

Scrambled merchandising to upgrade the retailing sector in Sri Lanka

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Abstract

Scrambled merchandising is a nationally and internationally renowned concept in the retailing sector to make life better and more enjoyable. With scrambled merchandising, retailers add goods and services that are unrelated to each other and its original business to increase overall sales and profits. Scrambled merchandising is the fastest developing retailing system followed by the majority of retailers in the world and it is self-defense. This is a somewhat new concept to Sri Lankan retailers, therefore they are not much aware of this concept and no research could be found in the Sri Lankan context. Drugstores, bookstores, florists, video stores, and photo-developing firms are all affected by supermarket scrambled merchandising. The research was conducted to identify why retailers in Sri Lanka tend to use scrambled merchandising and its importance to upgrade their business. The survey method was used as the main research method and further in-depth interviews were held with retailers covering two provinces, namely Southern and Sabaragamuwa provinces. The practice of scrambled merchandising concept was examined on three key variables such as customer loyalty, customer base and market share before and after the scrambling of the businesses. The study showed that after the scrambling the businesses variables had taken a positive impact towards the business and their customer loyalty, customer base and market share have been significantly enhanced. According to the statistics, it was revealed that through a higher customer loyalty, customer base and market share, retailers can increase their sales volume and earn more profits in the long run. Accordingly, if retailers successfully follow this concept they could maximize their profits and thereby achieve organizational goals and objectives effectively and efficiently.

Key Words- scrambled merchandising, customer loyalty, customer base, market share

Introduction

The core of marketing is to identify the target customers' needs and wants of the firm and satisfy them more efficiently and effectively than competitors do (Kotler & Armstrong, 2006). Since retailers sell the goods and services to consumers for their personal, family or household consumption, retailers play a major role in satisfying their target customers and fulfilling their needs and wants. Commencing a business is a challenging task, running it is even more challenging. In Sri Lanka, a large number of retailing shops are started in every part of the country, but most of these run their shops with many difficulties since they have poor strategies. When the business becomes mature in the product life cycle, successful marketers follow well integrated strategies to run their business well. In this context scrambled merchandising is a nationally and internationally renowned concept in retailing sector to make life better and more enjoyable. Scrambled merchandising involves a retailer increasing its width of assortment (the number of product categories carried). Scrambled merchandising occurs when retailers add goods and services that are unrelated to each other and its original business to increase overall sales and profits. Then scrambled merchandising has the tendency to offer a wide variety of non-traditional goods and services under one roof. Drugstores, bookstores, florists, video stores, and photo-developing firms are all affected by supermarket scrambled merchandising (Berman & Evans, 2004).

When considering the Sri Lankan retailing sector, the majority of Sri Lankan retailers still follows the traditional retailing system. They are not much aware of new marketing strategies. The scrambled merchandising concept is not a new one, but its scope

and practice is being rapidly expanded throughout the world. Eventhough in Sri Lanka this concept is being followed, retailers do not have sufficient knowledge about this and they have added more product categories to their retailing shops just to have more sales and more profits, but they do not follow well integrated marketing strategies to achieve their objectives. If retailers can follow this concept well, a significant and growing proportion of sales can be achieved. This concept is contrasted to the department store, where each separate store possesses only one category of product item. In that case, customers have to visit different shops for different product categories. In retailing shops where scrambled merchandising concept is followed, customers can purchase different product categories and can satisfy all their needs and wants under one roof. But retailers have to implement successful strategies to attract customers.

The retailers could find the following benefits such as increasing customer loyalty, increasing the customer base, expansion of the market share, increasing their overall revenues, selling of highly profitable goods and services more quickly and earning profits and utilizing the resources fully and facing the competition effectively. Further they are able to make more impulse purchases to customers as people like one-stop shopping and can increase seasonal sales.

Objectives of the study

Primary objective of this study is to identify the practice and validity of scrambled merchandising concept in Sri Lanka. Since the concept is new to Sri Lanka, this study attempts to evaluate the validity of the concept in the Sri Lankan retailing sector. Further it is going to evaluate the importance of practicing this concept to upgrade the retailing sector in Sri Lanka.

Methodology

The research was focused to identify the research problem whether the impact of scramble merchandising strategy leads to achieving the organizational goals and objectives. The survey was used as the main research method and further in-depth interviews were held with retailers covering two provinces named Southern and Sabaragamuwa. The sample included forty eight shops covering the two provinces. Three kinds of retail shops namely pharmacy, bookshop and shoe store were selected to collect data. In one category eight shops were selected in each province.

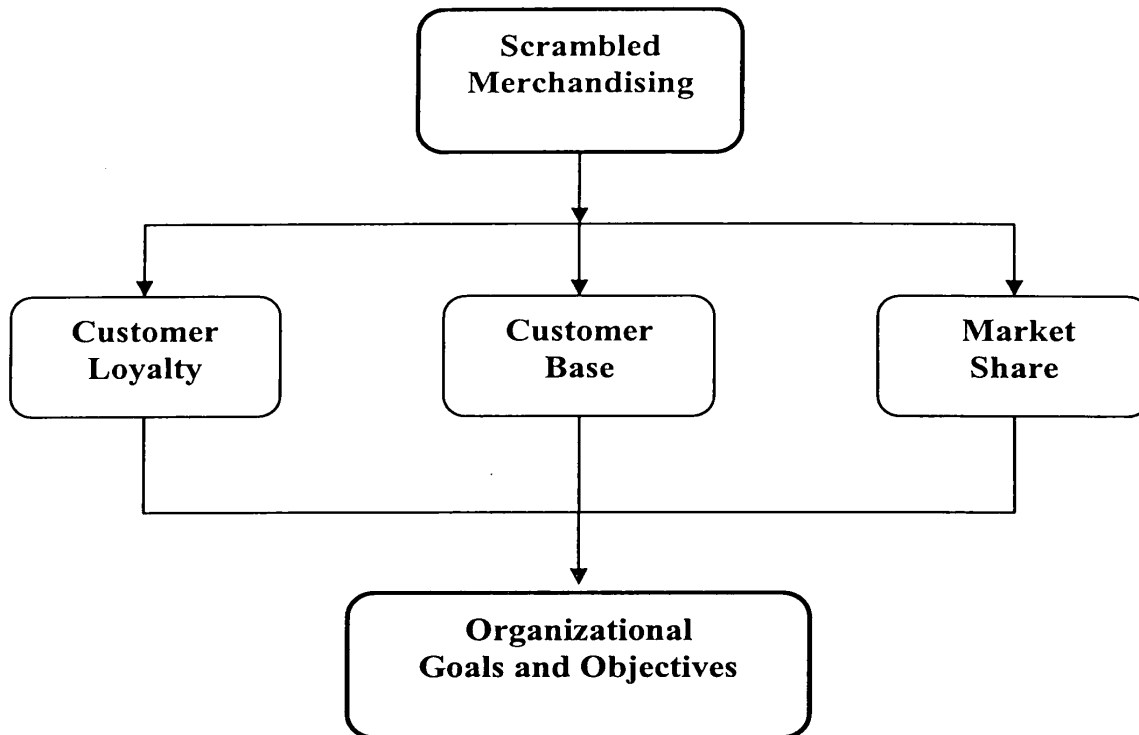
Researchers attempted to scrutinize whether the strategy of Scrambled Merchandising successfully leads the organization towards increased customer loyalty, strong customer base and higher market share. Thus, the key variables of the study were customer loyalty, customer base and market share. Further the researchers could find out a wide range of product categories in scrambled product mix. But this study had to confine the scrambled mix into a selected number of products, since some products do not effectively contribute to the scrambled mix.

Conceptual framework

Any profit oriented or non-profit oriented organizations have their own organizational goals and objectives to achieve in the long-run. When considering business organizations, their main long-term objective is to earn more profits and survive in the market. Especially, when a business organization runs their activities for a long time, they have to follow sound strategies to achieve their own organizational goals and objectives. In this context, scrambled merchandising is a sound marketing strategy that could be followed by retail organizations in Sri Lanka.

The framework assumes that achieving organizational goals and objectives in a business organization basically depends on three factors, i.e. Customer Loyalty, Customer

Base, and Market Share. The framework further shows that the scrambled merchandising exerts a positive impact on the above variables and such impact positively contributes to achieve the organizational goals and objectives.



Customer loyalty

Loyalty is defined as repeated purchases of a particular product or service during a certain period of time (Yi & Jeon, 2003). Building a strong brand loyalty is not an easy task, because loyalty operates in a psychological and competitive context (Chakrapani, 1998). Based on the definition of brand loyalty presented by Jacoby & Chestnut (1978), Mellens et al. (1996) identify the measures for brand loyalty as (a) biased, (b) behavioural response, (c) expressed over time, (d) by some decision-making unit, (e) with respect to one or more alternative brands out of a set of such brands, and (f) is a function of psychological (decision-making evaluative) process. Accordingly, they identify four measures of brand loyalty as attitudinal measures versus behavioural measures and brand-oriented measures versus individual-oriented measures. Oliver (1997) defines loyalty as “a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour” (Oliver, 1999; PP: 34).

Customer base

The customer base is the group of customers that a company serves. Hence, the customer base represents the flow of customers who are currently served by the company. The customer base of a retail store would be considered as the customers who currently frequent the store. The customer base for service providers such as an attorney, dentist or plumber would be those clients who enjoy the service repeatedly. Properly managed customer base can be leveraged as the foundation for future revenue and profit margin growth. (<http://www.askjim.biz/answers/customer-base-definition>)

Market share

The percentage of the total sales of a given type of product or service that is attributable to a particular product, service, brand or company. In the case of competition in the market, the whole market is shared among the number of competitors who play in the field. In a monopoly type situation, the whole market is controlled by a single player. In contrast, most situations are characterized by competitiveness and the market is distributed among the players in the market. Each player attempts to have a substantial share of the market and expand it gradually to earn healthy profits. The market share could be measured by having the number of customers of patronage or sales volume of a particular product, service, or a company. Market share commands the attention of business managers as key indices for measuring the performance of a product or brand in the market place (Cooper, L G & Nakanishi, M, 1996).

Literature review

Even though this strategy is being practiced from the past, the concept is new to modern society. Therefore, no research could be found in Sri Lanka about this concept and very few in the world. John McFall (1969) has conducted a research on "Priority Patterns and Consumer Behavior". He points out how marketing strategy can be made more effective by adopting a cluster approach to product sets. Further he has tried to examine the procedure followed by consumers in acquiring the sets of durables which make up their households.

Robert De Young and Karin P Roland have conducted a research on "Product mix and earnings volatility at commercial banks: evidence from a degree of leverage model". Since commercial banks are also starting to follow this concept, the scope of banking is rapidly changing today. Especially in Sri Lanka, deposit-taking, lending, leasing and mortgage servicing are now been practiced in the banking sector. In addition, in Sri Lanka, Seylan Bank has introduced a life insurance scheme too.

Results and discussion

As consumers, people daily consume a great deal of goods and services. To purchase those goods and services, they have to visit a number of retailing shops a day. Consumers directly deal with retailers not with producers or intermediaries to purchase products for their ultimate consumption. Therefore retailers' interaction with consumers is highly important. In every part of Sri Lanka, retailing shops are running their business activities to achieve their objectives, basically earning higher sales volume and profit margins. Most retailing shops at village level as well in the city practice the scrambled merchandising concept today to achieve the above objectives.

For this research, three main categories of Sri Lankan retailing shops, a shoe store, a pharmacy and a bookshop were selected. Pharmacies, bookshops and shoe stores are the three main categories of retailing shops in Sri Lanka that mostly followed this scrambled merchandising concept. To examine their practice and validity in Sri Lankan retailing context, they were evaluated on three variables: customer loyalty, customer base and market share. Table 1 shows the sample of retailing shops which were selected for the research study. Further, the research covered two provinces, namely Southern and Sabaragamuwa, as indicated in Table 1. In both provinces there are a many of the above categories of retailing shops following this concept. Sixteen interviews were held for each retailing category, eight interviews in each province, totalling forty eight in-depth interviews for the three main retailing categories in the two provinces.

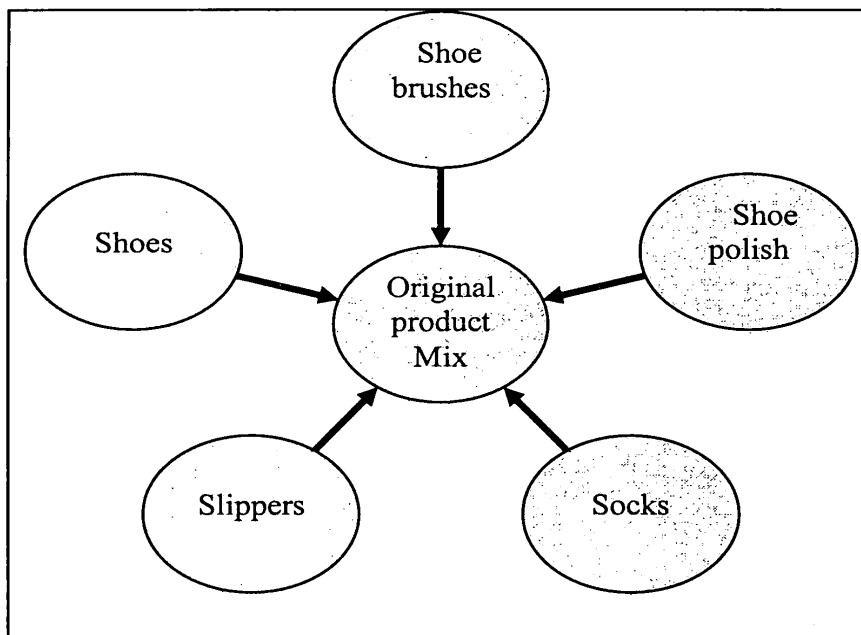
Table 1. Outline of the sampling retailing shops

Category	Southern Province	Sabaragamuwa Province	Total
Shoe store	08	08	16
Pharmacy	08	08	16
Bookshop	08	08	16

(Source: survey data, 2006)

Product mix by a shoe store

Among the retailing shops in Sri Lanka, shoe stores are a very important category since all consumers normally consume these products. With socialization human beings have to wear clothes. Shoes also go together with clothes and they have become a necessary product in day to day life. Today all people irrespective of age or sex (men, women, elders and children) wear shoes. Especially today, people do not merely wear these products, but use them as fashion.

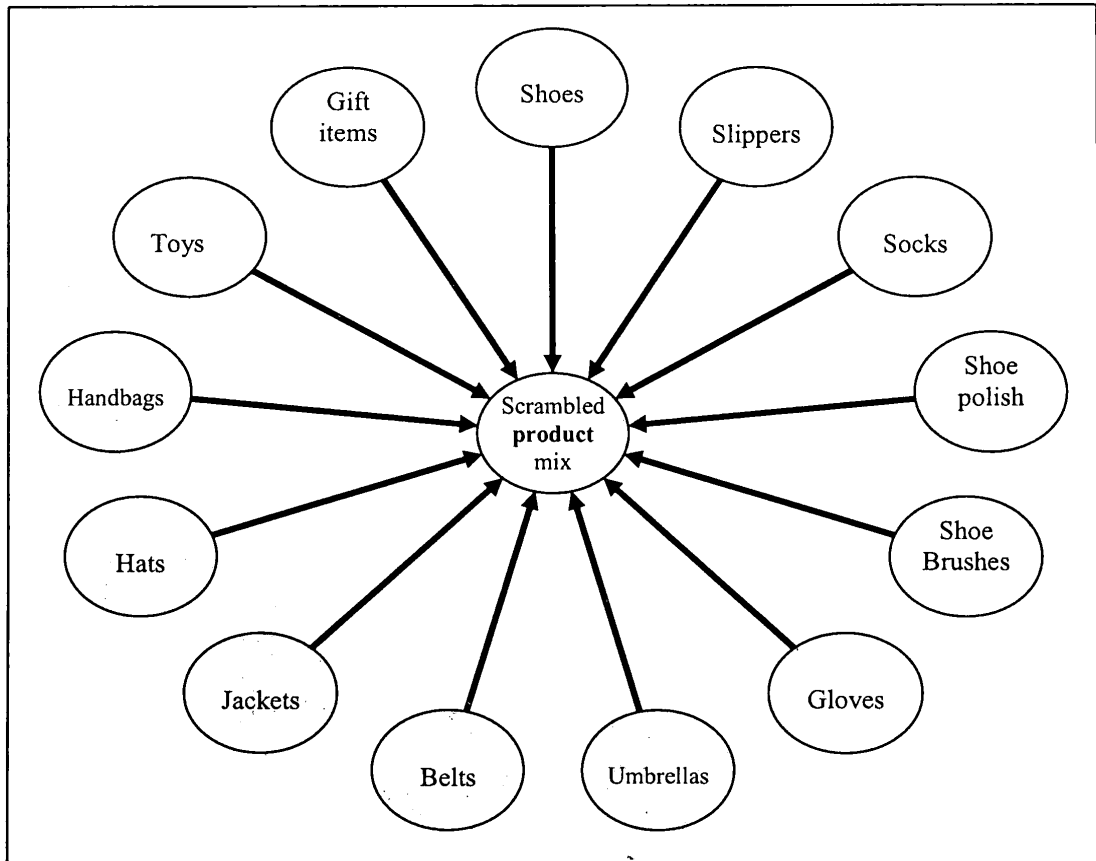


(Source: survey data, 2006)

Figure 1. Original product mix by a shoe store

Figure 1 shows that the original product mix traditionally sold at a shoe store. It shows that traditional items such as shoes, slippers, socks, shoe polish and shoe brushes are sold at shoe stores. The traditional retailing shops that sell these items can be seen in all parts of the country, therefore traditional consumers visit these shops daily to purchase the above items. Even though traditional products were earlier sold at shoe stores, today their categories of products have expanded. Figure 2 shows that new retail owners following the scrambled merchandising concept sell a wide range of product items such as gloves, umbrellas, belts, jackets, hats, handbags, toys, and gift items etc, in addition to the traditional items.

Today, consumers who expect more product categories under one roof and wish to enjoy themselves when shopping, can visit these retailing shops where a wide range of product categories are available. When paying the attention to the above product categories, it is clear that they are related to the main product items, and it is easier to save time and energy if consumers visit these shops. When consumers are shopping, it is possible to purchase items such as shoes, hats, hand bags, toys for the children, and gift items together. In DSI shoe stores, a wide variety of unrelated items such as pots of jam, sambol, chutney, lime pickle and bottles of cordial products coming under the Samson Group are also available as new product items. In this context, DSI have more opportunities to satisfy their loyal customers and achieve a higher market share.



(Source: survey data, 2006)

Figure 2. Scrambled product mix by a shoe store

Table 2 shows the responses of the retailers of shoe stores for the three variables namely, customer loyalty, customer base and market share. It further shows that the three variables examined before and after scrambling. Only 20% agreed that there is customer loyalty before scrambling. 50% of respondents were neutral and 30% disagreed. This means while 20% agreed that they have customer loyalty, 30% responded that they do not have satisfactory customer loyalty. 50% neither agreed nor disagreed. But after scrambling the business, 75% of retailers in the sample agreed that there is adequate customer loyalty. Only 25% were neutral and no retailer disagreed. It means that after scrambling the retailers observed an increased level of customer loyalty.

Table 2. Comparative evaluation of sampling responses - shoe store

Response	Variables					
	Customer Loyalty		Customer Base		Market Share	
	Before	After	Before	After	Before	After
Agree	20%	75%	30%	80%	30%	90%
Neutral	50%	25%	50%	20%	50%	10%
Disagree	30%	-	20%	-	20%	-
	100%	100%	100%	100%	100%	100%

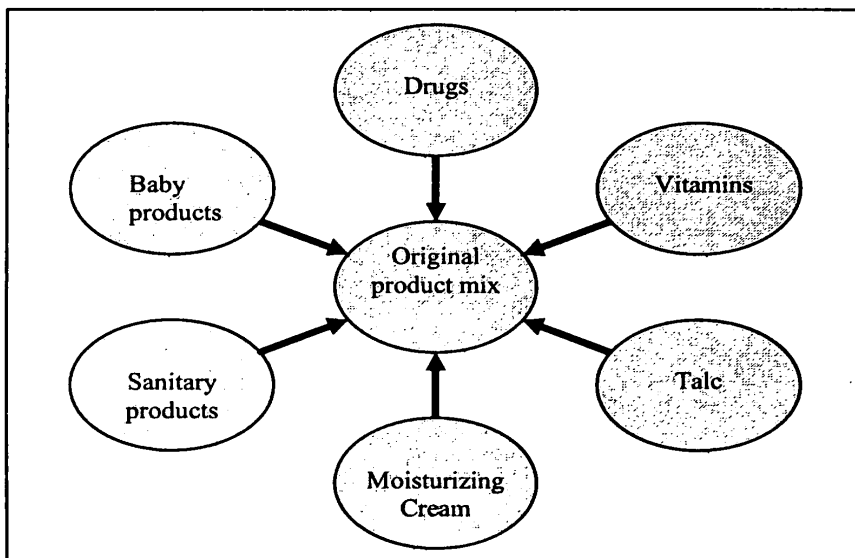
(Source: survey data, 2006)

As far as the customer base is concerned, before scrambling 30% of retailers agreed that there is an adequate customer base, 50% were neutral and 20% responded that they do not have a sound customer base. After scrambling, 80% of retailers agreed that they have a strong customer base. It shows that since they have a wide range of product categories, the retailers have a good customer base. Only 20% were neutral and no retailer thought that they did not have a customer base after scrambling.

In the case of market share, before scrambling, only 30% of retailers agreed that there is a satisfactory market share, 50% were neutral and 20% disagreed. But after scrambling majority of retailers have agreed that they have expanded their market share significantly. Since it proves by 90% it clearly shows that after scrambling the market share has been expanded widely and retailers enjoy with higher market share.

Product mix by a pharmacy

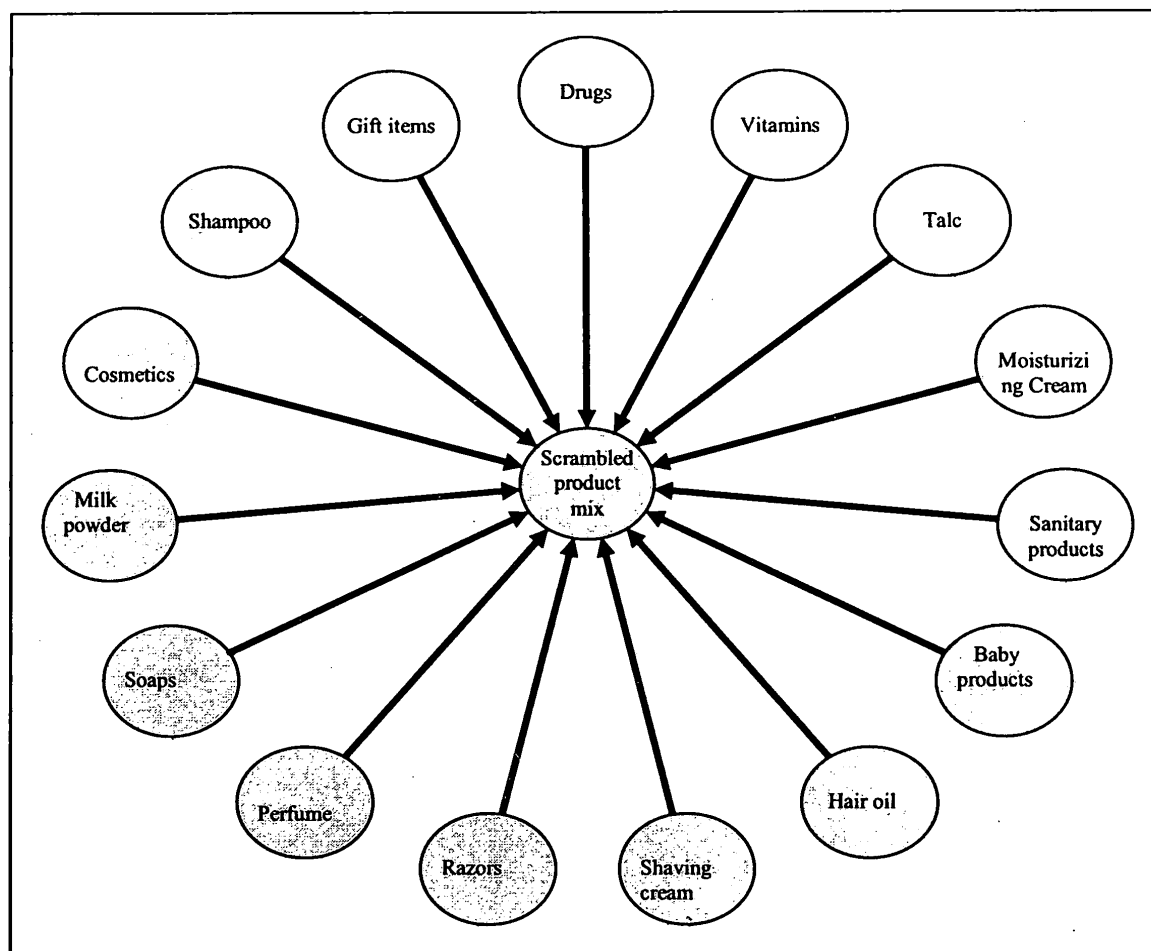
Since all people in the world suffer from diseases they have to visit pharmacies regularly. Further, there is a greater possibility of opening more pharmacies, since the demand for pharmacy products has increased.



(Source: survey data, 2006)

Figure 3. Original product mix by a pharmacy

Figure 3 shows the traditional product items of a pharmacy. According to the figure, the basic array of products that are sold at a pharmacy include drugs (tablets, capsules, syrups, inhalers etc.), vitamins, moisturizing cream, talc, baby products and sanitary products. According to the figure, the basic earnings of shop owners depend heavily on selling drugs and other related items such as vitamins, cream, talc, sanitary and baby products. Eventhough consumers traditionally visited pharmacies to purchase drugs and related items, today pharmacy owners have significantly moved forward adding more product categories.



(Source: survey data, 2006)

Figure 4. Scrambled product mix by a pharmacy

Figure 4 shows the scrambled product mix of a pharmacy. The researchers found that the above categories of products in the selected sampling pharmacies retail shops. From the above figure, it is clear that a wide range of product items such as drugs, vitamins, talc, moisturizing cream, sanitary products, baby products, hair oil, shaving cream, razors, perfume, soaps, milk powder, cosmetics, shampoo and gift items etc. are sold in the pharmacies. It shows that a wide range of product items are available in today's pharmacies. These product items are normally purchased together since all fall into the same category. Consumers need not waste time and energy searching for more shops to purchase other products. When consumers go shopping, these items are purchased together especially in super markets. Further, the researchers found that customers' visits to pharmacies have significantly increased because of these multiple product items, and shop owners thereby achieved higher market shares and profit margins.

Further, it was revealed that most impulse purchases occurred in these pharmacies with products such as talc, shampoos, perfumes, shaving cream, hair oil, cosmetics, soaps and milk powder. The shop owners stated that they have more daily earnings with these

non-traditional products. In addition to the above product categories, more non-traditional product categories (such as biscuits, sweets, and mosquito coils etc.) are also available in these pharmacies. The research has revealed that shop owners are taking decided to add more product categories, if there is a demand for those products, even though these products are outside their basic product cluster.

Table 3. Comparative evaluation of sampling responses - pharmacy

Response	Response					
	Customer loyalty		Customer base		Market share	
	Before	After	Before	After	Before	After
Agree	25%	70%	30%	70%	40%	80%
Neutral	60%	30%	50%	30%	50%	20%
Disagree	15%	-	20%	-	10%	-
	100%	100%	100%	100%	100%	100%

(Source: survey data, 2006)

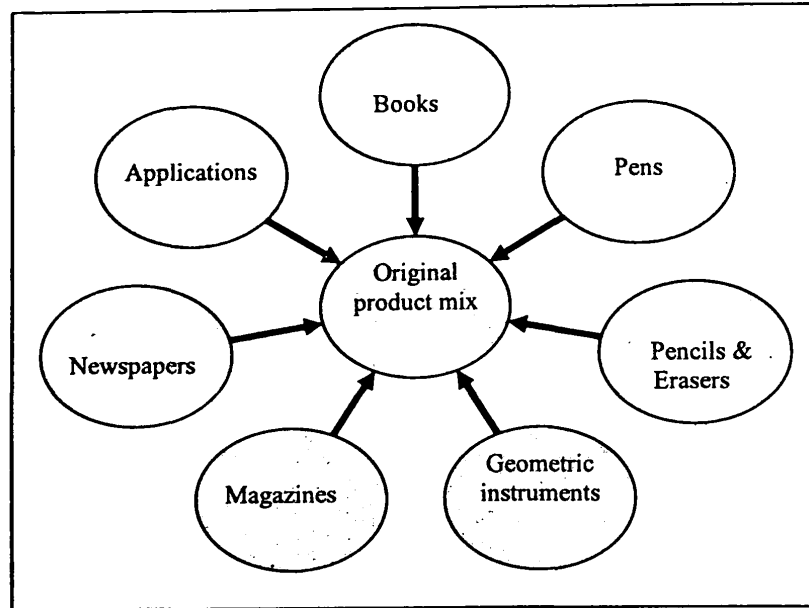
Table 3 shows the responses of the pharmacy retailers for the variables. It shows that the three variables have been examined before and after scrambling. Concerning customer loyalty, only 25% agreed that there is customer loyalty before scrambling, 60% were neutral (neither agreed nor disagreed) and 15% disagreed. This means while 25% agreed that they have customer loyalty 15% responded that they do not have loyal customers for their products. But after scrambling the business, 70% of retailers agreed that there is superior customer loyalty. Only 30% were neutral and no retailer disagreed. This means that after scrambling, retailers have obtained a higher level of customer loyalty.

Where customer base is concerned, before scrambling 30% of retailers agreed that there is a sufficient customer base, 50% were neutral, and 20% responded that they do not have a sound customer base. After scrambling, 70% of retailers agreed that they have a strong customer base, because they have a wider range of product categories. Only 30% were neutral and no retailer agreed that they do not have a customer base after scrambling.

In the case of market share, before scrambling 40% of retailers agreed that there is sufficient market share, 50% were neutral and 20% believed that the market was not good. After scrambling, majority of retailers (80%) agreed that they had expanded their market share considerably.

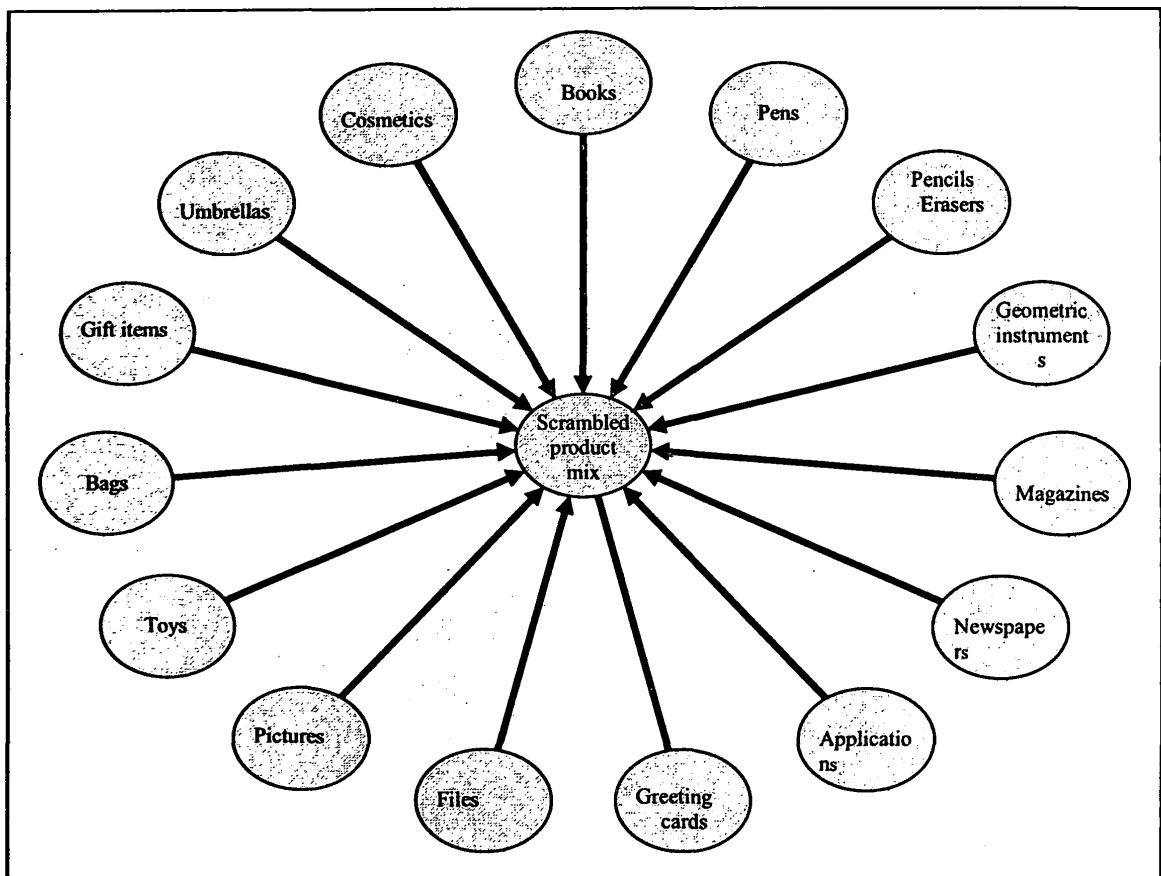
Product mix by a bookshop

Bookshops also play a key role as retailing shops, and they are very popular with children since most of the products needed for studies are available for students. Figure 5 shows the original product mix of a bookshop. Basically, books and stationery are available in bookshops, including different kinds of books such as text books, story books, novels, drawing books, exercise books etc. In addition, traditional school items such as pens (ballpoint pen, ink pen, sign pen, drawing pen, and marker pen etc.), pencils, erasers, geometric instruments, magazines, newspapers and various applications are also sold in bookshops as their main income source. Even though traditional consumers such as students and their parents were the target market of bookshops in the past, its scope and product range have significantly expanded in modern society.



(Source: survey data, 2006)

Figure 5: Original product mix by a bookshop



(Source: survey data, 2006)

Figure 6: Scrambled product mix by a bookshop

Figure 6 shows the scrambled product mix of a bookshop and it clearly demonstrates that the product range has expanded and it offers a wide variety of non-traditional product items under one roof. Today bookshop owners have identified unrelated product categories such as picture items, a variety of applications, magazines, newspapers,

greeting cards, different files, umbrellas, toys, cosmetics, and gift items and bags (handbags, file bags, traveling bags, school bags) etc. It clearly shows that all consumers irrespective of age, can visit bookshops and enjoy purchases, especially gift items, cosmetics and different pictures, which are popular today. In thi context, bookshop owners are increasing their market share and profit margin since the customer visits have increased.

Table 4: Comparative evaluation of sampling responses - bookshop

Variable	Responses					
	Customer loyalty		Customer base		Market share	
	Before	After	Before	After	Before	After
Agree	20%	80%	20%	80%	30%	90%
Neutral	60%	20%	60%	20%	50%	10%
Disagree	20%	-	20%	-	20%	-
	100%	100%	100%	100%	100%	100%

(Source: survey data, 2006)

Table 4 shows the responses of the retailers of bookshops for the variables. It shows the three variables examined before and after scrambling. When considering customer loyalty, only 20% agreed that there is customer loyalty before scrambling, 60% were neutral (neither agreed nor disagreed) and 20% disagreed. But after scrambling the business, 80% of retailers in the sample agreed that there is a superior customer loyalty. Only 20% were neutral and no retailer disagreed. This means that after scrambling the retailers have an elevated level of customer loyalty.

As far as customer base is concerned, before scrambling 20% of retailers agreed that there is a sufficient customer base, 60% were neutral, and 20% responded that they do not have a sound customer base. After scrambling, 80% of retailers agreed they have a strong customer base. This shows that since they have a wide range of product categories, the retailers have a good customer base. Only 20% were neutral and no retailer agreed that they did not have a customer base after scrambling.

In the case of market share, before scrambling, only 30% of retailers agreed there is a sufficient market share, 50% were neutral and 20% said there was no good market. After scrambling, 90% of retailers agreed that they have expanded their market share significantly. Since it improved to 90%, it clearly shows that after scrambling the market share has expanded widely.

Conclusions

The above statistics indicate that the scramble merchandising strategy has a strong positive impact on the variables. Specifically, customer loyalty, customer base and market share of all three retail categories have immensely increased as a result of scrambled merchandising. As far as customer loyalty is concerned, it was found that for all three categories i.e. shoe store, pharmacy and bookshop, customer loyalty increased to a greater extent. In the same manner, customer base also increased significantly. When comparing the impact before and after scrambled merchandising, it shows that market share has drastically increased, approximately by 90% for all three retailing categories.

It is clear that by practicing the scrambled merchandising concept, retailers can satisfy their target customers' needs and wants more efficiently and effectively through a better and wider selection under one roof, by having a wide variety of product items and a good customer base. As a result of the study it is recommended that the practice of scrambled merchandising be a key to achieve organizational goals and objectives.

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