

THE EFFECT OF MERCHANDISING ON FOOD PRODUCTS IN THE ROMANIAN RETAIL MARKET

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Abstract: *The retail market progress in the Romanian market and the massive number of assortments developed by international producers and brand owners has incremented the importance of merchandising and trade marketing compared to advertising and other promotion means, more effective in the past. This article is a literature review on the importance and effect of merchandising in the food retail industry specifically in the Romanian market. The chosen market is significant for the study due to its young nature, international retailers only recently having entered the country. The article analyses the most important factors taken into consideration by international retailers as compared to traditional shops. Each type of format follows its specific strategies in order to push consumers into buying the more profitable or beneficial products. The final part of this paper will analyze the push strategies effect, more specifically the effect of merchandising on sales of a canned food brand in Romania, in the traditional market. All the information presented in the market findings have been taken from secondary sources directly from a food and drinks distribution company located in the Romanian city of Cluj-Napoca. Results will show the strong impact on sales of a three months period of merchandising activities and trade promotions. More interestingly is the fact that many brands have a higher awareness level and still the product with the better presentation on the shelf is chosen. Another significant conclusion is the long term consequence of the merchandising campaign and the benefits of prolonging such direct trade campaigns. This paper contains very useful information for marketing managers, who want to increase the medium and long term awareness and value of their brand while not having a significant budget for advertising and communication, while taking into consideration the sales departments requirements of short term activities in order to increase sales.*

Keywords: *merchandising; retail; food retail; Romania; modern trade; traditional trade.*

JEL classification: *M31; M21; M30.*

1. Introduction

The development of free trade, globalization and the fast expansion of international retail chains has highly increased the importance of visual image of merchandise in front of the consumer and is having a more and more powerful effect on the acquisition process. In the field of food products market, the most important contact between the consumer and the product happens at the point of sale, significantly influencing the turnover of that certain product (Safeway International SRL, 2013).

At the same time the increase of fast moving consumer goods assortments and number of retail units, advertising is having a lower influence on the buyers' behaviour compared to other promotion means (Assmus, Farley, & Lehman, 1984; Ailawadi, et al., 2010). A decade ago the advertising-promotion ratio was 60:40. However, these days, for convenient and retail products, promotions represent over 75% (50% promotions for trade, meaning distributors and retailers and 25% for consumers) (Kotler & Keller, 2009, p. 557). Therefore the elasticity, or the influence of promotion at the point of sale is lower than the influence of price, but it is much higher than the influence of advertising, as we will see in the rest of the document in analyzing the market of Cluj-Napoca, Romania.

Point of sale is the essence of retail trade, since it is not just a simple space, but a value adder, to the products waiting to be sold, because it offers the consumer and service over the one offered by the producer. When coming at the same store, the consumer saves time, effort, not being necessary to contact every producer for covering his consumption needs (Devlin, Birtwistle, & Macedo, 2003). More than ever the consumer now chooses, from a designated selling space or a certain store the product based on its attractiveness, its positioning, or more exactly based on its merchandising. It is the first element to enter into contact with the consumer, being followed afterwards by the other more complex elements, such as packaging, information on the label, product attributes and functionalities.

Marius Pop (2002) has positioned merchandising between advertising and promotions. The message of merchandising and promotions is based on an acquisition advantage, while advertising has a wider field to cover and is referred to a massive audience, and direct sales target a small number of consumers. Promotions and merchandising are available for any product, in general, but are adopted more frequently for fast moving consumer goods.

2. Merchandising

Merchandising consists of all methods and techniques used for the presentation and enhancement of the products at points of sale. Retailers undertake all sorts of distinctive visual merchandising strategies to provide customers with a positive mood, aiming to increase purchase intention, store loyalty and repeat purchase (Law, Wong, & Yip, 2012; Donovan & Rossiter, 1982). In Assmus et al. meta-analysis (1984) we can see a number of researches on different categories of products evaluating the elasticity of advertising. Results have shown that the elasticity of advertising is 0.15, which is an average of the result between 0.26 for new brands and 0.05 for established brands... At the same time the meta-analysis shows that the influence of price and promotion has an elasticity which is 20 times higher (Ailawadi, et al., 2010).

Thus merchandising a product represents the following decisions (Pop M. D., 2002; Mouton & Paris, 2009; Nita & Corodeanu, 2008):

- Choosing the position in the store where the product will be sold;
- Size of sales area that will be assigned;
- The quantity of the certain product on the shelves;
- The layout of the products on the shelves;
- Presentation materials used: shelves, boxes, pallets etc. to the ground;
- Signalling materials to be used: "Shelf-stopper", wobblers

Linear foot shelving (Cheryl, 2007) is the total length at the shelf equalling the sales surface on the ground, multiplied with the number of levels at the shelf (Pop M. D., 2002, p. 29). The linears' role is to passively support the products so that consumers can see them helping premeditated buying behaviour, first of all, and actively support sales, increasing the products attractiveness in order to facilitate impulse buying. The space allocated to a product produces the following effects (Nita & Corodeanu, 2008; Reyes & Fraizer, 2005):

a) All products with a larger space will have bigger sales.

b) The shelf space has a minimum and a maximum influence on the product. Mainly, the minimum effect is just placing the product with a limited facing, which will provoke sales based on premeditated behaviour. The maximum limit is when the sales stop increasing despite the more space allocated on the shelf. This is called linear elasticity (Pop M. D., 2002, p. 29).

Marius Pop (2002, p. 29) has presented in his book the below graph the relation between the product linear and sales. As we can see the graph passes through three points. Before point A, the facing is too small to attract the attention of consumers and to let them know that the product is available. Between the points A and B the product captivates the consumers' attention and provokes impulse buying. After point B sales are no longer influenced by facing strategies and space allocated.

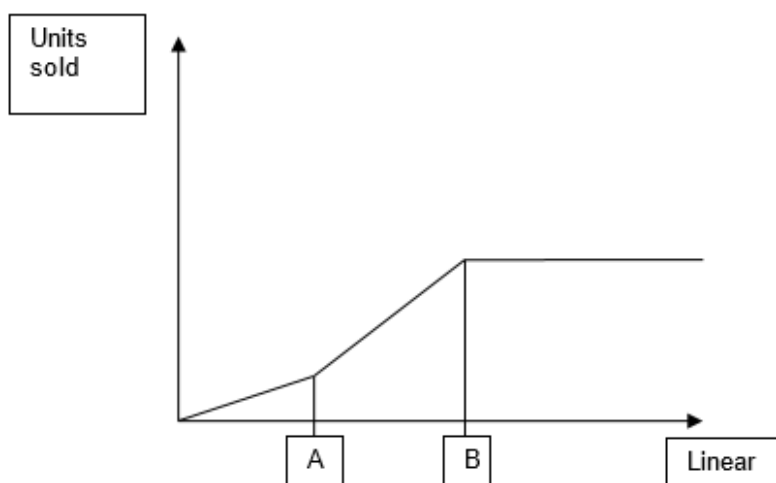


Figure 1: Relation between linear and sales at the shelf level

Source: (Pop M. , 2002, p. 29).

Different products have different minimum and saturation points. For example, products like bread, oil, or primary goods aren't influenced highly when a larger space is allocated to the product, because consumers do not buy these goods more than they need. Commodity products, representing most of the goods present in the retail market, are more strongly affected by the linear (biscuits, cans etc.). The most influenced category consists of occasional purchase products, where the sales increase is low with small shelf allocation, but when the linear and number of product faces increases, the line abruptly goes up (Kotler & Armstrong, 2005; Nita & Corodeanu, 2003).

Layout and shelf performance

There are several types of layout used by stores in order to present goods in the way which brings the highest sales. There is the horizontal presentation of products, as we can see in figure 2, and the vertical presentation of products, which can be seen in figure 3.

Dish washing liquid	Level 5
Soaps	Level 4
Textile whiteners	Level 3
Floor wash solutions	Level 2
Detergents	Level 1

Figure 2: Horizontal presentation

Source: (Pop M. , 2002, p. 29)

Dish washing liquid	Soaps	Textile whiteners	Detergents	Level 5
				Level 4
				Level 3
				Level 2
				Level 1

Figure 3: Vertical presentation

Source: (Pop M. , 2002, p. 29)

Vertical presentation is preferred because it stops the consumer in a focused area and increases the profitability and efficiency of the shelf, since shop owners can position more interesting and beneficial products at the more performing levels (Pop M. D., 2002; Nita & Corodeanu, 2003).

Performance of levels is considered to be positioned between 1m and 1,6m above the ground, where the eye and hand levels are. The below figures shows the most productive levels.

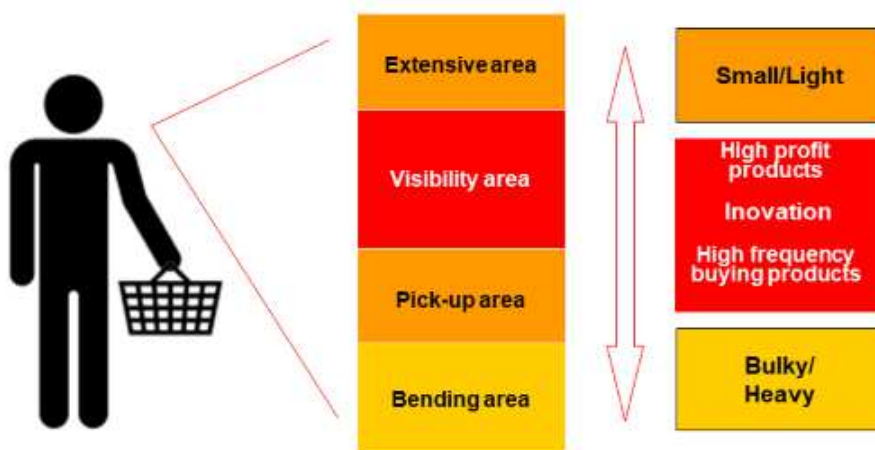


Figure 4: Structure of commerce on sales channels on a national level in Romania

Source: (CMG Media Solutions, 2012)

Mainly, the Visibility area, in the above figure, positioned 15 degrees below the eye level, is where the products most interesting to the retailer are placed.

The development of merchandising in the food industry has been a direct consequence of the expansion self-service retail stores. When there is no personnel to guide the customers, products must be able to attract the attention and provoke the desire to buy. Therefore with

the development of supermarkets and hypermarkets food merchandising has gained a lot of importance gained.

Due to the fact that the time spent in retail shops has decreased significantly in the last 10 years (Nita & Corodeanu, 2008; Nita & Corodeanu, 2003), the point of sale has become of much higher interest for producers and for salespersons having their brands on the retailers' shelves. Here comes the development of the point of sale (POS).

There are numerous purposes of the point of sale. Its main target is to attract attention either with its positioning and product display, or through different POS materials. POS materials are designed to attract attention and to enhance brand images. On another level, they are used to convey the "presence" of the brand to consumers, to create the perceived popularity of brands. The target is to differentiate brand from each other and lower the influence of price competition between different brands. The main aim of POS materials and promotion is to sell primarily and promote the brand.

Richard Pollay (2007) presents the functional purposes of POS materials (in a 1979 British American Tobacco document) below: (1) to notify the consumer of the existence of the brand; (2) to promote brand recognition; (3) to generate interest and excitement about the brand; and (4) to stimulate trial purchase and re-purchase.

3. Food products merchandising in Romania

Product merchandising in Romania has an even higher influence on sales and branding than it does on other more developed markets, such as the United States or Western Europe. The first reason is the still significant number of traditional shops owned by local entrepreneurs and not international chains. Still over 40% of the retail market is held by small shop owners and local chains.

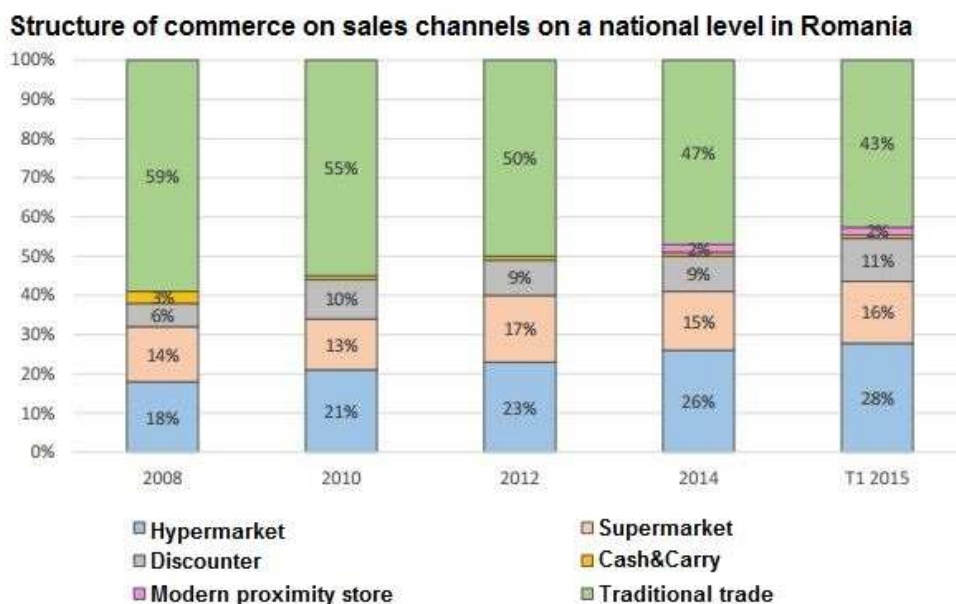


Figure 5: Structure of commerce on sales channels on a national level in Romania

Source: (CMG Media Solutions, 2012)

The high percentage of traditional trade in Romania favours merchandising effectiveness since small shops don't have the same complicated regulation regarding product facing, display and especially POS materials. Therefore the result on sales are immediate and

visible. The problem with traditional trade is that it is losing ground fast due to the fast expansion of modern trade. We shall see an actual example tested in Romania in the following chapters.

Figure 5 presents the fast increase of modern trade (international key accounts) at the expense of traditional trade (small shops and local supermarkets owned by local individuals). With the rapid expansion of modern trade and the bankruptcy and closure of many small shops it has become harder to implement merchandising techniques at the point of sale. We can see in figure 5 that traditional trade has gone down, from a market share of 59% in 2008 to a 43% share of the retail trade in 2015. Usually when international chains open a store in a certain location, all the small shops in the area suffer and either become specialized shops selling a limited number of products or change their entire activity.

3.1. Merchandising in the modern trade

As far as modern trade goes, due to the fact that the Romanian market is a relatively young and new market, compared to the markets of Western Europe and USA, or other capitalist countries. Here, the market has only recently opened to foreign companies and assortments from outside of the country are still developing slowly. Consequently, international key accounts are developing at a very fast pace. We can see an example in the below figure.

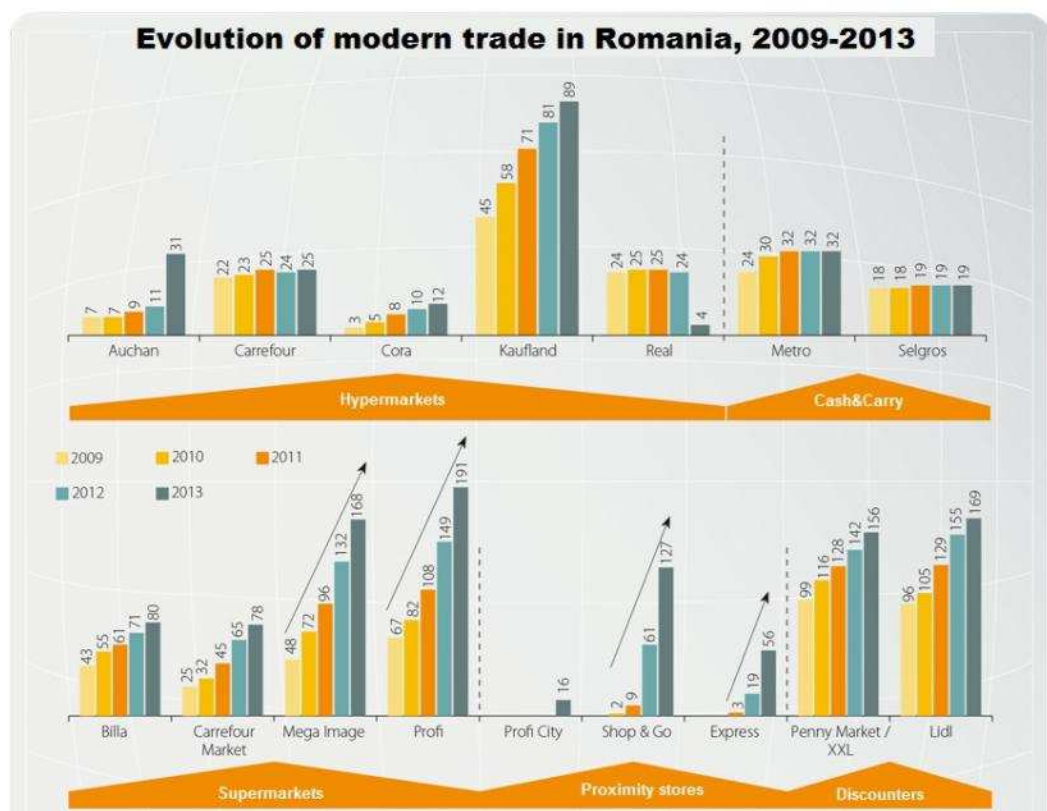


Figure 6: Evolution of modern trade in Romania 2009-2013

Source: (CMG Media Solutions, 2012)

We can see the rapid expansion of these shops, and especially observe the rate of growth for each category, based on the market development. At first, Cash and Carry locations entered the market, due to the significant traditional market. The next category to develop in time was the Hypermarkets sector. Between 2006 and 2009 their number used to grow

yearly by over 20%. Recently, in the last 4-5 years we have seen a rapid expansion of smaller sized stores, such as supermarkets and express stores. We can see, in the figure above, the accelerated development of retail chains Mega Image and Profi, who, from the beginning, have chosen a supermarket format. Even this year these retail chains are expected to have the fastest development and expansion into other regions of the country than their standard area. In 2017 Profi has announced their plans to open an extra 200 shops in the country reaching over 700 shops (Mediafax Group - Ziarul Financiar, 2017), while Mega Image has announced plans to extend their covered area, entering a new market, the north-western part of Romania (Mediafax Group - Ziarul Financiar, 2017).

In big retail chains merchandising is performed based on clearly set parameters and rules and most attractive shelves (end of the shelf, called endcap or close to the cashier) are allocated based on several criteria which follow the retailers profitability (Reyes & Fraizer, 2005). Products are put at endcaps, where the highest traffic is because of:

- Paying a preset tax to the retailer for using the special display, also known as promotional fees (Dulsrud & Jacobsen, 2009)
- Being a highly profitable product for the key account
- Being a product with a high turnover, and it attracts clients to the store
- There is a very strong promotion at a certain product with high turnover and profitability



Figure 7: Hypermarket endcap in Cluj-Napoca

Source: (Safeway International SRL, 2013)

3.2 Merchandising in the traditional market

The situation in the traditional market shops is different when discussing merchandising since the space is much more limited, therefore a significant importance is given to the flow of consumers and promotion shelves.

Unlike international retailers, traditional shops do not impose clear merchandising rules, they only rely on grouping together the product categories. There is no elaborated study on the profitability of space occupied by the products, and it is very much influenced by the traditional shop owner.

This is one of the reasons why modern commerce managed to enter so easily on the market and gain market share over traditional retail, the most important argument being the financial

capability and negotiation power with suppliers (Dulsrud & Jacobsen, 2009; Cheryl, 2007; CMG Media Solutions, 2012).

The traditional store is limited as space and that is why it has to provide its customers with basic products (bread, vegetable-fruit, dairy, sausage, eggs, oil, sugar, etc.) and increasing its turnover, it has to manage its sales area very well.

To be successful, a store must comply with certain conditions, as we can see in the figure below. Specifically, a traditional shop must be sure it is situated in good location, must choose an appropriate range of goods and services for its customers and have a pleasant ambience and interior design (Metro Group - Mircea Coman, 2008).

Factors influencing a traditional shops' success



Figure 8: Factors influencing shops' profitability

Source: (Metro Group - Mircea Coman, 2008)

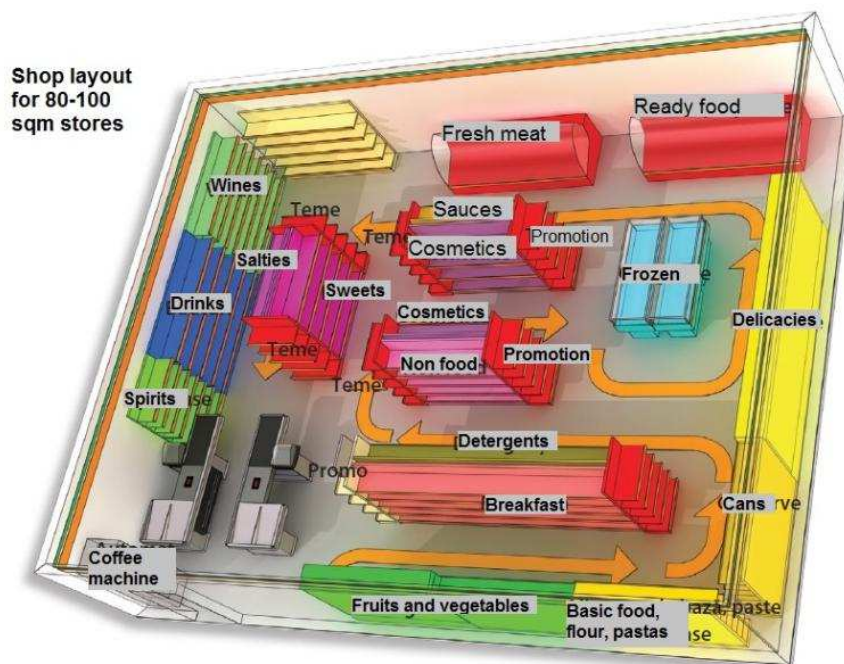


Figure 9: Local market layout

Source: (CMG Media Solutions, 2012).

From the merchandising point of view the traditional store must adapt its assortment so that it serves the local consumers' needs. From the beginning the store must imagine the clients' movement in the store and arrange the store so that the most profitable products are chosen. The first step is to establish the segments of products. Products with a higher rotation are positioned at the end of the shop, so that the client goes through the whole store and pass by as many products as possible. PL

Planning the sales area and layout of the store depend on the products sold and the location construction. The below figure is an example presented by a specialized retail magazine, Magazinul Progresiv (CMG Media Solutions, 2012)

Shary Waters proposes the following types of lay-outs (Mouton & Paris, 2009) :

- Straight line lay-out - the most economical and easiest type of design
- Diagonal lay-out - it is an optimal layout for self-service shops and offer visibility to cashiers
- Cornered lay-out - usually used in specialized or premium shops
- Geometric lay-out - specially used for apparel and clothes stores
- Mixed lay-out

4. Merchandising effect on sales in the Romanian market

The following figures will show the results of merchandising activities on a canned food brand in shops belonging to the traditional market of Cluj-Napoca, Romania. In a market research performed in 2008, the following outcomes have occurred.



Figure 10: Research period compared to Home Garden sales in 2007, 2008 and 2009
Source: (Shakhshir, 2009)

In 2008, a food and drinks distribution company, Safeway International Impex SRL has run for a period of 3 months an aggressive merchandising campaign for its private label, Home Garden, a canned food brand. The focus period is marked in red

We can see the visible effects this has had on sales in these three months (August to October). Sales have increased over 100% in the last 3 months of the campaign. The most important effect is even after the campaign ended, the new level of sales are situated at a stable level of over 30% above the previous year. This clearly shows the results of merchandising in long term.

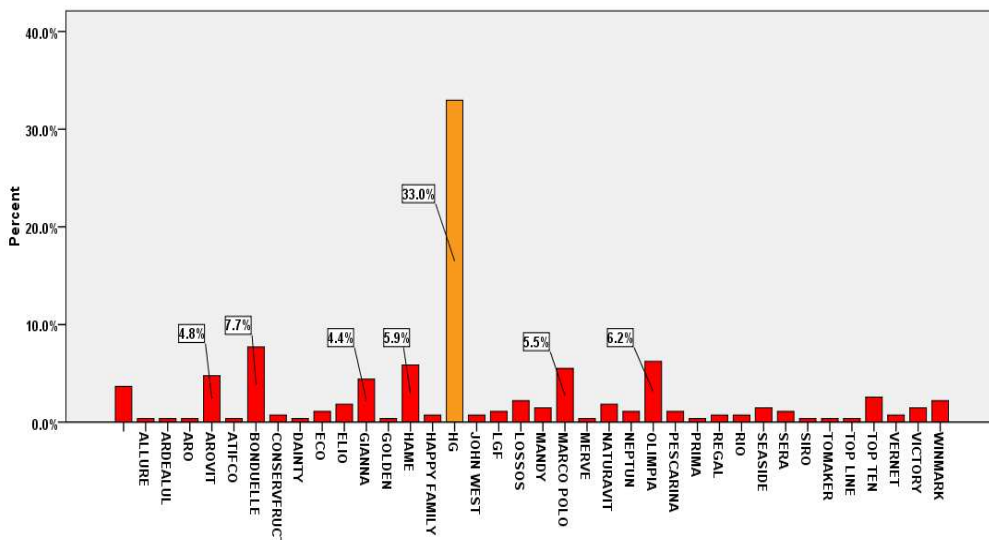


Figure 11: Canned food brand bought by consumer
Source: (Shakhshir, 2009).

The above figure clearly shows the market leader position, Home Garden, the brand which has enjoyed an extensive session of merchandising for some months of months. This is how, as can be seen on the above figure Home Garden has a market share of 33%, followed by Bonduelle (7,7%), Olimpia (6,2%), Hame (5,9%) and Marco Polo (5,5%). Although many of the other brands have a greater level of awareness, as we can see in the below figure, in Romania and globally and have a greater communication budget, they have a lower presence on the shelf due to the lack of focus on merchandising and trade marketing. In the below graph we can see the top-of-mind awareness. Clearly many other brands are more popular and known by the consumer, but performance in the shop is much more affected by merchandising and shelf management.

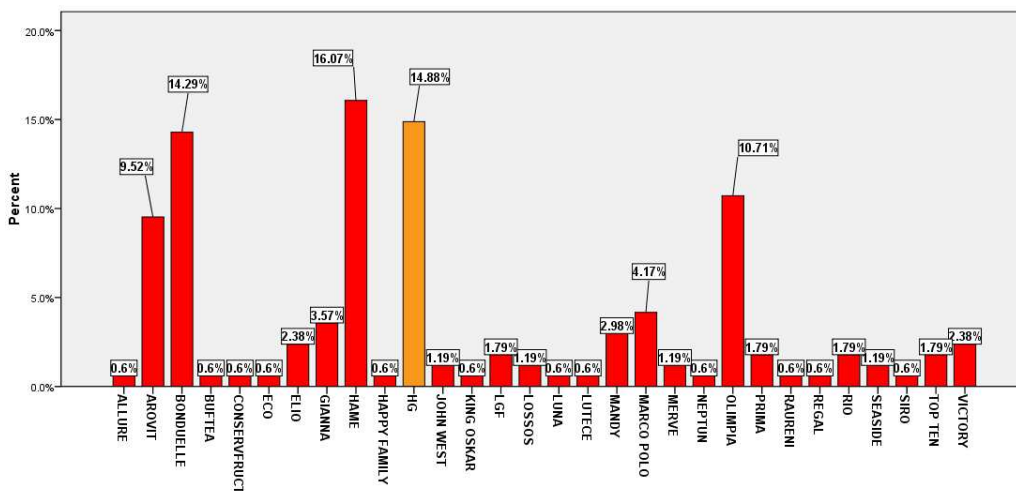


Figure 12: Canned food brands top-of-mind awareness
Source: (Shakhshir, 2009)

5. Conclusions

Merchandising is a type of activity that pushes sales with a major short-term impact and a significant one on medium and long term as we can see in Figure no. X.

In Romania, most food categories have well-established brands, but the market is still developing, and there is a strong chance that new brands will emerge to gain a significant share of the market. Also being a market influenced by traditional trade, brands can practice merchandising at a much more developed level and at lower costs than in a country where the market is already stable and thus for several years until retail trade matures, marketers in the Romanian retail industry will have the chance to practice all merchandising techniques at the product, shelf, and store level.

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