UNIT 18 CVM: A COMPETITIVE DIFFERENTIATOR FOR A RETAIL ORGANIZATION

Structure

18.0 OBJECTIVES

After studying this unit, you will be able to:

- Identify differentiating factors to build CVM in retail
- Identify each critical differentiator
- Discuss growth-building strategies
- Discuss CVM as a differentiator in different areas of retail organisation

18.1 INTRODUCTION

Customer value management (CVM) is a strategy that aims to maximise the value customers receive from their interactions with a company while also maximising the value the company receives from those interactions. CVM can be a powerful competitive differentiator in the retail industry because it can help retailers create a more personalised and engaging experience for their customers, leading to increased loyalty and sales. There are many touch points where retailers can build a clear differentiator against the competition, for example, SKU mix strategy, pricing strategy, retention strategy, grievances handling, personalised services offering, and physical infrastructure convenience.

18.2 CVM A DIFFERENTIATOR IN DIFFERENT AREAS OF A RETAIL ORGANIZATION

Customer value management is a 360-degree approach to work on customer satisfaction. In retail, customer behaviour will be positive when a retailer works on many parameters to improve customer service levels.

Let us discuss this in some context.

- **To Improve Business Performance**: In the context of retail, important here is improvement in merchandise sales YOY (Year on Year) and Margin improvement YOY (Year on Year). It can be done when a retailer is continuously helping customers with quality product availability, the Right merchandise mix where customers find all products available 365 days and reasonable promotional offers to boost sales.

  For example, if a skin care brand bought has some packaging or quality issues. Retailers can write back to the manufacturer and get this corrected with quality feedback.

- **Customer Acquisition, Retention, and Expansion:** Customer acquisition does not work in isolation. It requires suitablethe suitable product offerings; good location means a convenient location for customers to come, ample parking space, security in the store, merchandise mix, customer service and speedy billing. Staff should be friendly and easy to approach when needed. Customer retention means ensuring the service levels in all the points are at optimum levels, which means retailers must continuously work on maintaining the status quo of best-in-class service on the product and service side. For example, If a lady goes with a list of 40 must buy a monthly shopping basket. She must get all the products with different brand options, pack sizes, the right price, and promotions. This way, customers can be retained, and expansion of customers also will happen. Loyalty works very beautifully. Loyal customers always encourage others to visit their stores. This is what retailers must strive for ultimately.

- **Manage Channels to Create Consumer Value:** Consumer value management is for a complete organisation to perform with a customer-centric approach. It means that by knowing the gaps in customer service, product led gaps, service level gaps, marketing and promotion gaps, channel or retail presence gaps, overall value management gaps, and warranty related openings, on these points, the company performs its operations. Today, with the advent of Online, social media, own website, and offline sales. It becomes imperative to be the best in every channel of sales. When the amalgamation of service-led approaches is followed, the overall channel gets the benefit, which ultimately makes loyal customers in every channel of the company business.

18.2.1 Focus Differentiating Factors to Stay Ahead in Retail

Retail is a dynamic industry. Dependence on the economy is hugely important to the retail industry's success. Every retailer wants to win the customers' confidence and then build sales by getting customer loyalty. There are many factors that could be differentiating factors in any retail business. We elementlist down each element and then discuss point by point these factors.

- **SKU Mix** – The factor which builds differentiation is the SKU mix in each category a retailer keeps in his retail store. Each category should contain regular, core, seasonal, and new arrivals. It should also have a good brand mix to give customer flavour of national brands and local good quality brands, as we call them regional brands.

- **Category Mix** – Generally, retailers keep the right category mix in the type of retail they operate at. Now, the key here is vertical and horizontal depth, which means the category in retail must have sufficient design, colour, etc, to woo the customers. Brands mix, quality merchandise mix, depth in the category. When a retailer keeps all necessary categories inside their store, the store becomes a destination as customers find all SKUs under one roof, saving their time and money.

- **Pricing Strategies:** Price is a significant consideration for a customer to choose the store to shop. Obviously, it requires convenience also. However, many times, customers prefer to go a little farther off to buy merchandise as they find it cheaper in that retail store. Hence, pricing is a powerful tool to build customer loyalty. With CVM, retailers can optimise pricing strategies by analysing customer behaviour and preferences. This can help retailers to offer targeted discounts and promotions to specific customer segments, increasing the perceived value of their products.

- **Customer Service:_**CVM can help retailers provide higher customer service by enabling them to anticipate customer needs and proactively address issues. This can lead to increased customer satisfaction and positive word-of-mouth recommendations.

- **Store Ambiance:** Customers always visit a store that is safe to shop in. The ambiance is attractive, if not very lavish, but decent enough to see and find the right merchandise to shop.

- **Ease of Shopping:** It is an extension of the pleasant ambiance of a retail store. Ease of shopping also means identifyeasy-to-findeasy-to-locate merchandise, easy-to-find out different categories, easy-to-locate a product, easy-to-find friendly staff around for queries, easy-to-park vehicles without any hassle, easy and fast billing, easy-to-get customer queries answered promptly.

- **Lighting:_**The lighting of a store should be good so that first, it should boost the customer's emotions, bring excitement in their buying, be able to see the products with complete visibility, distinguish and end up buying the right merchandise.

- **Friendly Staff:_**The biggest significant differentiator to building an effective CVM in retail is the friendliness of the staff on the floor. They should be easily accessible, be able to help customers with their queries, take pain in solving customer issues, and be able to demonstrate the product as a demo with full details. The customer service starts with friendly staff on the floor. They should be highly knowledgeable in handling different sets of customers. The sales objectives should be clear while taking customers. The 100% focus should be on quality demonstration to the customer to make a prospective buyer or repeat purchase to build loyalty.

- **Promotions:_**Customers always opt for a retailer proactively offering promotions to new, old, and loyal customers to push them to visit the store. The upgradesvalue-led promotions with a clear offering proposition attract the customer, who buys in bulk from the retail store. Retailers must work efficiently on the ROIs of each promotion. This becomes a win-win for both the retailers and the customers.

- **Festival Participation**: India is full of festivals. We have significant festivals like Holi, Diwali, Durga Puja, Onam, Lori etc. India's vastness allows it to offer different festivals. Retailers proactively offer and build festival-led promotions to provide joy and happiness to customers. They prefer to shop from the retailer.

- **Market Reach: -** Retailers have multiple stores across India. The customer prefers to shop from the vicinity where they live. If correctthe retailer brand is built and the retail network is not correct, it creates dissatisfaction in customer buying. Hence, retailers must have retail stores at strategic locations in every city to build effective CVM.

- **Online & Offline Accessibility to Customers:** Every retailer these days has an online website also. But the critical part is pricing strategies of offline and online, promotional strategies, return strategies. We define laid down processes and strategy to always boost customer loyalty, customer confidence in a retailer.

- **Usage of technology Like AI and VR / Innovation**: By constantly monitoring customer behaviour and preferences, retailers can identify emerging trends and opportunities for innovation. This can help retailers stay ahead of the competition and maintain their position as industry leaders. Use of AI and VR features in physical stores always build customer excitement, save on customer buying time and overall customer delight.

18.3 DIFFERENTIATION BENEFITS OF CVM

Differentiation in retail refers to the strategy of offering unique or distinct products, services, or customer experiences that set a retailer apart from its competitors. Here are some advantages of differentiation in retail:

18.3.1 Differentiating Benefits to Retailers

Retailer Competitive Advantage: A well-differentiated retailer strategy can create a unique and attractive and positive brand image that sets it apart from its competitors in the market. This can help the retailer to capture a larger market share, increase customer loyalty, and create a sustainable competitive advantage.

Higher Profit Margins: By offering unique products or services, a retailer can charge a premium price, leading to higher profit margins. This can be especially effective in markets where customers are willing to pay more for premium products or services. Well defined differentiation sometimes allows retailers to charge premium pricing as well.

Reduced Price Sensitivity: When a retailer is well-differentiated, customers are less likely to be price sensitive. This means that the retailer can charge a premium price without losing customers to cheaper competitors in the market they operate at.

Enhanced Customer Loyalty: By offering unique selected products or services, a retailer can create a strong emotional connection with its customers. This can lead to increased customer loyalty, repeat business, and positive word-of-mouth recommendations.

Improved Customer Experience: Differentiation in retail can lead to a more engaging and enjoyable customer experience. By offering unique products or services, a retailer can create a more personalized and memorable experience for its customers. Here employees also play an important role in increasing the customer experience thus leading to customer loyalty within them.

Innovation: Differentiation in retail requires constant innovation and creativity. This can help retailers to stay ahead of the competition and to identify new growth opportunities.

Overall, differentiation in retail can help retailers to create a sustainable competitive advantage, increase customer loyalty, and improve profitability. By offering unique products or services, retailers can create a memorable and engaging customer experience that sets them apart from their competitors.

18.3.2 Differentiating Benefits to Consumers

Consumers always look for differentiating benefits to them. They want quality and right pricing for that specific product. Also, I will add availability of such product when they require it. Due to online business consumers are aware off product offerings and its benefit and pricing and discount etc. So, it becomes retailer to woo the customers with right strategy. We list down some points which are easy understandable. CVM offers benefits like as follows.

- **Quality Products**: More brands under one roof, trending products, and new arrivals
- **Products which Require Push**: New products comes with consumer offers.
- **Best in Class Customer Service**: Customer service while on floor help, courteous team, and well-trained team on product knowledge.
- **Good Store Ambiance:** Enough lighting and appealing lighting to buy products by supercharging his or her feeling inside the store. Look at feel of the store, neat and clean display all plays important role in motivating the customers emotions.
- **Faster Checkouts**: Customer should spend less time at billing counter as this is a most unproductive work for customers.
- **Festival Special Offers**: Encourage customers to visit stores to celebrate festivals with some special offers as value to the customers.
- **Home Delivery Options**: It is a value-added service if managed well in some cases it can be very counterproductive for the customers.

- **Product Return Options:** Customers emotions go up and down when they face problem. Retailers must take necessary precautions to resolve customers problem instantly.
- **Good Merchandise Mix Under One Roof**: Customer does not want to visit stores often to buy some products. So, it becomes necessary to have optimum fill rates for customers to buy.
- **Speedy Redressal of Consumer Complaints**: If a well-trained team is managing the customers, then resolution also comes very quickly, we see more loyal customers over a period.
- **Easy Finance Options:** In order to promote high value products necessary to have finance options. Today it is present in every store whether small or large retailers.

If all is available then consumer is satisfied and willing to come again and again and encourage others also to come and shop.

18.4 POTENTIAL RISK IN BUILDING DIFFERENTIATOR IN RETAIL

While building differentiation in retail can be a powerful strategy for creating customer value management (CVM), ***there are also potential disadvantages to consider***. Here are some of the potential disadvantages of building differentiation in retail to build CVM:

- **Cost**: Building differentiation in retail often requires significant investment in research and development, marketing, and operations. This can be a barrier for small retailers who may not have the money and employees as resources to compete with larger retailers.
- **Risk**: Innovation and differentiation in retail can be risky, as there is no guarantee that new products or services will be successful. Retailers must carefully balance the potential benefits of differentiation against the potential risks of failure. Wrong differentiation may lead to loss of market share as well. It is a high probability.
- **Complexity**: Building differentiation in retail can add complexity to operations, particularly if the retailer is offering a wide range of unique products or services. This can make it more difficult to manage inventory, supply chain, and customer service. It would also require additional working capital to build the inventory. Leftover inventory is a cost hence managing that is very tricky and loss bearing activity.
- **Competition**: Differentiation in retail can be difficult to sustain in the face of competition. Competitors may be able to quickly replicate unique products or services or may offer their own unique products or services that compete directly with the retailer.

- **Customer Expectations**: When a retailer builds differentiation through unique products or services, customers may come to expect a certain level of innovation and creativity. This can make it challenging for retailers to maintain customer satisfaction over time.

  Overall, building differentiation in retail to build CVM can be a challenging strategy that requires careful consideration of potential risks and rewards. While differentiation can help retailers to create a unique and engaging customer experience, it also requires significant investment and carries potential risks.

Check Your Progress A

1 Define the top risk to being a differentiator in retail industry considering building CVM?

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2 How loyal customers bring profitability to the retailer? Define?

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3 Define different types of customer experiences?

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4 Why is a team needed to build effective differentiation strategies?

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18.5 RETAILERS' GROWTH ENGINE STRATEGIES

Retailers can become profitable by implementing effective growth led - strategies to increase revenue, decrease costs, and improve operational efficiency. Here are some key ways retailers can achieve profitability:

Sales Growth: Retailers can increase their top line by focusing & expanding their product offerings, increasing their customer base by improving their marketing strategies. For example, they can use customer data to tailor their marketing efforts to specific demographics, run targeted promotions, or optimize their online presence to drive traffic to their stores. Always keep good quality products.

Cost Control: Retailers can reduce costs by optimizing their supply chain and inventory management, negotiating favourable terms with suppliers, and streamlining their operations. For example, they can use data analytics to forecast demand and optimize inventory levels, implement cost-saving technologies such as automation or artificial intelligence, or negotiate bulk purchase discounts.

Pricing Strategy: Retailers can use various pricing strategies such as cost-plus pricing, value-based pricing, or dynamic pricing to ensure they are setting prices at a level that generates enough revenue to cover costs and generate profit. Retailers can use customer data and analytics to understand price sensitivity and adjust their pricing strategy accordingly.

Operational Efficiency: Retailers can improve operational efficiency by using technology and automation to optimize their supply chain, inventory management, and other key business processes. For example, they can use cloud-based software to streamline operations, automate manual tasks, and improve data visibility.

Customer Retention: Retailers can improve profitability by retaining customers and maximizing the value of each customer relationship. They can use loyalty programs, personalized marketing, and exceptional customer service to build long-term relationships and increase customer lifetime value.

By implementing these strategies, retailers can become profitable and build a sustainable business that can weather economic downturns and market fluctuations. It is essential for retailers to continually evaluate and refine their strategies to stay competitive and profitable in the long run.

Check Your Progress B

1 What is the customer lifetime value?

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2 Training benefits in CVM process Explain?

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3 Define competitive advantage in customer value management?

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4 Why is there a need to read data in customer value management enhancement plans?

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18.6 LET US SUM UP

In short, the key to having a thriving retail market is strategies to incorporate diversification. However, this job requires careful execution led by an experienced team. Foresight is needed to understand supply chain gaps, immediate corrective measures to ensure poor progress. Navigating the challenging retail environment requires a comprehensive approach, as any disruption in price, sales, or operational efficiency can have an impact on profitability and customer retention negative impact Consumer Value Management, the high-level conceptual model adopted by business processes, organizes the process of re-rotating strategy around aspects of customer-focused principles and when applied consistently, it proves to be a highly valuable strategy, one that promotes synergistic benefits for vendors and customers. The real foundation for sustainable success is earning customer loyalty, a constant requirement of any meaningful business. Continuous efforts should be made to increase customer base, which fosters a virtuous cycle of loyalty acquisition that strengthens the company's position in the competitive marketplaceKey Learnings:

Thriving Retail Market:

- Diversification is crucial for success in the retail market.

Execution and Team Expertise:

- Successful diversification requires careful execution led by an experienced team.

Foresight and Supply Chain Management:

- Foresight is needed to understand supply chain gaps and take immediate corrective measures to ensure progress.

Comprehensive Retail Approach:

- Navigating the challenging retail environment requires a comprehensive approach.
- Disruptions in price, sales, or operational efficiency can impact profitability and customer retention negatively.

Consumer Value Management (CVM):

- CVM, a high-level conceptual model, reorients strategies around customer-focused principles.
- When consistently applied, CVM proves to be a valuable strategy, fostering synergistic benefits for vendors and customers.

Foundation for Sustainable Success:

- The real foundation for sustainable success lies in earning customer loyalty.

Continuous Efforts for Customer Base:

- Continuous efforts should be made to increase the customer base.
- This fosters a virtuous cycle of loyalty acquisition, strengthening the company's position in the competitive marketplace.

18.7 KEYWORDS

Growth Stage: New product is being accepted in the market

Customer Retention: Maintaining the existing customers in the business.

Customer Relationship: Keeping the Customers happy and satisfied to have them in the business for a long time

Customer Value Management: It is a potent tool to make the company truly customer oriented and bring success to the company/ business.

Customer Defined Value: Value of the product and services perceived by the customers.

18.8 TERMINAL QUESTIONS

1) Why retailers require differentiating strategies to build CVM. Define?
2) What is the role of marketing in building a differentiation strategy?
3) Define CVM expectation from retailer on strategy front?
4) What is the role of cost control in retail differentiation strategy?
5) Define top disadvantage of being a differentiator in retail? Why?

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