

E-MERCHANDIZING FOR BUSINESS: THEORY AND PRACTICE

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ABSTRACT

One of the most popular e-environment tools in entrepreneurship are online shops. Placement of goods in retail is vitally important, because the shop's turnover, and consequently the profits, will depend on it. On the classical market, merchandizing is charge of it. It is different in online shops, because the goods in the shop are only virtual. The aim of this article is to transfer the best and most efficient practices of traditional visual merchandizing of e-environment. To achieve the goal, the authors of the article analyze merchandizing elements in e-environment, compare them to the elements of conventional market merchandizing. The Latvian e-environment and its development opportunities are analyzed.

The main conclusion: significant changes are occurring in consumer behavior, in particular, in e-market, relating to changing consumer generations, relating to changes in consumer education. Therefore, companies must change business modes, including on the e-market, by creatively approaching various processes, inter alia, merchandizing, which directly affect the sales results. By using methods of conventional merchandizing, e-merchandizing can be improved. At the same time, companies must be aware of that not all experience can be transferred and often new alternatives must be sought.

Keywords: electronic environment, merchandizing, e-merchandizing, online shopping, products placement.

1. INTRODUCTION

As the market and technologies are developing, new methods of attracting the attention of buyers were developing as well. The belief that fine goods cannot not be noticed has become obsolete. The market of goods and services is so saturated that entrepreneurs are trying to find new opportunities to attract buyers' attention. Taking

into account the fact that the final decision on buying a product is made shortly before the purchase, the wish of every entrepreneur is that this choice favors them. Therefore, it is necessary to achieve that this particular product is noticed, as well as to minimize fluctuations of buyers' and consumers' decision-making as much as possible.

Many traders have come to a conclusion that product arrangement at the point of sale plays an important role in successful sales. That is to say that a well-visible arrangement of assortment of goods facilitates the buyer's decision-making process, as well as fosters making unplanned, impulsive purchases. Furthermore, having the knowledge of wishes and habits of the target audience, it is possible to set up the point of sale and the assortment of goods in a way that the purchases and their monetary values keep increasing. Deriving from that, it can be believed that this approach to trading allows earning additional income and is to be regarded as a separate marketing tool.

Nowadays, this approach is widely known as merchandizing – a set of measures for preparing goods on a sales floor. Just like any other marketing activity, also merchandizing develops over time. It is affected by both internal and external trading factors. As the technologies are developing and buyer generations are being replaced, new opportunities and ideas are emerging for product promotion. For this reason, innovations of this method ever more often increase companies' competitiveness.

In Latvia, technologies of arranging goods are widely used in retail, however refocusing of services to e-environment are rapidly taking place. Internet shops across the globe are currently offering more beneficial and more convenient ways of making purchases. The buyer deals with a choice of goods also in internet shops, hence, merchandizing can be applicable to the use of product placement also beyond the conventional points of sale. Thus, in future, merchandizing as a marketing tool can progress in terms of its return and can provide

entrepreneurs with yet unprecedented results in new commercial environments.

The aim of the article is to study the elements of merchandizing, to determine and assess the elements that are differing between e-merchandizing and merchandizing, to ensure experience and knowledge transfer to the electronic environment.

Use of the e-environment for the purposes of entrepreneurship is an intrinsic necessity of the today's global business. E-market, which at this time is the biggest market of the world, is an element of the e-environment, hence it is vitally important for many companies to be actively operating in it. E-market features principles of function that differ from the traditional market, consumer behavior and habits, as well as business models differed. Entrepreneurship structures of Latvia, as well as of other countries of the European Union are similar, most of them – micro, small, and medium sized enterprises (SME). These enterprises often to a greater extent than the big enterprises had to deal with deficiency or lack of various types of resources (financial, human capital, etc.). E-environment offers a very broad range of tools, which can compensate for or substitute deficient resources in a company, because a major part of e-environment tools are available free of charge or requiring minor financial investments. One of the most widespread tools of e-environment is an online shop.

In the article, the authors employed various research methods – both qualitative and quantitative: bibliography sources, a factor analysis, the focus group method, etc. The theoretical and practical foundation of the article is based on materials and publications in mass media, including internet resources.

2. LATVIAN E-MARKET PARTICIPANTS

Just like the traditional market, also the electronic market is formed of sellers and buyers, who respectively sell and/or buy goods and services with internet intermediation in e-environment. The e-market particularly extensively employs the interactive nature of online communication. Under e-market circumstances, the communication initiator can be not only the seller, but also the buyer. Buyers in the electronic market feature peculiarities, which differ from the traditional market and traditional buyer. It can be explained with the influence of various factors, including, among others, technical background, income level, personal characteristic, etc.

The e-market participants include people of various age groups representing different generations, however young people prevail. Each generation has its own experience and habits in using the e-market. Therefore, knowledge about peculiarities of particular generations and their behavior on the e-market is important in entrepreneurship, in order to successfully operate on the electronic market, as well as to understand what future changes and challenges are expected in e-commerce. There are many theories about consumer generations and their classification. Meanwhile, all of these theories

feature a similar basis. The author of the doctoral thesis addresses Don Tapscott classification [1], according to which consumers were grouped taking into account their participation on the e-market:

1. Pre-Boom generation – people born before December 1945.
2. Baby Boomers – people born between 01.1946 and 12.1964.
3. X generation includes people born between 01.1965 and 12.1976. Significant influence of this generation on public culture commenced during the eighties and reached the peak of influence during the nineties.
4. NET generation (or Y generation), born between 01.1977 and 12.1997.
5. NEXT generation – born between 01.1998 and now.

Representatives of the NET generation are young people, who start taking over the labor market. This generation numerically accounts for more than 70 million people, and it is the fastest growing segment of today's labor force. Employers may not and will not be able to ignore the needs, wishes, and attitude of this generation, differing from the needs, wishes, and attitude of the preceding generations.

The authors of the article believe that soon many companies will have to master behavioral nuances of consumers belonging to the NET and NEXT generation. Already now, the NET and NEXT generation show differing purchasing habits. To understand the future market, sellers must be capable of keeping track of these habits, as well as must be ready for new electronic market participants.

All e-market participants have one main common feature – they all are internet users. According to the data of the Central Statistical Bureau of the Republic of Latvia, in 2011, internet was regularly (at least once per week) used by 66.9 % men and 66.5 % women of the total population of Latvia [2]. In 2011, Latvian consumers spent on average 458.00 EUR on purchases at local online shops (see Table 1).

Table 1
Sums spent by Latvian consumers at local online shops in 2011 [3]

Country	EUR								
	21-50	51-100	101-200	201-500	501-1000	1000-2500	2501-5000	More than 5000	EU average
LV (%)	3	22	23	30	13	7	2	0	458
EU-27 (%)	4	11	14	27	19	17	4	3	939

One third of Latvian consumers over the last 12 months in 2011 spent a sum of 200 to 500 EUR at online shops; this indicator is close to the EU average. Internet purchases for bigger sums are not frequent among Latvian consumers. The authors add that these data are gathered specifically concerning purchases of goods online (excluding music/movie downloads, trips,

entertainment, banking and insurance services, among other financial services).

The main advantage that the electronic market provides to consumers is that it is not limited geographically. Buyers are not restricted with the borders of the country, where they are staying, and can freely shop. Latvian consumers are actively making online purchases also outside Latvia (see Table 2).

Table 2
Sums spent by Latvian consumers in EU online shops in 2011 [4]

Country	EUR								EU average
	21-50	51-100	101-200	201-500	501-1000	1000-2500	2501-5000	More than 5000	
LV (%)	3	4	17	22	20	20	9	4	1
EU-27 (%)	4	6	15	19	26	13	10	4	2

Latvian consumers are shopping at EU online shops more actively than at local online shops. Most likely it is due to a bigger and wider assortment of goods offered by EU online shops. The authors of the article would like to draw attention also to that the gathered data about the sums spent by Latvian consumers in local and foreign online shops point to the big untapped potential of the Latvian e-market, taking into account the fact that according to statistical data of Latvia, only 14.1 % of all internet users in Latvia are regularly making online purchases.

The authors have summarized and enumerated the reasons for why the consumers of Latvia are employing the opportunity to shop at EU online shops, according to their level of importance from the consumer viewpoint, and they are as follows: a cheaper item has been found in another country 76 %; the item is not available in the country of residence 59 %; the quality of foreign items is better 26 %; a bigger choice 34 %; saved time 19 %; I can find other buyers' references 9 %; I can find more information about the item 8 %; easier to compare prices 5 %; much easier to return items 4 % [5]. The summary of reasons point to a well thought through e-merchandizing of the foreign online shops, as well as to a wide application of merchandizing elements.

Another intrinsic part of the electronic market is companies. It is considered that the e-market started developing in Latvia during the period, when internet emerged, i.e. in 1992 [6].

Differing opinions exist among specialists and entrepreneurs as to the Latvian electronic market. A part of specialists consider that the market features signs of rapid development. Thus, for instance, Latvian insurance companies believe online sales to be very perspective. [7] Many entrepreneurs are voicing an opinion that if a company nowadays is not present where its clients are, namely, in social media, it can suffer actual losses. But the competition intensifies also in online environment [8]. Many specialists believe that e-market in Latvia is still developing very slowly due to several reasons – it is due

to buyers' immaturity, distrust, laws that are not completely put in order, etc. For instance, the executive director of SIA Consultant (the owner of the website salidzini.lv) Didzis Kalējs points out that in 2010, the number of e-shops registered in the portal salidzini.lv has decreased by 12 % (during the second part of the year 2010, the catalogue of goods available in online shops and the search tool "salidzini.lv" was visited by 27 000 000 people). He also points to the inconsistent nature of e-shops: "The number of active e-shops tends to change rapidly. At one point, the shop is active, but at another – it is not. There are also many "holiday-sellers", especially the smaller shops – they operate for a couple of months, and then they "take a break", and then restart their operations." He also adds that approximately 1–2 internet shops terminate their activities each month. [9]

The total number of active e-shops in Latvia has stabilized and now is around 450 with the total turnover in 2009 reaching 15 million LVL. 50–100 shops are inactive [10].

The authors believe that regardless various and sometimes contradicting opinions, practically all specialists and entrepreneurs are of the same opinion about the great e-environment and e-market potential, which fosters entrepreneurship development. To gain an outlook on participation of Latvian enterprises in the electronic environment, the authors summarized data of the Central Statistical Bureau. Percentage data are presented from the total number of companies in the respective sphere. Only a half of companies, which use internet on a daily basis, have a website: for instance, in 2009, internet companies-internet users (of the total number of Latvian companies) constituted 86.8 % – and respectively 42.1 % had websites; in 2010, this proportion was 90.6 % and 48.4 %; in 2011 – 92.2 % and 53.4 %. Only about one third (23.3 % – in 2009, 25.6 % – in 2010, and 38.1 % – in 2011) of all employees in companies using a computer and internet connection is regularly using internet [5]. The gathered data show that companies are not very active to use e-environment in entrepreneurship. Only about a half of companies has websites, which is one of the most important tools of modern communication to be used for entrepreneurship needs in business.

Table 3
Online buying/selling volumes of companies [5]

Company description	2009	2010	2011
Companies having made purchases online	17.2	no data	23.6
Thousand LVL	596234	no data	824724
Companies having sold goods and services online	7.0	8.9	no data
Thousand lats	1231947	1248499	no data

To gain a better outlook on how Latvian companies are using the e-environment, the author has analyzed also the study conducted by the Internet Association of Latvia in 2011 "The most effective way of attracting clients online is search systems". Representatives of 113

companies participated in the survey, and 46 % of the respondents were company owners, 19 % – directors, 8 % – marketing department managers, and 6 % – marketing specialists. The majority of companies (59 %) on the market have been operating for 10 and more years.

The study showed that the most popular of all possible tools of product promotion is direct marketing (41.7 %). It is interesting that internet marketing ranks only second (35.3 %). Only 53.8 % of respondents “agree” or “fully agree” with the statement that their internet website “is used fully for marketing purposes”. 19.1 % of respondents “agree” or “fully agree” that they are fully using opportunities offered by Facebook to achieve their marketing goals. 54.8 % believe that this internet marketing tool in their company is not being used actively enough. 22.6 % of respondents believe that they “fully” employ the opportunities offered by the Twitter site. However, 22.1 % of respondents voice an opinion about that the company uses the opportunities offered by the portal “draugiem.lv” “for fully achieving marketing goals”. Respondent answers showed the most effective and productive methods of product promotion online. 50.5 % agree that search systems provide most new clients. The second most popular tool of client attraction is sending proposals to e-mail (16.4 %). Next, social networks were mentioned (15.9 %), followed by banner advertising (13.4 %) and advertising portals (12.1 %).

Only 14 % of respondents know about and use e-merchandizing [11]. The study results also point to inactive use of e-environment tools among Latvian entrepreneurs. The authors link this fact to insufficient knowledge of entrepreneurs about opportunities offered by internet and e-environment. The entrepreneurs are lacking also knowledge, abilities, and skills for work with electronic tools.

3. MERCHANDIZING

In the traditional market, merchandizing works to make the shelves of sales floors attractive, having regard to the main aim – to affect the buyers’ behavior in a way that when the consumer is on the sales floor, they would, firstly, find out about the offered products, secondly, would be interested in them, thirdly, would like to buy them, and fourthly, would buy them. In order for all of the above to progress successfully, there are rules of successful merchandizing:

1. Reserves rule – all goods placed on the shelves must be ensured sufficient reserves so that shelves do not remain empty before the next delivery.
2. Placement rule – mandatory provision of minimum assortment positions at each point of sale; the product must be facing the buyer.
3. Presentation rule (repeating product appearance) – causing the buyers to want to make an unplanned purchase is possible only if the same product is shown with several units. [12]

The objectives of merchandizing are:

- To increase the sales volume with the help of effective product placement without increasing the advertising costs.
- To place the maximum amount of products on shelves, organizing buyer flow so that the buyers can see all products.
- To place the products so that the buyer is forced to come across items that were not their aim of shopping [13].

Furthermore, the role of merchandizing in the company must be established. This is to determine whether specialists are to be attracted in order to constantly regulate the necessary measures, or implementation of functions is divided among the shop’s internal staff. Depending on the size and objectives of the company or shop, the priorities of the aforementioned functions and tools may change.

The contemporary merchandizing theory merely recognizes retail shops as its only field of operation. The authors of the article consider this assumption to be a rather narrow one as trade has existed long before the first shops were opened. Taking into account the fact that one of the three elements of merchandizing is the sales place (see Formula 1), the authors have come to a conclusion that merchandizing can be applied to other commercial areas as well (see Formula 2). Due to the fact that in a classic point of sales, i.e. in a shop, goods are placed taking into account the height, width and length of the room, the shop can be defined as a three-dimensional commercial area. Consequently, all the other commercial areas can be classified according to their dimensions. Thus, a catalogue can be characterized as a two-dimensional commercial area which consists of height and width. One dimension corresponds to direct sales, whereas electronic dimension corresponds to e-commerce.

(1)

$$M = \begin{cases} P1 \\ P2 \\ P3 \end{cases},$$

Where: M – merchandizing (in its former understanding);

- P1 – place (retail shop);
- P2 – people (interested groups: consumers, sellers, producers).
- P3 – product.

(2)

$$M' = \begin{cases} P1' = 1D + 2D + 3D + ED; P1 \leq P1' \\ P2' = P2 + G; P2 \leq P2' \\ P3' = P3 + S; P3 \leq P3' \end{cases},$$

Where: M’ – broader merchandizing concept;

- P1’ – commercial area;
- P2’ – interested groups;
- P3’ – products;
- 1D – one-dimensional commerce (direct sales);

- 2D – two-dimensional commerce (catalogues);
- 3D – three-dimensional commerce (retail shops);
- ED – electronic dimension (e-commerce);
- G – generations of interested groups;
- S – services [14].

The essence of the concept “merchandizing” varies along with the changes in base elements of merchandizing elements and their interaction. Thus, the authors of this article offer the following definition of merchandizing: “Merchandizing is principles of product placement in a commercial space.”

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Unlike the former definitions, this definition implies that the commercial area of merchandizing is not only a shop, but also direct sales, catalogues and e-commerce.

To confirm the developed definition of merchandizing, in January–February 2011 the authors of this article conducted a survey of trading enterprises [15]. The survey was carried out electronically. The number of participants-trading enterprises was 136. Both genders participated in the survey. The results showed that, similarly to classic commerce, product placement principles are being employed in other commercial areas as well. 89 % of respondents acknowledged that electronic environment must be considered as a commercial area. Thus, it can be concluded that particular merchandizing principles can be attributed to product placement in e-commerce.

Table 4
Transfer of merchandizing elements [5]

Name	Description	Transfer potential		
		Completely	Partly	Non-applicable
Product	dimensions	x		
	quantity	with benefits		
	placement styles			x
	testing	x	x	
	product form	with benefits		
	trial period	with benefits		
People	user age groups		x	
	habits	x		
	vision	x		
	hearing	x		
	smell			x
Place	Geographic location	with benefits		
	Spatial parameters	with benefits		
	Unit dimensions	with benefits		
	Consumer flow	with benefits		

In Table 5, the authors are showing that some merchandizing principles cannot be transferred to e-environment. For instance, it is not possible to arrange goods according to various thematic styles (a dam, pyramid) and technologies for scenting the premises cannot be employed. It must be pointed out that it is fully possible to transfer the audial impact used in supermarkets, however its effect in e-shops is rather considered as negative – suddenly appearing music

causes alarm and interferes with focusing. If the product is a certain material, then there is no possibility of physically trying it out, therefore, testing of a product can be transferred only partially, by replacing it in e-environment with product description and/or image (can be also 3D). Currently, only a part of shoppers can be transferred to e-shopping, as there is a considerable proportion of older and digitally “illiterate” people, however in future it will grow to reach a complete transfer. Transfer of dimensions of goods in e-environment does not pose any obstacles – it is replaced with a scale description or with a comparable size (a dummy) in an inclusive picture. In an e-shop, it is also possible to place goods in constant places to generate customer habits, or quite the contrary, to increase the number of impulse purchase goods. The manner of supervision of goods (the book principle) and the use of various color tones to generate particular reaction also is transferrable to e-environment. The authors emphasize that there is a considerable number of merchandizing principles, the transfer of which to e-environment is not only possible but also provides additional benefits. The parameters of digital space do not restrict the amount of goods to be presented therein – a much bigger amount of goods can be presented than in a hyper-market. If the product is non-material (a service), such as, computer software, then it can be obtained for use not only faster (by downloading), but also can replace the trial period (which in shops provides for physical return of goods) with a demo version, the use of which simply expires after “n” time. In case of e-shops, unlike traditional shops, there is no need to seek and adapt to the target audience flow, such as, for instance, petrol stations. Products can be purchased remotely, which is one of the most significant advantages of e-shopping. It additionally excludes a physical “buyer-seller” contact, avoided by majority of buyers of goods of intimate character. Space, just like in traditional shops, is divided into thematic departments, however they can be customized – by positioning the interests, an activity history database is created automatically. The buyer flow in e-shops is facilitated by moving from one department to another with a single click, moreover, the movement is not encumbered by crowding, which can cause discomfort to those, who are hesitating to make a decision. It is also easier to perform consumer flow analysis based on segmenting in each particular e-shop.

CONCLUSIONS

As consumer generations are changing, the market is changing as well. Due to the new NEXT generation entering the market, companies must change also the business models and business management altogether. It is linked to the different thinking, behavior and other aspects of the NEXT generation in comparison with the previous consumer generations. Furthermore, the future generation has completely different values, beliefs etc., and by merely understanding these, companies will achieve market success. The new generation finds its way

around e-market very well, sometimes the consumers have better knowledge and greater e-competence. To successfully operate with this consumer generation which numerically is very big, companies also must acquire new skills and e-competences. E-shops are one of the most widespread types of e-commerce, but radical changes are also due in e-shops and they must be adapted for the needs of today's consumers. Merchandizing plays a significant role here, but it is necessary to be adapted for e-market requirements. By analyzing merchandizing elements, the authors determined three fundamental element groups – product, people, place, which are further divided accordingly. Their analysis was performed from the viewpoint of transfer from traditional merchandizing to electronic. Upon performing transfer analysis, the authors conclude that there are activities that can be transferred from traditional merchandizing to electronic, there are activities that can be transferred partially and cannot be transferred at all. The latter ones must be replaced with other activities that can be adapted to e-environment.

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