

MBA : Retail management , merchandising and E-commerce



2.Types, format and retail trading area



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Variety Vs Assortment



Challenges in Retailing

Inventory:

- Having too much or too little both can affect the reputation and business.

Working Capital

- Capital of a business which is used in its day-to-day trading operations

Omnichannel Experience:

- 40% of customers shop offline after looking at online price

Logistic and supply chain optimization

- Shipment cost, Delivery efficiency, Return to Origin (RTO)

Variety Vs Assortment

Purchasing

Variety

(breadth of merchandise)

Assortment

(depth of merchandise)

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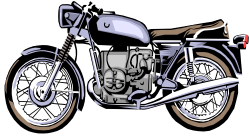


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Variety & Assortment

Variety (breadth of merchandise): wide vs. narrow
The number of merchandise categories

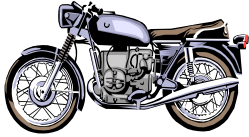


Assortment (depth of merchandise): deep vs. shallow
the number of items in a category (SKUs)



Variety & Assortment

Variety (breadth of merchandise): wide vs. narrow
The number of merchandise categories



Assortment (depth of merchandise): deep vs. shallow
the number of items in a category (SKUs)



Types and format of Retail store



Types and Retail store based on format and location

Based on retail format



(a) club store



(b) mass merchandise



(c) dollar store



(d) traditional grocer



(e) natural/organic grocer

Based on Trading area



Solitary Sites



Planned Shopping Areas



Unplanned Shopping Areas

Types of Retail store based on format



Types of Retail based on format



(a) club store

- Costco
- Sam's Club



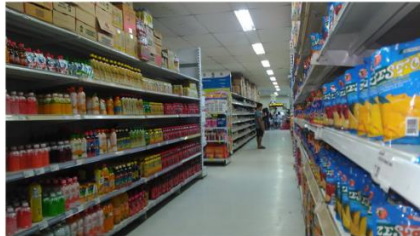
(b) mass merchandise

- Walmart
- Target



(c) dollar store

- Aldi's
- Dollar General
- Dollar Tree



(d) traditional grocer

- Grocery store



(e) natural/organic grocer

- Whole foods
- Sprouts



Doorstep delivery

- Instacart
- Blue Apron

A. How Costco and Sam's club Makes money

Club and warehouse:- (Costco and Sam's club)

They Offer the lowest price per unit, with limited assortment of products in bulk sizes.

Consider granola bars for example:

Club and warehouse

49 individual packages

Retail price for granola bars - \$14.79:

\$0.302 per individual unit

Grocery store:

6 individual packages

Retail price for granola bars - \$2.79

\$0.465 per individual unit



Thus, warehouse and club stores are able to offer the lowest “cost per piece,” though they usually have high prices for individual items because they're selling in bulk.

Passing savings from the manufacturing and logistical efficiency to their shoppers

Types of Retail based on format



(a) club store



(b) mass merchandise



(c) dollar store



(d) traditional grocer



(e) natural/organic grocer

B. Unique pricing strategy of Walmart

Mass merchandise retailers (Walmart, Target, and Kmart)

Multiple categories + broad selection + deep inventory.

Everyday low pricing (EDLP) :- bundle all discounts and apply them across the projected annual sales volume so they can discount each item everyday

Walmart

Wholesale price of item X - **\$2.40/unit**

Wholesale price of item X when on sale - **\$2.00/unit**

Wholesale discount of unit when item X when on sale
\$0.40/unit

40/60 Mix

40% Sales (Off-Promotion) 60% Sales (On-Promotion)

\$0.40 discount per unit x 60% of volume sold "On-Promotion"

= \$0.24 discount per unit

= \$2.40 - \$0.24 = \$2.16 per unit

Walmart is buying this at \$2.16/unit

with 27.8% margins end up on-shelf at \$2.99

Small Retailer

Wholesale Product price at \$2.40

Shelf price, assuming a 27.1% margin = \$3.29.

Profit Difference - ($\$3.29 - \2.99) = \$0.30

Summary

Warehouse and club stores offer the greatest value, but they require annual memberships and have relatively high item prices.

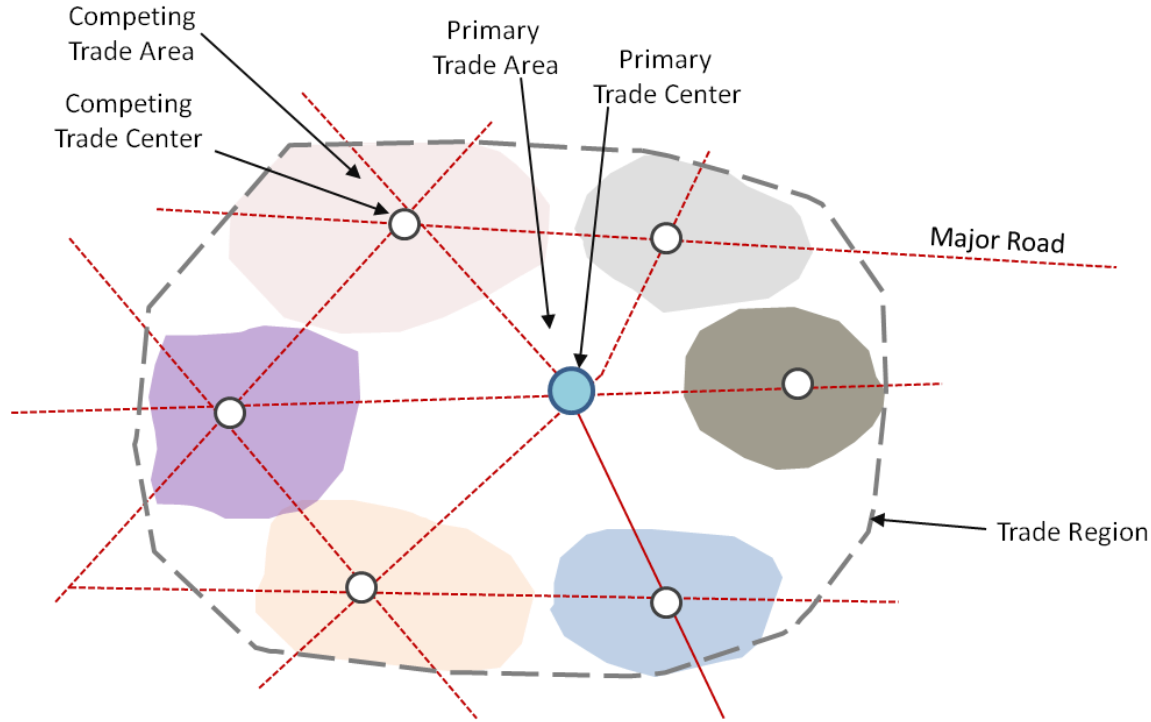
Mass merchandisers offer everyday low prices, but the breadth of items they carry, up to 150,000, make their stores busy and difficult to shop at.

Discount and dollar stores – Dollar Store

Natural/organic and specialty retailers – Whole foods

Traditional grocers - <Your name> Store

Retail Location and Site Selection



Why Location is important for retailers???

Business location is a unique factor which the competitors cannot imitate.



STEAK IN THE GROUND

**McDonald's isn't just a fast-food chain
—it's a brilliant \$30 billion real-estate
company**

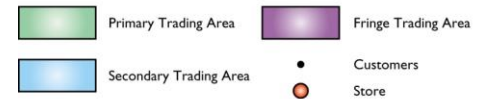
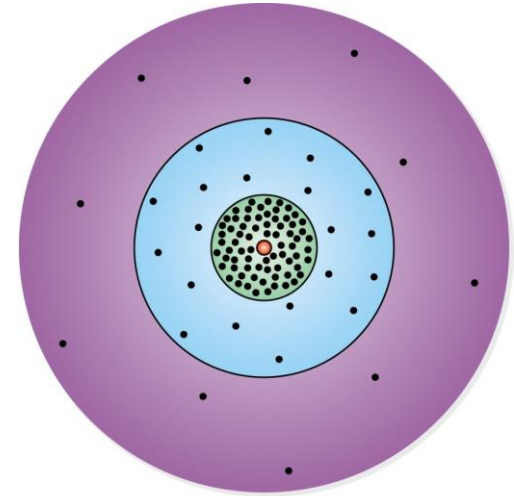
Hence, it can give a strong competitive advantage.

- Selection of retail location is a long-term decision.
- It requires long-term capital investment.
- Good location is the key element for attracting customers to the outlet.
- A well-located store makes supply and distribution easier.
- Locations can help to change customers' buying habits.

Classification of Trading Area

Benefits of trading area analysis:

- Examination of customers' demographic and socio economic profile
- To provide focus to promotional activities
- Evaluate trading area overlap
- Keep an eye on competition
- Optimum number of stores in an geographic area



Solitary Sites

These are single, free standing shops/outlets, which are isolated from other retailers.

For example, kiosks, mom-and pop stores

Advantages – Less occupancy cost, away from competition, less operation restrictions.

Disadvantages – No pedestrian traffic, low visibility.



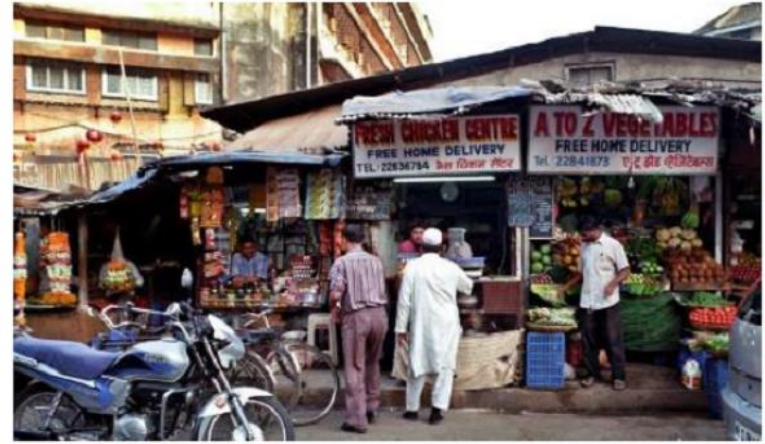
Unplanned Shopping Areas

These are retail locations that have evolved over time and have multiple outlets in close proximity.

Locations along a street or motorway (Strip locations).

Advantages – High pedestrian traffic during business hours, high resident traffic, nearby transport hub.

Disadvantages – High security required, threat of shoplifting, Poor parking facilities.



Planned Shopping Areas

These sites have large, key retail brand stores (also called “anchor stores”) and a few small stores to add diversity and elevate customers’ interest.

Advantages – High visibility, high customer traffic, excellent parking facilities.

Disadvantages – High security required, high cost of occupancy.



Types and Retail store based on format and location

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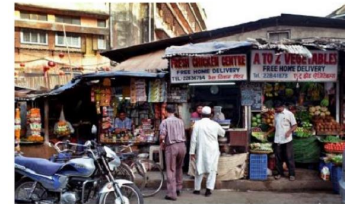
Based on Trading area



Solitary Sites



Planned Shopping Areas



Unplanned Shopping Areas

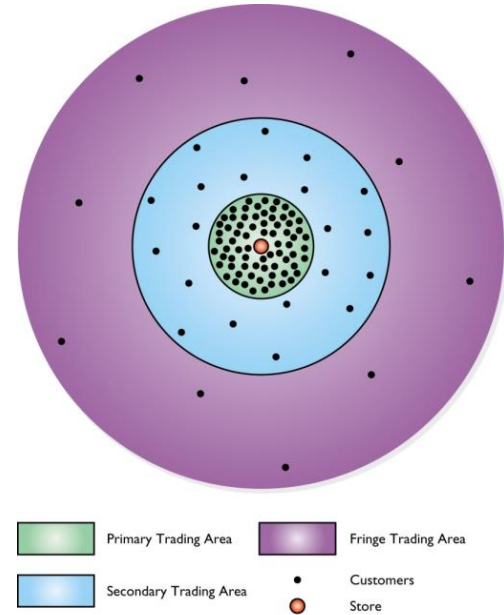
Factors Determining Retail Locations



Factors Determining Retail Locations

The marketing team must analyse retail location with respect to the following issues –

- Size of Catchment Area
- Occupancy Costs \Rent
- No of people in the vicinity
- Disposable income of people
- Customer Traffic \Footfall
- Location Convenience
- Parking Capacity
- Time and distance from other stores
- Competition in vicinity



Methods of Trading Area Determination

Reilly's Law of Retail Gravitation

Time and distance travelled influence willingness to shop in a given city.
More likely to travel shorter distances when possible.

A mathematical formula can be used to calculate hard numbers relating to distance people will travel.

$$D_{ab} = \frac{d}{(1 + \sqrt{P_b/P_a})}$$

D_{ab} = Limit of locality A's trading area measured in miles/kms. along the road to locality B.

d = Distance in miles/kms. along a major road connecting locality A and B

P_a = Population of locality A

P_b = Population of locality B

Reilly's Law of Retail Gravitation Exercise

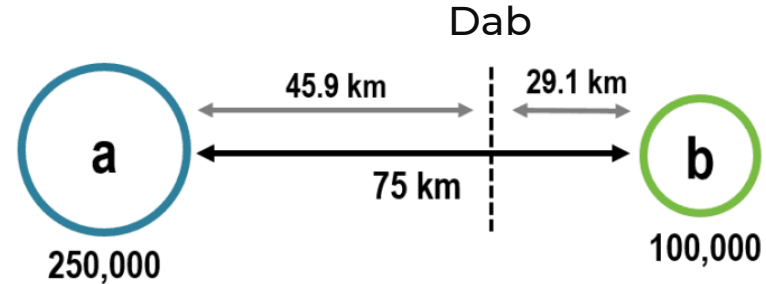
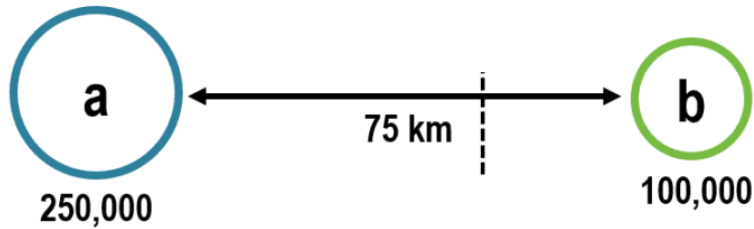
$$D_{ab} = \frac{d}{(1 + \sqrt{P_b/P_a})}$$

D_{ab} = Breaking point (BP) boundary making the outer edge of their respective trade areas

d = Distance between two cities

P_a = Population of city A

P_b = Population of city B



$$\begin{aligned} D_{ab} &= \frac{d}{(1 + \sqrt{P_b/P_a})} \\ &= \frac{75}{1 + \sqrt{100,000/250,000}} \\ &= 45.9 \end{aligned}$$

Reilly's Law of Retail Gravitation Exercise

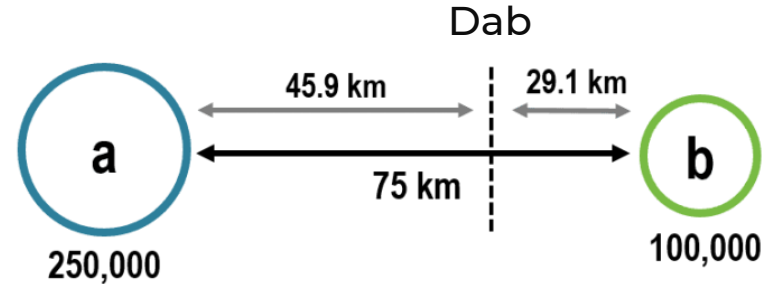
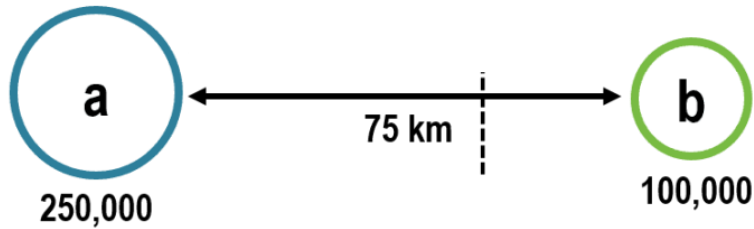
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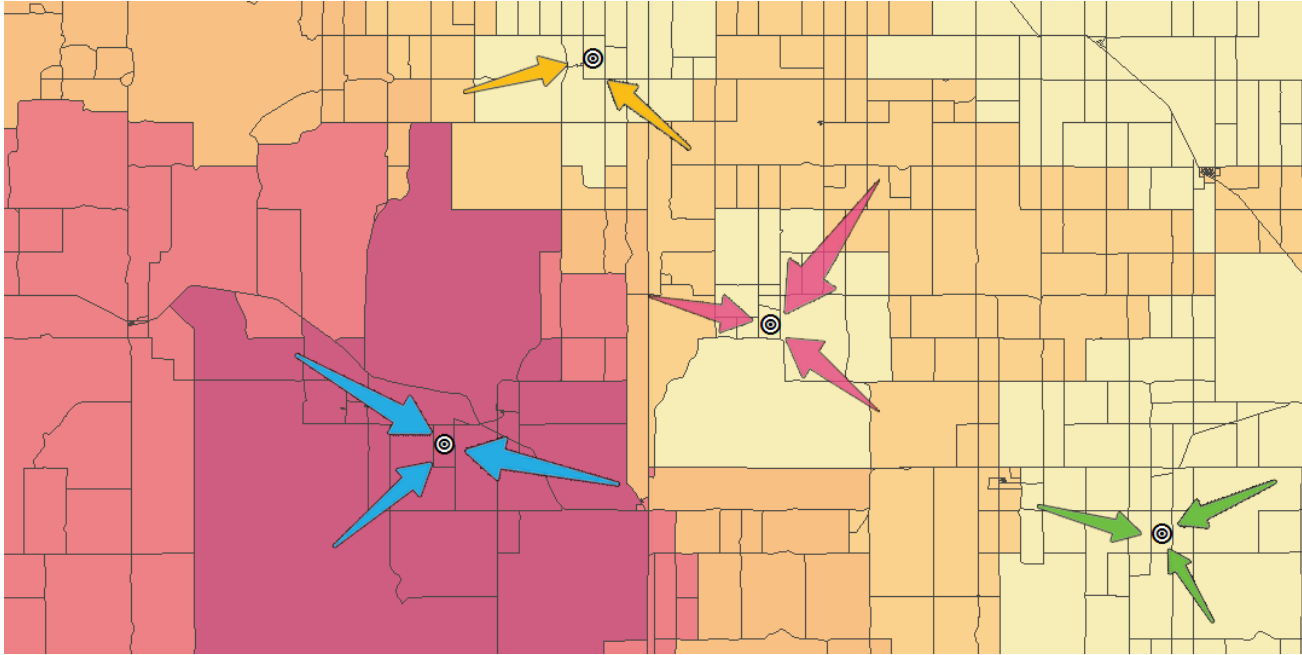
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Huff's Gravity Model/ Huff's Law of Shopper's Attraction



Distance decay- as the distance between two locales increases, the amount of activity between them decreases.

Huff's Gravity Model/ Huff's Law of Shopper's Attraction

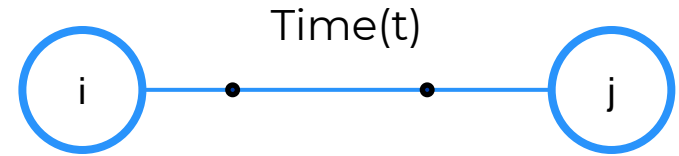
You can predict the probability of consumer behaviour with other competing retail stores with the Huff Gravity Model.

Probability of a customer shopping at a particular location increases with the size of the store and reduces with the distance or travel time.

$$P_{ij} = \frac{\frac{S_j}{T_{ij}^\lambda}}{\sum_j^n \frac{S_j}{T_{ij}^\lambda}}$$

P(cust.) \propto *Size of store*

P(cust.) \propto *1/Distance*



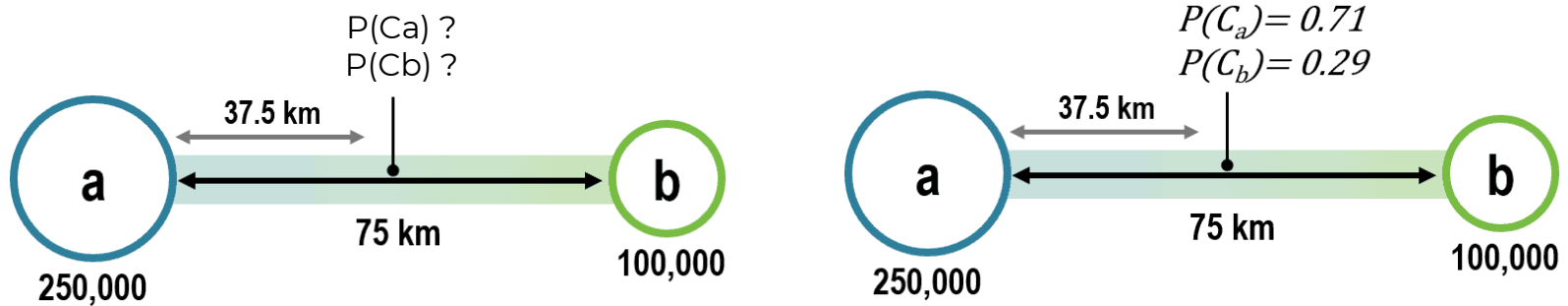
P_{ij} : Probability of a consumer at point i travelling to retail location j

S_j : Size of retail location in square footage (not the population of the city)

T_{ij} : Travel time (or distance) from consumer at point i to travel to location j

Huff's Gravity Model/ Huff's Law of Shopper's Attraction

Probability of a customer shopping at a particular location increases with the size of the store and reduces with the distance or travel time.



$$P(C_a) = \frac{P_a / D_a}{\sum_a^n P_a / D_a}$$

$$P(C_a) = \frac{250,000 / 37.5}{250,000 / 37.5 + 100,000 / 37.5}$$
$$P(C_a) = 0.71$$

Exercise to calculate market share and profits using Huffs Gravity Model

Huffs gravity model estimates attractiveness of store j for customer in area i.

For particular location it increases with the size of the store and reduces with the distance or travel time.

A_{ij} = Attractiveness to store j for customer in area i.

S_j = Size of the store (Square feet)

T_{ij} = Travel time from area i to store j

λ – Parameter reflecting propensity to travel

$$A_{ij} = \frac{S_j}{T_{ij}}$$

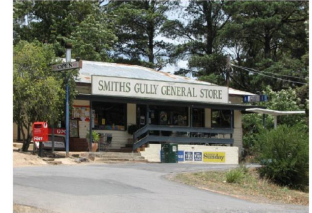
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