

Satisfaction level of retailers and the visual merchandising



This chapter is a review of the central theoretical literature of satisfaction level of retailers and the visual merchandising and its impact on consumers' buying behaviour which ultimately leads to increase in the margin of the retailers. The first part of this chapter deals with the most popular brand of PepsiCo and the satisfaction level of retailers with respect to per product margin. The second chapter examine the planogram norms of the company and it tries to find out whether or not the retailers follow it properly. The third and last part of the chapter examines the effectiveness of Visual Merchandising and its effectiveness on consumers' buying behaviour. All these objectives/problems have been examined in the light of academic literature and some of the facts have been supported by the data taken form the company i. e., Pepsico.

To find out the most popular brand of PepsiCo & the satisfaction level of its retailers

Most of the manufacturers of consumer goods including PepsiCofrequently use intermediaries to sell their products to the final consumer.

Intermediaries such as big and small retailers have substantialstimulus over the marketing of these goods and hence over the ultimate consumer choice (Laland Narasimhan, 1996). Even PepsiCo is one of the largest networks of retailers in India (PepsiCo, 2010).

The consumer goods retail market is characterized by intensivecompetitionamong retailers competing for a share of the consumers' money (Albion and Farris, 1982). Retailers, generally, carry so many products, and on any given purchase occasion a typical consumer

buys a subset of the vast number of items a retailer has on its shelf. Generally consumers are ignorant or uninformed about the prices of all the products they want to buy and subsequently select a retailer to shop at based on the advertised prices of a subset of the products they desire to buy. Given this, retailers tend to compete more aggressively based on the prices of a selected set of items by advertising these prices to consumers (Agustin & Singh, 2005). It means that these retailers will sell more products of only those company which tries to make them happy through more or heavy margin. The items that the retailers select to compete on are those that most consumers desire and value highly. Since the profit from any customer is the sum of profits from advertised and un-advertised items, the intensity of retail competition, as evident from the prices of these items, increases with the amount the consumer will expend on the unadvertised items once at the store. This aggressiveness therefore translates into lower retail margins on these selected items since the retailers expect that consumers, once inside a store, will buy non-advertised products as well on which the retailers make money. Thus manufacturers, who are more adept at using “pull” strategies to enhance the popularity of their product, obtain a significant competitive advantage vis-a-vis others. The positioning of the product and the image conveyed through advertising act as drivers in creating this advantage which results in higher wholesale prices that these manufacturers can charge the retailers (Lal and Narasimhan, 1996).

The cost of acquiring new customers usually far exceeds the cost of retaining an existing customer. As a result, customer retention has become a managerial strategy that has spurred interest in understanding and

implementing store-loyalty programs (Agustin & Singh, 2005; Carter, 2008; Pan & Zinkhan, 2006; Reichheld, 1996; Reichheld & Sasser, 1990; Sheth & Parvatiyar, 1995). That is why retailers are the most important link between the company and the customers. Manufacturer advertising also affects prices and margins at both the retail and wholesale levels. The relationship between prices as well as margins at the retail and wholesale levels can be found in the economics literature (see, e. g., Ferguson 1982 or Pindyck and Rubinfeld 1989), where it has been argued, based on the theory of derived demand, that the movements of prices and margins at the retail and wholesale level are necessarily perfectly correlated. In other words, if advertising leads to increased market power through product differentiation, both wholesale and retail prices increase, leaving both manufacturers and retailers with higher margins; or if advertising leads to increased price sensitivity through reduced perceived product differentiation, both wholesale and retail prices decrease, leaving both manufacturers and retailers with lower margins.

In contrast, Steiner (1973, 1978, 1984) has argued that it is possible that a manufacturer's advertising can have opposite effects on wholesale price elasticity and retail price elasticity, implying that margins can move in opposite directions. However, he does not offer a formal model of manufacturers and retailers to support his arguments.

Source: (Lal and Narshimhan, 1996)

There is scant empirical literature on the effects of advertising on margins. In Table 1, Lal and Narasimhan (1996) summarised the evidence presented in

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the literature on the negative association between manufacturer advertising and retail margins. Reekie (1979) shows that manufacturers' advertising and retail margins are inversely related in a cross-sectional study of many categories. Farris and Albion (1987) find that in many nondurable consumer good categories, higher brand advertising is associated with lower retail margins, though there were a few categories where the opposite is true. They also find that the negative relationship between manufacturer advertising and retail margins is strongest in categories with high penetration, non-food, and large category advertising budgets. Steiner (1973) uses data from the toy industry to conclude that the more popular toys (i. e., the more heavily advertised) yield lower retail margins. Finally, using data at the four-digit SIC level, Nelson (1978) finds that there is a negative association between manufacturer advertising and retail margins. The reader is also referred to Steiner (1993) for some anecdotal evidence from different industries on the inverse association between manufacturers' advertising and re-tail margins. Support for positive association between manufacturer advertising and wholesale margins is provided in Quelch et al. (1984) and Narasimhan (1989a). Note that all these studies are cross-sectional and all these studies have focused on either the whole-sale margin or the retail margin. The one exception is Steiner (1991), who documents, using data from the toy industry, that higher levels of manufacturer advertising are associated with higher wholesale margins while leading to lower retail margins. Taken as a whole, these studies demonstrate that in general, higher manufacturer advertising leads to higher wholesale margins and lower retail margins, though the effect at the retail level is less systematic. Thus we see that in contrast to the standard economic

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arguments, there is empirical evidence to suggest the possibility of an inverse relationship between wholesale and retail margins. The objective in this chapter is to revisit this problem and offer a formal model to explain how the margins at the retail and wholesale level can be negatively related. It shows that if a manufacturer can affect the intensity of retail competition, it can increase its wholesale price while at the same time exert downward pressure on retail margins. Furthermore, it demonstrates that if manufacturer advertising can enhance the attractiveness of the brand as shown in Boulding et al. (1994) (resulting in a higher willingness to pay or increasing aggregate demand for its product), manufacturer's brand advertising can increase the intensity of competition at the retail level. Finally, it is shown that even if there is competition at the wholesale level, a manufacturer with a more popular or well-positioned brand can use advertising to increase profits.

The intuition behind our result is the following. First, it should be noted that retailers selling a large assortment of goods cannot advertise the prices of all goods. Moreover, retailers need to advertise the prices of some goods in order to make it worthwhile for consumers to shop at the store. Hence consumers make store choice on the basis of advertised prices and expected prices for goods bought on a shopping trip. Given the fact that retailers charge and consumers expect to pay a higher price for the unadvertised goods, and consumers prefer one-stop shopping due to transportation costs, any effort by the manufacturer that affects the proportion of consumers who decide to shop at a retail store for any given difference in the retail price of the advertised good would lead to an increase in the intensity of retail

competition. Such actions by the manufacturer would lead to lower retail margins. At the same time such actions can also increase the wholesale price and manufacturers' margins since these actions allow the manufacturers to recover some of the rents derived by the retailer on the unadvertised good. In other words, since the retailers make a higher margin on the unadvertised good, any action by the manufacturer that affects the size of these profits to the retailers allows the manufacturer to wield more power and set higher wholesale prices. We show that if manufacturer advertising leads to lower price sensitivity or increase in aggregate demand, an increase in such advertising would result in lower margins for the retailers and higher margins for the manufacturers. It should also be noted that while our work is silent on the exact role of manufacturer advertising, Kaul and Wittink (1995) report that one empirical generalization from past studies is that "an increase in non-price advertising leads to lower price sensitivity among consumers." Finally, it is important to recognize that our result is shown to exist in a context where retail advertising has no impact on the demand of the advertised brand, and that our result would not exist in the absence of the composite good. Moreover, the inverse relationship between wholesale and retail margins can exist only for goods/brands where the retailer reveals price via advertising (Lal and Narasimhan, 1996).

Previous research in the area of store loyalty focuses on customer satisfaction as a major predictor of loyalty (Bloemer & Kasper, 1995; Brown, 2004; Cronin & Taylor, 1992; Garbarino & Johnson, 1999; Reichheld, 1996; Sawmong & Omar, 2004; Taylor & Baker, 1994). However, many companies rated high on customer satisfaction indexes showed poor financial performance (Buttle, 1999; Passikoff, 1997). There is evidence supporting high rates of defection among satisfied customers across many industries (Buttle, 1999; Jones & Sasser, 1995). Thus, the ability of customer satisfaction reliably and accurately to predict loyalty has not been unambiguously established (Higgins, 1997). Clearly, the development and implementation of successful store-loyalty programs would benefit from a better understanding of loyalty, its antecedents and its consequences (Ray and Chiagouris, 2009). It is evident from the above discussion that satisfied and happy retailers would ultimately lead to increased sales. Higher margin per product or total income of retailers from a particular product would to happy retailers. From the above discussion it is clearly evident that If the company spends heavily on advertisement of on its product, it will increase total sales, which means it will ultimately more margin on total sales and in this way the company can make happy its retailers. The PepsiCo spends heavily in India for its Pepsi Soft Drink, much more than its nearest rival Coca-Cola (PepsiCo, Annual Report, 2010). These heavy advertisements have a significant positive impact on the total sale of its soft drink over last year. It is a clear sign of happy retailers who are gaining low margin per bottle of Pepsi but in total higher revenue from its total sales.

To check the planogram (POG) norms, whether the retailers followed it properly or not

There are many factors which are generally used to stimulate consumers' purchases, including advertisement, product variety, layout of stores, merchandise appraising, services offered, and other marketing programs (Levy and Weitz, 1992) but space planning and store layout are one of the prime consideration (Yang, 2001).

The layout of stores and proper space planning highlight the importance of improvement of the visual effect on the customers for shopping and the space productivity of retail stores (Yang, 2001). Planograms, typically, are used to display exactly where and how many items are physically placed onto which store shelves. Because of limited shelf space, planograms plays a vital role for the improvement of financial performance of the company in general and for retailer in particular (Yang, 2001; Yang and Chen, 1999).

There are two ways for retailers to increase margin (Profit). They will have either increase sales or by reducing costs. Cost reduction is basically operational in nature. It heavily depends on technology, management of personnel and efficient inventory management. Generally increase in sales is market driven and can be categorised in to two different segments i. e., (i) in-store -tactics and; (ii) out-of-store tactics. Out of store tactics is used to attract more and more customers into the store while in-store tactics used to compel customers psychologically to buy as much as they can, when they enter into the stores (Dreze, Hoch and Purk, 1994).

Previous Space Management Research

In the field of Space Management, the impact on sales of space management is very limited because of high implementation cost. The existing work methods can be categorised into three different models- (i) Commercial Applications, (ii) Experimental Tests, and (iii) Optimization Model. In business literature, applications oriented approaches are preferred because of its simplicity and the easy operation. For example, PROGALY Model ((Dreze, Hoch and Purk, 1994).) is generally preferred. In this model, space is allotted to a product in proportion of total sales.

Cifrino (1963) and McKinsey (1963) argued for space with respect to Direct Product Profit (DPP). Rest of the models have concentrated on lowering the operating cost and minimising inventory and handling costs (Cifrino, 1963).

Planogram Integrity: A serious Issue

There are many retailers who have recognised the importance of proficiently exploit their customer services in times of intense competition. Confronted by the amplified pressure of fee discounters and the rise of a price war between supermarkets organisation on the one hand and the companies on the other hand since 2003, Indian Retailers want quality in their operations to endure large collection at reduced profit margins (PepsiCo 2009). Thus, balancing inventory and renewal costs, given a collection of wide range of products and the corresponding shelf space at the retail stores is rally an important task. Retailers aim at exploiting availability of the products in the collection at a marginal cost of operations. These objectives have to be attained on the shelves, where a particular product meets its customers. The amount of shelf space allocated to a product is thus primarily a consequence

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of marketing decisions: i. e., the merchandising category to which the product is assigned and the allocated number of facings, which are the number of slots on the front of the retail shelf. This planogram on its turn govern the available shelf space for the operations. From both an operations as a marketing point of view, it is thought-provoking to scrutinise whether local managers are contrary from the planogram, to determine the grounds and to analyse the consequences (Woensel et al, 2008).

Planogram integrity is the degree to which the planograms and its norms are followed in practice(Woensel et al, 2008). High planogram integrity stands for small/very little difference between planogram and the authentic situation in a store (Woensel et al, 2008). A planogram encompasses significant information for the accomplishment of operations. Generally, when creating planograms the retailers decides the collection composition, the location of products in the store and the amount of space apportioned to each product (Levy and Weitz, 1992).

Figure of Planogram

Woensel et al, (2008) have completed empirical research on the planogram and data collected for ten stores in India. During this collection period, the stores were not allowed to change their mode/style operations. Moreover, the days were carefully selected such that the period of measurement did not include any periods of expected demand peaks/drops (e. g. no holidays). The data were gathered for Pepsi soft drink only.

Woensel et al, (2008) observed that collection in the stores seems to be reasonably different from the one identified in the planograms. The main

driver for this was identified to be the possibility to locally add or drop items from the collection. Also, categories with a larger collection seem to be more prone for abnormalities than one with smaller collections. This designates the drawbacks of managing these huge collections with composite swap relationships. On the locational level, it seemed that the abnormality is small (for the common collection in both actual situations versus planogram). The common of abnormalities could be linked back to facing differences. The foremost cause is due to the different shelving in practice than the one used in the planogram. Finally, also considerable differences between the stores exist; some store managers follow the norms provided by the company for the planograms very closely; other store managers do not take it seriously.

The Root causes for erroneousess were typically associated to the local store management. Another vital issue is the acceptance time required for updating the shelves following the changes in the planograms(Woensel et al, 2008). Over and above these is no proper processes for controlling these messages was available to all stores, leading thus to a serious issue with planogram integrity.

Furthermore high levels of inaccuracy in the real realizations are also ascribed to the lack of incentives from the headquarters for enforcing the planograms. Generally, it is witnessed that the inaccuracy of the planograms is correlated to the regularity, the timing and/or the type of changes in the planograms. Of course, one should not overlook the strain in the following the planogram closely. Because of repeated introductions or de-listing of products and changes in style and pack size or the turnover of a product, frequent changes in the planograms are needed(Woensel et al, 2008).
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Without a detailed plan to implement the changes in the planograms, they might be postponed, not implemented in full or the local management already anticipated the changes before the company conversed with them (Woensel et al, 2008).

It can be concluded that planogram integrity is a vital issue that requires a retailer's management consideration. Woensel et al, (2008) shown clearly that common of differences relate back to facing differences. The second important issue is collection and display of products and third issue locational differences. From the above discussion, one can find four main drives for these differences, (i) Local Store Management, (ii) a substantial acceptance time for changes, (iii) diverse local situations that presumed in the planogram and (iv) lack of incentive from the company. The foremost consequence of a lack of planogram integrity proved to be a significant loss of effectiveness both in marketing strategy as in the operational executions, as such indicating that planogram integrity is a serious issue

The Impact of Visual Merchandising on the Consumer Decision Process

Introduction

McGoldrick (1990, 2002) argued that Visual Stimulation and communication are very important facets of retailing. This interest in the visual has combined to form the exercise of "visual merchandising". This is demarcated as the "... activity which coordinates effective merchandise selection with effective merchandise display" (Walters and White, 1987, p. 238). Consequently, Visual merchandising is apprehensive with both how the product and/or brand is visually communicated to the customer and also

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whether this message is decoded “ appropriately” - in this context affecting a positive psychological or behavioural outcome, ultimately leading to purchase (Kerfoot, Davies and Ward, 2003). The significance of accomplishing such a consequence has meant that within the retail environment, various procedures have been used to exhibit, merchandise and communicate products. This diversity in visual merchandising procedures has conceivably also stemmed from the vast collection of goods and services that are sold by retailers.

The progress of merchandising procedures and the proliferation of these methodologies among retailers have been well-established history. Baum (1987) accepted the significance of window display long back in 1897. Baum who was the founding editor of *The Show Window* , where he offered strategies for effective window displays - where he provided an early mechanism for the dissemination of visual merchandising “ best practice”. This early publication evolved to examine display across the store and continued to offer advice for some considerable time (Law and Yip, 2004). The potential of display and visual merchandising is so strong that a publication solely addicted for visual merchandising and display stated in 1922 with the title *Visual Merchandise and Store Display*.

Nevertheless, the prominence of visual merchandising has been not acknowledged much consideration in the academic world and in literature (Lea-Greenwood, 1998). The most notable exception has been within the US fashion-based literature, where a number of texts have been devoted to the subject. These though are primarily practitioner-based, highlighting again a deficiency of attention from retail academics. This study represents a small <https://assignbuster.com/satisfaction-level-of-retailers-and-the-visual-merchandising/>

step towards addressing this lack. It investigates the influence of visual merchandising stimuli within the retail store environment on customer perceptions and responses. In doing this, the research is focused on the potential psychological and behaviour outcomes that result from customer interaction with visual merchandising, rather than directly trying to establish what constitutes best practice per se or manipulating visual merchandising techniques themselves.

This soft drink and FMCG retail sector has been chosen as it has recently elevated visual merchandising to an issue of board level concern (Lea-Greenwood, 1998). The sector offers an ideal background in which examination of the impact of product display and visual merchandising can be conducted on customers, as the degree of retailer complexity in this area is likely to be higher than that demonstrated by companies in other sectors.

Sproles (1979) has focused on the procedure, such as the effects of communication channels in current society, the characteristics and the functional purpose of soft drinks. However, Hart and Dewsnap (2001) also established a decision-making model to explain the behaviour of consumers through visual merchandising and store display. It was revealed from their study that there were interweaved a complicated set of interlinked aspects to affect decision making on intimate soft drink, and amount the factors, brand loyalty tended to be the repeatedly adopted factor to curtail the decision-making process and the degree of apparent risk while shopping intimate soft drink. Speaking from the View-points of marketing and consumer behaviour, the two models are adequate to explain the

corresponding phenomenon (Kerfoot, Davies and Ward, 2003). However, <https://assignbuster.com/satisfaction-level-of-retailers-and-the-visual-merchandising/>

viewing from the retailing aspect, the environment of stores can increase consumers' response (it may be positive or may be negative) to a brand of the product being sold in the store. To achieve a positive store environment, visual merchandising has been widely adopted by retailers (Kerfoot, Davies and Ward, 2003). Likewise, intimate soft drink has been going through a series of soft drink treatments in recent years. Examples can be found in contemporary intimate soft drink brands, such as Coca Cola and Pepsi, Sprite and so on. Instead of targeting different customer segments by adding advanced functions to products, intimate soft drink brands try to establish a distinctive image in consumers' mind. In this study, focus is put on the influence of visual merchandising on store atmosphere and its corresponding impact on consumer decision making process for intimate soft drink (Law and Yip, 2002).

Dimensions of visual merchandising and display

Omar (1999) advocates that there are three types of interior display- (i) architectural display (ii) merchandise display and (iii) point-of-sale display. This study efforts on merchandise display; the choice of a singular store to deliver the stimulus photographs minimises the architectural elements; additionally, point-of-sale areas were omitted from the photographs to guarantee only merchandise display was considered (Kerfoot, Davies and Ward, 2003).

The most important aspects within merchandise display have been acknowledged within the academic literature as: packaging (Bruce and Cooper, 1997; Da Costa, 1995), layout, (Levy and Weitz, 1996; Berman and Evans, 1995), colour (e. g. Koelemeijer and Oppewal, 1999), fixturing (Levy <https://assignbuster.com/satisfaction-level-of-retailers-and-the-visual-merchandising/>

and Weitz, 1996; Donnellan, 1996), merchandise (Davies and Ward, 2002), presentation techniques (Buchanan et al., 1999), and so on. These areas have received varying degrees of attention as separate elements. Nevertheless, in fact, there is tiny work has been done that makes these aspects composed as “merchandise display”(Kerfoot, Davies and Ward, 2003). The examination of Influences, that such display creates on consumers, especially in term of brand communication and purchase intention, are lacking in terms of literature. Though, several of the elements of merchandise display have been scrutinised from an environmental psychology approach, as well as from a service environment perspective. These two related literatures provide potential starting points as each considers the physicality of the in-store environment and its influence on customers (Kerfoot, Davies and Ward, 2003)..

Literature Review

Visual Merchandising is one of the most significant constituents in atmospheric management(Kerfoot, Davies and Ward, 2003). It embraces the interior of stores as well as the exterior of stores. The exterior of store comprises retail premises, window display, and facade while the interior of store embraces fixtures and fittings, store layout, and store highlights as well as wall display(Kerfoot, Davies and Ward, 2003). There are many constituents who governtogether store exterior and interior and it embraceslighting design, colour co-ordination, selection of mannequin and the application of design principles(Park et. al., 1986). A good assortment of visual merchandising with comprehensive consideration of proper cooperative expressions is very important, if retailers really want to project <https://assignbuster.com/satisfaction-level-of-retailers-and-the-visual-merchandising/>

the best side of their company/store (Kerfoot, Davies and Ward, 2003).

Consequently, customers could receive the envisioned message of stores or retailers through several different types of themes & styles designed especially from suitable visual merchandising strategy and for influencing buying decisions and behaviours in a positive sense. Conclusively, visual merchandising helps to establish the complete image of a retail store in the mind of consumers (Park et. al., 1986).

Kerfoot, Davies and Ward (2003) acknowledged that visual merchandising has many objectives, (i) Retail Identity Building in the mind of customers, (ii) influencing customers' final decision to buy as many products as he/she can afford inside a store (iii) last but not the least, to increase overall sales.

Visual merchandising pays its attention on numerous facets of customers, which include affective pleasure, sensory pleasure and cognitive pleasure (Fiore, Yah and Yoh, 2000). Sensory part contains personal feeling of customers, such as response to temperature and noise, feeling crowded in a store (Ko & Rhee, 1994; Hornik, 1992 and Grossbart et. al 1990). Store-related and product associated information can also be assimilated from store environment (Baker et. al 1994), for example, searching a product that enhances one's self-concept (Kleine III et al., 1993). Also, window display plays a critical role in affecting store entry decisions as it is a very important information cue for consumers (Bettman et. al, 1998)

There are many schools of thoughts regarding consumer decision process.

The process of diffusion can affect consumptions response to different product attributes (Mitchell and Creatorex, 1990). The selection of

promotional channels and the format of transition are the best examples. Similarly, there were other thoughts regarding general consumers' decision making process. For Roger's model (1962), decision making was not longitudinal but rather cross-sectional. Following Roger's thought, Robertson (1971) developed a conceptual model with eight procedures (awareness, comprehension, problem perception, attitude, trial, adoption, legitimation, and dissonance). Nevertheless, Sproles (1979) established a specific framework for visual merchandising with ten procedures. The key focus of Sproles' model was the relationship between the influences of communication channels in current society and the functional purpose of soft drink objects. Hart and Dewsnap (2001) conducted a specific study on decision process of purchasing intimate soft drink. His findings revealed that consumers had to go through a set of interlinked factors or relied on brand loyalty. In the light of the criteria, self-concept, perceived risk and consumer involvement were also critical in shaping the final decision (Law and Yip, 2004).

While reviewing the current trend of intimate soft drink brands, being functional is the fundamental requirement of consumers, adding extra value to products is regarding as the selling point. In terms of functional aspect, mint flavour or Diet Pepsi using consumer care can be found in triumph brand. In times of readymade food and soft drink, almost every brand is using the same stuff. For example Pepsi introduced the Diet Pepsi, in the same year Coca cola introduced the diet version (PepsiCo, 2010). They introduced in the name of consumer health and family sentiments. Though, there is very few research about the inter- relationship between the

importance of store aesthetics and consumer decision process, as a result, the purpose of this study is to look into this precise affiliation (Law and Yip, 2004).

The study is beneficial to retailers who are newly established or re-position in the intimate soft drink market. As mentioned, for consumers who have a high degree of brand loyalty, external factors such as store atmosphere, may not have a great impact on decision process. But, if consumers rely on peer influence, advertising or have no idea about a brand, visiting the store is the first contact with the brand. Having attractive human-like mannequins of film stars or popular sportsman/woman and matching with style and appeal can break the decision process (Law & Yip, 2004). Customers' attention can be provoked at the stage of responsiveness but in a negative way due to the social and cultural constraint. Therefore, it is difficult to continue the decision process from awareness to interest.

Hart and Dewsnap's (2001) study on consumer decision process for visual merchandising delivers a critical direction for pre-purchase evaluation. Paying a close attention to the interaction of cultural or societal difference and visual merchandising elements causes a great impact on final purchase decision.

To find out the influence made by Pr