

# Place and convenience

*The aim of the lecture is to explain the place element of marketing mix. How goods are delivered and made available for customers and also how services can be offered conveniently.*



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Principles of Marketing

Subject code

# Outline of the lecture

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- Basic concept of retail
  - Distribution strategies
  - Retail typology
  - Empirical retail laws
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- Retailing is a way of selling usually smaller volume to the final end consumer – i.e. doing „small sales“. In the retail sector, there are many different forms of store types, such as the sale rack, self-service stores, supermarkets, hypermarkets, department stores, outlets etc.
  - The opposite to a retail is wholesaler who represents the sale and distribution of goods on a large scale, often just to retail sales network and NOT the final end consumer. It may be a direct trade between producers and other traders or trade between specialty shops of particular assortment and retailers. Wholesale sales units are mostly supplying other wholesale or retail network.
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- Retail environment has a high degree of competition (depending on assortment) and a significant downward pressure on consumer prices.
  - Depending on the field and assortment it may not be decided purely by price, but also by other factors (luxury, prestige, brand, current trends, different bonuses, competitions and previous positive experiences, etc.).
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# Wholesale

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- Wholesale prices are always lower than retail prices, which are increased by the appropriate retail margin. This margin must cover transportation to stores, fixed costs for a place in shops, storage, electricity, salaries of clerks, in some cases funds for sales promotion (advertising).
  - The partnership of wholesale supplier and retail purchaser is advantageous for both parties, because the supplier gets specific number of sales of its products (easy to plan production). The concern that the goods in question are sold is taken over by the buyer, who buys it at wholesale prices and aims to sell at retail prices thus generating revenue.
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# Wholesale






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- Wholesale units usually have the form of large warehouses, storage of raw materials, transshipment of goods and materials, supplemented by any necessary administrative and operational background.
  - They are sometimes supplemented by a retail store intended for the local population and employees of the company. Some wholesale equipment may also be linked to commercial packaging premises, devices designed for drying vegetables, fruit ripening (bananas), nuts roaster, additional adjusting of goods, etc., including a number of additional technical services (e.g. transport, logistics, handling, maintenance, etc.).
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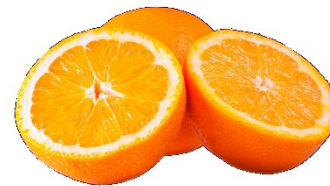
# Distribution channels



<b>PRODUCER</b>				<b>CUSTOMER</b>
<b>PRODUCER</b>			<b>RETAIL</b>	<b>CUSTOMER</b>
<b>PRODUCER</b>		<b>WHOLESALE</b>		<b>CUSTOMER</b>
<b>PRODUCER</b>		<b>WHOLESALE</b>	<b>RETAIL</b>	<b>CUSTOMER</b>
<b>PRODUCER</b>	<b>WHOLESALE</b>	<b>MIDDLEMAN OR BROKER</b>	<b>RETAIL</b>	<b>CUSTOMER</b>

- **Intensive distribution**

- sales through as many stores as possible
- in order to make the product commercially available
- FMCG – fast moving consumer goods
  - Frequent consumption items that are cheap and expensive purchased habitually or goods of an emergency character





# Distribution strategies



- **Exclusive distribution**
- sales of products through a very limited number of retailers
- expensive and luxury goods
- it has its psychological justification, because it promotes the exceptional nature of the goods



# Distribution strategies

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- **Selective distribution**
- the manufacturer cooperates with a larger number of distributors
- occasional consumer goods that are bought after careful comparison
- clothing, footwear, consumer electronics



# Typology of retail stores

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1. Department Store
2. Supermarkets / Hypermarkets
3. Warehouse retailers
4. Speciality retailers
5. Speciality warehouse
6. Convenience store
7. Discount retailer
8. E-tail



# 1. Department store

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- This type of retailer is often the most complex offering a wide range of products and can appear as a collection of smaller retail stores managed by one company.
  - The department store retailers offer products at various pricing levels.
  - This type of retailer adds high levels of customer service by adding convenience enabling a large variety of products to be purchased from one retailer.
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# 1. Department store

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- Range of products: wide, deep including food, restaurant (refreshment), "comprehensive shopping under one roof,"
- Prices: medium and higher at medium and higher quality goods
- Localization: city centers, regional shopping malls
- Trends: stagnation due to the market saturation



## 2. Supermarket/Hypermarket

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- Generally this type of retailer concentrates in supplying a range of food and beverage products.
  - However many have now diversified and supply products from the home, fashion and electrical products markets too.
  - Supermarkets and hypermarkets have significant buying power and therefore often retail goods with reasonable margin.
  - Supermarkets: 400 - 2 500 m<sup>2</sup>
  - Hypermarkets: from 2 500 m<sup>2</sup>
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## 2. Supermarket/Hypermarket



- Range of products: comprehensive range of food and basic non-food goods
- Prices: medium at a standard quality level of goods
- Localization: residential areas with an accessibility range of 400 - 700 m according to the density of the area, city boundaries with access roads and parking
- Form of sale: self-service combined with counter sale
- Trend: slows down due to saturation of the market, rebuilding and innovations are starting



### 3 Warehouse retailers



- This type of retailer is usually situated in retail or Business Park and where premises rents are lower.
- This enables this type of retailer to stock, display and retail a large variety of good at very competitive prices.





### 3 Warehouse retailers

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- Range of products: comprehensive range of food and basic non-food goods
  - Prices: lower due lower logistic expenses
  - Localization: suburbs, city exits with access roads and parking
  - Form of sale: self-service
  - Trends: stagnation due to increasing customer convenience requirements
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## 4 Speciality retailers



- Specialising in specific industries or products, this type of retailer is able to offer the customer expert knowledge and a high level of service.
- They also add value by offering accessories and additional related products at the same outlet.
- Examples are cycling, skiing, office supplies, footwear, fashion, computer technology, cosmetics, photo.



## 4 Speciality retailers

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- Range of products: very narrow with considerable depth, goods of occasional and long-term consumption prevail
  - Prices: higher, sales with specialized services (costs of professional staff)
  - Localization: city centers and shopping malls, department stores
  - Trend: growing
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## 5 Speciality warehouse

- Specialising in specific industries or products, this type of retailer is able to offer the customer expert knowledge and a high level of service.
- From 800m<sup>2</sup> and more.
- Examples are IKEA, HORNBACH, DECATHLON, OBI, SCANTO.



## 5 Speciality warehouse

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- Range of products: very narrow with considerable depth
  - Prices: low to medium
  - Localization: suburbs, city exits with access roads and parking
  - Form of sale: self-service
  - Trends: fast development at the expense of specialized stores
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## 6. Convenience retailer

- Usually located in residential areas this type of retailer offers a limited range of products at premium prices due to the added value of convenience.
- Some of them has long open hours and provide customers with products of daily consumption.



## 6. Convenience retailer

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- Range of products: medium wide with a small depth, focusing on daily necessities with a significant dominance of food
  - Prices: higher
  - Localization: countryside and less dense urban areas
  - Form of sale: self-service combined with counter sale
  - Trends: decrease due to the concentration of supermarkets and shopping centers
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## 7. Discount retailer

- This type of retailer offers a variety of discounted products.
- They offer low prices on less fashionable branded products from a range of suppliers by reselling end of line at discounted prices.





## 7. Discount retailer

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- Range of products: up to 800 items, narrow with a small depth
  - Prices: lower
  - Localization: residential areas with an accessibility range of 400 - 700 m according to the density of the area, city boundaries with access roads and parking
  - Form of sale: self-service
  - Trends: stagnation
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## 8. E-tailer

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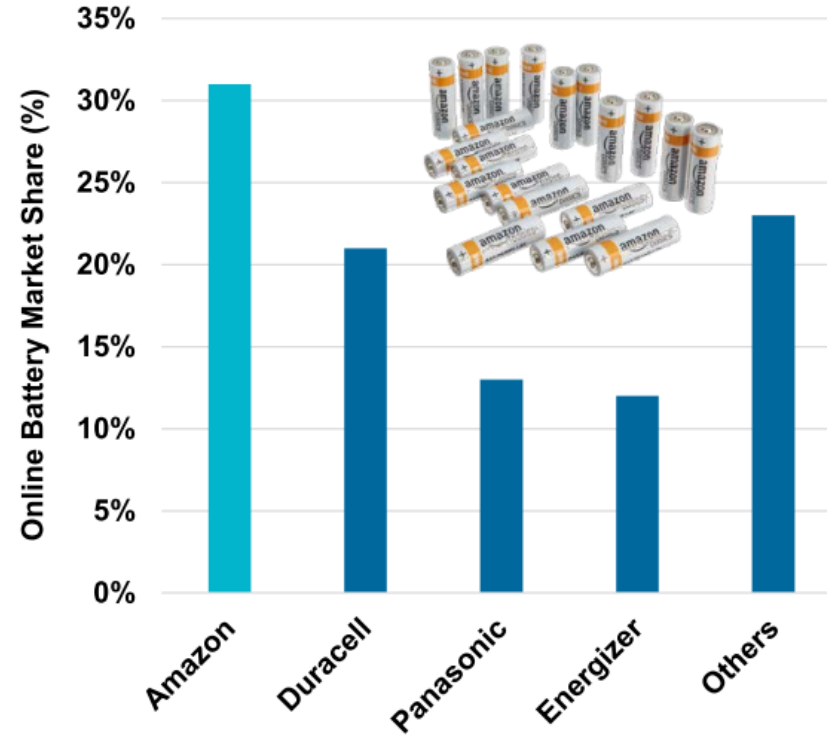
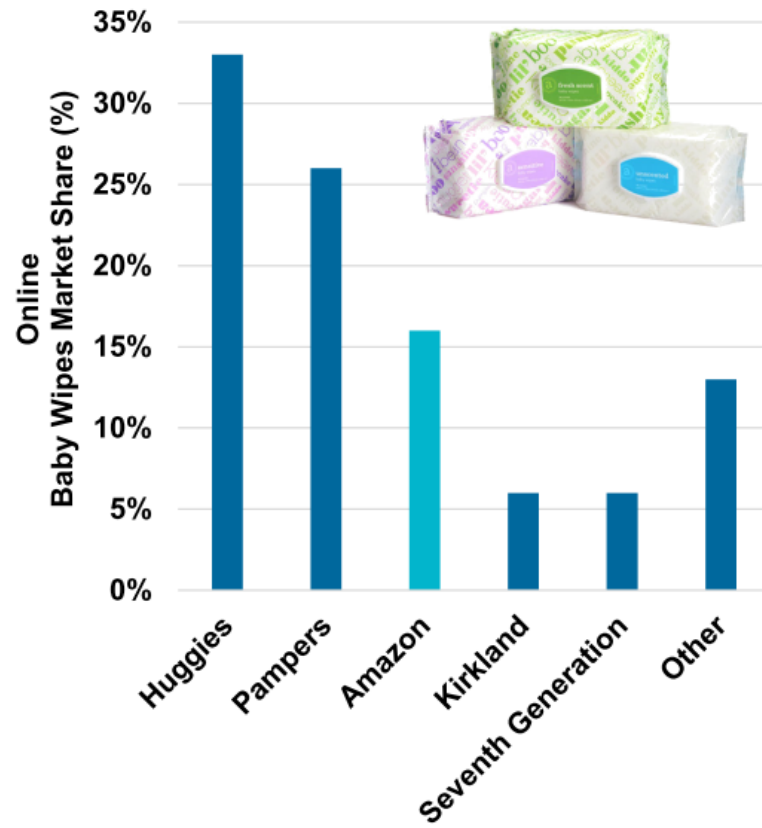


- This type of retailer enables customers to shop on-line via the internet and buy products which are then delivered.
  - This type of retailer is highly convenient and is able to supply a wider geographic customer base.
  - E-tailers often have lower rent and overheads so offer very competitive pricing.
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# 8. E-tailer



### Amazon Basics Market Share, 8/16 USA



## 8. E-tailer

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- E-tail is emerging and complementing (not replacing) brick and mortar.
  - Drugs, fresh fruits and vegetables are convenient to buy offline.
  - Electronics, hobby and books are good examples of e-tail use.
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# How to compete in retail?

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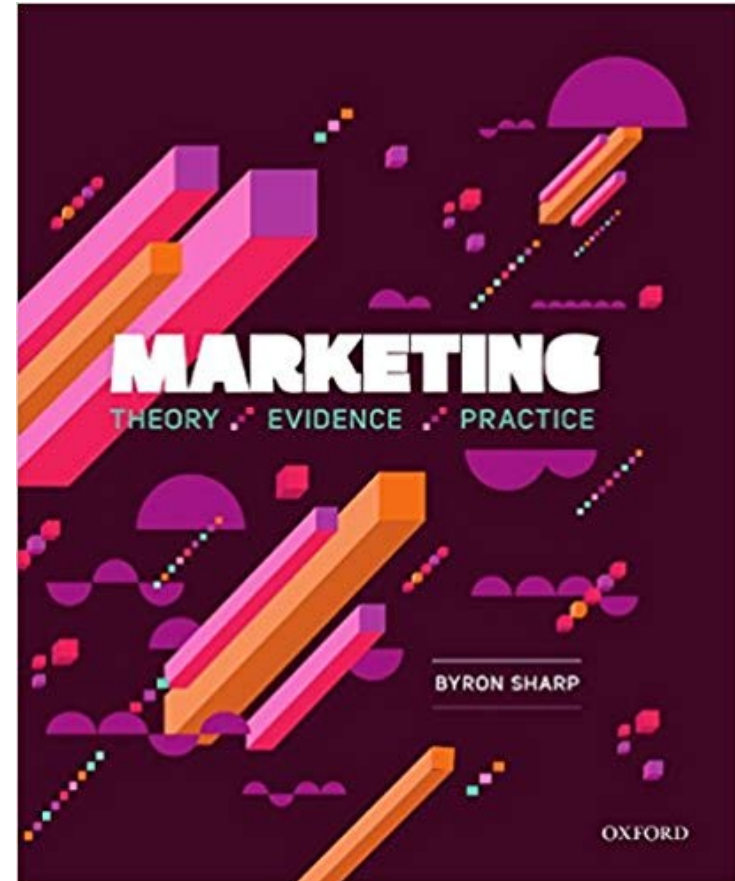
- Retail market is saturated in most developed countries
  - Competition is continuously trying to out-do each other with: better locations, new stores, improved layouts, technology, etc.
  - Larger market share store chains have larger customer bases (penetration) and slightly higher loyalty (both average purchase frequency and average share of department store shopping trips)
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- Repeat-purchasing patterns that occur in brand buying also occur in store choice.
  - Studies shows this repetitive choices in many areas: Supermarket chains, Department stores, Petrol stations, Fast-food chains and Women's fashion boutiques.
  - It underlines the logic of habitual buying in category of FMCG
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# Retail laws

1. Purchase goals
2. Mental and physical availability
3. Limited time
4. Many short trips
5. Selective purchasing
6. Top-selling items
7. Colors and symbols
8. Specials
9. Set paths





## 1. Purchase goals

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- **Shoppers go to stores because the stores have something they want to buy.**
  - Almost everyone enters a store with a purchase goal in mind (very often specific brand).
  - This mental list does not preclude them from buying other things.
  - Retailer advertising almost always shows product.
  - Primary source of shopper dissatisfaction is not being able to find the product they wanted to buy.
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## 2. Mental and physical availability

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- **Mental and physical availability largely determine store choice.**
  - Customers need to know about you and you must be at hand.
  - They miss your competitor on their way to your store only if it is not in their mental availability (store exist, store sells what they want).
  - Stores need to advertise to build memory structures.
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### 3. Limited time

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- **Shoppers only spend a certain amount of time in store.**
  - If the entire purchase process takes time, customers buy less.
  - When they find what they need quickly, they tend to look after other goods.
  - At a time when most of the time is spent searching for products, customers spend much less money.
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## 4. Many short trips

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- **People make many short shopping trips and fewer longer shopping trips**
  - 15% shopping trips are to buy single item, even in supermarkets.
  - 50% of them are for 5 or less items.
  - Frequently purchased items should not move – it extends search time.
  - Visible category and clearly labeled diagram of selling space.
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## 5. Selective purchasing

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- **A typical household buys only 300 to 400 stock-keeping units from supermarket in an entire year.**
  - Shoppers are very loyal to their set of favorite products.
  - Supermarkets offers up to 60 thousands of those items.
  - The amount the customer chooses the strategy of repeat purchases in places where he knows where to find products.
  - Again, be careful with moving products.
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## 6. Top-selling items

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- **While typical supermarket sells 30.000 to 50.000 items, the top-selling 1000 items will make up about half of the supermarket's sales**
  - Best selling products should be accessible, not hidden in the most remote corner, as some traders do.
  - If you are a repeat purchase, and I am selective, I do not pay attention to surrounding products.
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## 7. Colors and symbols

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- **Shoppers read very little in store – instead they react to colours and symbols.**
  - Eye-tracking studies show that customers read very little, and i so, they carefully choose what to read – to save their shopping time.
  - Colors and symbols are ways to streamline shopping with minimal time loss for the customer.
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## 8. Specials

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- **Shoppers have been trained to buy specials**
  - Highlighting discounts, special offers, news, best selling goods, etc. can help in this effort.
  - Brand sold in special offer must be known - research shows that people who do not have a brand in mind rarely respond to these offers.
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## 9. Set paths

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- **Shoppers follow pathways of open space, and the checkout is a magnet.**
  - Shoppers speed up towards checkouts.
  - Monitoring customer pathways is an important part of the design shopping area.
  - In heat maps we can see most frequently visited space for important products.
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- Place in marketing mix plays a role of transferring the possession of a goods or services from the provider to the final customer. In goods category the most common example of the process is a retailing where consumers buy their products. To understand retailing one have to be able to define wholesale and the distribution channels which these two form.
  - There are three types of distribution strategy depending on the characteristics of a goods. Intensive, selective and exclusive. There is also 8 types of retail setting ranging from supermarket to convenience store.
  - We have also introduced nine retail laws created based on the empirical data from the longitudinal research of Ehrenberg-Bass institute.
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# End of presentation

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**THANKS FOR YOUR ATTENTION.**

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