

CLAUDE B. BANDALOUKAS
Professor of Graduate School of **Industrial Studies**
Piraeus - Greece

**CONTEMPORARY TRENDS OF MANAGEMENT,
FOR THE DISTRIBUTION
OF GOODS THROUGH MERCHANDISING**

Merchandising management is the sum of activities of a business enterprise for providing personal services and premium gifts to certain categories of customers, both before and after a business transaction. Consequently, merchandising management contributes significantly to the distribution of goods. It is related to communication with several types of customers in order to inform them of the characteristic qualities of the goods offered in the market, as well as to apply specialized methods for serving customers before and after the business transaction. Thus, the penetration of goods in the market and the development of the market itself become more effective.

It is common knowledge that the mere acquaintance of the prospective customer with goods produced or distributed is not sufficient. Along with this, it is necessary for the customer to be personally informed of both the afore-mentioned quality of the goods and the services offered by the business enterprise before, during, and after the transaction.

In this paper, these characteristics of the goods together with those of the customers, and the basic methods of merchandising management will be presented.

I. PRODUCT AND CUSTOMER CHARACTERISTICS

Among the basic factors *in the development of the distribution of goods in the market* is the knowledge of their characteristics (or their morphology), as well as the characteristics of the customers. The characteristics of these two factors can be defined and verified by the business enterprise through market research. Such research information not only aids management in developing its plans accordingly, but it also keeps the sales force and advertisers informed, who constitute the third basic factor in the area of market development, in the application of marketing methods for the sale promotion, and the advertisement of goods. Finally, through merchandising management methods, the customers of the concern are also informed.

1. *Product Characteristics*

Product characteristics represent data which make possible the discrimination and comparison of the various products. In the first place these characteristics are divided into *objective* and *subjective*. Under

the "objective" characteristics, the material characteristics of capital and consumer goods, are classified, as well as those of single and multiple use. Under the "subjective" characteristics are classified the economic or psychological characteristics, which create motives influencing consumer behavior.

a) Capital and consumer goods are those goods produced and destined both for the production of other goods and for consumption. The former consist of raw and auxiliary materials, semi-processed goods, and capital equipment or capital investments. The latter are those goods which are withdrawn from the production process and are destined to satisfy the needs of the consumers, either through consumption or by putting an end to their utility through use. Thus, the capital goods are consumed during the process for the production of other goods once or after many uses, but they are neither consumed nor does their utility cease to exist. They are merely converted to different goods or assist to the production of other goods. On the contrary, the consumer goods lose both their utility and value after they have been used.

b) Durable and nondurable goods are those goods used in the production process or consumed either in one use or gradually. The former ones are consumed when are used only once, for example, fuel, matches, paper, beverages, food, tobacco, etc. The latter ones are consumed after multiple and often after long period of use; for instance, machinery, tools, automobiles, furniture, utensils, buildings, pens, clothes, shoes, etc.

c) Goods which motivate consumer behavior are those products which influence the customer through their economic or psychological characteristics. Basically, they refer to *the degree of utility or benefit* gained by the consumers by their use. This degree is determined by the *type, place, time and acquisition of the goods by the customers*. The utility of the *type* of goods is determined during their production and, more particularly, in an effort to achieve optimum quality according to the hedonistic and functional characteristics expected, that is, it is based on economic and technical criteria. The remaining three values, space, time, and acquisition of goods, are determined by the customers. The utility of *place* refers to the location where the goods are directly made available to the customers. This is the reason why there are divided into local goods, imported goods, etc. The utility of *time* refers to the moment that these goods are desired and purchased. This divides them into goods

which are continuously demanded and goods of seasonal demand. The utility of *acquisition* refers to the ability of customers to acquire them according to the absolute and relative advantages of the goods. The advantages include superior quality, scarcity (or exclusiveness), degree of need, minimization of effort, price level, possibility of using substitutes. This is why mention is made to goods satisfying primary and social needs, basic and luxury needs, existing or created needs of upper and lower classes from the point of view of culture or economy, monopolistic or competitive prices, limited or non-existent supply, etc.

Besides the above mentioned subjective characteristics of goods, which affect consumer behavior, there also exist certain *technical characteristics*. These characteristics refer to the prevailing goods in the market from the point of view of their type, material composition or quality, quantity, trade-name, standardization, morphology, that is, appearance, attractiveness, size, packaging. These characteristics refer to the time and method of production (hand-made, machine made, and made-to-order goods, mass production goods, etc.), as well as to the type and their usage and maintenance.

Finally, to the above mentioned subjective characteristics of goods, both the ones referring to the demonstration effect or natural tendencies and inclinations on the part of consumers, the infiniteness of human needs should be added. Among these needs are the acquisition of those goods which contribute to the differentiation between their possessor and others, due to customs, habits, imitations, satisfactions, fashion, competition, ambition, etc.

2. Customers Characteristics

Customers of business firms are people who buy and use goods, in exchange for money. The ex-customers, the present customers and the prospective customers who by definition may need to seek satisfaction of their present or to be created needs, form the clientele of the business enterprise. The existence and prosperity of the business enterprise depends upon the *intentions of the customers* rather than upon various other factors, such as their financial strength, their production capacity or any other activity. Customers have the power to make or break a business enterprise. Thus it is imperative that a business concern adjust its activities to *the prevailing tendencies in the population of customers with respect to their needs and desires*.

These tendencies can be followed systematically in their development through market research and by gathering and keeping customer

information on *special customer cards*. On each of these cards, notes and information can be entered periodically related to the *characteristics of the customer*, as disclosing their character, social and financial status, place of residence, etc.

a) Customer characteristics disclosed during the business transaction. This information distinguishes each customer as to whether he selects and purchases goods on his own initiative, he imitates other customers or he is influenced by the firms advertisements and general publicity. Note can also be made on these customer cards characterizing the customer as to use of logic in making purchases, enthusiasm, persistence, irresoluteness, perverseness, etc. These characteristics can be detected at the point of sale where the salesman is dealing with the customer.

b) Social and financial status of the customer. This information is related to the customer's age, family background, region of origin, influences, education, profession, environment of residence, portion of income spent, credit standing, the frequency and volume of purchases and the channels used to effect their purchases, etc.

c) Place of residence of the customer. This information refers to the customer's home address, as well as to information as to whether the customer lives in a central or suburban part of a city or an area outside of a city etc. It is usually a very good indicator of other characteristics of the customer.

II. BASIC METHODS OF MERCHANDISING GOODS

A *basic element in merchandising goods* is the attractive or impressioning presentation and display of goods. The *presentation* of goods refers to the correct and impressive appearance by suitably arranging and locating them within and outside of the sales room. Their presentation is worked out based upon several *criteria* among which are the following dominant ones: *Opportuneness* (with respect to fashion, season, novelty), *Occasion* (sales, special services, end of season), and *Projection of prestige* (luxury goods, high quality goods, usage by important people). The *display* of goods is the expression of the strategic promotion of sales by securing for them an occasion to be observed, examined and tested as to their usage.

1. *General principles of the primary methods of merchandising goods are as follows:*

a) The principle of arranging the natural

surroundings of the sales room. This continuously creates a desirable psychological effect upon both the customer and the personnel of the firm. This arrangement refers mainly to the existence of favorable conditions with respect to hygiene, safety, appropriate lighting, coloring, decoration, sound conditioning, music, atmospheric conditions, etc.

b) The principle of layout of the sales-room space and its allocation into three basic sections and sizes, that is, in space for free movement, resting, and recreation of customers (amounting to approximately 50% of the total area), in space for merchandising of goods and business transactions (amounting to approximately 40% of the total area) and in space for various other Customer services (amounting to approximately 10% of the total area).

c) The principle of sorting out goods based upon a plan according to their usage, season or fashion and particularly in homogenic categories or groups of products. Thus, each customer, passing by any shop window, is automatically led to discovering desired goods, in such a way as to create in the customer a habit which becomes a strong tendency of mechanical repetition. This tendency represents a special preference for this method of merchandising goods.

d) The principle of placing goods in permanent strategic locations (or points), benches or windows, according to the well known sayings that "the customer buys what he sees" and "goods seen are quickly purchased". Thus appropriate location of goods makes for the direct appearance of merchandise within the visual range of as many customers as possible. This method works as a "magnet to the eye" and at the same time it offers an easy way of attracting customers' attention. Research has shown that goods located at eye level are sold quickly than others.

The display of goods within and outside of the sales rooms combine both the commercial and the aesthetic factors to the end that goods are projected directly or even instantaneously. These displays are placed either vertically or horizontally consisting mainly of shelves, open cases, drawers, "gondolas" with shelves on four sides, revolving hangers, wire baskets located intermittently, as well as of special areas within and outside of the sales rooms, usually protected by glass windows.

Qualities of successful displaying are: unity, simplicity, originality, variety and visibility. These qualities are almost the same as those applicable in the principle of the popularity of advertising messages. That is why they will be presented later on, under the discussion concerning the popularity and persuasiveness of messages. Yet, it has been deemed

necessary to make a note of them here from the special point of view of display. *Unity* refers to the similarity of the factors making up the display which is projecting a certain group of similar goods. *Simplicity* contributes to the minimizing of unnecessary decorating and far-fetched projection of goods. *Originality* captures and holds customers in front of the displays. *Variety* is usually created through the frequent (eg. once a week) change of decoration or arrangement. *Visibility* is based on the principle of locating the goods in such a way that the customer has a clear field of vision to see them.

The display of goods in stands outside the sales-room, is usually effected not far from the entrance to these sales-rooms. These out of doors display stands possess the qualities of effective displaying, because they are ostensibly visible, they attract attention and turn out to be the very center of interest of the people passing by. This type of display invariably attracts the attention of the pedestrians and prompts them to glance at it, due to the fact that they are decidedly enticed by the articles exhibited and, quite often, without any delay they walk into the sales rooms and proceed with purchasing, as a direct result of the effective influence of the display. Similar displays are also set up within recreation rooms, or theater lobbies and movie halls, as well as in other places usually frequented by many people (eg. railroad stations, subways, cross roads and the like).

The more general display of a wider variety of articles, like a sample of real goods, is carried out on the part of either one or more enterprises collaborating to the end of obtaining a greater share of the market, or to the end of acquiring new markets. As a rule such displays are placed at points where there is heavy traffic or on vehicles of transportation (buses, trains, etc.) on special occasions, periodically and permanently characterized as local, national or international. By means of these displays and by various ways or techniques, interest attraction points are created, helping thus the purchasing public to proceed for closer examination and getting up-to-date information concerning the attributes of the goods for sale, and the terms of sale as well, which helps the prospective customers to order or even buy the goods directly. In this connection the Americans state the successive stages of influence of the buying public through such displays, by the saying "stop, look, learn and buy".

Distribution of samples for testing purposes is the easiest and most reliable display. In this connection the enterprise distributes free to both active and potential customers, small quantities of goods in the form

of "samples of nominal value". Thus every recipient gets the opportunity to test personally the degree of usefulness of the respective articles (as in the case of consumption goods for either a single or multiple use — eg. beverages, cigarettes, perfumes and the like). Customers may also observe and examine product characteristics at ease, within the premises of the firm or at home. Testing opportunities of this type literally contributes to a further penetration into the market.

III. SECONDARY METHODS OF MERCHANDISING

Secondary, or technical merchandising, consists in personal contacts outside of the firm, with limited classes of customers in order to inform, remind and influence them in a purposeful and selective manner. *These contacts are effectively achieved* by either method of presenting and describing goods, or by offering special premium gifts. These methods are applied after consideration of both cost and yield.

The secondary merchandising methods often *become more effective* when applied only by a small number of firms in a given market. The more these particular methods are widely used and kept unchanged, the more these methods become uneconomical, unprofitable and consequently useless. For this reason the kind and method of application, is altered, first, at short time intervals or seasons, and second with respect to the size of the business transactions and customer characteristics. More particularly the customers' characteristics are taken into consideration from the point of view of their social-economic standing, and their place of residence. The secondary merchandising methods can be used also to influence a number of the enterprise clientele.

1. *The methods of presenting and describing goods* are used both for the creation and maintenance of a lasting and favorable image of the goods and for offering information and data concerning product characteristics, in conjunction with the desires and interests of selected individuals from the buying public.

The selection of these individuals from the buying public is followed up by the careful creation of a record card for each particular individual, including his home address. All these records constitute a mailing list. The inclusion of a customer's name in the mailing list greatly flatters him and contributes to creating interest for receiving and reading such information.

Presentations are named the successful color pictures of the good itself and its use, or artistic and symbolic presentations that reflect rea-

lity. Descriptions are named the written texts of personal or circular correspondence, as well as special magazines or sales catalogues.

The personal or circular correspondence is based on the same principles holding force in general for written communication. It includes letters to the clientele of the firm or any part of it, with proper consideration to the special characteristics of the different kinds of customers, which the enterprise wishes to address and influence. These include consumer behavior, education, tendencies, and prejudices. Classified under the secondary methods of merchandising are letters containing product endorsements from important personalities, wherein the high quality and other characteristics of goods are praised. In a similar manner mention is made of marketing and other services and premium gifts offered.

Among the *special magazines* included are those known as "house organs", issued by the enterprises and freely distributed among their personnel and clientele, as well as those issued by other organizations or persons and addressed to certain categories of professionals, scientists, house-wives, enterprisers etc. Each one of these types of publicity media covers a certain category of the customers of the company.

2. *The methods of offering premiums* consist in presenting small souvenirs to the active clientele of an enterprise, the value of each souvenir corresponding to the money level of transactions of each customer. These premiums may be extended also to friends or visitors of the firm, as well as to such groups as participants in company contests, company gatherings (celebrations, receptions, public speeches, etc.).

The favorable influence of these premium gifts increases, proportionally as the customers desire to acquire them also increases. Moreover, the value of such a gift becomes greater when it is somehow related to the goods advertised particularly from the point of view of their use. In the case of beverages for example, gifts of bottle cases, crystal bottles, glasses etc., are regarded greatly desirable, while at the same time, whenever they are used they remind the customers of these goods.

According to the scale of value and the scarcity of the premiums, the effectiveness of merchandising is measured. For this reason, active customers are usually inclined not only to get supplied with certain goods, but also to pay higher prices for them, in order to acquire premiums of a greater value, unusual, novel and of frequent use. This desire of the customers is fulfilled by collecting small receipts given by the firm, according to the amount of money paid for these goods on each occasion (eg. sales slips, special coupons, etc.). On return of such accumulated slips or coupons the customer is given a gift of a corresponding prede-

terminated value. Most of these gifts, when not directly connected with the use of the advertised goods, have small scale-presentations on them, or short descriptions of the quality and use of these goods.

Among these special gifts are included pictures, calendars, businessmen and tourist guides, as well as household products, tickets for vacation trips, and the like.

IV. TERTIARY METHODS OF MERCHANDISING

The tertiary or economic method of merchandising consists in the financial assistance offered to the enterprises clientele both before and after business transactions. It urges customers to consider the available opportunities to increase their purchasing power and any further benefit from services offered. Some of the major related methods are as follows:

1. *Price determination and other services offered*

This method is based on the management principle, according to which the efficiency of sales is improved when a given firm sells the same kind and size of goods at a lower price per unit than that generally prevailing in the market. In other words, the application of this principle implies that the goods penetrate into continuously expanding classes of customers, characterized by comparatively smaller purchasing power. This type of penetration creates further possibilities for lowering of sales prices.

For this reason, in accordance with the degree of demand elasticity, the organization structure and the operation of the firm, and in general, the prevailing condition in the market, efforts are made toward reducing the costs of production and marketing, so that *low prices* may be established, which are becoming *uniform* for all customers of equal buying capacity, during each period of price stability. Prices thus formulated create a basis for price *stability*. Furthermore, these prices appear on the package of each product, so that the clientele may be facilitated in programming their purchases, the rate of transactions may be accelerated, and a climate of confidence may be promoted.

The supplementary services consist of the courteous, prompt and dependable facilitation of each customer following every particular transaction. Specifically this type of facilitation refers to providing ways and means with regard to the payment of the good purchased, as well as delivery of the goods. In this connection the customer meets also with the genuine willingness of the seller regarding any possible return of

goods, or even replacement of purchased goods that do not fully satisfy the customers, with full price refund. However, in cases of durable goods, the offering of supplementary services extends even to transportation, installation, supply of demonstration and usage manuals, and offer of maintenance and repair services with no or very little additional pay.

2. Discounts

By discounts we mean granting of temporary or even permanent price reduction on a percent basis, to the end of reaching the so called "*Bargain price*", which benefits the customer.

These discounts vary in accordance with the *criteria set*. These criteria as a rule are the size and the frequency of transactions, the importance of the customers, the kind of distribution channels, and the tendency of encouraging the demand for goods. Particularly, discounts are used to encourage demand for goods projected and advertised at a given period, as well as for new and improved goods newly introduced into the market. Finally, discounts are used whenever demand in the market, is declining.

3. Sales

This method has a twofold application. First it is applied immediately at the end or after the season for certain goods of continuous use, such as footwear. This method is applied in Greece during the first 20 days of the months of February and August. More rarely, this method is also used after the goods are no longer in fashion. Such is the case of house furniture and household goods. The *size of sales discount* depends on the kind of goods and firms, according to list price discount policies, the cost of goods, the volume of similar goods offered in the market and, in general, the prevailing market conditions. There is a tendency for the discount to be expressed in terms of a percent of the list price as to allow prices, with a very small or no profit at all, and sometimes even resulting in a loss. The *prices* reached as a result of the discount, *are marked* on the package of each article, so that the previous prices are cancelled in such a superficial way as to render visible the difference between the two. Sometimes these new prices are recorded on sales price-list-type posters, which are posted for the purpose of informing the customers and the clientele at large.

4. Personal instalment loans, and instalment sales financing

This means partial payment or instalment payment (weekly or monthly) for goods purchased at prices equal to cash sales.

The essence of this is "Buy now, pay later", without any further financial charge, or higher prices. A possible interest charge causes adverse results to those pursued by the tertiary method of merchandising, because by this, instead of increasing the consumer's purchasing power it reduces it, and, consequently, the sales volume of the firm is also decreased. In fact, by this method *the purchasing power of lower income classes of consumers is shifted in the course of time*. Thus, they are given the opportunity to spend ahead their future incomes for acquiring desired goods in the present, and more particularly standardized durable goods, since the latter can be easily repossessed by the firm with little loss of their original value. The customers would be unable to buy these goods otherwise, because of their high selling prices. Such goods are, for example, cars, refrigerators, air conditioners, television sets, radios, washing machines, etc.

The credit system is, in the opinion of the great economist John M. Keynes, "a good saving practice for the consumer, which allows the sales of an incredibly large amount of goods and contributes to the improvement of the standard of living".

This method is practiced in industrial and commercial concerns producing or handling the type of goods mentioned above which are not monopolistic and usually are under conditions of strong competition. Furthermore, these concerns achieve considerable accumulation of working capital, by their own money generating capacity or through banks or other specialized credit institutions.

The principles of granting credit determine not only the success of the method, but even the very existence of the enterprises, which put this practice into effect. These principles refer to the determination of mainly the following factors and conditions:

First, of the volume of sales on credit during a given period of time. This volume must reach the height, at which the risks are reduced to the minimum, because of credit losses, without any decline of sales. Second, of the credit ability of each customer, in proportion to the degree of his reliability, or his trustworthiness, or his financial standing, thus counterbalancing the dangers of partial only paying off the value of goods purchased on credit. Third, of the time extension, the amount of each instalment, and any other related terms, such as retaining the ownership title by the seller, until the instalments are paid in full.

5. Customer Profit Sharing Plans

This is an improved variation of the method of offering premiums.

Towards the end of each fiscal year the customers of an enterprise present the receipts for money spent for the purchase of goods, by which every customer is entitled to collect a proportionate amount, based on his purchases and the amount of profits allocated for distribution to customers.

Thus, the interest of the customers of the enterprise extends well into the future and tends to make that firm for its customers the sole supplier of all kinds of goods. This method is practiced mostly by consumer cooperatives or other associations.