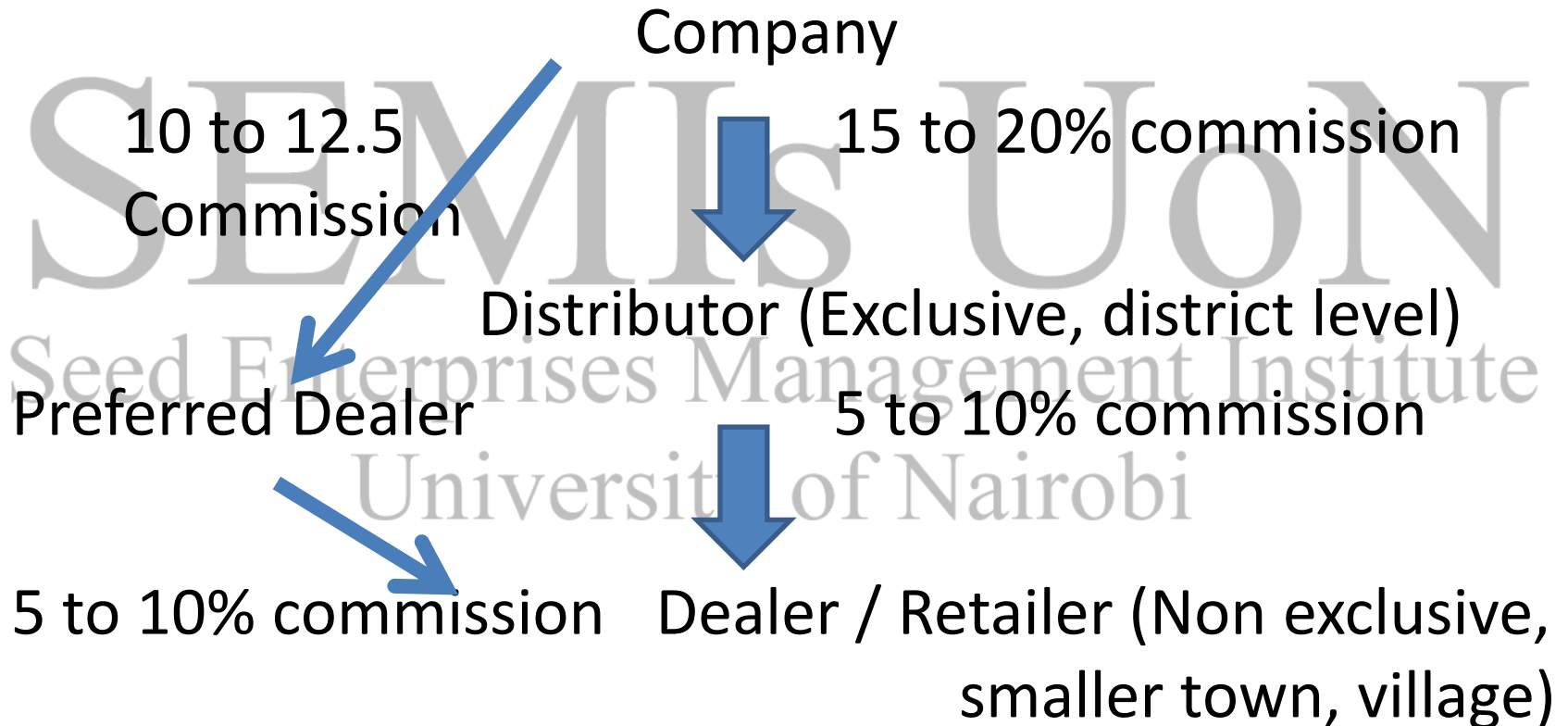
- In Africa, the small shops selling seeds directly to farmers are seed retailers
- Some large seed companies also sell seeds directly to mostly large, commercial farmers and this activity is also retailing
- There are very few shops exclusively selling seeds.
- The seed retailers also keep related merchandise required by their customers viz. fertilizers, pesticides and other chemicals, spray pumps, and other farm equipment
- India has 560,000 agro dealers serving the small farmers

# Why do African companies need retailers

- In the U.S. to reach out to say 1,000 acres (400 ha), a seed salesman needs to make one call.
- The seed quantity required by that farmers is as high as 5 to 6 M.T. and the value of that seed (GM maize with triple stack) can be as high as \$ 30,000
- So the company can afford to supply seeds to that farmer, sharing the dealer's margin with him
- In Africa or India, to reach out to 1,000 acres of land, a salesman may have to meet 500 farmers. It is physically impossible and very expensive to do it
- Therefore, a seed retailer is required to keep stocks and make them available when required

# Seed distribution organization in India

- In India, we use two or sometimes even three tiers of distributors / dealers (retailers):



There are over 560,000 dealers all over India

# Distributor – Dealer Relationship

- The amount of commission offered by distributors to dealers depends on:
- Total business given by that dealer during the year
- Payment terms
  - there is a special cash discount of 2.5%
  - Longer the credit, lower the discount
- Demand for that product (lower discount for a fast moving product)
- Sometimes, there is also another tier called a “Preferred dealer (PD)”. The company directly supplies to the PD but then gives an overriding commission of 2.5% to the distributor of that area

# How many dealers should a company appoint

- Usually depends on four factors:
  - 1) Market size
  - 2) Company's targetted market share
  - 3) The price and
  - 4) The credit risk the company wants to take

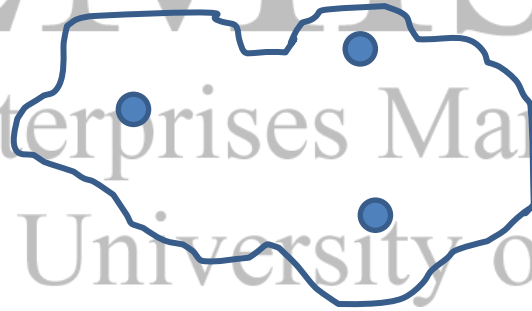


- If the market size is 200 M.T., targetted share 20%, price \$ 1.00 / kg and risk limit \$20,000 / dealer, the company needs 2 dealers (market size \$200,000, company sales \$ 40,000, therefore,  $40,000/20,000$ )



# How many dealers should a company appoint

- Companies appoint an additional dealer when the market size, price and/or market share go up
- This tends to upset the existing dealer/s but the reasons should be explained to them and they should be asked if they can mitigate the credit risk



- Often they increase the deposit or bank guarantee
- If they cannot, they even suggest the new dealer and all live peacefully in harmony

# What to look for when appointing a dealer

- Location (in terms of city or town):  
District place or the main business town
- Location of shop in the town:  
That locality / area in the town which farmers usually visit i.e. fresh vegetables market or farm machinery market, seed-pesticides shops, distance from intercity bus stop and goods transport agents
- Business background / history  
How long has he been in business / this business.  
Does he have any past history of bankruptcy or legal cases against other companies

# What to look for when appointing a dealer

- Other dealerships:  
Does he have other seed dealerships / dealerships of related businesses viz. pesticides, fertilizers
- Bank references and credit limit:  
Who are his bankers and how is his relationship with the bank. Does he have any credit facilities from the bank. Has he had problems with the bank
- Warehousing facilities  
Does he have a suitable warehouse to store seeds
- Farmer contact:  
How good are his contacts with farmers in the surrounding areas? Does he regularly visit them?

# What to look for when appointing a dealer

- Vehicles:  
Does he have a vehicle (jeep , car, motorcycle) so that he can regularly visit farmers / farms
- Shop assistants:  
How good are his shop assistants? You often find that the boss is always away attending company meetings or conferences or doing other things and the shop assistants actually run the business
- Attitude, values, trustworthiness  
You also need to make a judgment on his attitude and values and whether he can be trusted

# What to look for when appointing a dealer

- And when you have done all this and selected someone, you realize that he does not want to be your dealer ... because your company is too new or too small or is hardly known (no brand equity)
- When I was applying for my first job, my father said, “Dilip, please remember that one in a 1,000 gets the job that he likes. The other 999 must like what they get”
- So if you don't get the dealer you want, go for the one starting the business just like you but someone who has business background and right values and attitudes. You will find that you will both grow together and stay together for long

# Typical malpractices by dealers

- He will charge more than your recommended price (and make even more money than you make in spite of all the efforts that you have put in). Don't grudge it and be patient. Your time will come
- He will use your money (collect from farmers but instead of paying you, use it for some other business, usually pesticides which is the next input that the farmers need)
- Charge you for small expenses (often not incurred by him) viz. transport
- Though he is your authorised distributor, sell a competitor's product for small benefit

# Typical malpractices by dealers

- Confuse you / your sales people with wrong accounting statements (his statement are always different than yours!). Use this to delay payment
- Pass on information about your company, products, prices and promotional activities to competitors
- Sympathise with your employees during their weak moments and say how your company is bad or tough or stingy . Some are even known to instigate
- Delay product returns. Many seed lots lose germination because of this delay. We used to repeatedly (five-six times) communicate the last date for accepting returns.

# How to “deal” with dealers

- A small company owner should meet every dealer at least thrice a year – once before the season, once during the season and once at the end of the season
- Give him a frank feedback – what you like about him (in front of all his employees) and what you don't (one on one)
- As the company grows, this can be delegated to the next level and so on
- Don't be afraid of him – remember he needs you as much as you need him
- Ask him for his frank feedback about the company and areas of improvement



# Brand Management

When you see these brands, what comes to your mind?



**MONSANTO**



# What comes to your mind

- High quality
- High price
- Worth the cost
- Good return
- Assured return
- Company support
- Years of research
- No cheating by dealers
- Products / companies I can trust

# Growth strategy for a small company

- They have taken years to achieve it
- Don't try to be like them overnight
- Go slow, be patient
- Do not compromise on quality
- Start in a small area, build dealers' as well as farmers' trust in your company / brand and then expand gradually to other areas
- Remember to old maxim, "Slow and steady, wins the race"