

CONTRIBUTIONS TO THE FOUNDATION OF THE MARKETING MIX FOR RETAIL COMPANIES

Simona BĂLĂŞESCU¹

Abstract: *This paper highlights the particularities of the marketing mix for a company from the retail sector. In this sector there are some specific activities which influence the marketing approach, in terms of decisions regarding the policies and strategies. New elements are added to the traditional marketing mix, specific to the retail activity, and this triggers the marketing mix for the retail company. All the elements are extensively presented in the paper, with emphasis on their importance and relevant examples.*

Key words: *retail, marketing mix, strategies, point-of-sale.*

1. Introduction

There are many approaches of the marketing mix in literature. Without the claim of creating an entirely new concept in terms of the marketing mix for retail companies, the present paper still tries to raise the issues that lead to the idea that there are many features of marketing decisions being taken by retail firms.

Through this paper we try to deliver the best solution to the following question: *What is better for a retail company manager?* The traditional approach leads the retail manager to make decisions close to the four classic elements of the marketing mix (product, price, placement, promotion). Our approach is different from the traditional view. It suggests the retail manager to better understand and then approach the variables specific to the retail company activities. These elements which are added to the 4P of traditional marketing mix might lead to better marketing decisions appropriate for the retail sector.

2. Marketing mix for retail companies

Marketing mix is a concept created by N. Borden in 1957, which included at the time 12 elements: product, packaging, price, brand, distribution channels, personal selling, advertising, sales promotion, display, service (post-sale), logistics, information gathering and analysis. Subsequently, E.J. Carthy summarized these variables around four pillars: product, price, place (distribution) and promotion.

For retail companies, due to the specific nature of the activities and especially due to the fact that they come in direct contact with the end consumer, we can identify six fundamental elements that compose the marketing mix [5]: the spatial location of the retail unit; the store (point of sale) as an image, ambient and atmosphere; product; price; distribution; promotion.

¹ Dep. of Marketing, Tourism-Services and International Business, *Transilvania* University of Braşov.

2.1. Spatial location of the retail unit

If for the production units the decisions on the production sites are taken almost exclusively in relation to various aspects of logistics (proximity to suppliers of raw materials, paths, routes and transport means, storage capacity etc.), for the retail businesses the decision of store location or point of sale has a totally different meaning.

“Retailers often believe that the success of their business depends on three factors: location, location and location again!” [12]

Some authors consider that the store location selection is the most important marketing decision for a retailer [22].

Location appears to be the least flexible element of the retailer's business strategy. Advertising, price, assortment can be changed relatively quickly if the economic and social environment changes, and therefore requires a different implementation of the marketing mix of the store, but the location cannot be adapted so easily to these changes.

According to W. Applebaum, theoretician of space economy, a market area is defined as the geographic area from which a store draws its customers [4]. So, the market is seen as a surface limited by obstacles related to population mobility (the buyers). The market area is considered the territory where the trader establishes a special relationship with its customers. Also, the cost that consumers have to pay to buy the products they want is the first criterion to be taken into account in selecting the store location. This cost, physical, economic, psychological is too difficult to calculate and therefore an accurate determination of the market area of a retail store remains a delicate operation.

2.2. The store as an image, ambient and atmosphere

“The image” refers to how a retail store is seen and perceived by customers, competitors, the public etc. To succeed, a retailer must communicate a distinctive image, clear and consistent. Marketing decisions for creating an image of the retailer must consider, first, the correlation of the image with the expectations and demands of the target market.

If, for example, the target market consists of high-income and demanding consumers, then all aspects that contribute to creating an image of the retailer (location, assortment, services, physical facilities, parking, playgrounds, prices, promotion etc.) must be according to the expectation of the target markets. We refer in this case to the stores with an image of high class establishment such as commercial establishments that sell luxury brands inside the malls or department stores located in major city centres that sell high quality products and brands.

If the retail company targets consumer segments with a lower income, then it will be positioned in the market as a discount store or hard discount store. Clearly, all aspects that contribute to the creation of that image will have to be correlated properly (location - a neighbourhood area, low customer service, lower prices, sales promotion etc.)

Creating and maintaining a retailer's image is a complex process that takes place in several stages and is permanent. This process is more than the meaning given to the concept of store atmosphere.

An expert in retail commerce, Lisanti, states that “A consumer should be able to determine in three seconds the following things from a store: name, type, fame, price ranking and personality”, adding that “Those who need what you sell will find you. All others must be attracted to enter

your store. Without a distinct image, you have no chance to be seen or heard in all the chaos that defines retail” [15].

A major objective of chain stores and small retailers is to maintain a consistent image in all the stores they own. But there are some factors that can affect the image. These factors are connected to management and employee performance, consumers profile, competition, location, parking, safety, merchandise ease of finding, language and linguistics, and cultural diversity of clients from different countries and surrounding area qualities.

2.3. Product policy for retail companies

Retailers must have the right assortment of products and sell them in a manner compatible with their marketing view [7].

We consider that the explanations given by the specialist Stanley Marcus, former Chief Executive of Neiman Marcus, are enlightening in the sense stated above. He states: “I think the retail system of selling goods is actually very simple, it consists of two factors: customers and products. If you pay attention to buying the products, customers do not come back, but if you pay attention to your customers, they return” [18].

At retailer level, the decisions about the consumer goods selling are related to the science of merchandising.

In our opinion, merchandising and marketing are closely connected. Merchandising enhances the methods and techniques that allow the products presentation at the point of sale in order to ensure the contact optimization with the material offer or services existing to the location [21]. This way, merchandising fulfils two main functions: a commercial function intended to ensure and stimulate the sale of goods, and a communication function designed to inform consumers and to act in the same direction of disposing goods to consumers.

Given the above, we share the opinion of many specialists who describe merchandising as being part of store marketing. Moreover, the French school considers merchandising as “... a part of marketing which includes commercial techniques that allow for the best material and psychological conditions for the presentation of the product or service subject to sale” (Commercial Sciences Academy in France) [19].

The selling function is found in what is called retail merchandising. Retail merchandising thinking determines all decisions on each product. So, it is considered that “retailers must decide on the number of assortments in the store and the number of products in each range. In addition, they must select the quality of the articles within each category, decide on pricing policy. Finally, retailers must determine if the assortments should generally be stable over time, or if they have to be surprising, special or by order” [9].

From the perspective of strategic marketing and operational marketing, a retailer should base its product strategies correctly.

We believe that the most important types of marketing decisions meant to outline the product strategies are:

A. *Decisions on predicting the expected level of sales* for a certain period of time. The forecast process should include measurements such as: enterprise-wide sales expectations, anticipations in each store (if it is a chain of stores), expectations about product categories and expectations in each article.

B. *Decisions on new products assimilation*. There are several factors to be taken into account when conducting the planning at the level of merchandise novelty, such as: sales growth potential, fashion trends, company image, competition etc.

2.4. Pricing policy for a retail company

In our opinion [1], when it comes to pricing policies and strategies as marketing mix variable, it must be remarked that retail firms have far larger action margins in setting prices than the production firms.

A price strategy should reflect the company's own objectives and be related to the sales and profit. The goals to be achieved can be established as income and / or volume units.

a) *Market penetration pricing strategy* is used when the retailer wishes to acquire revenue by setting a low price and selling a large number of product units. Profit per unit is small but the total profit is higher if the desired goal has been achieved. This strategy is favourable for cost-sensitive customers and if the cost does not increase much [24].

b) *High price strategy* is used by the company to attract customers who are not concerned about the price, but the service and prestige. Usually the strategy does not maximize sales, but brings great profit per unit.

c) *Cost-oriented pricing strategy* - The retailer sets the price, adding the operating expenses and desired profit to the cost per unit. The difference between the merchandise cost and the selling price is the trade margin. With a variable margin policy, retailers adjust the margins on merchandise categories. One way of planning the variable margin is the direct profitability of products, a technique that allows each retailer to find any category of merchandise profits calculating marginal costs and direct costs of products for storage, transport, handling and sales. After this, the margin is established according to each category. This technique is used by supermarkets, discount stores and other retailers. The main problem is the complexity of cost sharing [4].

Cost oriented prices are often used by retailers. It is simple because a retailer can apply a standard margin for some product categories much easier than estimating the demand for different products at different prices. When retailers have established similar margins, pricing competition is reduced [8].

d) *The strategy of prices adjustment to market conditions*. The retailer may adjust prices according to the demand or market segment. The best example of adapting the retailer prices from Romania to the market demand are represented by some food prices (oil, sugar, flour) and durable goods prices (electronics, appliances, cars) in 2008, until the financial and economic crisis (end of 2008) and the beginning of 2009. So, 2009 started with significant discounts on many products. In our opinion, cooking oil was even 40 - 50% cheaper, and cars had an average reduction of 10-30%. The conclusion is clear, namely, many retailers have chosen to adopt this strategy of adaptation to the market conditions.

e) *Competition-oriented price strategy* - A retailer can use competition prices as a guide. A company may not modify prices if there have been changes in demand or costs, if they are not modified by competition. Similarly, a firm may change its prices if the competition changes them, even if there have not been changes in demand or costs. A firm with a good location, superior service, favourable image and exclusive brands can set higher prices than competitors. However, prices above the market average do not go with a store that has an inappropriate location, rely on self-service, is not innovative and does not offer separate products.[14]

Competition oriented prices do not require calculation of demand curves and price elasticity. The average market price is assumed to be correct for both the buyer and the seller.

f) *Promotional price strategy*

In some circumstances, companies will temporarily fix a price below wholesale price, sometimes even below goods cost. According to Kotler, promotional prices can be found in the following forms [11]:

- Loss Sales - supermarkets reduce the price of goods belonging to famous brands to boost their sales. But usually, producers do not agree with their brands being subject to such operations because it can lead to worsening the brand image or to discontent among retailers that practice wholesale price of the supplier. Therefore, producers have tried to force intermediaries to renounce these practices, imposing the maintenance of the retail price by law, but the laws were repealed.

- Special pricing – Retailers use special pricing at certain times of the year, in order to attract more customers. Thus, every year, in January, the prices of certain products fall, with a view to attracting more consumers who seek for bargains and in such conditions do more shopping.

- Discount for immediate payment –It is used to stimulate consumers to purchase a product in a given period of time. They stimulate their sales without requiring large expenditures, as if the price was reduced.

- Low interest credit purchases - Instead of lowering the price, the company can offer the financing of their own purchases at a low interest. To attract customers, traders generally announce that low interest loans are granted for purchases. It seems that this is a very well accepted method by buyers, because many of them use it when they want to buy a good. Thus, many retailers have developed partnerships with financial institutions so that together they can offer various loans adapted to customer requirements.

- Warranties and service contracts – the company can promote sales by offering free assistance and service. Instead of charging fees for assistance or service contracts, it offers its customers these facilities for free or at a reduced price, which is another way to reduce the price.

- Psychological discounts - they involve artificial setting of a high price for a product at the beginning and selling it later at a much lower price. Therefore, in the US, the Federal Trade Commission and Business Improvement Agencies were established against illegal tactics to reduce prices. On the other hand, price reductions are considered normal practices used for promoting sales.

g) *Value-oriented pricing strategy* - During the recession recorded in the 90s, when the growth was low, many companies adjusted prices to the economic conditions and fundamental changes subsequently occurred in the consumers' attitude about quality and value. Increasingly more marketers adopted value oriented prices - offering the most advantageous combination of quality and prompt service at the best prices. In many cases, this has involved the introduction of cheaper versions of famous brands. In other cases, the value oriented prices involved redesigning existing brands to offer better quality at a fixed price or identical quality for low prices.

In the current global financial and economic crisis, marketers need to reinvent the concept of "value". In this sense, it can be said that the value-oriented pricing strategy offering more value for a lower amount of money, making this by underestimating the quality of the product and highlighting its price, has grown strongly in recent years and will further develop [13].

2.5. Distribution policy for a retail company

Some specialists substituted in the literature the term "distribution channel" with "marketing channel" [16]. This change aims to emphasize the role of intermediaries in the distribution process, to create value for users or consumers, adding the utility of form, possession, time and place [3]. In addition, the role of marketing channels is not only to participate in demand satisfaction by offering goods and services, but it also requires active participation to stimulate demand through information, creating proximity and promotion developed by members of the economic units network that form the channel [20].

Given the above considerations, we can define the marketing channel as a set of independent organizations involved in the process of ensuring product availability for use or consumption [23].

We consider that the retailer's decision to integrate in a marketing channel is very important and influences all the other marketing decisions (concerning location, image, atmosphere and ambient, products, price and promotion) and the market success for the company.

Inside the indirect marketing channel, the parties involved in creating added value - producers and intermediaries - have different needs and goals, as reflected in the criteria used by each side in choosing the other party. Thus, for the producer, the key criteria in selecting intermediaries, including retailers, are their relationships with customers in target markets, reputation and performance in sales, financial and managerial performance. The main factor for the selection of the intermediaries is the value added they generate along the marketing channel. This value represents the contribution of intermediaries to the end of the changes with final consumers [10].

For traders, the most important criteria underlying the selection of producers are: product and/or manufacturer's brand image, credit / financing, promotional support and assistance.

2.6. Promotional policy for a retail company

Some specialists considers that the role of the promotion policy in the retail business is to attract potential consumers (creating traffic in store) to convert visitors into consumers and to retain buyers [17].

Whatever the nature of the promotional activities, the homogeneity or heterogeneity of techniques, their action in time, the economic effects entailed etc., modern retail companies must always bear in mind their complementarity; an active and efficient market policy supposes their inclusion in a coherent and operational promotional policy [2].

The most used variables of a retailer's promotional mix are: advertising, public relations, personal selling and sales promotion [6]. Next, we will analyse only personal sales as part of the promotional mix, but also as a possible approach of this element, as the 7th variable of the marketing mix specific to retail companies.

Personal selling can be defined as a form of communication from one person to another, in which a seller tries to convince potential customers to purchase the company's products and services.

It is therefore a process in which salesmen try to inform and persuade customers to purchase a product or service. Personal sales are the most expensive component of the promotional mix and the most effective one, as it provides entrepreneurs the freedom of action to adjust a message to satisfy the customer's needs for information. So, it gives the fastest feedback of all promotional activities due to direct communication.

Personal sales promotion success lies in the ability of staff to adapt to different situations that may occur, these situations requiring a certain degree of flexibility and adaptability. However, the behaviour of the sales staff must generate credibility.

Because the sales force is the largest expense for marketing communications, it needs proper management and it should have a different type of management than the other areas of promotion [14]. This argument leads to the idea that personal selling can be treated separately, as the 7th variable of the marketing mix specific to retail companies.

3. Conclusions

We can conclude that retail companies - the closest entities to the consumer - which are in a state of fierce competition with other traders, need to combine and apply different marketing strategies related to marketing mix variables in a more innovative way and, at the same time, in accordance with the legislation and the consumer demands.

The contribution this work aimed at was to identify the six variables of the marketing mix for retail companies.

As it can be seen, besides the 4 traditional pillars of the marketing mix, in the retail sector there are two more: the spatial location of the business unit and the store (point of sale) as image, ambient and atmosphere. These two elements are very complex due to their characteristics. The store location selection is the most important marketing decision for a retailer because the location appears to be the least flexible element of the retailer's business strategy. Regarding the second element, creating and maintaining a retailer's image is a complex process that takes place in several stages and is permanent. Then, the product policy is based on the idea that retailers must have the right assortment of

products and sell them in a manner compatible with their marketing view. Speaking about price, the value-oriented pricing strategy offering more value for a lower amount of money has grown strongly in recent years and will further develop. Distribution has a particularity related to the retailer decision to integrate in a marketing channel. This decision influences all other marketing decisions (concerning the location, image, atmosphere and ambient, products, price and promotion) and the market success for the company.

A special situation that must be discussed is the situation of including the personal selling as the 7th element of the marketing mix. This could be seen not only as a component of the promotional mix, but can be approached through the importance of the sales force which is an essential variable in retail. Personal sales provide entrepreneurs the freedom of action to adjust a message to satisfy the customer's needs for information. Therefore, personal sales deserve a special attention from managers when they take marketing decisions.

References

1. Applebaum, W., Cohen, S.: *The Dynamics of Store Trading Areas and Market Equilibrium*. In: *Annals of Association of American Geographers*, nr. 51/1, 1966.
2. Balaure, V.: *Politica Promoțională în Marketing (Communication Policy in Marketing)*. București. Uranus, 2002, p. 432.
3. Bălan, C.: *Canale de marketing (Marketing Channels)*. In: *Marketing*, coord: Balaure, V., Editura Uranus, București, 2002, p. 387.
4. Bălășescu, S., Bălășescu, M.: *Dezvoltarea Strategiei de Comerțul cu Amănuntul (Developing a Pricing*

- Strategy in Retail Trade*). In: Convorbiri Economice, nr.1, Ianuarie 2007, p. 29-30.
5. Bălăşescu, S., Bălăşescu, M.: *Marketingul în Comerţul cu Amănuntul (Marketing in Retail Trade)*. Braşov. Editura Universităţii Transilvania din Braşov, 2010.
 6. Dunne, M., Lusch, F., R., Griffith, D.A.: *Retailing*. South-Western, USA. Thomson Learning, 2002.
 7. Dupuis, M.: *Les strategies du distributeur*. In: *Encyclopedie Vente et Distribution*, Bloch, A., Macquin, A. (coord.). Editura Economica, Paris, 2001, p. 46-48.
 8. Felsenthal, E.: *Manufacturers Allowed to Cap Retail Prices*. In: Wall Strett Journal, November 5, 1997, p. 3-8.
 9. Kahn, B.: *Introduction to the Special Issue: Assortment Planning*. In: Journal of Retailing, Vol.75, 1999, p. 289.
 10. Kim, K., Frazier, G. I.: *A typology of distribution channel systems: a contextual approach*. In: International Marketing Review, 13(1), 1996, p.19-32.
 11. Kotler, Ph.: *Marketing Management: Analysis, Planning, Implementation and Control*, ninth edition. Prentice-Hall International, 1997.
 12. Kotler, Ph., Armstrong, G., Saunders, J., Wong, V.: *Principiile marketingului (Marketing Principles)*. Bucureşti. Teora, 1998.
 13. Kotler, Ph.: *Kotler despre Marketing (Kotler about Marketing)*. Bucureşti. Curier Marketing, 2003.
 14. Lefter, C., (coord.), Brăţuc, G., Bălăşescu, M., Chiţu, I., Răuţă, C., Tecău, A.: *Marketing*. Braşov. Editura Universităţii Transilvania din Braşov, vol. II, 2006.
 15. Lisanti, T.: *Retailers, Too, Need to Build a Brand Image*. In: Drug Store News, June 2002, p. 27.
 16. Lusch, R. F.: *Erase Distribution Channels from your Vocabulary and add Marketing Channels*. In: *Marketing News* 1979, 27 July, p. 12.
 17. Mace, S.: *Promotional Techniques and Development of Point-of-Sale*. In: *Sales and Distribution Encyclopedia*, Bloch, A., Macquin (coord.). Paris. Editura Economică, 2001.
 18. Marcus, S.: *Reflections on Retailing*, Retailing Issues Letter, July 2002, p. 2.
 19. Niţă, V., Corodeanu, D.: *Merchandising*. Iaşi. Tehnopres, 2006.
 20. Patriche, I.: *Canale de Distribuţie şi Logistică (Distribution Channels and Logistics)*. Bucureşti. Pro Universitaria, 2006.
 21. Popescu, I. C.: *Merchandising*. In: *Marketing – Dicţionar Explicativ (Marketing - Explanatory Dictionary)*, Florescu, C., Mălcome, P., Pop, N. Al. (coord.). Editura Economică, Bucureşti, 2003, p. 450.
 22. Stanley, Th., Sewall, M.: *Image Inputs to a Probabilistic Model: Predicting Retail Potential*. In: Journal of Marketing July 1976 vol. 40, p. 48-53.
 23. Stern, L.W., El-Ansary, A. I.: *Marketing Channels*, second edition. New Jersey. Prentice-Hall, Inc., Englewood Cliffs, 1982.
 24. http://www.bizhelp24.com/marketing/loss_leader.shtml, January 29, 2006, accessed: 12-06-2014.