CHAPTER II

THEORETICAL BACKGROUND

This chapter provides the theoretical overviews related to the purposes of the business plan. The purpose of this business plan is to study the major factors that influence consumers in visiting at the store Furnimart and to build the strategic thinking that suit for Furnimart key marketing strategy formulation issues to enable Furnimart to achieve the targeted objectives and make Furnimart well known as home furnishing solution. At the central of this business plan, it presents the market development such as: new market offering and demand. Other important element of retail management that have also to be considered are the framework of retailing, store based strategy mix, retail organization, financial dimension and also technology in retailing. To start with, however, as the prerequisite it is important to have the same ground perspective and understanding regarding the marketing definition and SWOT Analysis. With these same perspectives, it would be much more convenient to be in the middle of discussion presented in this chapter.

2.1. Marketing

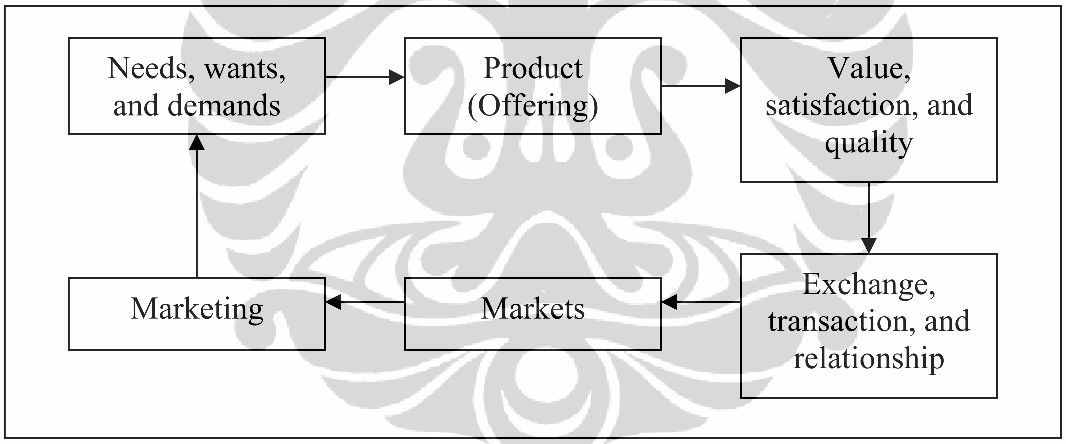
Marketing management is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, services to create exchanges that satisfy individual and organizational goals (Kotler, Ang, Leong, & Tan, 2006, p.10). Marketing deals with identifying and meeting human and social needs. When IKEA noticed that people wanted good furniture at a substantially lower price and created knockdown furniture, they demonstrated marketing savvy and turned a private or social need into a profitable business opportunity (Kotler *et al.*, 2006, p.4). It is typically seen as the art and science of choosing target market, getting, keeping, and growing customers by delivering superior value proposition.

The definition of marketing is derived from the six marketing fundamentals, which are satisfaction of customer needs and wants, continuous nature of marketing, sequential steps in marketing, key role of marketing research, interdependence of organization, organization wide and multi department efforts.

The core understanding in most of the definitions is that marketing is a process that has a goal to create exchanges that will satisfy and benefit both the customer and the company. Marketing is the function of the company that identifies its current and potential customers, creates products or services that meet the needs and wants of customers, informs and persuades the customers to purchases these products or services and reinforces the customers to make a purchase.

The core of concept of marketing covers several aspects such as needs, wants, and demands, product, value, satisfaction and quality, exchange, transaction and relationship and markets (Kotler, Amstrong, Brown, Adam, & Chandler, 1998). This concept shows in the figure below.

Figure 2.1 Core Concept of Marketing



Source: P. Kotler, G. Amstrong, L. Brown, S. Adam and Chandler, *Marketing,* 1998, p.7

The marketing efforts that try to satisfy needs and demand of the customers are called to be marketing oriented. They key for a successful marketing effort is to sustain a specified level of customer satisfaction while at the same time, creating a profit for the customer. The purpose of business is to create and maintain profitable customers since the customers are those who create revenue for the company. In this case, profits must be generated in order for the company to continue doing its business. The concept of marketing changes due to the changes in the marketplace. This means that nowadays, each company must hold the concept of the societal marketing concept. The concept seize to satisfy the consumer while at the same time develop its contribution in the society. The organizations have conducted marketing activities include: the production concept, product concept, selling concept, marketing concept, and holistic marketing concept (Kotler *et al.*, 2006).

2.2. Segmenting, Targeting, and Positioning

A company that wishes to sells its products or services must be aware that it cannot fully satisfy and reach all types of consumers in the market in a same particular way. The marketplace is made up of different types of consumer. It differs based on consumers' preferences on product and services that can satisfy their needs and wants. That is way it is important for a company to give more satisfaction to its targeted consumers. As a result, the company must develop its STP – Segmentation, Targeting, and Positioning (Kotler *et al.*, 1998, p.296)

Market segmentation is dividing a market into direct groups of buyers who might require separate products or marketing mixes. It is the process of classifying customers into groups with different needs, characteristics or behaviors. Major variables that can be used for market segmentation are geographic segmentation, demographic segmentation, psychographic segmentation, and behavioral segmentation (Kotler *et al.*, 1998, p.299). Market targeting reveals from the market segmentation which means that after identifying market segmentation, the company must be able to decide its target market. Target market is a set of buyers sharing common needs or characteristics that the company decides to serve (Kotler *et al.*, 1998, p.313).

As soon as the company has identified its target market, it must decide what position it wants to carry on for its target market. Positioning can be defined as:

"Positioning is the act of designing the company's offering and image of occupy a distinctive place in the mind of the target market" (Kotler *et al.*, 1998, p.296). To build a position, the company must be capable to deliver and communicate its positioning strategy. The elements of the marketing mix are important devices to create an effective positioning. As a result, marketing mix (product, price, place, and promotion) is closely related to segmenting, targeting, and positioning. The company must create a marketing mix that matches its segmenting, targeting, and positioning concept.

2.3. Marketing Mix

The definition of a marketing mix is:

"Marketing mix is the set of controllable marketing variables that the company blends to produce the response it wants in the target market" (Kotler *et al.*, 1998, p.57). Marketing mix consist of four Ps which are product, price, place, and promotion.

Marketing mix models analyze data from a variety of sources, such as retailer scanner data, company shipment data, pricing, media and promotion spending data, to understand more precisely the effects of specific marketing activities. To deepen understanding, multivariate analyses are conducted to sort through how each marketing element influences marketing outcomes of interest such as brand sales or market share (Kotler *et al.*, 2006, p.131)

2.3.1. Product

Product can be defined as anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need (Kotler *et al.*, 1998, p.344). It can be considered as physical goods, services or combination of goods and services that the company offers to its consumer.

The physical product is tangible while service is an intangible product or offering. The essential concept of product offering is that the product must be made in order to meet and satisfy the demand of the market.

2.3.2. Price

Price is the amount of money customers have to pay to obtain the product. It can be defined as the amount of money charged for a product or services, or the sum of values consumers exchange for the benefits of having or using the product or service (Kotler *et al.*, 1998, p.414). Price is the only element in the marketing mix that can generate revenue or even profit.

Therefore it has a strategic role as to generate cash. In this case, the company must make decision carefully in regards to set the price for its product. The company must know how much the consumer is willing to pay for the product. There are several factors to be considered when setting the price. Those factors are the internal and external factors.

2.3.3. Place

Place related to the activities that make the product or service available to target customers (where the customer meets the product). The company needs to make sure the product or service it is offering is in the appropriate location where its target markets can reach it. Place is also known as channel, distribution, or intermediary. It is the mechanism through which goods and/or services are moved from the manufacturer/ service provider to the user or consumer (Kotler *et al.*, 2006).

Place simply refers to how companies will sell the products to the customers. Depending on what it is companies are selling will directly influence how to distribute it, and it affects mainly those businesses that are in production. If for example company owns a small retail outlet or offers a service to a local community then companies are at the end of the distribution chain so and will be directly supplying a variety of products directly to the customer.

2.3.4. Promotion

Modern marketing need nor only the best product or services at the right and at the right place, but it also need a good communication of the product or service. The promotion element of the marketing mix has an important role. Promotion mix as a company's total marketing communication program, it is the specific mix of advertising, personal selling, sales promotion, direct marketing and public relations a company uses to pursue its advertising and marketing objectives (Kotler *et al.*, 1998, p.470). It includes activities that communicate the value of the product or service and persuade target customers to buy it.

The combination of tools the company uses depends on the budget on making the promotional activities available. It also depends on the message in which the company wishes to communicate and the group of customers that the company is targeting. The result of an effective promotional activity is the knowledge of the customers about the product or service that the company is offering.

The four Ps represent the seller's view of the marketing tools available for influencing buyers. This means that, if implemented effectively, the sellers' four Ps correspond to the customers' four Cs. The relations between Four Ps and Cs show in this figure below.

Figure 2.2 Seller's Four Ps in relation with Customer's Four Cs

Four Ps		**Four Cs**
Product	➔	Customer solution
Price	➔	Customer cost
Place	➔	Convenience
Promotion	➔	Communication

Source: P.Kotler, K.L. Keller, S.H. Ang, S.M. Leong, C.T. Tan, *Marketing Management an Asian Perspective*, 2006, p.20

From the figure above, it can be seen that customer solution can be satisfied by the product (goods and services) offering. The price of the product or service reflects the cost to acquire or purchase the product. Place means that the consumers can get the product where it is convenience for them to obtain it. And the promotion element in which it tries to communicate and influence consumer to buy the product.

2.4. SWOT Analysis

SWOT analysis is the overall evaluation of a company's strengths, weaknesses, opportunities, and threats. It involves monitoring the external and internal marketing environment (Kotler *et al.*, 2006, p.54). The strengths and weaknesses of a company derived from its internal performance analysis. This internal analysis can create skills or assets of the company. On the other hand, opportunities and threats arise from the external environment (macro) such as economic, political, technological, and socio cultural. In the further, having developed the SWOT analysis, the company will be able to establish its core competencies and identify its critical success factors.

When analyzing strength, a company must think about what it does so well, what are the things that can make the company able to outperform its competitor. To evaluate weaknesses, a company must list the activities that the company is not good at. Opportunities can be analyzed through observing the areas and activities that are not yet covered by competitors. The opportunities must be match with the strength of the company. Along with opportunities, threats can be analyzed by looking both internal and external activities of the company. The big question is whether the business should limit itself to those opportunities where it possesses the required strengths or whether it should consider opportunities that mean it might have to acquire or develop certain strengths.

According to Pearce and Robinson (2007), the most common use of SWOT analysis is as a logical framework guiding discussion and refection about a firm's situation and basic alternatives. The SWOT framework provides an organized basis for insightful discussion and information sharing, which may improve the quality of choices and decisions managers subsequently make. Some limitations of SWOT analysis:

1. A SWOT analysis can overemphasize internal strengths and downplay external threats.
2. A SWOT analysis can be static and can risk ignoring changing circumstances.
3. A SWOT analysis can overemphasize a single strength or element of strategy.
4. Strength is not necessarily a source of competitive advantage.

In summary, SWOT analysis is a longtime, traditional approach to internal analysis among many strategists. It offers a generalized effort to examine internal capabilities in light of external factors, most notably key opportunities and threats (Pearce and Robinson, 2007, p. 158).

2.5. New Market Offerings

Companies need to grow their revenue over time by developing new products and expanding into new markets. According to Bruce Nussbaum (2005), the knowledge economy is being eclipsed by the creative economy. Increasingly, the new core competence is having creativity to generate top line growth. Companies with an innovative DNA have a fast moving culture that routinely beats competitors because of a high success rate for innovation.

A company can add new products through acquisition or development. Booz, Allen & Hamilton (Kotler *et al.*, 2006) has identified six categories of new product development as follows:

1. New-to-the-world products: new products that create an entirely new market
2. New product lines: new products that allow a company to enter an established market for the first time
3. Additions to existing product lines: new products that supplement established product lines (package size, flavors, and so on)
4. Improvements and revisions of existing products: new products that provide improved performance or greater perceived value and replace existing products
5. Repositioning: existing products that are targeted to new markets or market segments
6. Cost reduction: new products that provide similar performance at lower cost

In economy rapid of change, continuous innovation is necessary. Most established companies focus on incremental innovation. Newer companies create disruptive technologies that are cheaper and more likely to alter the competitive space. Established companies can be slow to react or invest in these disruptive technologies because they threaten their investment. To ensure that they don't fall into this trap, incumbent firms must carefully monitor the preference of both customers and non customers over time and uncover evolving, difficult to articulate customer needs (Dahan and Hauser, 2002)

2.6 The Measures of Market Demand

Companies can prepare as many as 90% different types of demand estimates. Demand can be measured for six different product levels, five different space levels, and three different time levels. The size of a market hinges on the number of buyers who might exist for a particular market offer, but there are many productive ways to break down the market (Kotler *et al.*, 2006, p.132):

1. The Potential market is the set of consumers who profess a sufficient level of interest in a market offer. However, consumer interest is not enough to define a market. Potential consumers must have enough income and must have access to the product offer.
2. The available market is the set of consumers who have interest, income, and access to a particular offer. For some market offers, the company or government may restrict sales to certain groups.
3. The target market is the part of the qualified available market the company decides to pursue. The company might decide to concentrate its marketing and distribution effort.
4. The penetrate market is the set of consumers who are buying the company's product.

From the information above, if the company is not satisfied with its current sales, it can take a number of actions. It can expand its available market by opening distribution elsewhere or lowering its price or it can reposition itself in the mind of its customers. The major concepts in demand measurement are market demand and company demand. Within each, companies distinguish among a demand function, a sales forecast, and a potential.

Market demand for a product is the total volume that would be bought by a defined customer group in a defined geographical area in a defined time period in a defined marketing environment under a defined marketing program. Companies selling in a non-expansible market must accept the market's size and direct their efforts to winning a larger market share for their product.

The company sales forecast is the expected level of the company sales based on a chosen marketing plan and an assumed marketing environment. Two other concepts are worth mentioning in relation to the company sales forecast. A sales quota is the sales goal set for a product line, company division, or sales representative. It is primarily a managerial device for defining and stimulating sales effort.

Management sets sales quota on the basis of the company sales forecast and the psychology of stimulating its achievement. On the other hand, a sales budget is a conservative estimate of the expected volume of sales and is used primarily for making current purchasing, production, and cash flow decisions. The sales budget is based on the sales forecast and the need to avoid excessive risk. Company sales potential is sales limit approached by company demand as company marketing effort increase relative to that of competitors. The absolute limit of the company demand is of course the market potential (Kotler *et al.*, 2006). So, to estimate current demand, company attempt to determine total market demand, area market potential, industry sales, and market share.

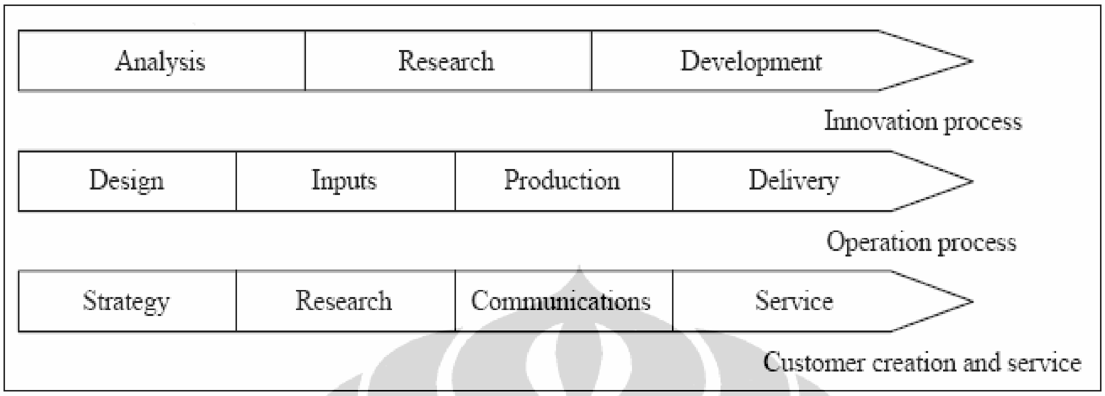
2.7 Customer Oriented and Strategic Development

In order to be successful it is necessary to realize that good reputation is based upon quality and attractive product/services and putting customers in the first place. Today, it is obvious that customer focused concept of marketing is developing towards strategic marketing approach. The very essence of this concept means knowing customers, but the primary goal, instead of profit, is satisfying stakeholders` expectation. Stakeholders are known as the individuals or groups interested in company's activities, such as employees, managers, customers, suppliers, government etc (Filipovic & Milicevic, 2000)

Furthermore, the focus is on the advantages of the environment. The environment, that is constantly changing, requires flexibility for which it is necessary to have strong marketing function. Combining marketing activities may neutralize some of the negative environmental influences. It is necessary to be aware of all the current changes in order to achieve modern, marketing oriented organization.

Beside the importance of product capacities and marketing strategies, success depends also upon the effort of employees. Human resources are the key, integrative component for both internal and external factors and, therefore, they must be treated carefully. Three basic processes, innovation, operations and customer creation and services, are the basis for competitive position (show in Figure 2.3).

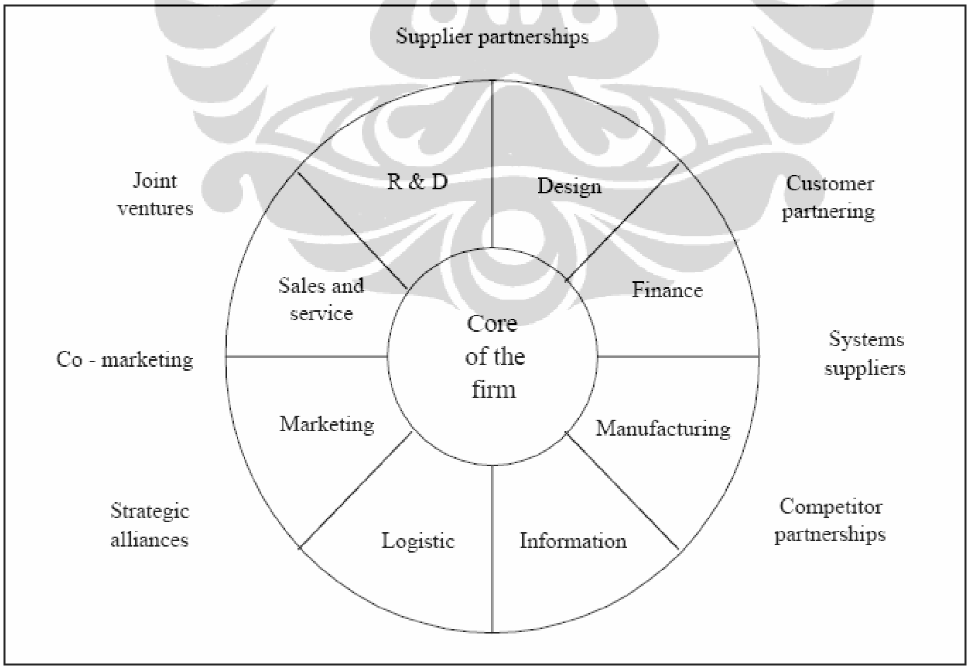
Figure 2.3 Basic Processes for Competitive Position of Company



Source: V. Filipovic & V Milicevic, *Economic and Organization,* 2000, p.9

Neither of these activities is related to marketing only. These three groups of mentioned activities are depending upon the effort of entire organization and cooperation with other organization - external partners (show in figure 2.4).

Figure 2.4 Interactions between Marketing and Other Internal and External Elements

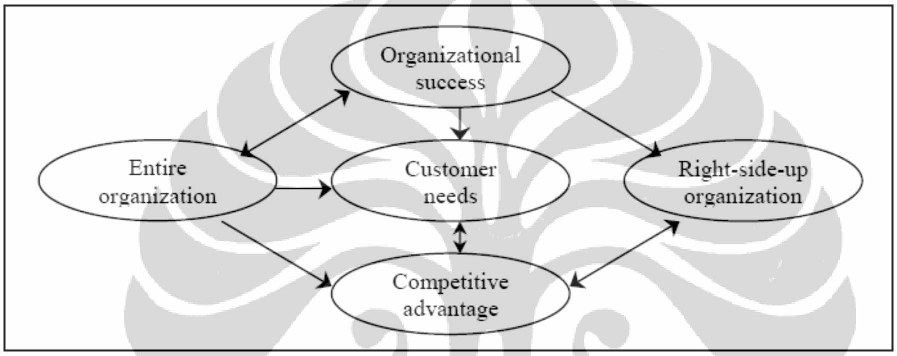


Source: V. Filipovic & V Milicevic, *Economic and Organization,* 2000, p.11

Nowadays, many companies are not product or sales oriented, but are focusing on financial resources. They believe that primary goal is to achieve the greatest possible financial result from the existing resources. These companies are developing marketing concept "one-on-one" that includes servicing known customers, creating strong brand and monitoring constant changes related to the market and technological environment.

Nevertheless, customer oriented marketing concept still is the most often used marketing approach today. Customer orientation requires organizational changes and increased level of product quality in order to gain competitive advantage. Five essential elements of customers' orientation are given in Figure 2.5

Figure 2.5 Customer Oriented Marketing Concept



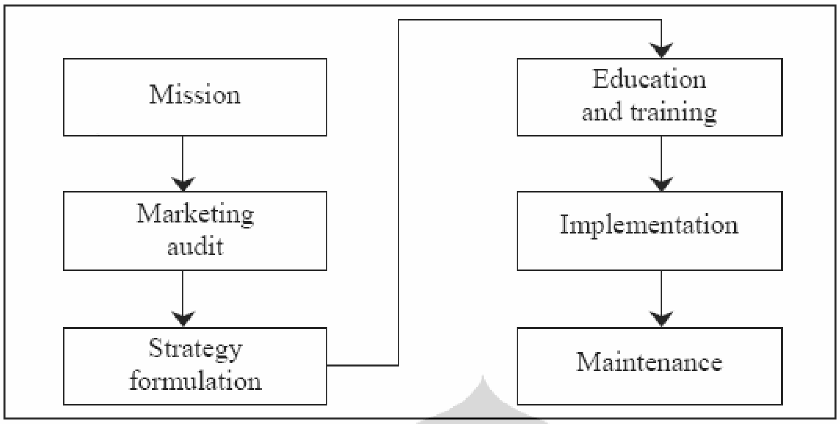
Source: V. Filipovic & V Milicevic, *Economic and Organization,* 2000, p.14

One of possible organizational changes is based upon "team" approach, which consists of the following steps:

1. Identification of important opportunities and chances.
2. Gathering the adequate team for their implementation.
3. Making the most of all the opportunities and improving total quality of business.
4. Realization of every project in correspondence with the actual problem and environmental changes.

The implementation of marketing orientation includes having well-defined goals, long-termed dedication to customers and participation of all employees in creation of the value for the market (Filipovic & Milicevic, 2000). The changing process may be observed through six phases given in Figure 2.6

Figure 2.6 Phase of the changing process



Source: V. Filipovic & V Milicevic, *Economic and Organization,* 2000, p.15

Today, activities of marketing management may be identified as three core assignments. First of them is identification of opportunities and threats, that are caused by the changes. Under opportunities we consider the possibilities for new products, distribution channels and services, providing the chances of penetration on the new markets. On the other hand, the meaning of threats denotes disability of predicting changes, losing markets and on the very end, the company itself. The second assignment is developing support process that is going to provide realization of these opportunities. This requires forming project teams and partnerships in order to implement the innovation, new products and services. The third assignment of marketing management is creation of the strong brands, which are impossible to imitate and focused in customers, thus providing their loyalty. Long-termed point of view requires organization focused on the customer, which is going to constantly seek for the new answer to his needs.

Top management must at first, clearly define the goals related to target groups, and then motivate employees for their realization. The goals must be in accordance with the goals and satisfaction of customers. Employees should realize that being the best results from customers' preferences, which are established by activities of marketing management, such as researching of customers' needs, forming teams for seeking quality solutions and distribution of product/services better than competitors. The process of education in a field of marketing is necessary for implementation of market-oriented business (Filipovic & Milicevic, 2000).

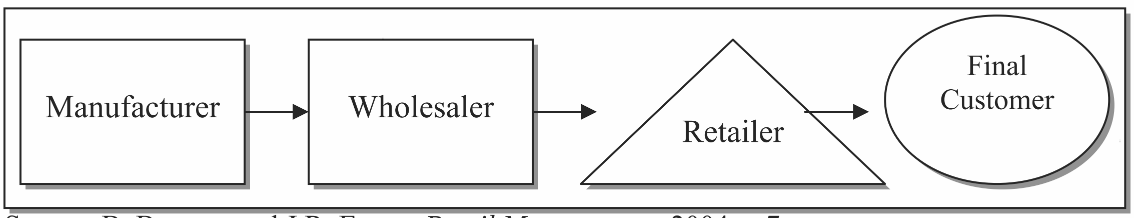
2.8. The Framework of Retailing

Berman and Evans (2004, p.7) explain retailing encompasses the business activities involved in selling goods and services to consumers for their personal, family, or household use. Retailing is the last stage in the distribution process and it includes every sale to final customer. Retailers often act as the contact between manufactures, wholesalers, and the consumers.

Another job for retailers is communicating both with customers and with manufacturers and wholesalers. Shoppers learn about the availability and characteristics of goods and services, store hours, sales, retailer ads, salespeople, and also displays. Manufacturers and wholesalers are informed by retailers with regard to sales forecasts, delivery delays, customer complaints, defective items, and inventory turnover. Many goods and services have been modified due to retailer feedback.

Retailers also complete transactions with customers. This means having convenient locations, filling orders promptly and accurately, and processing credit purchases. Now days, some retailers also provide customer service such as delivery and installation especially in furniture business industry it is the most important thing to serve customer better. To make themselves even more appealing, many firms now engage in multi channel retailing whereby a retailer sells to consumers through multiple retail format or point of contact. Most of them operate both physical stores and web sites to make shopping easier and to accommodate consumer desires or through mail orders catalogs (Berman and Evans, 2004). This framework shows in the figure below.

Figure 2.7 a Typical Channel of Distribution



Source: B. Berman and J.R. Evans, *Retail Management*, 2004, p.7

2.9. Store Based Strategy Mix

Berman and Evans (2004, p.105) underscore a retailer may be categorized by its strategy mix, the company's particular combination of store location, operating procedures, goods or services offered, pricing tactics, store atmosphere and customer services, and promotional methods. Store location refers to the use of a store or nonstore format, placement in a geographic area, and the kind of site.

Operating procedures includes the kinds of personnel employed, management style, store hours, and other factors. The goods or services offered may encompass several product categories, a quality of product (low, medium or high). Pricing refers to a retailer's use of prestige pricing, competitive pricing (setting prices at the level of rivals), or penetration pricing (under pricing). Store atmosphere and customer services are reflected by the physical facilities and personal attention provided, return policies, delivery and installation.

Promotion involves activities in such areas as advertising, display products, personal selling, and sales promotion. By combination these element above, a retailer can develop and explore a unique strategy to become destination retailer.

There are many way to be a destination retailer:

1. Be price oriented and cost efficient to attract price sensitive shoppers
2. Be upscale to attract full service and status conscious consumers
3. Offer a dominant assortment in the product lines carried to appeal to consumers interested in variety and in store shopping comparisons
4. Be innovative or exclusive and provide a unique way of operating or carry products / brands exclusive

2.10. Pricing in Retailing

Berman and Evans (2004, p.415) explain there are three basic pricing options for a retailer:

1. A discount orientation uses low prices as the major competitive advantage. A low price image and low per unit profit margins mean a target market of price oriented customers, low operating cost and also high inventory turnover.
2. With an at the market orientation, the retailer has average prices. It offers solid service and a nice atmosphere to middle class shoppers. Profit margins are moderate to good and the company may find it hard to expand its price range.

3. Through an upscale orientation, a prestigious image is the retailer's major competitive advantage. A smaller target market, very exclusive customer, higher expenses and lower turnover mean customer loyalty, distinctive services and products, and also high per unit profit margins.

In so many cases the retail companies are used to one price policy, a retailer charges the same price to all customers buying an item under similar conditions. This policy may be used together with customary pricing or variable pricing. With variable pricing, all customers interested in a particular section of concert seats would pay the same price. This approach is easy to manage, does not required skilled salespeople, makes shopping quicker, permit self service, and put consumers under less pressure.

2.11. Competition and Retail Pricing

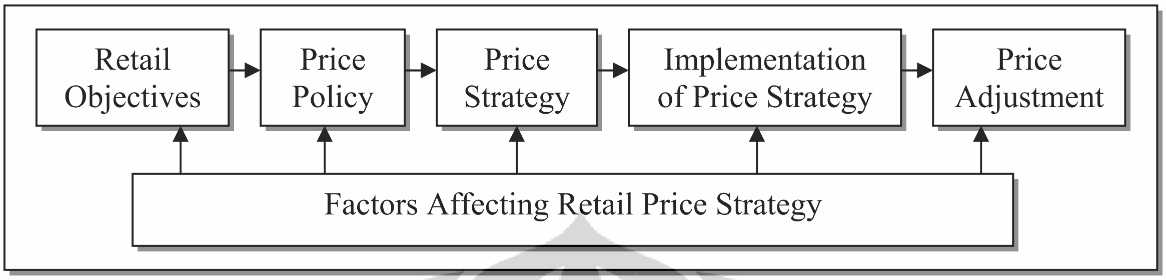
Market pricing occurs when shoppers have a large choice of retailers. For instance, retailers often price similarly to each other and have less control over price because consumers can easily shop around. Demand for specific retailers may be weak enough so that some customers would switch to a competitor is prices are raised much.

With administered pricing, firms seek to attract consumers on the basis of distinctive retailing mixes. This occurs when people consider image, assortment, service, and they are willing to pay above average prices to unique retailers. Most price oriented strategies can be quickly copied. Thus, the reaction of competitors is predictable when the leading firm is successful.

This means a price strategy should be viewed from both short run and long run perspectives. If competition becomes too intense, a price war may erupt whereby various firms continually lower prices below regular amounts and sometimes below their cost to lure consumers from competitors. Price wars are sometimes difficult to end and can lead to low profits, losses, or even bankruptcy for some competitors. This is especially so for web retailers.

A retail price strategy has five steps: retail objectives, broad price policy, price strategy, implementation of price strategy, and price adjustment. Pricing policies must be integrated with the total retail mix. The process can be complex due to the often erratic nature of demand, the number of items carried, and the impact of the external factors already noted (Berman and Evans, 2004). This framework shows in the figure below.

Figure 2.8 a Framework for Developing a Retail Price Strategy



Source: B. Berman and J.R. Evans, *Retail Management*, 2004, p.422

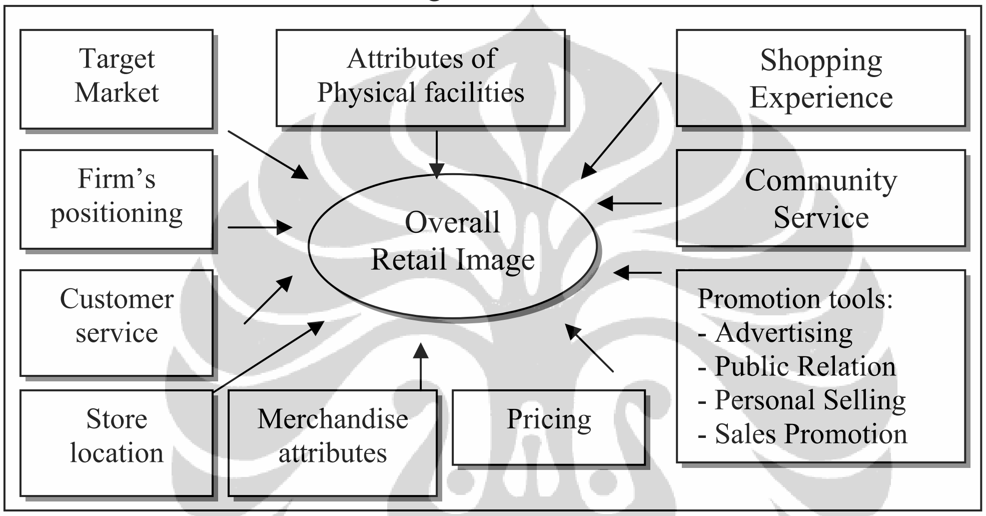
A retailer's pricing strategy has to reflect its overall goals and be related to sales and profits. There must also be specific pricing goals to avoid such potential problems as confusing people by having too many prices, spending too mush bargaining with customers, offering frequent discounts to stimulate customer traffic, having inadequate profit margins and placing too much emphasis on price.

Sales goals may be stated in terms of revenues and or unit volume. An aggressive strategy, known as market penetration pricing is used when a retailer seeks large revenues by setting low prices and selling many units. Profit per unit us low, but total profit is high as long as sales projections reached. In the other side with a market skimming pricing strategy, a firm sets premium prices and attracts customers less concerned with price than service, assortment, and prestige. It usually does not maximize sales but does achieve high profit per unit. It is proper if the targeted segment is price insensitive, new competitors are unlikely to enter the market, added sales will greatly increase retail costs.

2.12. A Retail Image

A retailer's image depends heavily on its atmosphere, the psychological feeling a customer gets when visiting that retailer. It is the personality of the store, catalogue, or website. A retailer's atmosphere may influence people's shopping enjoyment, as well as their time spent browsing, willingness to converse with personnel, tendency to spend more than originally planned. May people even form impressions of a retailer before entering its facilities (due store location, storefront and the other factors) or just after entering (due to displays, width of aisles and other things). They often judge the firm prior to examining merchandise and prices. When a retailer takes a proactive, integrated atmospherics approach to create a certain "look", properly display products, stimulate shopping behavior, and enhance the physical environment, it engage in visual merchandising. The element shows in this figure below.

Figure 2.9 the Element of Retail Image



Source: B. Berman and J.R. Evans, *Retail Management*, 2004, p.452

According to Tom Lyons, www.cahilldisplay.com/resources.htm (August 16, 2008), an interior design firm, visual merchandising is more than the enhancement of retail space for the purpose of increasing sales. By creatively using lighting, props, and customized display, selling space can inform, stimulate the sense, entertain, and ultimately reinforce the shopper's relationship with the product.

A store with state of the art technology impresses people with its operations efficiency and speed. A store with a modern building (new storefront and marquee) and new fixtures (lights, floors, and walls) fosters a more favorable atmosphere than one with older facilities. Remodeling can improve store appearance, update facilities, and reallocate space. It typically results in strong sales and profit increases after completion, and last there must be a plan for keeping the store clean.

The space for each product category is now calculated, with both selling and non-selling space considered. There are two different approaches:

1. The model stock method, determines the floor space necessary to carry and display a proper merchandise assortment.
2. The space productivity ratio, assign floor space on the basis of sales or profit per meter square. Highly profitable product categories get large chunks of space, marginally profitable categories get less. Actually furniture store, food store, and bookstore are among those that use this technique.

The other store image planning is arranging individual products. The most profitable items and brands could be paced in the best location, and product could be arranged by package size, price, color, brand, level of personal service required, and or customer interest. End aisle display positions, eye level positions, and checkout counter positions are the most likely to increase sales for individual items. Continuity of locations is also important; shift in store layout may decrease sales by confusing shopper. Retailer goals often differ from their manufacturers. While the latter want to maximize their brands' sales and push for eye level, full shelf, and end aisle locations, retailer seeks to maximize total store sales and profit, regardless of brand. Self service retailers have specials considerations, besides using a gridiron layout to maximize shopper confusion; they must clearly mark aisles, displays, and merchandise.

Once store layout is fully detailed, a retailer devises its interior displays. Each point of purchase (POP) display provides shopper with information, adds to store atmosphere, and serves a substantial promotional role. Based on "The point of purchase advertising industry", www.popai.com/about/pop_industry.html (March 9, 2003), *POP advertising is persuasive*. Serving as the last three feet of the marketing plan, it is the only mass medium executed at the critical point of confluence for three elements needed for any commercial transaction: the product, the consumer, and the price to purchase the product. With 74% of all purchase decisions in mass merchandise made in store, an increasing number of brand marketers and retailer invest in this medium. *POP advertising serves as the silent salesperson*. Displays, signs, and in store media educate and inform consumers about product availability and attributes. Coming at a time when retailers have reduced staffing levels, POP performs a vital service and augments cost reduction efforts. *POP advertising is flexible*. It is the only mass advertising medium that can convey the same overall strategic message in differing languages to varying audiences. *POP advertising is increasingly sophisticated in its construction and utilization.* POP is more easily assembled and maintained and at the same time more powerful in entertaining and informing in the retail environment. *POP advertising is used increasingly by retailers to enhance the shopping experience.* It is used to help overhaul a store's image, redirect store traffic, and bolster merchandising plans.

A theme setting display depicts a product offering in a thematic manner and sets a specific mood. Retailers often vary their displays to reflect special event. Each special theme seeks to attract attention and make shopping more fun. In furniture industry, a theme setting display is the most important thing to attract consumer and make them believe that product is true compatible and required to decorate their house content. In other side, with an ensemble display, a complete product bundle is presented rather than showing merchandise is separate categories such as bed room set at least consists of bed, wardrobe, and console.

2.13. The Retail Promotional Mix

Retail promotion includes any communication by a retailer that informs, persuades, and or reminds the target market about any aspect of that firm. Retailers usually have more geographically concentrated target markets than manufactures. It means they can adapt better to local needs, habits, and preferences. However, many retailers are unable to utilize national media as readily as manufacturers. An exception is direct marketing including website because trading areas for even small firms can be geographically dispersed. Many retailers stress prices in ads, whereas manufacturers usually emphasize key product attributes. In addition, retailers often display several different products in one ad, whereas manufacturers tend to minimize the number of products mentioned in a single ad.

Berman and Evans (2004) mention a retailer would select one or more of these goals and base advertising efforts in it:

1. Lifting short term sales
2. Stimulate impulse and reminder buying
3. Increasing customer traffic
4. Developing and or reinforcing a retail image

5. Informing customers about goods and services and or company attributes
6. Easing the job for sales personnel
7. Developing demand for private brands.
8. Maintain customer loyalty

The major advantages of advertising are that:

1. A large audience is attracted. And for print media, circulation is supplemented by the passing of a copy from one reader to another
2. The cost per viewer, reader, or listener are low
3. A number of alternative media are available, so a retailer can match a medium to the target market
4. The retailer has control over message content, graphics, timing, and size, so a standardized message in a chosen format can be delivered to the entire audience
5. In print media, a message can be studied and restudied by the target market
6. Self service or reduced service operations are possible since a customer becomes aware of a retailer and its offerings before shopping

The major disadvantages of advertising are that:

1. Standardized message lack flexibility (except for the web and its interactive nature). The do not focus on the needs of individual customers
2. Some media require large investments. This may reduce the access of small firms
3. Media may reach large geographic areas, and for retailers, this may be wasteful. A small store chain might find that only 40% of an audience resides in its trading area.
4. Some media require a long lead time for placing ads. This reduces the ability to advertise fad items or to react to some current events themes
5. A 30 second TV commercial or small newspaper ad does not have many details information

It is vital to state goals as precisely as possible to give direction to the choice of promotional types, media, and message. With that goal, a firm could prepare a thorough promotional plan and evaluate its success. Perhaps the most vital long term promotion goal for any retailer is to gain positive word of mouth (WOM), which occurs when consumer talks to other. If a satisfied customer refers friends to a retailer, this can build into a chain of customers. No retailer can succeed if it receives extensive negative WOM. Negative WOM will cause a firm to lose substantial business. Service retailers, even more than goods oriented retailers, must have positive WOM to attract and retain customers. They credit WOM referrals with generating most new customers.

2.13.1. Establishing Promotional Budget

Berman and Evans (2004, p.490) explain there are five main procedures for setting the size of a retail promotional budget. Retailers should weigh the strengths and weaknesses of each technique in relation to their own requirements and constraints:

1. All you can afford method

   A retailer first allots funds for each element of the retail strategy mix except promotion. The remaining funds go to promotion. Its shortcoming is that little emphasis is placed on promotion as a strategic variable, expenditures are not linked to goals, and if little or no funds are left over, the promotion budget is too small or nonexistent. The method is used predominantly by small, conservative retailers.

2. The incremental method

   A percentage is either added to or subtracted from one year's budget to determine the next years. The budget is adjusted based on the firm's feeling about past successes and future trends.

3. The competitive parity method

   A retailer's promotion budget is raised or lowered based on competitor's action. This method is useful for small and large firms, uses a comparison point and is market oriented and conservative. It is also imitative approach, takes for granted that tough to get competitive data are available, and assume the competitors are similar (as to years in business, target market, prices, etc)

4. The percentage of sales method

   A retailer ties its promotion budget to revenue. A promotion to sales ratio is developed. Then, during succeeding years, this ratio remains constant. This process uses sales as a base, is adaptable, and correlates promotion and sales. Nonetheless, there is no relation to goals (for an established firm, sales growth may not require increased promotion), promotion is not used to leas sales, and promotion drops during poor periods, when increase might be helpful. This technique provides excess financing in times of high sales and too few in periods of low sales.

5. The objective and task method

   A retailer clearly defines its promotion goals and prepares a budget to satisfy them. The objective and task method is the best budgeting technique. Goals are clear, spending relates to goal oriented tasks, and performance can be assesses. It can be time consuming and complex to set goals and specific tasks, especially for small retailer.

2.13.2. Selecting the Promotion Mix

Berman and Evans (2004, p.491) mention the promotional mix is affected by the type of retailer involved. A firm with limited budget may rely on store display, flyers, targeted direct mail, website, and publicity to generate customer traffic, while one with a big budget may rely more on newspaper and TV ads. In modern retails, sampling, frequent hopper promotions, theme sales, and bonus coupons are among the technique used most. In reacting to a retailer's communication efforts, consumers often go to through a sequence of steps known as the hierarchy of effects, which takes them from awareness to knowledge to linking to preference to conviction to purchase. Different promotional mixes are needed in each activity. Ads and public relations are best to develop awareness, personal selling and sales promotion are best in changing attitudes and stimulating desires.

The implementation of a promotional mix involves choosing which specific media to use, timing and message content, the makeup of the sales force, specific sales promotion tools, and the responsibility for coordination. The choice of specific media is based on their overall costs, efficiency (the cost to reach the target market), lead time, and editorial content. Overall costs are important since heavy use of one expensive medium may preclude a balanced promotional mix, and a firm may not be able to repeat a message in a costly medium. A medium's efficiency relates to the cost of reaching a given number of target customers.

2.14. Technology in Retailing

Technology as a catalyst is beneficial to retailing relationships if it facilities a better communication flow between retailers and their customers as well as between retailers and their suppliers and if there are faster more dependable transactions.

These two points should be considered technology in retailing. First, the role of technology and human must be clear and consistent with the objectives and style of that business. Although technology can be a great aid in providing customer service, it can become overloaded and break down. New technology must be set up as efficiently as possible with minimal disruptions to suppliers, employees, and customers. Second, customer expects certain operations to be in place, so they can rapidly complete credit transactions, get feedback on product availability and so on. Firms have to deploy advances simply to be competitive. By enacting other advances, they can carve out differential advantages (Lewis, 2002).

2.14.1. An Internet Marketing in Retailing

Today, more and more people are using the internet as a medium for product marketing. The choice of the internet is due to its low cost, allowing producers to reduce their marketing spending. Internet marketing or online marketing, has bought unique benefits to the marketing process. One factor that makes internet transaction popular is that it allows people to respond instantly to product posting, regardless of where they are on the globe, so anywhere, anyplace, and anytime a consumer can access the product and make a transaction more quickly and safety.

The development of internet marketing is closely linked to advantages that it offers both producers and consumers. For consumers, there is much greater access to product information and pricing, greatly facilitating the buying process. Consumer can visit a website, browse the products the want, and the decide whether or not to buy. For producers, internet marketing can greatly reduce their marketing and sales costs as well as expand the scope of their business from local to national or even international. Like other types of technology, the internet has its limitations. A slow internet connection is one of the most common problems. A slow connection can make it impossible for customers to access information or to place orders. Another internet marketing limitation is that it does not allow prospective customers to touch, feel, taste, or smell products on offer.

There is the obstacle of payment methods. Payment through internet is usually limited to e-checks and credit cards, which is problematic for those who do not have credit cards or if banks experience glitches in their network. More attention must be given to the security of internet transactions. Seller and consumers alike need to be vigilant, given that some website owners have been involved in fraud under the guise of internet marketing. Although it has its limitations, internet marketing is perhaps the most important alternative method to traditional media marketing and it often costs less, too (Indra Refipal Sembiring, 2007)

Kotler *et al* (2006) also explain the internet gives today's companies a new set of capabilities:

1. Companies can operate powerful new information and sales channel, the internet with augmented geographical reach to inform and promote their business and products worldwide. By establishing one or more websites, a company can list its products and services. Unlike the ads and brochures of the past, the internet permits them to transmit an almost unlimited amount of information.
2. Companies can collect fuller and richer information about markets, customers, prospects, and competitors. They can also conduct fresh marketing research using the internet to arrange for focus groups, send out questionnaires, and gather primary data in several other ways.
3. Companies can have two way communications with customers and prospects, and more efficient transactions. The internet makes it easy for individuals to email companies and receives replies, and more companies today are developing extranet with suppliers and distributors for sending and receiving information, placing orders, and making payments more efficiently.
4. Companies are now able to send ads, coupons, samples, and information to customers who have requested these items or have given the company permission to send them.

5. Companies can customize offering and services by using database information on the number of visitor to their websites and visit frequency
6. Companies can improve purchasing, recruiting, training, and internal and external communications
7. Companies can achieve substantial savings by using the internet to compare sellers' piece, and to purchase material at auction or by posting their own terms
8. Companies can improve logistics and operations for substantial cost saving while improving accuracy and service quality. The internet provides a more accurate and faster way to send and receive information, orders, transactions, and payments between companies, their business partners, and their customers.

2.15. Financial Analysis

The consideration to make investment in this case is market development, companies need accounting information as one of elementary important to take choice investment. Accounting information is packed into decision models that have the shape of criterion of investment assessment to enable management selects best investment among available investment alternatives (Ross, Westerfield, Jaffe, & Jordan, 2008, p.161). Three methods to determine whether company needs this investment or not:

1. Payback Period

   The payback period is the lengths of time until the sum of an investment's cash flow equal its cost. The payback period rule is to take a project if its payback is less than some cutoff. The formula of payback period is:

   Table 2.1 the formula of payback period

$$\text{Payback period} = \frac{\text{Investment}}{\text{Proceed}}$$

   Source: S.A. Ross, R.W. Westerfield, J. Jaffe, & B.D. Jordan, *Modern Financial Management,* 2008, p.163

2. Net Present Value (NPV)

   The NPV of investment is the different between its market value and its cost. The NPV rule is to take project of its NPV is positive. NPV is frequently estimated by calculating the present value of the future cash flows (to estimate market value) and then subtracting the cost. NPV has no serious errors; it is the preferred decision criteria. The formula of NPV is:

   Table 2.2 the formula of NPV

NPV = present value from operation cash flow – initial net cash expenditure

$$NPV = -Io + \sum \frac{CFt}{(1 + r)^{t}}$$

Io = investment value or initial outlays

CFt = cash flow at the end of period t

r = discount rate

t = project age.

Source: S.A. Ross, R.W. Westerfield, J. Jaffe, & B.D. Jordan, *Modern Financial Management*, 2008, p. 162

3. Internal Rate of Return (IRR)

   The IRR is the discount rate that makes the estimated NPV of an investment equal to zero. It is sometimes called the discounted cash flow return. The IRR rule is to take a project when its IRR exceeds the required return. IRR is closely related to NPV, and its lead too exactly to same decisions as NPV for conventional and independent project. IRR can be formulated as:

   Table 2.3 the formula of IRR

$$NPV = \sum_{t=0}^{n} \frac{CFt}{(1 + IRR)^{t}} - IO = 0$$

Source: S.A. Ross, R.W. Westerfield, J. Jaffe, & B.D. Jordan, *Modern Financial Management*, 2008, p.169

Where: CFt = Cash flow at the end of period t

IRR = Discount Rate

IO = Initial Outlay

If, IRR > Cost of Capital, shows investment that will be done can result higher return than what we expected before.

If IRR < cost of capital, shows investment that will be done can result smaller return than what we expected before

If IRR = Cost of Capital shows investment that will be done can result return same as what we expected.

Finally, this business plan will evaluate the best corporate strategy especially in retail business concept in giving every special offer to influence customer come to store. Promotion strategy, customer service, easy to make transaction, range product that offered come up with the cheapest price guarantee is matter that has been usual in retail business.

Because of hyper competition, the company has to make unique and creative offer and also realize with their competencies or SWOT analysis. The operational retail expense is also becomes an importance matter to be more attention especially in managing cost efficiency, so it's needed innovative way to speed up and help every transaction between store and consumer. In consequence, it is a must to manage operational retail business more efficient and effective in order to help competition in the market and can influence consumer behavior to become loyal consumer.