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## USING MERCHANDISING TO MANAGE CONSUMER BEHAVIOUR GLOBALLY

**Abstract.** The major problems and perspectives of the modern international approaches to merchandizing systems development and management are considered in the article. Merchandizing systems are analyzed based on understanding that they are a vital part of marketing mix within enterprise which supports an effective consumer behavior managing process. Various areas and components of merchandizing systems are highlighted in the article; key trade forms and methods of merchandizing are summarized and evaluated. Leading international experience was analyzed and systematized pursuant to key theoretical concepts which enabled to develop recommendations regarding development and managing merchandizing systems in transition economies based on effective and successful global practices taking into account specific environmental features of Ukraine.

**Keywords:** international merchandising systems, marketing mix, consumer's behavior, international market, sales promotion.

**Introduction.** Global economic downturn, decrease of payment ability of population in various countries, growth of market competition, forming a new type of consumers' value system and customer-oriented modern business environment, the problem of selling goods is becoming increasingly important for all businesses. According to a study, conducted by Point of Purchase Advertising International (POPAI), an independent business association in points of sale, consumers make 70% of total buying decisions directly in the store<sup>1</sup>. According to «Light promotion» study, 30% of Ukrainian consumers' purchases are planned in advance, 6% of purchases are planned in general, 4% – alternative purchases and 60% – impulsive purchases that is the decision on them is made directly in the store<sup>2</sup>. This justifies the high importance of in-store merchandising activities as well as branding or promotion. Merchandizing efforts are undertaken directly in points of sale and provide a seller with a last chance to demonstrate goods before a purchase. All mentioned above causes an importance of international merchandising application in consumer behavior management to increase effectiveness of company's sales policy.

**Problem definition.** Issues of marketing mix and effective merchandising systems development were investigated by leading marketing scientists, namely H. Armstrong, A. Velkhoff, Ph. Kotler, B. Kenneth, J.-E. Masson. Some Ukrainian scientists devoted studies to merchandising, for instance: L. Balabanova, Y. Mytrohina, E. Romat, V. Snegirova, K. Kanayan, M. Kotlyarenko, A. Starostina and others. Sales organization and merchandising are quite new fields for research with possibility of practical implementation, and it requires approbation and verification on transitional markets such as Ukrainian retail.

Nowadays the majority of studies on the process of merchandizing can be used in developed countries. The issue of building an effective merchandising system in transition economies still remains poorly understood. In current paper the potential of merchandizing application in Ukraine will be investigated. Ukrainian market is one of the most attractive for world players within the retail industry. Taking into account political situation, instability of Ukrainian economics, objective internal factors that can influence methods of consumer's behavior management should be considered.

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<sup>1</sup> Market to the Institutional not the rational. *Point of Purchase Advertising International*. <<http://www.popai.com/industry-news-blog/market-to-the-instinctual-not-the-rational?A=SearchResult&SearchID=1789415&ObjectID=4660797&ObjectType=35>> (2015, November, 29)

<sup>2</sup> Импульсивные покупки. *BMG Ukraine*. <<http://www.bmgukraine.com/impulsivnyie-pokupki.html>> (2015, November, 29).

The purpose of the study is a generalization of international experience of merchandising systems' development for consumers' behavior management in transition economies.

Theoretical approaches analysis, development of practical recommendations for the use of merchandising tools and aspects of the increase of sales effectiveness in global companies on Ukrainian market.

**Results of research.** Development of the new technologies, growth of completion at the consumer markets caused the need to develop the up-to-date approaches to retail trade organization during the last century. Such transition caused higher involvement of a buyer in trade process. Generally, the role of merchandising was realized a long time ago. The first prototypes of department stores appeared in Europe in the early 19th century. Much has changed since that time, but the prototype of a modern marketing activity took place in 19th century. At the end of a 20th century new methods of trade and marketing, packaging and placing were invented, and a sales technique turned into a psychological battle. New trade types appeared, and each one used merchandising tools better and more delicately. In terms of increased competition in the market certain producers in USA, since the mid 60s, have started to use merchandising as one of the effective instruments in a struggle for a buyer, for a buyer's independent selection of a certain brand in the absence of a seller. At that times merchandising was a method to win a space on the shelves in self-service stores, and an increase of the goods' visual presentation was appointed to affect a buyer's decision of purchasing certain ones ("the product should sell itself"), as merchandizing is about replacing passive product presentation to active by the use of all methods that can enhance product's attractiveness: design, packaging, layout, placement on a display, etc. According to IAAS (USA), at the beginning of the 21st century 70% of total decisions of purchasing were made directly in the store and not before visiting. And for a cash zone this indicator is 90%<sup>3</sup>. Therefore, today merchandising is about preparing goods for sale in the retail trade. In «The Economist» on May 11, 1940, were noted: "A success feature of retailers – a combination of effective merchandising and products' control by sellers"<sup>4</sup>.

There are various definitions of the term "merchandising" in the literature, although the only correct and generally accepted one does not exist yet. Let's review some of the variants. For example, the French Institute of Merchandising gives the following definition: "Merchandising is a set of studies and techniques of sunsets in practice of form if the joint, by distributors and manufacturers with a view to increasing profitability point of sale and the introduction of products, through a constant adaptation of the assortment to the needs of the market and by presenting proper goods."<sup>5</sup>

At the same time the British encyclopedia presents the definition proposed by Ph. Kotler, stating that "merchandising is a set of measures designed to attract the attention of the customers, for example conducting "public relations", placing products in the retail space, arranging sales counters, distribution of brochures, posters, etc."

Merchandising is a set of measures aiming to increase the demand for products, a skill to arrange the product in the retail space. These measures lead to the creation of a positive customer's impulse, targeting not only the purchase of the product, but also the creation of a strong brand image in the minds of the customers<sup>6</sup>.

Merchandising includes evaluation and selection of goods and products by extension of the package and its design; fairness of labelling and the information (description) about the goods; selection and evaluation of the form, method and style of the trade in goods; communication with the consumers, methods to attract potential consumers.

There also exists such a concept as "visual merchandising" - a complex of measures carried out in the selling floor in order to increase the sales and promotion of the product, trademark, brand through their special placement and design of the space of the whole store, store displays and shelves in order to provide the customer with as much information about the product as possible. In short, merchandising is an art of distribution, sale and disposal of goods<sup>7</sup>.

All the companies operating in the consumer market use a system of visual merchandising in one form or another. In this connection it is worth considering a merchandising system of one of the key players on the

<sup>3</sup> Consumer Lifestyles in the US. *Euromonitor euromonitor.com*. <<http://www.euromonitor.com/consumer-lifestyles-in-the-us/report>> (2015, August, 5).

<sup>4</sup> Макашов, Д. (2009). Мерчандайзинг. Искусство сбыта товара. *marketing.spb.ru*. <<http://www.marketing.spb.ru>> (2015, August 4).

<sup>5</sup> Nos missions IFM (Institut Français du Merchandising). *Institut Français du Merchandising* <<http://www.ifm.asso.fr/site/nos-missions>> (August 5, 2015).

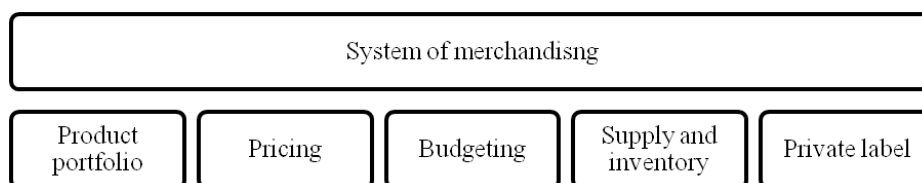
<sup>6</sup> Kotler, P. (1995). Marketing and Merchandising. *Encyclopedia Britannica*.

<sup>7</sup> Галун, Д.А. (2013). Визуальный мерчандайзинг на раз-два-три-четыре-пять. "Пумер".

global street high fashion market which belongs to the group of companies «Inditex». The flagship brand of the group of companies «Inditex» is Zara, founded by Amancio Ortega. In general, the group of companies «Inditex» includes such brands as Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe. The company's history began with the opening of the first Zara store in 1975 in Spain. In 1988 the brand entered the market of Portugal. The following year of 1989 the seller opened its stores in the US and France. In 2000 Zara stores operated in dozens of countries on all of the continents.

As shown by the results of its activity in 2013-14 the group of companies operates in 88 countries, the network of its stores reaches 6460 units and employs 128 000 people on 5 continents<sup>8</sup>. Zara presents a stylish and affordable line of women's, men's and children's clothing, shoes, cosmetics and accessories. The group of companies in two years of its presence on Ukrainian market opened over 50 stores, including Zara, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho. Zara Home and Uterqüe brands are not present on the Ukrainian market yet. Zara brand can be named as one of the most successful in the history of high street fashion. Brand development excludes commercials and APL activities. Instead of that the company invests in the opening of new stores and encourages the customers to buy their products by providing the effective development systems of merchandising.

The basic areas of the development of merchandising system for «Inditex» companies group in Ukraine includes the area of the range of products, pricing, budget, supply and inventory of goods, as well as a private label (Fig. 1). The last area is particularly important for the development of merchandising system. Having reviewed the merchandising system of Inditex it is clear that private label is one of the key success factors for the company in the global market. As was noted above, the group of companies owns nine brands which operate completely independently from each other. The second component of merchandising includes pricing. Inditex Group uses standardized price level strategies. Traditional strategies of Inditex Group on global and Ukrainian markets are high price strategy, low price, skimming, etc.



**Figure 1. Basic areas of the merchandising system**

*Source: developed by authors*

The third component of merchandising systems development is an available range of products. Merchandising tools allow providing a consumer with a maximum amount of information, to acquaint him with the new assortment positions or with their qualities. Therefore there is no need in additional spending on outlet staff training and motivation. In an overall marketing product concept the most important merchandising tools are placing standards in the shopping area, POS usage, development of new forms of corporate equipment. Inditex Group uses the following rule in its business activity: "what works effectively – something that runs in its place at the right time and is the optimal size."

The fourth component is a development of an effective budget and financial plan. In public companies' open secondary information shouldn't be a budget. That is why we can talk about financial planning effectiveness only indirectly, on the base of planning results that is annual reports. Thus, the volume of Group's net sales rose from 9.4 bln euros in 2006 to 16.7 bln euros in 2013 with a total increase of 11%. Net profits of Inditex Group rose from 1 bln euros to 2.4 bln euros, with growth of 13%<sup>9</sup>.

The fifth component of merchandising systems construction is an effective inventory and distribution system. As we have noted, the Group operates in 88 countries with a network of stores of 6,460 units. According to Group's annual report, 55% of the total production is located in Spain, Portugal and Morocco; the remaining 45% is for the rest of the world. The number of Group's suppliers is impressive over 1590 partners. The main raw materials supply regions include Asia – 738 suppliers (47%), the EU with 497 suppliers (31%) followed by the non-EU countries – 151 suppliers (9%), Africa – 124 suppliers (8%) and America – 82 suppliers (5%)<sup>10</sup>.

<sup>8</sup> Inditex Financial Data. *Inditex web site*. <[http://www.inditex.com/en/sustainability/suppliers/suppliers\\_world](http://www.inditex.com/en/sustainability/suppliers/suppliers_world)> (2015, September, 15).

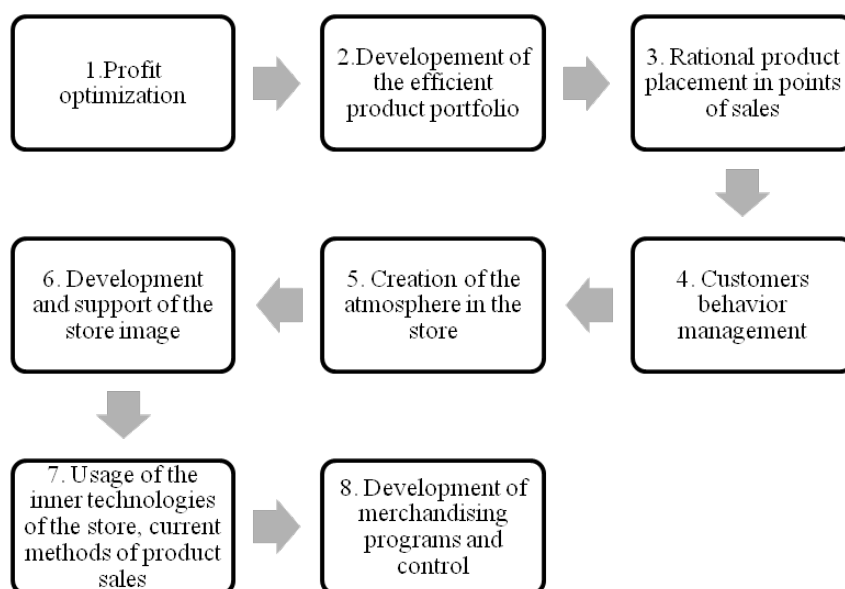
<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

Taking into account the positive experience of the «Inditex», we should summarize the main approaches to the formation of the merchandising activities complex that are common to all the stores in the countries where the group operates. Firstly, in order to ensure the effective sale of the desired products and the desirable level of profit it is necessary to ensure the constant availability of goods in stock. It is also required to have an in-store display of the products in the most attractive way and manage the income from its sales effectively. Merchandising is a new trend in retail strategy. Nevertheless, it is already possible to determine the main directions of merchandising by the four main directions of merchandising<sup>11</sup>:

- the range of products which is connected with the demand study. Determination of the potential clients' concentration area for the particular store. Formation of the product profile of the store and its format;
- products appearance (based on the ensuring the constant availability of the determined range of products in stock and its further placement in the trading space of the store);
- animation (activation and stimulation of product sales in the store based on the ad-campaign, conducting presentations, sampling etc.);
- products sales management (as a set of measures used to analyze sales profitability).

In domestic and foreign practices it is traditional that producers, distributors or special agencies appear to be the facilitators of the merchandising system. Being a complex process of organization and management of product sales, merchandising is conducted using principles of planning. Merchandising plan includes the range of basic components represented on the chart 2.



**Figure 2. Merchandizing plan components**

*Source: developed by the authors based on<sup>11</sup>*

In Ukraine the products are usually sold through retail trade enterprises. Retail trade is also conducted by the industrial and wholesale enterprises through the network of their private stores and through other points of sale, retail markets, public catering facilities and so on. The amount of sales through retail chains is constantly growing. In particular, in Great Britain «going shopping» today is ranked second after watching TV in the list of ways to spend free time. This tendency is also typical for other countries in Europe and the USA. For example in the USA trade centers are integrating with recreation centers. In England there are a range of companies that organize the transportation of Englishmen to the continent to go shopping for the whole day in the biggest trade center in Europe Gateshead's Metro Centre<sup>12</sup>.

Basically it means that the buying process is shifting from product demand satisfaction to the satisfaction of the process of shopping itself. It is clear that currently Ukraine is far from the widespread development of this trend. However now nothing restricts to start transforming the process of shopping into pleasure. It means not only the promoting of brands but the buying process itself. The demand in active brand promotion in the points of sale

<sup>11</sup> Черепнин, Т. (2004). МерчЭндайзинг и МерчАндайзинг. *Современная торговля. Prodaji.ru*. <<http://www.prodaji.ru/mai>>

<sup>12</sup> Макашов, Д. (2009). Мерчандайзинг. Искусство сбыта товара. <<http://www.marketing.spb.ru>> (2015, August 4).



leads to the creation of the new ideas in marketing communication systems and their implementation with the usage of the new technologies of maximum mobility, speed and quality. The majority of international corporations are successfully using the integrated marketing communications to solve these kinds of problems.

Integrated marketing communications (IMC) at the points of sale is a complex synthetic method of marketing communications, that stimulates retail trade by attracting customer's attention to the particular trademarks or product groups in the points of sale without any active involvement of the sale agents. The peculiarity of the implementation of the integrated marketing communications at the points of sale includes their limitation of usage by the limits of the retail trade enterprises. IMC can be considered as a communicational component of merchandising. Methods and the main instruments of IMC at the point of sale traditionally include POS-materials (point of sales) – tools to design the point of sales (external POS-materials, floor graphic, printed ad materials, promotional stands of various types). The aims of using IMC include: providing branded products with sufficient and effective to use trading space, demonstration of the most attractive and beneficial characteristics of the product, intensification of the sales process, presentation of the new products, providing the integration between the store's technologies and specific customers' behavior. Brands create particular images, stable associations of inner and outer kinds that relate to the personal experience. In such a way the main purpose of branding in managing customer's behavior is the development of durable purchasing advantage of particular product over its competitors.

Customers' behavior includes all the economic, social and psychological aspects that influence the process of preparation to buy something and the purchase itself as well as the usage of the purchased product and passing the purchasing experience to others. The consumer market consists of individuals and their families who buy goods and services to meet their own needs. For example the US consumer market consists of more than 255 m people that buy goods and services on more than \$ 2 trillion (\$ 9000 per person, whether grown-up or child). Every year a few millions of people join this market bringing over \$ 100 bln a year, thus making the market of the USA as one of the most attractive consumer markets in the world<sup>13</sup>. Consumers differ in age, tastes, educational level and level of income. And they buy a huge amount of various goods and services.

According to «Euromonitor International» (USA), there were 5 key trends to form consumers' behavior in 2014: for the first time within post-crisis years consumers' spending began to increase, share of impulsive purchases was growing, debt crisis was continuing to influence students' decisions on not to take long-term loans for real estate and cars, "smartphone mania" on consumers' market and a growing number of "healthy lifestyle" purchases<sup>14</sup>. There are a significant number of goods sales activation methods that can be divided into two groups: shop ones (promotion) and non-shop ones, which are aimed at masses.

Unlike non-shop methods of selling goods that are somewhat passive in influencing a buyer, shop activation methods aim a consumer, who needs certain category of goods, directly. By boosting sales they should create a flow of consumers and goods selling directly in stores. Psychological influence on a buyer also plays an important role in imposing goods to a consumer. Despite the fact that all methods of enhancing population's demand are different, certain general requirements are set for them. They should attract buyers' attention and contain information that would help customers to find the right product; provide customers with some benefit in case of purchasing goods; contain a clear proposal for immediate purchase.

Conclusions. Based on research of international experience in merchandising systems development in consumers' behavior management on the example of Inditex Group, it was determined that, in general, development of merchandising systems is based on six areas: total budget, which includes inventory, product categories and the overall product range, a presence or absence of «private label», continuous product supply development, pricing strategy, stockpiling and integrated marketing communications. The quality above areas' creation and the psychology of a buyer influences a merchandising system effectiveness on both local and global levels. In terms of political instability, increasing competition in all areas of activities there is a need for further research and a development of practical recommendations on opportunities to improve efficiency of doing business, including by managing consumers' preferences.

<sup>13</sup> Котлер, Ф., Боуэн, Дж., Майкенз, Дж. (1998). *Маркетинг. Гостеприимство и туризм*. Учебник для вузов / Пер. с англ. под ред. Р.Б. Ноздревой. М.: ЮНИТИ.

<sup>14</sup> Consumer Lifestyles in the US. *Euromonitor euromonitor.com*. <<http://www.euromonitor.com/consumer-lifestyles-in-the-us/report>> (2015, August, 5).

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