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Selection Listing Decisions of Food Retailers: A Literature Review

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Retail selection policy defines the profile, the potential market, and the customer segments of companies by designating the breadth and depth of product assortments. Unique, often latent market needs-based selection can be a competitive advantage factor. In addition to specific demand, the market for and supply of food changes rapidly, thus selection renewal and rotation are notably rapid. As a result, the decision-making process of selection may challenge the retailer and, due to its consequences, other supply chain members as well. The role of retail selection policy may be ultimately reflected in the profitability of the company.

The research described in this paper analyzes the theoretical approaches behind product listing decisions, conceptualizing reasons for listing and delisting decisions to contribute to better defining food retailers' selection strategies.

Results include an assessment of the importance of listing-related features, which contribute to defining selection strategy. Factors involved in product listing may include the integration of customer resources, market pressure and competition, the balance of forces between the manufacturer and the merchant**,** and potential profit. Deselection is associated with customers when they do not recognize the product, its quality is considered inadequate, suppliers can not come to a consensus about it, it has a low margin and/or turnover rate; furthermore, when high costs and expenses are coupled with the product.

The results are novel due to the conceptualization and development of a methodological framework from the perspective of listing decision factors, and may be applicable by retail practitioners.

Introduction

In the food retailing sector, demand is more immediate and heterogeneous than in other retail segments, except in certain cases such as specialist stores. The task of retailing is to identify customer needs and to (over)satisfy expectations in a fiercely competitive environment. The nature of competition and the strategies, tactics and operational implementations involved in retail competition can be evaluated with different marketing approaches.

The literature (e.g. Agárdi, 2010; Kim & Kandampully, 2012; Kenesei & Gyulavári, 2013; Kotler & Armstrong, 2016) contains significant research findings regarding the competitiveness of retail business competitiveness. However, a less-specialized field of marketing literature involves the exploration of the specifics and components of a sustainable retail strategy in a competitive environment based on the characteristics of a given market, so the present research relates to the stock-keeping-unit-level strategy with a focus on the food market.

New product acceptance, also called *adaptation*, involves selection process innovation. The process includes developing an assortment by ensuring new product availability, thereby creating market opportunities for both customers and the company.

Delaying, deselection, and delisting of products refer to removing products from selection. These decisions are responses to market trends, reflecting some kind of failure, deficiency or problem.

As part of the retail selection policy, selection strategy and tactics and product integration and disintegration efforts determine the company's competitiveness, while uniqueness may generate a company a competitive advantage. Private labels and seasonal products are part of this supply range. However, seasonal selection (also called ‘in and out’, referring to its short-term function in selection) creates only a temporary assortment, so these products are not covered in detail in this study. Thus, the paper analyzes the theoretical background of food-retail-listing decision strategy, and its operational tasks.

Stock-keeping unit retail decisions

New product adaptation

New product adaptation can be examined from four perspectives (Table 1):
(1) primarily, and perhaps most important, in terms of integrating customer resources and needs;
(2) as being due to market pressure and competition, which is mainly related to differentiation;
(3) as the balance of forces between the supplier and the retailer;
(4) in terms of its contribution to profit.

Table 1. Reasons for product listing

Factors underlying product adaptation
Integration of customer resources and needs
Market competition, market pressure
Power relations between supplier and retailer
Contribution to profit

Source: Author’s construction

Retail adaptation of a product is a key issue in terms of market performance. According to Bronnenberg and Mela (2004), retail chains prefer new products if they have already established a deal with a certain trader, or if direct competitors have previously picked the product in their assortment in the catchment area. However, the entry of a product depends on the size of the retailer and the market share of the manufacturer. In this, the sales promotion activity of the supplier or the market power of the trader may be decisive. Van Everdingen et al. (2011) point out that retailers' decisions are also determined by long-term trade relations, dependence avoidance, and the degree of commercial support, wherein the product's nature, uniqueness, potential growth of the product category and the gross margin are important considerations. The manufacturer's commercial marketing activities can provide efficient support to resellers, significantly facilitating product launch and sales processes. The trader will be open to expanding the assortment range if they want to differentiate themselves on the market.

In product acceptance decisions, Shaikh and Gandhi (2016) highlight the margin as the most important factor, along with the personal, equitable relationship between the manufacturer and the retailer, commercial and marketing communications support, provision of information, and the reputations of the sales company. At the product level, growth potential and the role of stock-keeping units in competitors’ selection may support product adaptation (Shaikh & Gandhi, 2016).

When the dealer has a well-designed choice and a strong bargaining position, they may be willing to list a new product to replace a previously listed product, although this does not necessarily create a favorable opportunity for the new product because buyers may not be looking for it on the shelf or realize it is there at all. Thus, they may not consider that particular product group while making purchasing decisions. The trader may also impose charges on purchasing and retail prices and margins, which may even reduce the price recommended by the manufacturer to the extent that the manufacturer does not even want to consider incorporating a product into their selection, despite the expected higher volumes (in particular, when the trader charges for marketing costs and secondary placements (slotting fee, displays, other subsidies) (Agárdi, 2010). Manufacturers make further discounts on the purchase price on the basis of the quantity sold (e.g.: in terms of a percentage, free products, additional rewards) and can improve the merchant's liquidity by offering favorable stock financing and delivery terms, such as payment after 30 days (Agárdi, 2010; Marx & Shaffer, 2004).

ECR (efficient consumer response) and category management support chain coordination and management are part of the retail tool system, contributing to efficient co-operation between supplier and trader. As a result, cost efficiency and the efficiency of shop implementation increase (Nagy, 2007). By streamlining the ECR's suppliers and retailer product information and logistics systems, it is possible to increase efficiency through demand and supply management, especially with regard to shop placement (Corsten & Kumar, 2005). Close co-operation may also occur in the production of private labels, which can be part of ECR cooperation. Traders are interested in products of predictable, consistent quality and quantity because these play a role in determining not only the image and profitability of particular commodity, but also the retailer.

Delisting of products

Deselection of products also requires a wide range of decisions, each with a variety of factors behind them. Productivity, profits, underperformance in terms of relative coverage, low turnover, and high logistics costs (transport, warehousing, material handling) can be used to determine multiple choices. When a product persistently underperforms, it is usually removed from supply and is not sold again. In some cases, the manufacturer initiates the restructuring of supply, either due to the cessation of production of the product, or the introduction of new product variants. At the same time, delisting and the somewhat less severe procedure, placing the product on a less often frequented shelf position, can increase bargaining power. This may be a part of negotiation tactics, and, more seriously, a means of sanctioning a manufacturer (Florez-Acosta & Herrera-Araujo, 2017). Product delisting may occur for five basic reasons (Table 2):

(1) customers and consumers avoid the product;
(2) the quality of the product is inadequate;
(3) suppliers are not able to come to an understanding with each other (here, power relations may be crucial);
(4) the product makes a minor contribution to profit because it has a low margin and/or a low turnover rate;
(5) it is associated with a high level of costs and expenses, such as rapidly deteriorating products or large stock-keeping units with high material handling and warehousing fees.

Table 2. Reasons for product delisting

Factors underlying product removal from selection
Customer and consumer habits
Inadequate quality
Power relations of supplier and retailer
Low contribution to profit
High level of costs and expenses

Source: Author's construction

Davies (1994) points out that decisions also depend on the size of the trader: smaller retailers delist products mostly due to low traffic; this is also related to the fact that at larger companies purchasers are usually more professional and more factors influence their decisions. These characteristics include age, experience, qualifications, abilities and whether the retailer sells private label products: younger, less experienced, smallscale purchasers delist products because of high and rising markups and low profit margins, a decline in the number of sources of supply, and an increase in brand competition (Davies, 1994).

Product removal can have a significant impact on customer preferences, especially when a high involvement product is delisted, but it has less impact on store-loyal customers (Florez-Acosta & Herrera-Araujo, 2017). As a result of delisting, buyers may switch to another brand; changing stores is not typical but may affect manufacturers considerably, although there is a higher store switch rate with luxury products and with product types with a large market share of the related product category (Sloot & Verhoef, 2008).

Conclusions

Retail selection policy - the reasons for listing decisions which may notably influence the competitiveness of retailers - has been assessed. Market pressure is more demanding of food retailers because of the continuously changing environment. It is essential that traders take advantage of selection policy, which is the core element of differentiation.

Listing provides an opportunity for both retailer and supplier to enhance profitability, but in the case of market failures it is rather suppliers who suffer the consequences, such as diminished market presence. Customers may adapt to this by switching their preferences or buying habits. In the latter case retailers can lose customers, in addition to further negative impacts. In this sense, listing decisions affect all actors, so should be grounded properly.

The reasons leading to selection decisions include customer needs and habits, product features, the power relations of supplier and retailers that depend on the market presence of the manufacturer, and competition; furthermore, contribution to profit and cost level. In the case of well-performing goods, selection decisions can contribute to listing products or keeping them in the assortment.

This secondary research provides a contribution to the theory through conceptualization, and also to practice by supporting the introduction of beneficial tools for traders. However, empirical research that explores the practices of retailers and the reasons behind them is recommended.

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