

Part 2: 2-2 Micro Trends Emphasizing the Target Consumer

The **microenvironment** consists of: a) *the company*, b) *suppliers of the company*, c) *marketing intermediaries*, d) *other groups impacting business*, e) *employees and management*, f) *competitors*, and g) *target consumers*. The buyer must constantly track all these factors. Each impact, in some degree, decisions concerning the creation of a profitable Six Month Merchandise plan.

The Company

This scan begins with observing what is happening in the *company itself*, especially with top management's philosophy and direction. Since executive management approves or sometimes sets the parameters for the business operations, buyers must consider all happenings in the store and then determine the type of impact any actions or activities may have on their particular departments or the product classifications which they are purchasing.

The retail store is organized into five divisions: management, merchandising, sales promotion, finance, and human resources. Executive management must ensure that all employees have the same concept of the store image, the target consumer, and their merchandising and management philosophy, as well as the marketing strategy for the store. It is very important for the buyer to understand how to work with executive management and with store management in order to achieve the highest gross margin and profit for her/his specific departments. For example, if management must eliminate job positions or trim employee hours in order to meet payroll, the buyer must determine the impact on the functioning of, and sales in, the department.

Buyers always want to work closely with the sales promotion division (i.e., advertising, visual merchandising, special events and promotions, fashion training, publicity) in order to make major decisions concerning the marketing of their products – media type, how many spots to be purchased, when to schedule the media, etc. Additionally, they ask questions such as “What product will be displayed when and in what location of the department?” Or, “What new shop concept will be added to the division?” “What type of special event will be held, and when and where and what activities will be most profitable for the department?”

The Finance Division is responsible for compiling and confirming sales, markdowns, shrinkage and other figures that the buyer needs in order to calculate The Six Month Plan. It behooves the buyer to develop a good relationship with this division and to utilize the monthly information from the division in order to operate a money-making business. Lastly, in many stores or store organizations, the buyer must interface with Human Resources in order to assure that all employees under her/his supervision are aware of benefits and are following all rules and regulations in order to provide safety for both employees and target consumers.

All of these divisions must work together in order for a buyer to be successful. Therefore, the buyer must develop working relationships with personnel in all divisions and determine the impact the activities of these divisions will have on The Six Month Merchandise plan.

Further, retail store management, as well as the buyer, must establish a transparent store image. This image includes general attributes or store cues such as the history of the store and the store's geographic location. It also includes physical attributes such as the exterior environment, exterior and interior décor, and the tenant mix of the retailer's location.

Other cues impacting the manner in which the target consumer perceives the store are through the personnel or lack of personnel available to provide customer services, types and quantity of the customer services, and the placement position that the retailer holds, or the channel of distribution in which the store operates. Other factors influencing consumer perception regarding store image include the marketing communications mix and promotional mix.

However, probably two of the most important aspects for building store image are product attributes (e.g., retail/vendor matrix, merchandise mix, brands of merchandise, and the exclusivity and positioning of the merchandise) and the price attributes of the merchandise carried by the retailer. The buyer can directly control these attributes, helping to maintain a consistent fashion and store image. Performing as a team member, the buyer must pinpoint any store image problems which help or hinder meeting the planned sales goals and margins of the Six Month Merchandise Plan.

The Suppliers

Another major responsibility of the buyer is the development of good working relationships with the company's *suppliers*, especially the *vendors* supplying the merchandise for the department. In today's competitive environment, major retail organizations create a *retail/vendor matrix* or a listing of major vendors from which the buyer purchases merchandise. Usually, for each department and/or product classification, a top listing of vendors is identified. The listing is based on vendors who receive the highest performance evaluations for a specific type of goods.

Therefore, when selecting a vendor, the buyer must develop a report card consisting of the most important criteria for the specific store or product classification. Many retailers follow the 80/20 rule or pinpoint the top 20 vendors who produce 80 percent of the department's sales. The number of vendors for any one classification is usually limited. Therefore, if a new vendor is added to the listing, an existing vendor must be dropped.

Marketing Intermediaries

The third type of suppliers with whom the retailer must interface is *marketing intermediaries*, or businesses that facilitate the movement, marketing, promotion, and sales of the retailer's merchandise. Some examples of marketing intermediaries include physical distribution firms such as trucking companies or warehouse owners; financial companies such as banks, credit card companies and insurance agencies; and marketing firms such as market research companies, consulting businesses and advertising and special promotions companies.

Physical distribution firms deliver the merchandise either to the retailer's distribution centers (DC) or directly to the store. If the goods remain in transit for an extended time or at the retailer's DC due to insufficient organization, the retailer can lose sales and incur heavy markdowns due to the reduced amount of time the goods are available during the peak selling period.

When retailers are unable to meet the store's operational costs, they are forced to borrow money from *banks*, paying interest on that money until they can repay the borrowed loan. Also, since consumers use credit cards to make major retail transactions, the retailer must negotiate fees with the *credit card companies*. These transactions are costly, so the retailer must develop partnerships with these organizations in order to conduct the most profitable business possible.

At various times, retailers hire *advertising firms* and *special event organizations* in order to market their stores and product. Many also seek out *consulting* and *research firms* for assistance with problem

solving or locating information for making wise business decisions. Further, building a good relationship with media outlets (e.g., newspapers, magazines, radio, television, and Internet media) is mandatory for the successful retailer.

Other Groups

Other groups impacting the retailer's merchandise planning include *government agencies* that oversee and control issues such as product safety, advertising, and pricing policies. Additional groups include consumer organizations, environmental groups, and concerned citizen and community groups, to name just a few, who wage community or political campaigns, hampering the retailer's business operations. For example, some communities have hindered retailers from building stores in their locale due to a conflict of interest with the retailer's store policies and the beliefs and mission or objectives of the community group.

The Competitors

The retailer must consciously position and differentiate its store and merchandise assortment from those of its competitors. The buyer must search for vendors offering retailers exclusive product distribution in that particular region. Additionally, the retail buyer must constantly conduct competitive product analyses in order to assure that the store's merchandise provides more value and satisfaction to the target consumer than its competitors.

As a result of advancements in technology and product development, it is sometimes difficult for the buyer to identify major competitors. At times, a product classification may become a substitute for another product or the consumer may use his discretionary income to purchase a different type of product altogether. For example, in some holiday seasons, consumers buy more electronics than clothing or vice versa. Further, due to advanced technology and market globalization, consumers are currently able to purchase product from all over the world.

The Target Consumer

Lastly, the target consumer is a critical force driving the development of the merchandise plan. Therefore, it is imperative that the retailer pinpoints the appropriate target consumer market for which the store can provide a value offering that rivals the competition, while realizing profit for the retailer. The store type, store image, geographic location, and product offering are major factors that the retailer must consider when pinpointing the store's target market.

As previously discussed in *Part 2: 2-1* of this section, the buyer must research the demographics, psychographics, life stages, and lifestyles of the target consumer. Some buyers may have the opportunity to survey the communities in which the target consumer resides. For example, in order to collect information on a specific department's or store's target consumer, the buyer may drive through the neighborhoods where the store's consumers live in order to observe the housing and landscaping of the area, the types of cars in the driveways and types of recreational equipment in the yards. Additionally, the buyer may attend community events or join community organizations (e.g., religious houses of worship, women's clubs, book clubs, country clubs, and service organizations) in order to become familiar with the target consumer, the type of product the target consumer purchases and the buying patterns of those consumers.

If the buyer works for a large corporate organization whose stores are located throughout a region or found in several states throughout the U.S., then he/she will need to research the population in which the store organization is doing business. For example, the buyer might ask about the most prevalent

ages and the gender composition of consumers as well as the population density (i.e., number of people per square mile) of the target consumer segments in the region. The buyer might also research the economic climate (e.g., income levels and distribution, unemployment, and interest rates) of the region and determine how these factors impact consumer buying patterns and consumer confidence.

Additionally, the buyer investigates the life stages and lifestyles of the consumer. For example, what product categories and merchandise mix are needed to meet the desires and demands of the target consumer? Are there housing patterns with young families with children in the region? Are there retirement communities, or are there universities and colleges nearby? What are the major leisure activities in the area and what sports events and cultural opportunities (e.g., museums, ballet, opera, symphony, popular music or entertainment venues) are available?

Wise retailers make certain that they pinpoint all target consumer segments in their geographic locations and that they understand the demographics, psychographics, cultural behavior, life stages and lifestyles driving the purchases of these market segments. The consumer is now driving the marketplace, and retailers must keep abreast of all happenings that impact the buying power and spending patterns of the major consumer segments.

In summary, a company's microenvironment has a major impact on many decisions that must be made when developing The Six Month Merchandise Plan. The company, suppliers of the company, marketing intermediaries, and other groups impacting business, as well as the employees and management, the competitors, and especially the retail store's target consumer segments impact all developments of the plan. The more the retail buyer knows about all of these factors, the easier it is to create an attainable plan that meets sales, margins and profit goals for the retail store.

In *Part 2: 2-3* of this Section, The Buying-Selling Process or Cycle will be investigated and its implications on The Six Month Merchandise Plan will be discussed.