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Retail buyer segmentation based on the use of assortment decision factors

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ABSTRACT

The purpose of this study is to provide detailed information about apparel retail buyers' buying behaviors based on their use of assortment decision factors. After interviews with five retail buyers and merchandisers, surveys were conducted in Seoul, South Korea for this exploratory study. Apparel retail buyers, merchandisers, and retail store owners, who are involved in assortment planning and buying, participated in the survey ($N=378$). Results of factor analysis created seven assortment decision factor groups. Based on the factor groups, four cluster groups were the best cluster result: (1) Least Factor Use Buyers, (2) Traditional Factor Use Buyers, (3) Consumer-Oriented Buyers, and (4) Most Factor Use Buyers. Because this study used convenience and snowball sampling methods in one country, the findings cannot be generalized to the general population of apparel retail buyers and merchandisers. However, the study provides researchers with planning factors and cluster information for retail buying behavior. The results offer insight to buyers for their decision-making by organizing assortment decision factors from the most to the least important, especially for younger buyers, who need guidance about assortment planning. Although assortment planning and trade-off decisions are known to be extremely important to retail success (e.g., Kok et al., 2008), no previous study identified a typology of retail buyers on the basis of their consideration of assortment decision factors. This study adds new information and confirms the application of traditional assortment decision factors from 1980s and 1990s to post-2008 era.

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1. Introduction

When considered as a stand-alone activity, assortment planning is the primary planning activity prior to retail buying and greatly impacts the actual buying activities (Kincade et al. 2004; Rabolt and Miler, 2009). When retail buying is considered to be a two-step process (i.e., buying planning and actual buying), step one includes the tasks of merchandise planning with forecasting sales, inventory management, and assortment planning (Goworek, 2007; Rabolt and Miler, 2009). When assortment planning is considered part of the retail buying planning process, assortment decisions include decisions about product buying as well as decisions of product retention and the deletion of current products (Nilsson and Host, 1987). Assortment planning includes many specific quantitative decisions for retail buying, made to satisfy customers' needs by providing the right merchandise in the right store at the right time.

Decisions in assortment planning determine the variety (i.e., number of categories), depth (i.e., number of stock-keeping units [SKU] in a category), and inventory per SKU of the merchandise. Assortment plans have the potential to affect sell-thru and sales as well as the firm's overall performance (Kok et al., 2008). For example, if retailers plan and order insufficient quantity of products, a loss of sales is created by stockouts or lack of merchandise for target customers (Kincade and Gibson, 2010). On the other hand, an over-purchase of merchandise may result in an excessive end-of season inventory that causes low profit return. The selection of merchandise, in both quantity and style, is not a simple and/or easy decision for retailers to make. In addition, the merchandise that retailers carry is restricted by a limited budget for each product, limited shelf space or store space for merchandise displays, and a limited number of suppliers with the capability to offer competitive products (Kok et al., 2008). With these restrictions, assortment plans are developed based on trade-off decisions among a number of decision factors (e.g., salability, budget, an economy) in order to satisfy customers. The uniqueness of the apparel product (e.g., short time to market, constantly changing variables, fickle consumers) compounds the criticality of these trade-off decisions for apparel retail buyers. Understanding

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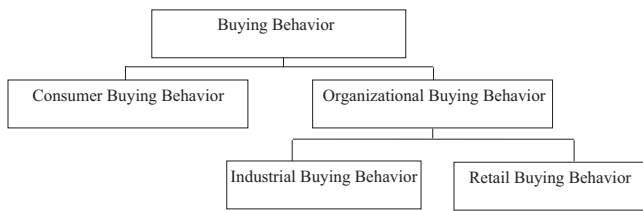


Fig. 1. Buying behaviors in academic literature.

how these decisions are made and what decision factors are actually used within the apparel retail context could be helpful in improving the retail buying decisions and in creating more positive outcomes (e.g., increased customer satisfaction; improved retail profit) for retail firms.

Numerous studies have been conducted about buying behavior; however, most of these studies have examined the buying behavior of industrial buyers or end-consumers' shopping behavior (e.g., Hong and Koh, 2002; Sheth, 1973). Neither industrial nor consumer buying is fully applicable to retail buying behavior (Swindley, 1992; Wagner et al., 1989). Industrial buying (e.g., buying done by manufacturers) falls under organizational buying (see Fig. 1). The industrial buying behavior or process has been investigated extensively in general (e.g., Anderson and Chambers, 1985; Hunter et al., 2004; Johnston and Lewin, 1996; Sheth, 1973; Webster and Wind, 1972), and other studies have focused on only parts of the buying process, especially on the supplier selection by industry buyers (e.g., Cardozo and Cagley, 1971; Chan and Chan, 2004; Crow et al., 1980; Verma and Pullman, 1998).

Retail buying behavior, the second type of organizational buying, has a number of factors that differ from industrial buying (see Fig. 1). Wagner et al. (1989) discussed the differences between industrial buying and retail buying. For example, industrial buyers are responsible for controlling costs when purchasing raw materials, while retail buyers are responsible for both controlling costs for purchasing finished goods and generating sales by reselling the goods. In the few research studies examining retail buying behavior, researchers have tested portions of Sheth's (1981) theory of merchandise buying behavior (e.g., Fiorito, 1990), investigated merchandise requirements (e.g., Nilsson and Host, 1987), and examined retail buyer's decision-making process (e.g., Fiorito and Fairhurst, 1989; Kang and Kincade, 2004b). Other researchers have compared retail buyers' behavior by the types of products they carry (e.g., Wagner, et al., 1989); their use of information sources (e.g., Kline and Wagner, 1994), and demographic and other characteristics of the buyers (e.g., Da Silva et al., 2002). Wagner et al. (1989) found that various uses of vendor selection criteria exist among different divisions, even in the same department store (e.g., ready-to-wear, home fashion, accessories). In addition, Kline and Wagner (1994) indicated that retail buyers' behaviors differ by which information sources they utilize. Da Silva et al. (2002) reported that clear correlations exist between buyer characteristics and use of criteria for buying decision making. While the research on retail buying behavior seems extensive, few previous studies identified factors affecting the decision-making process when buying, and these studies were generally conducted with a sample of multiple retailers carrying various types of products (e.g., auto parts, grocery, apparel, jewelry). In addition, many of these generalized buying studies are more than twenty years old. With changes in technology, increases in competition and advances in marketing techniques, the retail environment has evolved significantly from the 1980s (Alexander, 1995; Clarke et al., 2006). In one of the few studies on apparel retail firms, Fiorito (1990) tested merchandise buying behavior for buyers in small retailers; however, she did not use variables that were unique to apparel. Although assortment planning and related trade-off decisions acknowledged as extremely important to retail

success (e.g., Kok et al., 2008), no previous study identified a typology of retail buyers on the basis of their consideration of assortment decision factors and none studied variables unique to apparel retailing.

The purpose of this study is to provide detailed information about current apparel retail buyers' buying behaviors based on their use of assortment decision factors. As previous researchers have indicated the incompleteness of models of retail buying behavior (e.g., Cravens and Finn, 1983; Keaveney, 1995; McGoldrick and Douglas, 1983), the comprehensive list of important factors arising from this study can provide guidance for future research and improved retail performance on this critical task. In order to accomplish this purpose, the following objectives are proposed:

- To determine what level of importance is given to assortment decision factors when rated by apparel retail buyers.
- To segment apparel retail buyers by their decision factor uses.
- To characterize the segments by buyer demographics (i.e., age, gender, education, experience, employment) and company characteristics (i.e., types of products, type of store, size of the firm).

This is an exploratory and inductive study because of the limited amount of previous work on this focused topic. For this reason, objectives are used to direct this exploration of decision factors (Creswell, 2003). Formulation of research hypotheses seems both inappropriate and bias inducing at this stage (Ary et al., 2014). Using an epistemological approach, the researcher allowed the data to direct and inform the results.

2. Literature on the theories and models of retail buying behavior

Several researchers have developed theories or models of retail buying behavior (e.g., Cravens and Finn, 1983; McGoldrick and Douglas, 1983; Sheth, 1981). Among this research, the model with the most focus on assortment planning, within retail, is the one by Mantrala et al. (2009). By reviewing academic literature, these researchers provided a conceptual framework for product assortment planning (PAP) and the associated decision-making process. While previous PAP models addressed only a few selected factors or questions especially regarding depth of assortments, the PAP model describes specific assortment decision factors that are relevant to apparel retail buying (e.g., brand image).

2.1. Assortment factors from the product assortment planning (PAP) model

Mantrala et al.'s (2009) conceptual model describes retail buying behavior based on the decision making for product assortment planning (PAP). The PAP model begins with 17 "inputs" that can be equated to the concept of assortment decision factors. According to Mantrala et al. (2009), retail buyers must consider these factors, the trade-offs among these factors, and the final decisions in category assortments. If successful assortments are planned, customers find what they want from the assortments, and their positive experiences result in creating loyal customers as well as increasing profits for the retailer.

The PAP inputs consist of three groups of decision factors: (1) consumer perceptions and preferences, (2) retailer constraints, and (3) external environmental factors. The consumer perceptions and preferences, in group 1, include seven factors: desire for flexibility, preference instability, global versus local utility, too much choice, actual versus perceived variety, search costs, and substitution behavior. In group 2, retailer constraints include six

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