Retail Management

3rd Edition

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Preface to the Third Edition

The prevailing retail scene in India is proving to be more promising than it was ever forecast to be. According to a report published by the Boston Consulting Group and the Retailers Association of India, the Indian retail market is expected to double to $1 trillion by 2020 from $600 billion in 2015. Consequently, India is not only emerging as one of the most favoured investment destinations in the world, but is also witnessing a remarkable change in its retail landscape.

The report highlights some other interesting numbers as well. While the overall retail market in India is expected to grow at 12 per cent per annum, modern trade would grow almost twice as fast at 20 per cent per annum, and traditional trade at 10 per cent. Retail spending in the top seven Indian cities amounted to $53.7 billion as of 2014, with organized retail penetration at 19 per cent. Online retail is expected to be at par with the physical stores in the next five years.

While these numbers signal happy tidings, traditional retailers face numerous challenges. E-commerce is flourishing in the country and has forced many firms to join the digital wave. Interestingly, many online retailers are also looking at opening physical stores to bring in synergies of operations in both formats of retail.

Considering such overwhelming changes in the retail scenario over the last five years, it has become necessary to revise this book and update it with the latest data and developments. While updating the book, we also felt the need to expand the coverage of the book to make it a complete and exhaustive textbook for retail students and practitioners in India. Accordingly, one new chapter has been added to ensure coverage of all the relevant factors affecting retail and make the book more useful.

New to the Third Edition

- Includes new chapter on e-commerce
- Provides extended coverage on the use of technology in retail, role of private labels, and coverage of legal and ethical aspects of retail business
- Contains revised and updated content throughout
- Presents new case studies, exhibits, and photographs

Organization and Structure

The text has been divided into 18 chapters.

Chapter 1, *Retailing: Role, Relevance, and Trends*, provides an introduction to retailing. It focuses on the functions of retailers and provides an overview of the functioning of the entire distribution chain as well as the role of retailers and wholesalers within it.

Chapter 2, *Retail Organization*, covers the various retail formats that have emerged in developed countries and in India. It also discusses manufacturer–retailer relationships and non-store retailing operations, such as selling through the Internet and catalogues.

Chapter 3, *Retail in India*, explores the Indian retailing scenario in depth, examines the structure of the Indian retail industry, and studies the retailing and wholesaling organizations. It examines rural markets and the ways manufacturers and retailers are reaching out to these markets. This chapter also discusses the legal issues related to retailing.

Chapter 4, *Retail Customer*, discusses the buying behaviour of retail customers in different buying situations, studies the different stages of the buying process, and examines the process of consumer's decision-making.

Chapter 5, *Retail Market Segmentation*, examines the different ways in which a retailer can segment the target market and position the retail store. It discusses the demographical and psychographical factors that affect consumer behaviour and may serve as the base for segmenting markets.

Chapter 6, *Financial Planning for Retail*, discusses preparing financial strategy, raising capital for growth, budgeting and planning cash flows, conducting analysis of balance sheet, and evaluating retail performance. Planning and managing rapid growth while maintaining profitability targets is critical for major retailers in India at this stage of their evolution. This chapter focuses on strategies being adopted by Indian retailers to achieve their financial objectives.

Chapter 7, *Retail Location Strategy*, discusses the factors that have to be considered while taking a decision on a store location. A retailer's analysis of the viability of a site and estimates of the likely traffic are explored. It also covers different theories on selection of retail locations.

Chapter 8, *Organizational Structure and Human Resource Management in Retail*, discusses how with the increasing customer awareness, the growth and success of a retailer depends largely on competent customer service. Good customer service is possible only if employees are motivated, have a clear understanding of their roles, and work in an empowered environment. In addition, detailed and clear organizational structure, systems, processes, and job descriptions help in creating such a motivating environment. This chapter elaborates on these issues in the context of Indian retailers.

Chapter 9, *Supply Chain Management and Information Systems*, highlights how Indian retailers will have to develop efficient supply chain management and effective information systems processes comparable with global best practices to reach the next stage in retail evolution. The supply chain, particularly for food products in India, is very inefficient, entailing a lot of wastages and losses in transit. Today, major retailers in India are also introducing complex IT systems that have helped revolutionize the retail industry in developed countries. This chapter discusses the latest developments in these fields.

Chapter 10, *Retail Product and Brand Management*, explains the role of product management in the retail business. It analyses the significance of retail branding and highlights the differences between retail and store brands.

Chapter 11, *Merchandise Management*, discusses the analysis, planning, acquisition, control, and handling of merchandise in the context of the retail business. It also describes the model stock plan, category management, vendor relations, and measurement of merchandise performance.

Chapter 12, *Retail Pricing*, explores the various pricing strategies deployed by retailers and the conditions in which each of them is appropriate.

Chapter 13, *Retail Promotion Strategy*, examines and compares the promotion and communication process of retailers and manufacturers. It discusses how retailers decide on promotion objectives and budgets. The promotional media being used by Indian retailers to communicate effectively with their customers and their suitability are also examined.

Chapter 14, *Store Operations*, deals with that area which is at the heart of retailing, and accounts for the bulk of employment in the retail sector. A store manager performs a wide range of functions that can be broadly divided into six major categories, namely managing employees, controlling costs, store maintenance and upkeep, managing merchandise presentation, providing customer service, and complying with legislation. Most management graduates in retail will find employment in the area of store operations, and hence the added importance of understanding this function. This chapter explains all the aforementioned functions of management at the store level.

Chapter 15, *Atmospherics and Retail Space Management*, discusses how Indian retailers plan their layout and display—store interiors, displays, and merchandise presentation. The chapter explains how the store layout depends on the product mix and merchandising strategy.

Chapter 16, *Customer Relationship Management in Retailing*, explores how Indian retailers are developing relations with their customers. It examines the importance of service quality and discusses various methods to improve services. This chapter also covers the development and management of customer loyalty programmes.

Chapter 17, *Managing Retail Chains and Franchising*, explains how major organized-sector retailers operate a large number of stores across the country. Many of the service sector retailers operate through the franchising mode, which is one of the most successful marketing concepts, accounting for the majority of service sector retail in most developed countries. This chapter addresses this critical issue and is based on extensive studies of Indian retail chains and will contribute to education and practice in this important area of retail.

Chapter 18, *E-commerce*, examines features and types of online retailing and relation between growth of Internet and changing pattern of trading; studies the enabling technologies, security, challenges, and planning for growth of e-commerce.

Online Resources

The following resources are available to support the faculty and students using this text:

For Faculty

- PowerPoint presentations
- Instructors' manual

For Students

- Flashcard glossary
- Appendix A: Socio-economic classification
- Appendix B: Careers in retailing

The authors and publisher wish to thank the copyright holders, organizations, and individuals for their assistance and permission to refer their material while preparing the manuscript. Every effort has been made to trace the ownership of the copyrighted material and appropriately acknowledging them. Information that will enable the publisher to rectify any error or omission in subsequent editions will be welcome.

Chetan Bajaj
Rajnish Tuli
Nidhi Varma Srivastava

Praise for the Earlier Editions

- 'This is most comprehensive text book on Retail management written for Indian management students which includes relevant examples from Indian retail setting. The third edition includes new chapters on e-commerce and private label brands, which are very contemporary issues faced by retail industry. This is a must read for all MBA (as well as BBA) marketing students!'

  – Prof. Dinesh Sharma
  Shailesh J. Mehta School of Management, IIT Bombay

- '*Retail Management* by Bajaj, Tuli, Srivastava is a landmark book in the area of retailing in India. Their first edition was probably one of the very the first book for the Indian market on this topic—which had hit the market way back in 2005. I compliment the authors for now coming up with a thoroughly updated version with relevant examples and extensive treatment of all functions of retail business. For any student of retail management at the graduate and post-graduate level, I would recommend this book as a *Must Read*…'

  – Dr Anirban Sengupta
  Executive Director,
  International School of Business and Media, Pune

- 'The book is quite comprehensive and well-articulated.'

  – Dr Abhinav P. Tripathi
  ITS Institute of Management, Ghaziabad

- 'The book has good Indian-context examples, and there is simplicity in explaining the concepts.'

  – Prof. Jasmine Simi
  Christ University, Bengaluru

- 'I liked the cases at the end of each chapter.'

  – Dr Shubhendra Singh Parihar
  Jaipuria Institute of Management, Lucknow

Preface to the First Edition

Retailing consists of all activities involved in selling goods and services to consumers for their personal, family, or household use. It covers sales of goods ranging from automobiles to apparel and food products, and services ranging from hair cutting to air travel and computer education. Sales of goods to intermediaries who resell to retailers or sales to manufacturers are not considered a retail activity.

Retailing can be examined from many perspectives. A manufacturer of white goods like washing machines and refrigerators has many options to reach out to consumers. It can sell through dealers, the company showrooms (Sony World, Videocon Plaza), home improvement stores (Arcus), or hypermarkets (Big Bazaar). The manufacturer will have to decide which retail formats to adopt and whether to go for intensive distribution (sell through many outlets), selective distribution (sell through limited outlets), or exclusive distribution (sell through very few outlets). Next, the manufacturer will have to decide which models to offer through different types of outlets. Having decided on retail distribution, the promotion strategy to attract retailers will have to be finalized.

The retail sector in India is highly fragmented with organized retail contributing to only 2 per cent of total retail sales. The retail sector in developed countries was also highly fragmented at the beginning of the last century but the emergence of large chains like Wal Mart, Sears, and McDonald's led to rapid growth of organized retail and growing consolidation of the retail industry in the developed countries. The rapidly rising income levels and accompanying changes in lifestyle greatly contributed to the growth of organized retail in the West. Today, in India we see a rise in the purchasing power, and growth of a middle class which follows the western lifestyle. Hence, conditions are conducive for the rapid growth of organized retail in India.

However, the Indian environment is different from that of western countries in many ways. Indian cities are congested and a large part of the population is still concentrated in rural areas. The Indian houses are smaller and the Indian consumer is still not used to buying in bulk on weekends. The Indian retail scene is hence very different from that prevailing in the developed countries. As organized retail grows, retail formats, which evolved in the West, need to be modified and new formats suitable to Indian conditions have to evolve. Even as organized retail grows, a large part of Indian retail is still likely to be unorganized. Hence, it is necessary for students and practitioners to understand the difference in the retailing environment and retailing institutions in India.

Organized retail is growing rapidly and we see the emergence of large organized retail chains like Shoppers' Stop, LifeStyle and Westside. We also find retail malls mushrooming all over the country. The opportunities in retail industry in India will increase since Indian retailing is on the threshold of a major change. Retailing is fast emerging as an important area of study in B-schools all over the world. In India also we see a growing interest in retailing among MBA students in the last few years since the retailing sector is creating many employment opportunities. Till a few years back, retailing was covered as a component of the course on sales and distribution in most Indian B-schools.

However, with the rapid growth in organized retail and increased emphasis of manufacturers on understanding sales at the retail level, the study of retailing has become increasingly relevant. This has led many B-schools to introduce a separate elective on retailing. Today, retailing has become one of the most popular elective courses in many B-schools. Some B-schools are now even offering a diploma and specialization in retail management.

The study of retailing is very important to MBA students interested in employment opportunities with large retail chains. An understanding of retail operations, store location, consumer behaviour, information systems, supply chain, marketing strategies, etc. is very useful in managing store operations. A study of retailing is also useful to students who wish to take up careers in sales, distribution, and related functions in consumer goods and service industries. Sales managers of consumer products firms need to understand the perspective of retailers and design appropriate marketing programmes to attract retailers, particularly when large organized chains become more dominant. Product and brand managers need to understand the factors behind the growth of retail brands to plan effective product and branding strategies.

About the Book

While teaching a retailing course in India, we found that there was no suitable textbook which explored the retailing scene in India. There were a number of foreign textbooks but those were not applicable to the Indian context. There was a real need to have a text which explored the Indian retail scene. This text seeks to fill that void. This book is based on an extensive research on the Indian retailing environment and would be very useful to students pursuing courses on retailing and sales and distribution, as well as executives in retail stores.

The book covers cases, illustrations, and examples from the Indian retail scene and helps the student to understand the Indian consumer and how retail institutions have developed in India. We visited a large number of retail outlets and interviewed retailers and retail executives during our research. We have also drawn material from secondary sources, including articles in magazines and newspapers.

A large number of exercises and project assignments have been included at the end of each chapter to help students assimilate and internalize their learning.

Content and Structure

Chapters 1–3 focus on retailing concepts and retail formats.

Chapter 1 provides an introduction to retailing. This chapter focuses on the functions of retailers and provides an overview of the functioning of the entire distribution chain as also the role of retailers and wholesalers within it.

Chapter 2 covers the various retail formats which have emerged in developed countries and in India. This chapter also discusses how the retail franchising system operates, and presents manufacturer–retailer relationships and non-store retailing operations, such as selling through Internet and selling through catalogues.

Chapter 3 explores the Indian retailing scenario in depth, examines the structure of the Indian retail industry, and studies the retailing and wholeselling organizations. It examines the rural markets and how manufacturers and retailers are reaching out to these markets. This chapter also discusses legal issues related to retailing.

Chapters 4 and 5 of the book focus on retail customers in India and their buying behaviour. Chapter 4 discusses the buying behaviour of retail customers in different buying situations, studies the different stages of the buying process, and how the customer goes about decision-making.

Chapter 5 examines the different ways in which a retailer can segment his market and position the retail store. It discusses demographical and psychographical factors which affect customer behaviour and which can serve as the basis for segmenting markets.

Chapters 6, 7, 8, 9, and 10 of the book focus on the retail mix strategies. Location decision is possibly the most critical decision for a retailer and a key to retail success.

Chapter 6 covers the factors which have to be considered while taking a decision on store location. The various types of shopping centres available in India and location options for retailers are presented. A retailer's analysis of the viability of a site and estimates of the likely traffic are explored. Different theories on selection of retail locations are covered.

Merchandising is at the heart of retailing. Chapter 7 discusses how merchandising decisions are made. This chapter covers the issues of vendor management and development, management of retail inventory, and the development of a buying plan.

Chapter 8 discusses how Indian retailers plan their layout and displays—store interiors, displays, and merchandise presentation. Store layout depends on the product mix and merchandising strategy.

Chapter 9 explores the various pricing strategies adopted by retailers and the conditions in which each of them is appropriate.

Chapter 10 examines and compares the promotion and communications process of retailers and manufacturers. It examines how retailers decide on the promotion objectives and budgets. The promotional media being used by Indian retailers to communicate effectively with their customers and their suitability are also examined.

Chapter 11, the last chapter of the book, discusses how Indian retailers are developing relations with their customers. The importance of service quality is examined and various methods to improve services are discussed. This chapter also covers how customer loyalty programmes are developed and managed.

Pedagogical Features

A unique aspect of the book is the large number of illustrations and examples from Indian situations. The book contains cases of major Indian retailers including Subhiksha, Big Bazaar, Margin Free Market, Shoppers Stop and Westside. There is also a case on franchising, which will help students understand franchising operations and plans of major franchising chains in India. These cases will help students understand the Indian retailing environment and how large organized retailers are evolving their formats and business models. These cases will also help students know about the plans of some major retail chains in India and the constraints and opportunities before them. At the end of each chapter there are concept review questions on major issues covered in the chapter to help students test their understanding of main concepts covered in the chapter. Each chapter also has project assignments on which the students are expected to do a small field study to help them to understand the practical aspects or issues. An instructor's manual accompanies the book.

Chetan Bajaj
Rajnish Tuli
Nidhi Varma Srivastava

Features of the Book

Learning Objectives

Each chapter begins with learning objectives that focus on learning and the knowledge you should acquire after studying the chapter.

LEARNING OBJECTIVES

After studying this chapter, the reader will be able to

- understand the retailing scenario in India
- evaluate various retailing formats in the Indian context
- examine the growth and development of organized and traditional retail formats in India
- analyse the nature of retailing in rural India
- become aware of the developments in the retail sector with respect to various product categories
- discuss the key challenges faced by the retail industry in India

Exhibits

The chapters contain exhibits that help in understanding the application of the theory discussed in the chapter.

eZone and Electronics Bazaar

eZone is an electronics speciality retail format from the Future Group, offering a wide range of consumer durables and electronics goods.

The store truly enables consumers to experience electronics, through four dedicated zones—Liberation Zone, Experience Zone, Home Zone, and Future Zone, to meet the consumer durables and electronics needs of the entire family.

Electronics Bazaar stores, again part of Future Group, are primarily present within Big Bazaar stores as shop-in-shop outlets, catering to the value segment in the electronics and consumer ... stores, Ele... branded h... categories. Future ... rising disp... a noticeab... and electr...

Bazaar come from the private labels such as Koryo and Sensei. These brands are backed by an after sales network of fifty-two centres across forty-five locations in the country.

eZone has also been spearheading innovation in retailing of consumer durables and electronics brands to test market and launch new categories. One such initiative is the 'Future Zone' at eZone stores which is a special section displaying gaming gadgets, toys and educational-aid material for children, which has received an overwhelming response. eZone stores also have a 'Home Theatre Demo room' to provide consumers a

Price Drivers for Emergence of New Format

Hypermarkets have been accepted quite well across socio-economic classes. At present, there are more than 300 hypermarkets and 6800 supermarkets in India and most of them are in tier I and tier II cities. These hypermarkets are selling consumer durables to fast-moving consumer goods (FMCG) under one roof.

The driver to increased footfalls and in turn conversions is attributed to price.

In order to ensure low price, the following strategies are generally adopted by players:

Right prod... to 12 per c... to optimize... A product ...

More non-food display Higher non-food sales are achieved by allocating higher shelf and display space. Food display space is restricted to around 20 per cent. This works, because shoppers, in any case, are there to shop for food items.

Store labels Hypermarkets are also working hard to discourage sales of branded products. They are promoting their own labels, though, it is not easy to promote them beyond a point due to strong customer brand loyalties for a class of goods like FMCG. Big Bazaar has large portion of pri-

Some Colours Used to Set the Mood for Events

- Christmas—Red and green
- Halloween—Black and orange
- Valentine's Day—Red and pink
- Indepe...

saffron in India; green in Pakistan

- Diwali—Red, saffron, yellow, and green
- Eid—Green

Use of Customer Data

The uses that customer data collected through loyalty cards can be put to are as follows:

- Customer shopping behaviour profiling
- Customer lifestyle and demographic profiling
- Customer product preferences and repertoire
- Customer targeting and differentiation
- Best customer marketing and win-back
- Product category relationships and cross-selling
- Planning and merchandising
- Pricing policies

Source: *The Loyalty Guide* (2004)

Figures and Tables

All chapters contain figures and tables to illustrate the topics discussed in the chapter.

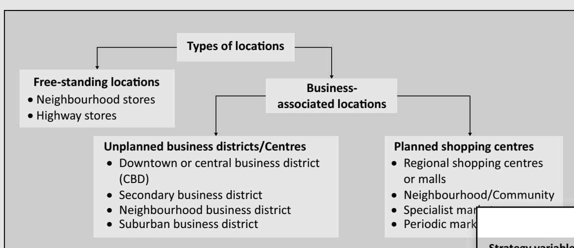

FIG. 7.3 Types of retail locations

TABLE 11.1 Product life cycle stages

Strategy variable	Introduction	Growth	Maturity	Decline
Target market	High-income innovators	Middle-income	Mass market	Low-income
Variety	One basic offering	Limited variety product features	Greater variety	Less variety
Penetration	Limited or extensive	More retailers	More retailers Multiple retail formats	Fewer or no retailers
Price	Penetration or skimming	More price level	Lower prices	Lower prices
Promotion	Informative, induce trial	Persuasive	Competitive	Limited

Summary

The summary at the end of each chapter draws together the main concepts discussed within the chapter to help you reflect and evaluate important concepts.

SUMMARY

Store operations link the merchandise to the customer, and covers resources, daily procedures, creating internal controls and systems, establishing retailing functions, and other day-to-day retail store operations. Store managers are on the front line of retailing, and manage the day-to-day operations for smooth running of the retail store. A store manager performs a wide range of functions. which can be broadly divided into six major categories—managing employees, controlling costs, complying with legislation, store maintenance and upkeep, managing merchandise presentation, and providing customer service.

Shrinkage is the difference between the recorded value of inventory (at retail prices) based on merchandise bought and received and the value of actual inventory (at retail prices) in stores and distribution centers divided by retail sales during the period. Shoplifting by customers and pilferage by employees are the most common causes of shrinkage. For checking pilferage by employees, the retailers should create a motivated workforce.

More retailers resort to outsourcing some of the operating tasks they previously performed themselves so as to concentrate on their core competencies in the retail business.

Key Terms

All technical terms have been explained at the end of each chapter as key terms to help you retain all the new terms that learnt in the chapter.

KEY TERMS

Aligned attributes Different levels of the same attribute so that consumers are making trade-offs within an attribute

Copycat store brand These imitate the leading manufacturer brands in the category and their touted value proposition is 'same quality as a leading manufacturer brand but at a considerably lower price'

Family brand strategy Groups of stores of the retail company (usually different retail formats) carry different brands, that is, the brands are strictly separated

Generic store brands These are largely undifferentiated, identified in terms of price label and product of lower quality

attempts to differentiate on quality vis-a-vis the manufacturer brands, combined with the absence of any attempt to copy the packaging of the leading manufacturer brands

Product assortment The number of SKUs offered within a single product category

Retail product management A set of decisions related to the selection and removal of products from the retailers' portfolio, along with the related product and market analysis

Retail branding A strategy based on the brand concept and which transfers it to a retail company

Retail brand A group of the retailer's outlets, which carry

Exercises

A series of concept-review questions as well as project work assignments highlight the major topics covered in the chapter to enhance learning and can be used for review and classroom discussion.

EXERCISES

Concept-review Questions

1. What is market segmentation? Why is segmentation becoming increasingly important?
2. Which criterion must be satisfied for a segmentation approach to be effective?
3. What are the benefits of market segmentation for a retail chain like Barista?
4. Which geographic and demographic variables should a hyper-market like Spencer's consider while segmenting its markets?
5. Which psychographic and behavioural variables must a large music store such as Planet M or Music World consider while segmenting markets?
6. What factors must a retailer consider while identifying and selecting target segments?

Project Work Assignments

1. List all possible dimensions along which the market can be segmented by the following:
   (a) A ready-made garment store and
   (b) A tailoring shop.
2. Profile the customers who are likely to visit traditional eating joints and up-market branded eating joints (Pizza Hut, McDonald's, etc.)
3. A multinational company which plans to sell branded consumer durables in the Indian market through company-owned outlets has to develop a segmentation strategy. How should the company segment the market? Identify the segments to focus on.
4. Develop a segmentation plan for a large department store planning to sell lifestyle products with outlets in

End-of-chapter cases

Each chapter ends with a case study that is designed to consolidate your understanding of the chapter subject and broaden your decision-making skills.

CASE STUDY **WELCOME MULTIPLEXES**

Rajat Gandhi, the dynamic CEO of a large amusement park, is watching the last show in a new multiplex. There is a sizeable crowd in the auditorium. He observes that four other shows are running in adjacent halls, all attracting large crowds. On his way back home, Gandhi wonders if it would be a good idea to diversify by setting up a multiplex chain. He reasons that before he takes a decision he should understand why people prefer to see movies in such multiplexes, driving long distances even though the tickets are high priced.

Next day, Gandhi summons Mehta—a known cinema distributor in the region—over dinner to understand the dynamics of the business and identify the growth of multiplexes. Mehta avers are going to change the way movie will operate. Multiplexes such as PVR and Fun Republic in Ahmedabad are experience. Watching movies can be clu eating out, and other entertainment act to view movies in multiplexes for a varie provide a pleasant ambience, have comfortable seating arrangements, et getting a ticket also increases since fi being simultaneously screened.

the choice of running less popular movies, which again is not a very welcomed option.

However, the multiplex can succeed only if it attracts a large crowd. The rates charged are relatively higher because of the ambience. A multiplex has to become a destination for the middle-class customers to be viable. Smaller towns and rural areas would not generate such a large flow of traffic to a destination. Hence, single-hall theaters are likely to remain viable in such towns. The lower income groups in metros may also not be able to afford the multiplexes and may continue to patronize the single-hall theater.

Rajat Gandhi has sharp business acumen

CASE STUDY **CAFÉ WORLD—MANAGING A FRANCHISING CHAIN**

Mr Suresh Kumar who worked with leading food outlets in Bengaluru, saw a great opportunity to start his own Café chain in 2004 in the rapidly changing city. Bengaluru had already acquired the iconic status of Silicon City of India. The global IT (Information Technology) companies setting base in the city had contributed to the changing life style and culture of the city. The IT companies specially those involved in BPO operations worked in late night shifts as per the requirement of their American and European customers.

executives with a leading star hotel in the city. Thus, Café World got established with the vision of establishing a leading café chain in the city.

Café World set up outlets in five leading IT companies in the city in 2004. These outlets served quality cakes, black forest pastries, mushroom and capsicum croissants, veg Frankie roll, burgers, sandwiches, muffins, pizzas, milk shakes, etc. at a very reasonable price. The chain adopted a penetrative pricing strategy. The price of fast food at its

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1 Retailing: Role, Relevance, and Trends

LEARNING OBJECTIVES

After studying this chapter, the reader will be able to

- comprehend the concept of retailing
- understand the role and relevance of retailing for business and economy
- identify the activities associated with retailing
- discuss the key trends that impact the retail sector
- evaluate the retail sector in the context of the value chain
- analyse the impact of Internet on the retail sector

INTRODUCTION

Which business considers every individual a customer? Which business accounts for less than 10 per cent of the worldwide labour force and is still the single largest industry in most nations? What is common between Wal-Mart, Amazon.com, and the small *kirana* (grocer) stores that dot your neighbourhood? The answer is retailing, the last link in the chain of production, which begins from the extraction stage, moves on to manufacturing, and ends in the distribution of finished goods and services to the final consumer.

When goods are put in the hands, or in the shopping bags of consumers, retailers obtain revenue—and so do the wholesalers, distributors, and manufacturers who make up the consumer-goods distribution chain.

In addition, retail transactions serve as a means for collecting sales taxes, which support public services of all kinds.

Thus, consumer money drives the economy, and retail is where consumers spend that money. Boutiques, restaurants, discount superstores, mail-order companies, and *e-tailers*—these establishments are where consumers spend their hard-earned money.

Retail goods are traditionally divided into durable goods, such as furniture, cars, and large appliances, which are expected to last at least five years and non-durable goods, which include food, clothing, and other innumerable categories that are too numerous to mention but which eventually form the bulk of the stuff one sees across the sales counters of glossy stores or makeshift tables at weekly markets.

Retail industry provides immense opportunities to entrepreneurs and workforce such as salespeople and clerks. The industry also has opportunities for people interested in determining what goods will be sold, getting these goods to the right place at the right time, and managing the operations, finances, and administration of retail companies.

WHAT IS RETAILING?

The distribution of finished products begins with the producer and ends at the ultimate consumer. Between the two of them, there is a middle person—the retailer. *Retailing is defined as a set of activities or steps used to sell a product or a service to consumers for their personal or family use.* It is responsible for matching individual demands of the consumer with supplies of all the manufacturers. The word 'retail' is derived from the French word *retaillier,* meaning 'to cut a piece of ' or 'to break bulk'.

Retailing has become such an intrinsic part of our everyday lives that it is often taken for granted. The nations that have enjoyed the greatest economic and social progress have been those with a strong retail sector. Why has retailing become such a popular method of conducting business? The answer lies in the benefits that a vibrant retailing sector offers—an easy access to a variety of products, freedom of choice, and high levels of customer service.

A retailer is a person, agent, agency, company, or organization, which is instrumental in reaching the goods, merchandise, or services to the ultimate consumer. Retailers perform specific activities, such as anticipating customers' wants, developing assortments of products, acquiring market information, and financing. A common perception is that retailing involves only the sale of products in stores. However, it also includes the sale of services such as those offered at a restaurant, parlour, or by car rental agencies. The selling need not necessarily take place through a store. Retailing encompasses selling through the mail, the Internet, door-to-door visits—any channel that could be used to approach the consumer. When manufacturers like Dell Computers sell directly to the consumer, they too become retailers.

Retail Industry—North America

Retail is the second largest industry in the US in terms of both the number of establishments and the number of employees. It is also one of the largest industries worldwide.

According to Plunkett Research, this sector employs over 15.4 million Americans and generated around $5.3 trillion in retail sales in the year 2014. There are about 10.29 per cent employees in the retail industry of the total national employment of US.

Wal-Mart is the world's largest retailer and the largest company with annual sales grossing nearly US $485.61 billion. It employs more than 1.4 million employees in the US and more than 800,000 abroad. The second largest retailer in the world is UK's Tesco.

Single-store businesses account for over 95 per cent of all US retailers, but generate less than 50 per cent of all retail store sales.

The world over retail business is dominated by small family-run chains and regionally targeted stores. Gradually more and more markets in the Western world are being taken over by billion-dollar multinational conglomerates, such as Wal-Mart, Sears, McDonald's, and Marks and Spencer. The larger retailers have set up huge supply or distribution chains, inventory management systems, financing pacts, and wide-scale marketing plans, which have allowed them to provide better services at competitive prices by achieving economies of scale.

A retailer's cost and profit varies depending on their type of operation and major product line. They usually manage a profit of 9–10 per cent on their sales. Retail stores of different sizes face distinct challenges and their sales volume influences business opportunities, merchandise purchase policies, nature of promotion, and expense control measures. As we all know, the ease of entry into retail business results in fierce competition and better value for customers. To enter retailing is easy, and to fail is even easier. Therefore, to survive in the retailing business, any enterprise must perform its primary role of catering to customers satisfactorily.

Over the last decade, there have been sweeping changes in the general retailing business. For instance, what was once a strictly 'made-to-order' market for clothing is now a predominantly 'ready-to-wear' market. Flipping through a catalogue, picking the right colour, size, and type of cloth a person wanted to purchase, and then waiting to have it sewn and shipped used to be the standard practice in the earlier days. By the turn of the century, some retailers set up a storefront wherein people could browse whereas new pieces were being sewn or customized in the back rooms. Almost all retail businesses have undergone a similar transition over the years.

In an era of globalization, liberalization, and a highly aware customer, a retailer is required to make a conscious effort to position himself distinctively to face the competition. This is determined to a great extent by the retail mix strategy followed by a company to sell its products.

A major development in the recent times has been the emergence of varied retail formats that have started operating in most product categories. For instance, there are large department stores that offer a huge assortment of goods and services. There are discounters who offer a wide array of products, and compete mainly on price. For example, Big Bazaar and Reliance Mart. There are also the high-end retailers who target extremely niche segments with top-of-the-line brands such as Louis Philippe and Dior.

Each of these retailers have their distinct advantages, and it is interesting to see how these advantages play out. For example, during tough economic times, the discount retailers tend to outperform their rivals whereas the opposite is true when the economy is doing well. The more successful retailers attempt to combine the characteristics of more than one type of retailing to differentiate themselves from the existing competition.

Drivers of Change in Retailing

- Changing demographics and industry structure
- Expanding computer technology
- Emphasis on lower costs and price
- Emphasis on convenience and service
- Focus on productivity
- Added experimentation
- Continuing growth of non-store retailing

In today's competitive environment, retailers have redefined their role in general, and in the value chain in particular. They act as gatekeepers who decide which new products should find their way to the shelves of their stores. As a result, they have a strong say in the success of a product or service being launched into the market. A product manager of household appliances claimed, 'Marketers have to sell a new product several times, first within the company, then to the retailer, and finally to the user of the product.'

It is a well-established fact that manufacturers need to sell their products through retail formats that are compatible with their business strategy, brand image, and market profile to ensure a competitive edge. The role of retailers in the present competitive environment has gained the attention of manufacturers because external parties, such as market intermediaries and supplying partners are becoming increasingly powerful. It is thus, necessary for the marketers of consumer products to identify the needs and motivations of their partners in the marketing channel.

Consumer companies might improve their new product success rate if they put in more effort at creating retailer value as well as consumer differential advantage. If the objectives of a manufacturer are incompatible with those of a market intermediary like the retailer, the success of a product stands jeopardized. Consumer durables major LG electronics and Paras Pharmaceuticals, the makers of Moov, Borosoft, Krack cream, etc., for instance, are deriving extensive advantage due to wide retail network developed over years.

The wide and increasing range of product categories accompanied by multiple brands in each category complicate decision-making for both the manufacturers and market intermediaries. Retailers want to optimize sales within the limited shelf space, governed by their individual sales philosophy. They undertake risk in selecting a portfolio of products or brands to offer to their customers. They have to make an optimum selection of goods to be sold given the following major concerns:

- Selling space available is relatively fixed and must return maximum profits. If such space is occupied by merchandise that is not moving, it will not result in profit. The retailer may have to resort to substantial price reductions to get rid of the unsold stock.
- There is always the risk of non-performance in terms of quality, supplies, etc., which in turn harms the image of the retail outlet.

Retailing is a dynamic industry—constantly changing due to shifts in the needs of the consumers and the growth of technology. Retail formats and companies that were unknown three decades ago are now major forces in the economy. Therefore, the challenges for retail managers the world over are increasing—they must take decisions ranging from setting the price of a bag of rice to setting up multimillion-dollar stores in malls. Selecting target markets, determining what merchandise and services to offer, negotiating with suppliers, training salespeople—these are just a few of the many functions that a retail manager has to perform on a perpetual basis.

RETAIL INDUSTRY AND ECONOMY

Retail business is the largest private industry in the world ahead even of finance and engineering, contributing over eight per cent to the GDP in the developed western countries by the beginning of this century. Over 50 of the Fortune 500, and about 25 of the Asian Top 200 companies are retailers. Thailand and Indonesia, which were affected by the currency turmoil, pepped up the deregulatory measures to attract more FDI in retail business. Japan, under a prolonged recession and protracted downfall in domestic investment, abolished its law on large scale retail stores in the 1990s in three phases in order to attract foreign direct investment (FDI).

Today, in some developed countries, retail business houses have shares as large as 40 per cent of the market. In India, organized retail business has been growing rapidly. Retail business contributes around 14–20 per cent to the country's GDP. According to Nationsencyclopedia.com and Tradingeconomics.com, this sector is generating sales of about US $500 billion a year and is nine times bigger than that of Thailand and three to four times bigger than that of South Korea and Taiwan. India also has the largest number of retailers, about 12–14 million, though they are mostly in the small neighbourhoods. The significance of the retail business has increased with the rapid growth in the service sector. There has been a dramatic change in the structure of the economy post-liberalization. While agriculture continues to be the mainstay of Indian economy, the manufacturing sector has slumped due to demand recession and liberalized imports. Much of the rapid growth in organized retail business in the developing countries is due to the entry of global retailers. In Thailand, seven of the world's top 10 retailers have made significant investments—Carrefour, Casino, Makro, Royal Ahold, and Jusco have set up shop in Thailand According to Thomaswhite.com, in China, more than half of World's top 50 retailers such as Wal-Mart, Carrefour, Tesco, and Metro are conducting business and five Chinese domestic retailers are among top 250 global retailers. According to AT Kearney report, Brazil was at top position of Global Retail Development Index–2011 and has emerged as the world's third biggest grocery market, next only to America and China. In Brazil, its top three global retailers, that is, Pao de Acucar, Carrefour S.A., and Wal-Mart Brazil, together hold about 45 per cent of the retail market.

Retail Industry in India

In India, the retail sector is the second largest employer after agriculture. It is highly fragmented and consists predominantly of small, independent, and owner-managed shops. Besides, the country is also dotted with low-cost kiosks and pushcarts. There are some 12 million retail outlets of which nearly five million sell food and related products. According to the 2012 A.T. Kearney Global Retail Development Index, the Indian retail market is the fifth largest retail destination globally.

There has been a boom in the retail trade in India owing to a gradual increase in the disposable income of the middle-class households. More and more players are venturing into the retail business with new and attractive formats, such

TABLE 1.1 Growth in Indian retail market—Total vs organized

	Indian retail (₹ billion)		Organized retail (₹ billion)	
	2006–07	2011–12	2006–07	2011–12
Food and grocery	8680	16342	61	363
Beverages	518	1129	16	82
Clothing and footwear	1356	3332	251	637
Furniture and furnishing	986	1014	101	153
Non-institutional healthcare	1159	1536	24	164
Sports and entertainment	395	531	63	95
Personal care	617	819	33	113
Jewellery and watches	863	940	49	124
Total	14,574	25,643	598	1731
Share of organized format in total retail (%)			4.1	6.8

Source: PECE, CRISIL Research 2013

as malls, supermarkets, discount stores, department stores, transforming altogether the traditional bookstores, chemist shops, and furnishing stores. Food sales constitute a high proportion of the total retail sales: it was around 64 per cent in 2011–2012, worth approximately ₹16,342 billion. Clothing and footwear sales were worth ₹3332 billion (refer Table 1.1).

Retail Forecasts in India

India was ranked fourteenth in 2013 on the Global Retail Development Index (GRDI), by A.T. Kearney, highlighting it as one of the key foreign investment destinations worldwide. However in 2014, the rank fell to twenty possibly due to slow spending and general economic slowdown, along with policy concerns over approval of multi-brand retail across several states of India. The trend is expected to reverse soon supported by factors such as improving demographics, rising disposable income level, expansion of organized retail sector into Tier 2 and 3 cities, and changing customer habits. According to industry estimates, the Indian retail market is estimated to grow from US $496 billion in 2014 to US $948 billion by 2018–19 with a CAGR of 12–13 per cent. Simultaneously, organized retail which was generating revenue of US $41.4 in 2012, is expected to continue growing at an impressive rate to a projected US $94.8 by 2019. Presently, organized retail sector accounts for 7–8 per cent of the total market, is likely to increase its share to 10 per cent by 2018–19. Table 1.2 presents a brief overview of the share of the retail sector in various countries.

A strong trend in favour of organized retail format has been witnessed in the food as well as non-food sectors as people are increasingly showing their preference for one-stop shops. Customers are also looking for ambience and convenience in shopping. This is likely to continue more strongly in the next couple of years. In future, with more dual income families, the consumers' ability to spend will increase, but at the same time it is predicted that the time available for shopping will go down. In such a scenario, retailers will have to take steps to develop shopping as an experience, though the more successful retailers will be those who would provide quicker services.

TABLE 1.2 Share of the organized retail sector in selected countries, 2013

Countries	Total retail sales (US$ bn)	Share of organized retail (%)
US	4530	85
China	3870	20
United Kingdom	486	80
France	556	80
Germany	548	80
India	424	8
Malaysia	92	55
Russia	618	33
Brazil	396	36

Sources: Crisil Research Estimates-2014, Tradingeconomics, and GfKEuropian Retail-2014 & Euromonitor International

Emergence of Organized Retail Format in India

Indian retail market is expanding at a rapid pace (refer Table 1.3). The mall space in India increased from 30 million sq. ft in 2006 to 77.6 million sq. ft in year 2013,

TABLE 1.3 Organized retail expansion by format

Format	Average size (sq. ft)	2006 No. of stores	2006 Area ('000 sq. ft) (%)	2006 Share in total space (%)	2011 No. of stores	2011 Area ('000 sq. ft) (%)	2011 Share in total space (%)
Supermarkets	1000	4751	4751	15.4	8935	8935	13
Hypermarket	40,000	75	3000	9.7	300	12,000	17.6
Discount stores	1000	1472	1472	4.8	3671	3671	5.4
Specialty store	800	20,612	16,490	53.5	34,541	27,633	40.5
Department store	30,000	166	4980	16.1	456	13,680	20
Cash and carry Store	80,000	02	160	0.5	30	2400	3.5
Total		27,076	30,853	100.0	47,933	68,319	100

Sources: Technopak, Deloitte, E&Y, and Aranca Analysis

and this is expected to touch 107.8 million sq. ft in 2017. The shopping mall phenomenon, however, is not likely to be restricted only to the metropolitan and big cities as malls have sprung up in the smaller cities and large towns across the country.

Among the cities, Delhi and Mumbai lead the rest of the country in terms of the highest concentration of shopping malls, accounting for 62 per cent of pan-India mall stock. They are followed by Chennai and Bangalore, which together constitute around 20 per cent of built-up mall space in the country. In 2013, net addition of approximately 5.2 million sq. ft of mall space was registered, translating into a 22 per cent increase in comparison to the previous year. Chennai led with creation of nearly two million sq. ft of fresh supply, followed by Mumbai and Pune.

The average size of malls is likely to increase in the coming years as developers are focusing on project sizes that allow for a critical mass in terms of various formats and categories under one roof. In 2014, the average size of malls is estimated at around 3.8 lakh sq. ft, which is expected to increase to 6.6 lakh sq. ft in 2017.

The 'transitional' cities are firmly making their mark on the retail sector. Whilst organized retailing among them is a more recent phenomenon than in the NCR and Mumbai, they are soon catching up as both retailers and developers tap into the large middle class of those cities. In this category are included the cities of Bengaluru, Kolkata, Hyderabad, Pune, and Ahmedabad, all of which have significant mall development in the pipeline. Activity is also expected to accelerate in Chennai.

The 'high growth' cities are a small group that have entered a high growth phase. They include cities with substantial consumer spending power like Ludhiana, the tourism-driven city of Jaipur, rapidly-growing IT hubs such as Chandigarh and Kochi, as well as some medium-sized cities such as Lucknow, Surat, and Vadodara. These high growth cities, mainly located in northern India, are perceived by retailers as the 'next retail destinations'. Chandigarh, Ludhiana, Jaipur, Lucknow, and Kochi lead the pack, characterized by high levels of shopping mall development and significant retailer interest.

The 'emerging' cities have been branded thus on the basis of plans drawn up by major hypermarkets and department store retailers for the future. Factors such as growing income, rising aspirations, scarcity of branded stores, and growing corporate activity are leading to a rise in demand for organized retailing in these cities. The urban centres in this category include Nagpur, Indore, Nashik, Bhubaneshwar, Vizag, Coimbatore, Mangalore, Mysore, and Thiruvananthapuram. At these centres, IT/ITES (Information Technology Enabled Services) companies are rapidly expanding their workforce, which in turn is stimulating retailer activity. This group also includes some major tourist destinations such as Amritsar, Agra, and Goa and a number of southern Indian cities, which have so far been less impacted by organized retail.

Small Town Retail Boom

- RPG group plans to open malls in all cities with a population of over eight lakhs.
- LuLu Group International, an Abu Dhabi-based company having diversified business interests with focus on retail sector, has announced its plans to invest ₹2500 crore in Telangana in 2015–16.
- Reliance retails has planned to cover 1500 cities and towns on the lines of Wal-Mart.
- Titan plans to add 100 more World of Titan, Fastrack, and Helios stores in 2015.

Sources: economictimes.indiatimes.com and news.franchiseindia.com

Leading Corporate Retail Plans

The Indian retail industry in the single brand segment has received foreign direct investment (FDI) equity inflows to the tune of US $275.38 million during the period April 2000–January 2015, according to the Department of Industrial Policies and Promotion (DIPP). With the rising need for consumer goods in different sectors, including consumer electronics and home appliances, many companies have invested in the Indian retail space in the past few months. Some of them are as follows:

- Paytm plans to set up 30,000–50,000 retail outlets where its customers can load cash in their digital wallets. The company is also looking to enroll retailers, mostly *kirana* stores, as merchants for accepting digital payments.
- Mobile wallet company MobiKwik has partnered with Jabong.com to provide mobile payment services to Jabong's customers.
- DataWind has partnered with HomeShop18 to expand its retail footprint in the country. Under the partnership, both the companies will jointly launch special sales programs across broadcast, mobile, and Internet media to create greater access of the latter's tablet range.
- Amazon Inc. and Flipkart India will invest nearly ₹2300 crore (US $369.87 million) in the near term as they plan to acquire more customers in the country's fast-growing online retail market.
- FashionAndYou has opened three distribution hubs in Surat, Mumbai, and Bengaluru to hasten deliveries.
- Abu Dhabi-based Lulu Group plans to invest ₹2500 crore (US $401.98 million) in a fruit and vegetable processing unit, an integrated meat processing unit and a modern shopping mall in Hyderabad, Telangana.

Sources: indianbusiness.nic.in and www.timesofindia.indiatimes.com

Impact of 2008–2009 Recession on the Indian Retail Sector

An economic slowdown is prompting India's retailers to re-visit their expansion plans whereas foreign firms are reviewing their plans to enter a market named the most attractive retail destination three years running. As economic growth picked up to more than nine per cent in recent years, a promising middle class attracted multiple corporates such as Reliance, Tata Group, Aditya Birla group, and Bharti Enterprises to the retail sector. Global retailers Wal-Mart, Tesco and Germany's Metro AG also felt the pull. However, the attraction has dimmed as economic growth has slowed to below seven per cent and spending has tightened. Retailers are closing stores, curbing spending, and repositioning themselves to ride out the tough times.

Many leading indigenous players are making changes at operational and strategic level. Subhiksha Trading Services, which operated about 1600 discount stores across India, ran out of cash last October. The unlisted company's operations are nearly at a standstill and it is undergoing a 'debt restructuring exercise'. Experts are viewing this setback for retailers in India as a necessary one after companies opened outlets at a furious pace in unviable locations at exorbitant rents, charting out ambitious expansion plans. Subhiksha Trading Services has initiated renegotiation of account of rentals with real estate players and is also considering relocation of some of its stores from the 1600-odd across the country due to low sales volume and high rentals.

India's largest listed retailer, Pantaloon Retail, faced with falling sales in various products and high inventory costs, is reworking its strategy. It is focusing on cost and supply chain efficiencies, high-margin private labels, better credit terms and prices from vendors, and re-negotiating lease rental agreements. Cash-strapped Vishal Retail is closing stores and has no plans to open more in 2010, but will expand through the franchisee route. British retailer Marks and Spencer, facing falling sales at home, is repositioning itself in India and is looking at larger format stores to attract more people.

Analysts feel the economic slowdown is likely to lead to more focus on value-retailing in clothing and food in coming months and a shift away from lifestyle retailing, a strategy that should benefit local retailers.

Overseas retailers are still keen on India but prefer to wait for a year or more.

Reliance Retail's is also trying hard to beat the recession. That explains its decision to close 30 of its unprofitable stores and reducing the manpower by at least 1000. Also on cards are renegotiating rentals for its 900 properties to cut down such costs by a third. The company has also unified its sourcing function for value formats after achieving a critical mass. The value formats include neighbourhood format Reliance Fresh, supermarket chain Reliance Super, hypermarket format Reliance Mart, and Reliance Wellness, a beauty and wellness format. The five steps taken by Reliance Retail have been as follows:

The five steps

- 30 unprofitable stores closed
- Manpower slashed by at least 1000
- Rentals for 900 properties to be cut by a third
- Sourcing function being unified
- In speciality formats, the ratio of private labels to other products increased to 50:50

The environment is tough indeed for retailers. According to Nikhil Vora, Managing Director of IDFC SSKI Securities, every square foot of retail space calls for ₹2000–₹2500 of capital, while the most profitable retailer generates ₹1000–₹1200 of cash profits at the store level and 300 at the net level. So, at best, internal accruals can support just 15 per cent of space addition. Given this and the fact that the books of rapidly-growing retailers are highly leveraged and that the current environment is making access to external capital difficult, retail growth has hit a roadblock. Though there are capitalized players such as Reliance, Tatas, and Bharti operating in the space, retailing cannot exist in the absence of a retail environment — the competition also has to be funded.

Sources: Kamath and John (2009), *Business Standard,* 26 February

CHARACTERISTICS OF RETAILING

Retailing can be distinguished in various ways from other business activities like manufacturing. It differs from manufacturing in the following ways:

- There is a direct end-user interaction in retailing.
- It is the only point in the value chain to provide a platform for promotions.
- Sales at the retail level are generally in small unit sizes.
- Location is a critical factor in retail business.
- In most retail businesses, services are as important as core products.
- There are a larger number of retail units compared to other members of the value chain. This occurs primarily to meet the requirements of geographical coverage and population density.

Direct Interaction with Customers

Retailing entails a direct interaction with end-users of goods or services in the value chain. Retailers act as intermediaries between end-users and suppliers such as wholesalers or manufacturers. Therefore, they are in a position to effectively communicate the response and changing preferences of the consumers to the suppliers or salespersons of the company. This helps the manufacturers and marketers to redefine their product and change the components of its marketing strategy accordingly. Manufacturers require a strong retail network for expanding the reach of their products and to obtain a powerful platform for promotions and point-of-purchase advertising. Realizing the importance of retailing in the entire value chain, many manufacturers have entered into retail business by setting up exclusive stores for their brands. This has not only provided direct contact with the buyers, but has also acted as an advertisement for the companies and provided the manufacturers with a bargaining power with respect to other retailers (dealers) who stock their products. Retailing also provides extensive sales executive support for products, which are information-intensive as in the case of consumer durables.

Point-of-purchase Display and Promotions

A significant chunk of retail sales comes from unplanned or impulse purchases. Studies have shown that shoppers often do not carry a fixed shopping list and pick up merchandise based on impulsive or situational appeal. Many do not look at ads before shopping. Since retail products are low involvement in nature, impulse purchases of the shopper is a vital area that every retailer must tap into. Therefore, display, point-of-purchase merchandise, store layout, and catalogues become important. Impulse goods such as chocolates, snack foods, and magazines can sell much more quickly if they are placed in a high visibility and high traffic location.

Theories and Models of Retailing

Dialectic process An evolutionary theory based on the premise that retail institutions evolve. The theory suggests that new retail formats emerge by adopting characteristics from other forms of retailers in much the same way that a child is the product of pooled genes of two different individuals.

Gravity model A theory about the structure of market areas. The model states that the volume of purchases by consumers and the frequency of trips to the outlets are a function of the size of the store and the distance between the store and the origin of the shopping trip.

Retail accordion theory A theory of retail institutional changes that suggests that retail institutions go from outlets with wide assortments to specialized, narrow, line store merchants and then back again to the more general, wide-assortment institution. It is also referred to as the general-specific-general theory.

Retail life cycle theory A theory of retail competition that states that retailing institutions, like the products they distribute, pass through an identifiable cycle. This cycle can be partitioned into four distinct stages: (1) innovation, (2) accelerated development, (3) maturity, and (4) decline.

Wheel of retailing theory A theory of retail institutional changes that explains retail evolution with an institutional life cycle concept.

Natural selection theory A theory of retail institutional changes that states that retailing institutions that can most effectively adapt to environmental changes are the ones that are most likely to prosper or survive.

Central place theory A model that ranks communities according to the assortment of goods available in each. At the bottom of the hierarchy are communities that represent the smallest central places (centres of commerce). They provide the basic necessities of life. Further up the hierarchy are the larger central places, which carry all goods and services found in lower-order central places plus more specialized ones that are not necessary.

Lower Average Amount of Sales Transaction

The average amount of sales transaction at a retail point is much less in comparison to the other partners in the value chain. Many consumers buy products in small quantities for household consumption. Due to lower disposable incomes some consumer segments in India buy even grocery items on a daily basis rather than a weekly or a monthly basis. Inventory management, thus, becomes a challenge for retailers as a result of innumerable minor transactions with a large number of customers. Hence, retailers have to take care of the average levels of stock, order levels, and the popularity of different brands. The small amount also means that the retailer has to keep a tight control on costs associated with each transaction in the selling process. Credit verification, employment of personnel, value-added activities such as bagging, gift-wrapping, and promotional incentives all add up to the costs. One way to resolve this is for the retail outlets to be able to attract the maximum possible number of shoppers.

Location or Larger Number of Retail Business Units

Location of retail store plays an important role compared to other business units. Manufacturers decide the location on the basis of availability of factors of production and market. Similarly, retailers consider factors such as potential demand, supply of merchandise, and store image related factors in locating the retail outlet. The number of operating units in retail is the highest compared to other constituents of the value chain, primarily to meet the needs for geographic reach and customer accessibility.

FUNCTIONS AND ACTIVITIES OF RETAILING

Retailers play a significant role as a link between manufacturers, wholesalers, suppliers, and consumers. In this context, they perform various functions that add value to the offerings they make to their target segments. They provide convenient location, stock, and appropriate mix of merchandise in suitable packages in accordance with the needs of customers. The major activities, as shown in Fig. 1.1, carried out by retailers are as follows:

- Sorting
- Arranging assortment
- Breaking bulk
- Holding stock
- Extending services
- Providing additional services

Sorting

Manufacturers usually make one or a variety of products and would like to sell their entire inventory to a few buyers

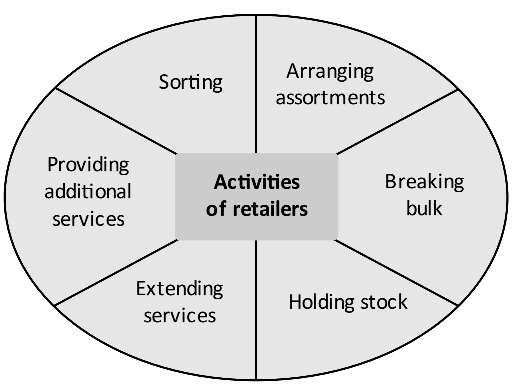

FIG. 1.1 Activities of retailers

to reduce costs. Final consumers, in contrast, prefer a large variety of goods and services to choose from but buy them in small quantities. Retailers are able to balance the demands at both ends of the value chain spectrum by picking up an assortment of goods from different sources, buying them in sufficiently large quantities, and selling them to consumers in small units.

The aforegiven process is referred to as sorting. Through this process, retailers undertake activities and perform functions that add to the value of the products and services sold to the consumer. Supermarkets in the US offer, on an average, 15,000 different items from 500 companies. Customers are able to choose from a wide range of designs, sizes, and brands from just one location. If each manufacturer had a separate store for their products, customers would have to visit several stores to complete their shopping. While all retailers offer an assortment, they specialize in types of assortment offered and the market to which the offering is made. For instance, while Westside provides clothing and accessories, a chain like Nilgiris specializes in food and bakery items. Shoppers Stop targets the elite urban class whereas Pantaloons targets the middle class.

Arranging Assortment

An assortment is a retailer's selection of merchandise. It includes both the depth and breadth of products carried. Retailers have to select the combination of assortments from various categories. The assortments must include substitutable items of multiple brands, stock-keeping units (SKUs), and prices. They should be distinguished on account of physical dimensions and attributes, for example, colour or flavour. Small retailers take assortment decisions on the basis of their experience. On the other hand, retailers from organized retailing depend on a detailed study of past trends and future projections.

Retailers need to consider certain factors while devising assortment plans for their stores: profitability associated with particular merchandise mix, store image, layout, and the level of compatibility between the existing merchandise. For example, Spencer's, a leading food supermarket positioned as a one-stop shopping centre, deals in multiple product categories along with all possible variants of brands, SKUs, and physical attributes to meet the expectations of their consumers and survive in the business. On the other hand, Big Bazaar has an impressive assortment of only the fast-moving brands and SKUs instead of all available variants in the market. Their assortment plan is governed by location, size, and store image (value for money) of their stores.

Breaking Bulk

Breaking bulk means physical repackaging of the products by retailers in small unit sizes according to customers' convenience and stocking requirements. Normally, retailers receive large quantities of sacks and cases of merchandise from suppliers to reduce their transportation costs. In order to meet customer requirements, retailers have to break or arrange the bulk into convenient units. This entire function adds value to the offerings not only for the end customers but also for the suppliers in the value chain. Even in the earlier days of generic and commodity-based trading, most of the retailers used to perform this important function in the value chain. This function receives little attention from retailers nowadays due to the introduction of new product categories such as fast moving consumer goods (FMCG) and ready-to-wear apparel.

Holding Stock

To ensure the regular availability of their offerings, retailers maintain appropriate levels of inventory. Consumers normally depend on the retailers directly to replenish their stocks at home. Therefore, retailers, on periodic basis, maintain the required levels of stock to meet the regular or seasonal fluctuations in the demand. They need to maintain equilibrium between the range, or variety carried and the sales which it gives rise to. They have to face the negative consequences of holding unwanted levels of stock—for instance, too little stock will hamper the sales volume, whereas too much stock will increase the retailer's cost of operation. The majority of Indian retailers being small, they do not have the space to stock huge inventories. Some are so small that they can stock only on the shop floor. In general, in small towns most retailers have arrangements with nearby warehouses to stock the goods. Retailers in the organized sector, to a certain extent, have installed effective software packages for maintaining adequate levels of inventory. At the same time, retailers avail of just-in-time deliveries with the help of efficient consumer response systems, which reduces the burden of maintaining high levels of stocks.

Extending Services

Retailers provide multiple services to immediate customers and other members of the value chain. The set of services extended by particular retailers may be part of their core product offerings or it may be an 'add on' to their product or service. Often they offer credit, home delivery, after-sales services, and information regarding new products to their customers, thereby making shopping a convenient and enjoyable experience. At the same time, they provide stocking place, reach to the ultimate customers, and information about the concerned target segment to the suppliers. For example, Time Zone, the first organized retail chain of wristwatches in India, started by leading watch manufacturers Titan, set up in all its stores, service centres with proper equipment and trained manpower. This has not only diluted the relevance of service providers in the unorganized sector but has also enhanced the confidence of the customers in the retail services provided by the particular retail chain as after-sales service is considered to be an integral ingredient of the watch purchase.

Although shopping over the phone and through the Internet have increased vastly in the past few years, yet the majority of Indian consumers still visit stores to shop. Stores remain popular because of the need of consumers to be able to see and feel the products themselves before buying. It is a means of social interaction, the opportunity to compare different brands, and impulse buying. The location of a store is also of great importance in the retail process. In their bid to attract more footfalls, retailers also keep track of amenities such as parking, extended hours of operation, special play areas for children, washrooms, and trial rooms. Besides, efficient customer service is required to make the customer feel comfortable and important.

Providing Additional Services

Here are some additional functions of retailing.

Channel of Communication

Besides the aforementioned main activities of retailers, they serve as significant communication channels across the value chain.

From advertisements, salespeople, and display, shoppers learn about the characteristics and features of a product or services offered. Manufacturers, on their part, get information regarding sales forecasts, delivery delays, and customer complaints. As a result, they can modify defects or address anomalies in unsatisfactory merchandise and services.

Transport and Advertising Functions

Small manufacturers can use retailers to provide assistance with transport, storage, advertising, and pre-payment of merchandise. This also works the other way round in case the number of retailers is small. The number of functions performed by a particular retailer has a direct relation to the percentage and volume of sales needed to cover both their costs and profits.

CATEGORIZING RETAILERS

Categorizing retailers helps in understanding the competition and the frequent changes that occur in retailing. There is no universally accepted method of classifying a retail outlet, although many categorization schemes have been proposed. Some of these include classifying on the basis of (a) number of outlets, (b) margin vs turnover, (c) location, and (d) size.

Number of Outlets

The number of outlets operated by a retailer can have a significant impact on the competitiveness of a retail firm. In general, a greater number of outlets add strength to the firm because it is able to spread fixed costs, such as advertising and managers' salaries, over a greater number of stores in addition to acquiring economies of purchase. While any retailer operating more than one store can be technically classified as a chain owner, for practical purposes a chain store refers to a retail firm which has more than eleven units. In the United States, for example, chain stores account for nearly 95 per cent of general merchandise stores.

Challenges for Retail Banking

Most Indian banks both in the private and public sector have huge retail operations—some examples being State Bank of India, Punjab National Bank, HDFC Bank, ICICI Bank, etc. Retail banks and markets are at different stages in their evolution. For some, the challenge is to achieve basic operating efficiencies in financial product designing and basic selling skills in the front-line. For some others, the challenge is to find new ways to create income growth, through innovative propositions, differential pricing, or superior delivery. Others are beginning to see the unbundling of retail value-chains, with specialist retail banks, services and financial products businesses coming into existence, and raising fundamental questions about where and how to compete.

Regardless of their market context, all retail banks face a distinct set of management challenges. First, retail banks are typically larger and more complex to manage than most other financial businesses. A typical retail bank comprises massive production, servicing, and retailing operations which need to come together to provide consistent delivery at the point-of-sale or point-of-service. For example, ICICI Bank witnessed huge spurt in its retail banking operations and customer base in early 2000. However over time, its customer service could not keep pace with this rapid growth and there were numerous complaints that customers communicated in this respect.

A retail bank may employ several thousands of people, each of them needing to be motivated and managed to share in the values of the whole. Second, the economics of retail banking are complex. The value of products and customers can take a lifetime to be realized, and can easily lead to poor resource allocation decisions and cross-subsidies. In the same way, the economics of delivery are obscure, with no clear division between where money is made along the manufacturing and the retailing value-chain. Third, retail income is under attack.

There are few banks left that can feel comfortable that they have a secure, stable home base to rely on. The attack has come not from the Internet retailers, or other entrants, but from other incumbents—whether banks fight to take customers or insurers fight to take their share of the customer's market.

Size

Small chains can use economies of scale while tailoring merchandise to local needs. Big chains operating on a national scale can save costs by a centralized system of buying and accounting. A chain store could have either a standard stock list ensuring that the same merchandise is stocked in every retail outlet or an optional stock list giving the outlets the advantage of changing the merchandise according to customer needs in the area. Because of their size, chain stores are often captains of the marketing channel who can influence other channel partners, like wholesalers, to carry out activities they might not otherwise engage in such as extended payment terms and special package sizes.

Big stores focus on large markets where their customers live and work. They use technology to learn more about their customers and target them with point-of-sale machines, interactive kiosks, and sophisticated forecasting and inventory systems. They tend to stock a narrow range of inventory that sells well and maintain an extensive inventory of the fast selling products. Branding is important to them. Pricing is often a key area of focus for these retailers. Big stores have many strengths such as regional or national reputation, huge buying power, vast inventory, and hassle-free return and exchange policies. Their prime locations, the consistency in the quality of their products and services, the fact that they are open when people can and want to shop, and the clear consistent image and identity which they develop and maintain challenge the abilities and resources of many small retailers. However, their biggest advantage, perhaps, is the knowledge of their customers. They not only know their customers, but also apply that knowledge in every aspect of their business, from inventory selection to store layout.

However, large retailers are not perfect. They have competitive weaknesses that small retailers can exploit. Most offer the same kind of assortments of products nationally. Local managers have little say in inventory selection. Often, sales staff has minimal product knowledge. Staff turnover is extremely high. Most large retailers have little connection with the community they serve. They usually do not offer special services. Larger companies are often slow to recognize and react to changes in their local markets.

Independent retailers can co-exist and flourish in the shadow of the big chains by developing a niche within the diverse market. The niche should be developed on the basis of new or unusual product offerings, superior service, and overall quality. While value is important, price may be less important. Efficient operations, including precise buying practices, is a must. Customer contact within the niche market must be characterized by 'high-touch' service. The key factor is innovation; stores that do not change will perish. The road to success for the independent retailer lies in doing all the things which the big chain stores cannot or will not do. The successful independent retailers should embrace the following principles:

- Be prepared for change.
- Move to a narrower niche market and stop competing directly with the big retailers.
- Learn more about customers and include best customers in a database.
- Invest appropriately in advertising and promotion.
- Charge regular prices and avoid discounting (ensure requisite mark up).
- Buy with precision and search out speciality suppliers.
- Maintain essential inventory.
- Focus on profit instead of volume (be ready to lose an occasional sale).
- Provide extraordinary service.
- Employ the best possible staff.
- Understand the significance of the Internet.

Size is often used as a yardstick to classify retailers because costs often differ on the basis of size, with big retailers having lower operational costs per rupee than smaller players. However, in this sphere too, the Internet may make size an obsolete method of comparison.

Margin vs Turnover

Gross margin and inventory turnover is another means of classifying retailers. Gross margin is net sales minus the cost of goods sold and gross margin percentage is the return on sales. A 30 per cent margin implies that a retailer generates ₹30 for every ₹100 sales that can be used to pay operating expenses. Inventory turnover refers to the number of times per year, on average, a retailer sells his inventory.

On the basis of this, retailers are classified as low-margin low-turnover—those that cannot survive the competition—and low-margin high-turnover, exemplified by Amazon.com. Jewellery stores and appliance stores are examples of high-margin low-turnover stores and only a few retailers achieve high-margin high-turnover. These retailers are in the best position to combat competition because their high turnover allows them to withstand price wars. The drawback of the classification by this method is that service retailers who have no inventory turnover cannot be encompassed.

Location

One of the oldest means of classification of retailers is by location, generally within a metropolitan area. Location will be dealt with more extensively in the succeeding chapters but suffice it to say at this stage that retailers are no longer satisfied with traditional locations within the business district of a city, and are on the constant lookout for alternate locations to reach customers. Besides renovating old stores, retailers are testing unorthodox locations to expand their clientele. With the advent of the Internet, this area of retailing is likely to undergo tremendous changes in the forthcoming years.

STRUCTURE AND NATURE OF RETAILING CHANNELS

Retailing is the last stage in the distribution process, which comprises all the business operations and the people involved in the physical movement and transfer of ownership of goods and services from the producer to the consumer. A typical distribution channel consists of a manufacturer, a wholesaler, a retailer, and the final consumer. Wholesaling is an intermediate stage—during which goods are sold not to the final consumers but to the business customers for resale.

In some distribution channels, different activities are performed by independent firms. However, most distribution channels have a certain degree of vertical integration—performing more than one activity. For example, Spencer's carries out both wholesaling and retailing activities. It buys directly from the manufacturers, has merchandise shipped to its warehouses, and then distributes it across its stores. Some retailers, especially in the clothing business, even design the merchandise they sell and contract its production to manufacturers.

The nature of retailing channels differs in various parts of the world. The US has a retail density that is greater than that of all other countries. A feature of the US system is the concentration of large retail firms—10 per cent of its food and general merchandise retail firms account for over 40 per cent of all retail sales. Some firms are even able to eliminate wholesalers as they are large enough to operate their own warehouses. Large stores—of over 20,000 sq. ft—are popular forums of sale. This combination of large retailers and large stores makes the US one of the most efficient users of the distribution channel.

In Japan, on the other hand, small firms and stores govern the retail sector. The wholesale channel is relatively much larger and independent. To reach all the stores, almost daily, often requires the merchandise to pass through as many as three channels of distribution. Therefore, this reduced efficiency means that in contrast to the 10 per cent of the total labour force employed in this sector in the US, the Japanese use 20 per cent of their workforce.

The European system falls in between that of the US and Japan. Northern Europe is the closest to the US in terms of concentration levels—in some national markets, 80 per cent of the retail sales in food is in the hands of fewer than five firms. In southern Europe, the market is more fragmented with the traditional farmers' market retailing still predominant in some sectors along with 'big-box' formats. Central Europe has seen an increase in retail floor space after the privatization of the retail trade. Privatization has also resulted in a transition from an extremely structured system to one that is highly fragmented, with kiosks rapidly gaining popularity.

In the Indian context, traditionally the small retailers have played a major role in various sectors with the unorganized players outnumbering the organized ones. However, the past decade has witnessed the rise of supermarket chains at the regional as well as national levels. Some of these stores also have their own line of merchandise, be it clothes, food items, or household articles. Price consciousness among the large middle class also means that large stores that are able to offer discounts on bulk purchases have become more important.

Why does the nature of retailing channels in these countries differ? The variance is primarily due to three factors: (a) social and political objectives, (b) geography, and (c) market size. The primary objective of Japanese or Indian economy is to reduce unemployment—the large labour force that is available is employed by small labour-intensive businesses. Second, the population density in Japan and India is much higher than in the United States. Thus, these countries have less low-cost real estate available for development of large stores. Third, the US market is the largest in the world and is able to leverage on economies of scale. India is still a growing market and has yet to develop a system as efficient as that of the US.

TRENDS IN RETAIL FORMATS

Retail industry is continuously going through changes on account of liberalization, globalization, and consumer preferences. While multinational retail chains are looking for new markets, manufacturers are identifying, redefining, or evolving new retail formats. The existing retail houses are also gearing up to face the emerging competition from the organized sector and the changing outlook of the consumers. For example, consumer spending is shifting from goods to services. Accordingly, the retailers too are rapidly responding to the changing consumer preferences.

Consumers are not only looking for core products or functional benefits from the retailers but also non-functional benefits, which need to be compatible with their lifestyles. For example, most of the traditional eating joints in India such as Haldiram's, Bikanerwala, and Sagar Ratna have revised their product offerings and atmospherics along the lines of the multinational chains to compete with them and to cater to the changed expectations of the consumers.

Mom-and-pop Stores and Traditional *kirana* Stores

The retail sector is changing as new store categories have started dominating the marketplace. Mass merchandisers such as Wal-Mart and Big Bazaar; discount stores such as Future Group's Brand Factory, Arvind Brands' Megamart, and The Loot; category killers (Home Depot, Vishal chain); and speciality retailers (Time Zone, Tanishq) have all developed successful retail models. At the same time, the small mom-and-pop stores or the traditional *kirana* stores, are feeling the heat. In 2002, while Wal-Mart and Target saw revenues grow (by 12 per cent and 10 per cent, respectively), department stores such as Saks and Federated experienced declining revenues (down 3 per cent and 1 per cent, respectively). However, even in the mass-merchandising segment, the competition is fierce, as was evident from Kmart's bankruptcy announcement in 2002. Small independent stores, across product categories, is a very common retail format in India, particularly in small townships, but with the emergence of new retail formats they are also undertaking large scale renovations to attract their target consumer segments. In a survey by Indian Council for Research on International Economic Relations (ICRIER) in 2008 which covered 2010 small businesses in four metros and 10 cities, it was seen that growth in organized retailing had only a marginal impact on turnover and profitability. None of the small shops surveyed wanted to quit the business. Instead they wanted better access to bank credit to meet the changing market environment.

E-commerce

Many major retail organizations and manufacturers have online retail stores. Companies such as Amazon.com and Firstandsecond.com, which helped pioneer the retail e-commerce concept, are now being followed by bricks-and-mortar and catalogue retailers like J. Crew, which are expanding retail e-commerce into new markets.

India's retail market is estimated at $470 billion in 2011 and is expected to grow to $850 billion by 2020 with estimated CAGR of seven per cent. Overall, e-commerce market is expected to reach US $24 billion by the year 2015 with both online travel and e-tailing contributing equally. Another big segment in e-commerce is mobile/DTH recharge with nearly one million transactions daily by operator websites.

India's e-commerce market was worth about $3.8 billion in 2009, and rose to $12.6 billion in 2013. In 2013, the e-retail segment was worth US $2.3 billion. About 70% of India's e-commerce market is travel related. According to Google India, there were 35 million online shoppers in India in 2014 and is expected to cross 100 million mark by end of 2016. With global growth rate of 8–10%, electronics and apparel are the biggest categories in terms of sales. As of Q1 2015, six Indian startup companies, that is, Flipkart, Snapdeal, InMobi, Quikr, OlaCabs, and Paytm have managed to enter the billion dollar club.

The key drivers in Indian e-commerce are as follows:

- Escalating broadband Internet subscribers, 3G penetration, and recent introduction of 4G in few cities, India has an Internet user base of about 243.2 million as of January 2014. It is growing at a much faster rate, adding around six million new entrants every month.
- Explosive growth of smartphone users, soon to be world's second largest smartphone user base.
- Availability of much wider product range (including long tail and direct imports) compared to what is available at brick and mortar retailers. Competitive prices compared

and reduced inventory and real estate costs.
to brick and mortar retail, driven by disintermediation

- Increased usage of online classified sites, with more consumer buying and selling second-hand goods
- In India, cash on delivery is the most preferred payment method, accumulating 75% of the e-retail activities, which needs to make a shift towards online payment mechanisms.
- India has got its own version of Cyber Monday known as Great Online Shopping Festival (GOSF), which started in December 2012, when Google India partnered with e-commerce companies including Flipkart, HomeShop18, Snapdeal, Indiatimes shopping, and Makemytrip. 'Cyber Monday' is a term coined in the USA for the Monday coming after Black Friday.

In June 2013, Amazon.com launched their Amazon India marketplace without any marketing campaigns and invested $2 billion in India to expand business, Amazon has also entered grocery segment with its 'Kirana now' in Bangalore and is also planning to enter various other cities such as Delhi, Mumbai, and Chennai. After this, its largest Indian rival Flipkart has raised about US $2.3 billion till November 2014. Snapdeal raised US $50 million in April'13, and in Feb 2014, online fashion retailer Myntra raised US $50 million from a group of investors led by Premji Invest.

Traditional retailers such as Wal-Mart and Starbucks, hugely successful in their own right, have also set up online stores so as not to miss the revenue opportunities that the Internet offers.

Department Stores

A department store is a retail establishment, which specializes in satisfying a wide range of the consumer's personal and residential durable goods needs; and at the same time offering the consumer a choice of multiple merchandise lines, at variable price points, in all product categories. Department stores usually sell products including apparel, furniture, home appliances, electronics, and additionally select other lines of products such as paint, hardware, toiletries, cosmetics, photographic equipment, jewellery, toys, and sports goods. Certain department stores are further classified as discount department stores. These stores commonly have central customer checkout areas, generally in the front area of the store. Department stores are usually part of a retail chain of many stores situated around a country or several countries. Some examples of department stores in India are Lifestyle, Shoppers Stop, Westside, and Globus.

Discount Stores

These are giants such as Wal-Mart (the largest retailer in the world, with more than a million employees), Target, and Kmart, as well as membership warehouses like Costco. These, along with the category killers, have changed the landscape of both the retail industry and America. Where once mom-and-pop and department stores dominated retail, now the discount retailers and category killers are at the top of the heap. Further where once shopping malls, anchored by at least one major department store, used to be the dominant retail presence lining the nation's roads, now it is the behemoth Wal-Marts and Home Depot. Discount stores normally price their merchandise at 30–40 per cent lower than the market price and use huge volumes to compensate for lower margins.

Category Killers

These are the giant retailers that dominate one area of merchandise (e.g., Office Depot, Tower Records, and The Sports Authority). They are able to buy bathroom tiles, file cabinets, electronic goods, or pet food in such huge volumes that they can then sell them at prices which even fairly large competitors cannot match. The future of this category is better than that of many of the more general discounters, but the same employment caveats apply. For most job seekers, these companies offer earn-and-learn experiences with vendors and distributors before they move onward and upward.

The Evolution of Marks and Spencer
Source: Marks and Spencer

Financial data drawn from Marks and Spencer's archives and annual reports can be used to identify five phases in the company's sales growth. Early, rather erratic growth, often through acquisition, gave way to a second phase of store development funded by the company's floatation in the 1920s. Sales growth in the third phase came substantively through an increase in store size. A fourth phase involved improvements in labour and space productivity. The final and current phase of evolution emphazises diversification.

Speciality Stores

These include Crate & Barrel, The Body Shop, and Victoria's Secret. Some of the popular Indian speciality stores are Adidas, Bata, Sony World, Nokia World, Music World, Bausch, and Lomb, etc. These stores concentrate on one type of merchandise and offer it in a manner that makes it special. Some are very high-end (Louis Vuitton, Adidas) whereas others cater to the price-conscious masses (Old Navy, Bata). Many are so successful that department stores have started emulating their buying, marketing, and merchandise display strategies. Industry experts predict growth in this segment, particularly in home furnishings and home improvement, and it seems to attract many of the best and the brightest in retail. Promotion and responsibility come quickly to those willing to work hard, and in many of these stores, the hand of bureaucracy is not heavy.

RELATIONSHIP BETWEEN RETAILERS AND SUPPLIERS

Retail sector is critically dependent on its suppliers for the effective operation and profitability of its business.

Like every other marketing decision, the decision about which distribution channels should be used by the manufacturer are based on factors such as the firm's production capability, marketing resources, target market, buying patterns of potential customers, and the product itself. Having evaluated these factors, the producer can choose a particular strategy for market coverage. The producer then selects the middlemen and channels, the retailer being one of them, to implement the strategy. The distribution strategy could be intensive, selective, or exclusive.

Intensive distribution is the use of all the available outlets for a product. Stocking the product in as many outlets as possible is mostly resorted to in the case of convenience goods. *Selective distribution* is restricted to only a portion or percentage of available outlets in each geographical area. *Exclusive distribution* is the use of only a single retail outlet for a product in a large geographical area. Luxury goods are a good example of this category.

Various socio-economic and demographic factors are considered by the manufacturers for identifying the ideal retail format mix for their products. Let us understand this point better, in the context of soap selling in India and the resultant retail format preferences.

Retail Format Mix Adopted by Manufacturers for Soaps

Soap is primarily targeted towards women as they are the chief decision-makers in soap purchase. Medicated positioning such as germ killing and anti-bacterial are marketed to families. Manufacturers use various kinds of retail formats for distributing their products rather than use a particular kind of retail format. About 75 per cent of the soaps are bought through these following types of outlets.

***Kirana* store** This is the most common source for buying soap, which usually forms a part of the month's grocery list. Consumers exhibit loyalty to these stores. These stores are largely dependent on proximity to consumers' homes. Here consumers buy over the counter and do not have the option of browsing through display shelves.

Pan–Beedi shops These are small shops, almost such as kiosks or handcarts, that are primarily set up to dispense cigarettes and chewing tobacco. Such outlets are found in every nook and corner of human habitation. These are the main source of soap purchase for the lower socio-economic classes. These kind of shops exist by the dozen in rural areas.

Department stores Various department stores have emerged in India, the popular being, Spencer's, Big Bazaar, Lifestyle, Shoppers Stop, Westside, Reliance Mart, etc. Some of these also sell soap and in many cases specialized soap varieties. Department stores have good display counters and this is the only place where consumers get a first-hand experience of shopping and choosing from the available options. While the value-for-money department stores organize certain promotion around soaps (buy a set and get money off or one free, etc.), the more upmarket ones focus on the more expensive but niche soap varieties (like organic, etc.).

E-Commerce—Impact on Pharma Value Chain

In recent years, the role of electronic business and electronic commerce in the supply chain and logistics systems for the retail trade sector has been considerable, especially in general merchandising and pharmaceutical retailing. Electronic data interchange (EDI) systems based on either proprietary or Internet technologies provide the glue or information infrastructure to hold the value chain together. The exchange of information is as important as, or more important than, the exchange of physical goods, in the general merchandise value chain. The value chain in the general merchandise business consists of manufacturers, importers, distribution channels including couriers, truckers, logisticians, trading houses, wholesalers, department stores, other general merchandise stores, and, of course, the consumer.

The pharmaceutical value chain consists of manufacturers of prescription drugs (brand name and generic drugs), manufacturers of non-prescription drugs (brand name and generic drugs), wholesalers, hospitals, distribution channels (couriers, etc.), physicians, drug stores and other outlets, and the consumer. Manufacturers sometimes deal directly with pharmacists and sometimes sell their products through wholesalers.

Internet-based technologies have helped retailers and third-party logistics firms to access their respective information systems through the Internet.

The general merchandising and the pharmaceutical retailing industries are heavy users of electronic commerce. Paper systems have largely been replaced by electronic systems including Electronic Data Interchange (EDI) and Internet-based systems.

(*Contd*)

(Contd)

Electronic systems have been instrumental in streamlining the supply chain and logistics operations of the retail sector. As soon as orders are received from customers, instructions are sent electronically to suppliers and distribution centres to ship the order either from the warehouse or the plant. Orders for 'big-ticket' items such as fridges and stoves are communicated directly to the manufacturer and shipped to a central distribution centre and subsequently sent to a retail location, or even to the customer's home directly.

Inventory costs are being passed down the supply chain, as manufacturers are able to make better decisions on product flow based on collaborative Internet-based networks between suppliers and retailers. Suppliers are better informed whether or not to stock key items in their warehouses. The end result is reduced inventory costs and better product flow.

Logistics managers are placing greater emphasis on external functions and demand-pull systems that are customer oriented. In the past, they concentrated exclusively on internal logistics functions including warehousing and transportation.

Retailers are benefiting from improved logistics systems, which utilize central distribution centres in key locations and electronic systems to keep track of the movement of goods and the repair needs of the equipment (tractors, trailers, etc.).

Some retailers perform all their transportation logistics internally as they believe that they have a competitive advantage in this area. Other retailers contract out this function, which allows the retailer to concentrate on its core business.

While EDI systems are still important, retailers are generally moving to Internet-based systems or plan to do so in the near future. Internet-based systems are more cost effective and efficient. Suppliers do not have high-up front costs for equipment and software. Internet-based systems are better able to work with a myriad of suppliers, retailers, distributors, agents, intermediaries, and customers.

Internet-based systems support mass customization of products and a management structure that operates collaboratively with all players in the value chain.

Sources: Industry Canada (2000), 'Logistics and supply chain management: Sector competitiveness framework', and www.supplychainquarterly.com

RETAIL STRATEGY

Retail strategy indicates how a retailer plans to focus their resources to accomplish their objectives. It influences the retailers' business activities and response to market forces such as competition and the economy. The following six steps are involved in the development of a retail strategy:

- Defining the business of the firm in terms of orientation towards a particular sector.
- Setting short-term and long-term objectives with regard to image and profitability.
- Identifying the target market towards which to direct organizational efforts on the basis of the customers' profile and needs.
- Deciding the broad direction the company must take in the future.
- Implementing an integrated plan that encompasses all the aspects of retailing such as pricing, location, and channel decisions.
- Evaluating and revising the plan depending on the nature of the internal and external environment.

Retail Concept

An essential part of the retailing strategy, the retailing concept is essentially a customer-centred, company-wide approach to developing and implementing a marketing strategy. It provides the guidelines which must be followed by all retailers irrespective of their size, channel design, and medium of selling. The retailing concept covers the following four broad areas:

Customer orientation The retailer makes a careful study of the needs of the customer and attempts to satisfy those needs.

Goal orientation The retailer has clear cut goals and devises strategies to achieve those goals.

Value driven approach The retailer offers good value to the consumer with merchandise keeping the price and quality appropriate for the target market.

Coordinated effort Every activity of the firm is aligned to the goal and is designed to maximize its efficiency and deliver value to the consumer.

The retailing concept, though simple to adopt, is not followed by many retailers who neglect one or more of the aforementioned points. There must be a proper balance of all the aspects of this concept for the retailer to achieve success. The retailing concept, while important, is limited by its nature as it does not cover the firm's internal capabilities or the competitiveness of the external environment. It however remains an important strategic guide.

The retailing concept can be used to measure the retailers' performance through three parameters: total retail experience, customer service, and relationship retailing.

Total retail experience This refers to all the aspects of a customer's interaction with the retailer. It includes all activities from parking to billing. If some parts of the retail experience are unsatisfactory, the shopper may decide not to patronize that particular outlet. Therefore, it is necessary for a retailer to ensure that every element in the experience aims at fulfilling customer expectations. This experience means different aspects for different types of retailers: for an upper-end clothing retailer, this might imply the presence of plush interiors and air conditioning while a discount store needs to have adequate stock.

One of the biggest challenges for the retailer today is to devise new ways of attracting footfalls to be able to position

International Retailing—Steps for Expansion

Quantification Of the opportunity

Market assessment To go or not to go

Cultural differences How to deal with them

Competition Level, quality, and positioning

Price analysis Defining the right pricing for the new market

Gross margin Quantifying cost of goods and identifying sourcing alternatives

Regulatory issues Identification and cost-effective solutions

Logistics planning How to flow goods efficiently to the new market

Systems integration Between the head office and a new international division

Head office and company structure Options for managing the international operation

Pro forma development Defining the RoI based on cross-border operating benchmarks

Entry strategy and location analysis From overall strategy to predictive modeling

Implementation services Including such services as staff and executive recruiting, media and public relations management, import/export logistics, and warehousing and distribution coordination

themselves differently from competitors. Many novelties in retailing, for example, the theme restaurants, have emerged as a result and there is a battle to catch the customer's attention. Sometimes though, elements of the retail experience can be beyond the control of the retailer such as the levying of sales tax or the speed of online shopping.

Customer service This refers to the tangible and intangible activities undertaken by a retailer in combination with the basic goods and services it provides. It is part of the value-driven approach adopted by retailers in a bid to differentiate themselves and occupy a strategic position. Among the factors that drive a firm's customer-centric approach are store hours, parking access, sales personnel, amenities such as a recreation area for children and coffee shops. Different people evaluate the same service in various ways. Even an individual may do so at different times due to intangibility. People's assessment of a particular service is based not necessarily on reality but on perception.

Keywords such as customer orientation, innovation, and flexibility have become 'must-haves'.

These words have been repeated like mantras for decades now but rarely have they been put into practice. The 'take it or leave it' mentality frequently encountered in the Indian retail sector can still be unpleasant, even to those customers willing to make purchases. The realization that the services provided do not suit the prices demanded impels rationally acting customers to switch to the discounters. Stand-alone businesses and the owner-managed specialist stores are suffering the most and, at least in urban India, appear to have passed their zenith. Many retail companies now realize that the competition for the purchasing power of the customers has long transcended their own sectors. New competitors are courting the customers and trespassing on the traditional territory of retail companies.

Some of the major criteria for the right customer approach are as follows:

- Creating the right environment
- Listening to customers
- Providing rewards to the best customers
- Realizing the lifetime value of consumers

Relationship retailing The concept of value of lifetime consumers is employed in relationship marketing. Retailers need to establish relationships with existing customers to motivate them to return regularly. The ongoing process of identifying and creating new value for individual customers over the duration of a relationship is relationship marketing. It is mutually beneficial in nature creating a win-win situation for the retailer as well as the consumer by allowing the retailer to earn a profit and giving the consumer value. This is especially important because it is much harder to attract new customers than it is to retain old ones. It is a blend of product, quality, and services.

Relationship marketing uses the event-driven tactics of customer retention marketing, but treats marketing as a process over time rather than a series of single unconnected events. By moulding the marketing message and tactics according to the life cycle of the customer, the relationship marketing approach achieves very high customer satisfaction and high profits. In applying the relationship marketing approach, the retailer must customize programmes for individual consumer groups and the stage of the life cycle they are passing as opposed to some forms of database marketing where everybody would get virtually the same promotions, with perhaps a change in offer. The stage in the customer life cycle determines the marketing approach applied for a customer. A simple example of this would be sending new customers a 'welcome kit,' as an incentive to make a second purchase.

CHANGING FACE OF RETAILING

This section deals with some of the current trends in the world of retailing and delineates some major prospects for retailers and customers. It consists of four parts: (a) role of the Internet in retailing, (b) vertical concepts, (c) branding through retailers, and (d) consumption-related mega trends.

Role of IT in Retailing

The Internet has opened a whole new world of opportunities for retailers. It offers a way to expand an existing retail business and increase exposure in the marketplace. Retailers of any size can get more successful through the Internet with an effective sales and service site. The Web also offers a way for retailers to substitute the limitations of their brick and mortar stores by offering more service online for their existing customers.

Considerable attention has been focused on the Internet and its commercial potential for retailers. However, two key areas of confusion emerge for retailers. First, what role can the Internet play in retail marketing? Some academics assert that the Internet can provide a new retail format, usurping the traditional dominance of fixed location stores. Alternatively, some see the Internet performing a supporting role for existing marketing activity. Whichever role is adopted, it may ultimately determine consumer demand for online shopping and thus the development of 'cyber retailing'.

This gives rise to the second area of confusion; speculation concerning the actual size, growth, or future potential of the 'cyber retail market'. Which retailers are online and are they using the Internet strategically or tactically as a marketing tool?

This information is critical for retailers developing Internet marketing strategies, and may help to identify the sectors or variables that hold most potential for online retailing. It could also expose any retailer weaknesses or threats to existing retail formats.

The Internet has been used in three main ways to facilitate retail marketing. Basically, it is a means of communicating information about the retail organization, its products, and services. At the next level, it is used as a more proactive marketing tool, inviting consumers interactively to access the website to gain more product information and facilitate their buying decision-making process. At the same time, it provides valuable consumer data to retailers to enable greater targeting. US retailers view the Internet as a communication tool for attracting new customers, penetrating new markets, promoting the company's brand, and improving customer retention. The third level involves retailers actually selling products online through transactions with the consumers, providing an additional channel to an existing store or mail order operation.

Internet retailing offers a retail experience that is totally different from fixed location retailing. Comparison and price shopping across a greater number of sites will be easier and could be achieved within minutes. More and more consumers are beginning to use the Internet for research in the early part of the buying decision-making process. However, in India there is still hesitation in buying directly on the Web.

Most people carry out research on the Internet and subsequently purchase the product by store or order on the telephone. In India, growth of retail formats is tardy because of the time taken for establishing the physical infrastructure, providing the consumer time to adapt to the new methods of delivery. The retailers with a strong and established brand presence, effective physical distribution relationships, and capital investment in traditional formats may be less inclined towards expansion into a non-store, electronic format.

Size of a Retail Organization

It has been suggested that small retail organizations are most likely to take to the Internet due to its greater flexibility, limited resources and, lack of economies of scale, encouraging collective marketing via small business networks. While it appears that the size of the organization may be a critical factor in influencing a retailer's adoption of the Internet, the US experience indicates otherwise—a survey of the top US retailers suggested that smaller companies were less likely to be online.

Some scholars suggest that the larger retail organizations feel most threatened by the Internet and are now attempting to exploit the new medium to reinforce their market presence. Alternatively, it could be that the larger retailers, because of their comparative advantage in terms of skilled manpower and financial resources, perceive that they are best placed to exploit the commercial potential of the Internet.

Product or Service Offered

The type of shopping activity may further indicate the product groups most likely to succeed on the Internet. Convenience shopping and speciality goods may offer varying attractions to the online consumer. In India, Internet retailing indicates a preference for electronics items, apparels and accessories, and books with a market share of 34%, 30%, and 15% respectively. After these segments, beauty and personal with 10% share, home and furnishing with 6% share, health care with 3% share, and baby products with 2% share are considered to be less compatible in e-retailing market. Further, availability of e-commerce applications on various mobility devices is helping to drive sales and revenue. E-tailers such as Flipkart, Amazon, and Jabong generate nearly 50 per cent of their revenues from consumers shopping using mobile phones.

Retailers are increasingly turning to Web-based tools for better communication with suppliers and clients, and to keep a close eye on the inventory. Led by big US discounters such as Wal-Mart and Target, the industry has developed intricate supply-chain systems. Software to help avoid excess stock and data mining technologies to gather information about customers' purchasing habits are now in common use in the West. Internet-based tools can make a huge difference, resulting in cost savings of several million dollars across the entire supply chain.

The Web allows even small suppliers to plug in, whereas earlier systems would have required expensive hardware to allow them to communicate electronically with big retailers.

Software like IBM WebSphere can help lower clients' out of stock and improve inventory turnover—the rate at which goods move off store shelves. Retailers can make more money when they are able to decrease the frequency of running out of popular products and increase the speed at which a product sells.

Increasingly, retailers employ just-in-time processes that minimize their stockholding by feeding their EPOS (electronic point of sale) data into EDI (electronic data interchange) systems. It works on the premise that an electronic order to the supplier is placed as soon as the stock on the shelf falls to the pre-defined re-order quantity. The EDI systems may also complete other elements of the transaction electronically, such as order acknowledgement, invoicing, and payment. As retailers make considerable administrative cost savings by trading with suppliers electronically, many require that suppliers are EDI enabled.

Most retailers in India are now familiar with IT features such as e-mail and websites. However, this is only the tip of the IT iceberg, and the ubiquitous microchip has thrown up a plethora of less well-known business applications as well as multiple software packages for computerization of systems, which can have a spectacular impact on the bottom line.

Limitations on the Success of Cyber Retailing in India

Some of the main factors will be concerns about the lack of secure payment methods, access restrictions, and various technological issues. The success of e-tailing or retail on the World Wide Web will largely depend upon the competitive pricing and penetration of Internet connectivity and availability of broadband services in Indian households. Consumer predisposition toward the Internet as a new retail format may also constrain future growth. Consumer demand for the Internet is a key component that may ultimately drive widespread adoption of the Internet by retailers (refer Table 1.4). The ultimate success of the Internet will, however, depend on whether the Indian consumer has access and how they use or perceive Internet shopping.

Vertical Retail Concepts

The boundaries between simple store concepts along traditional lines and verticalist or shop-in-shop concepts are increasingly becoming fluid and are reflected in modern store construction concepts, which make the customer the focus of attention to a greater extent than in the past and help the retailers stage-manage the product. The challenge for them involves finding a future-oriented mixture of system and individuality, without alienating their important target group of walk-in customers with too sharp a profile.

Alliances with specialists have raised the levels of competence and customer frequency. A case in point is the grocery retailing business, which is fast merging with the convenience-shopping concept. This involves bringing the sale of non-food articles such as newspapers, magazines, and paperbacks with food, snacks, and beverages.

Retailers and marketers are not just focusing on temporary price reductions, feature ads, and displays, but are often going beyond these tactics to adopt strategies that are changing the face of retailing to accommodate as also alter the way consumers think and behave. Changes in the retail environment are making stores today one of the richest, most complex vehicles for communicating with consumers. The new face of retail is changing the way shoppers think about the retail brand, as well as the products featured within the store. The new strategy of gaining access to the consumer is LIM, 'Less is More'.

TABLE 1.4 Internet users in India between 2004–2014

Year	Internet users	User growth	New users	Penetration (% of Population with Internet connection)
2014*	243,198,922	14%	29,859,598	19.19%
2013*	213,339,324	37%	57,763,380	17.04%
2012	155,575,944	27%	32,605,503	12.58%
2011	122,970,441	36%	32,548,593	10.07%
2010	90,421,849	48%	29,486,779	7.50%
2009	60,935,069	18%	9,484,859	5.12%
2008	51,450,210	12%	5,665,948	4.38%
2007	45,784,262	43%	13,709,281	3.95%
2006	32,074,981	19%	5,157,948	2.81%
2005	26,917,033	23%	4,969,545	2.39%
2004	21,947,488	19%	3,500,884	1.98%

**Estimated.*

Sources: www.InternetLiveStats.com, Internet & Mobile Association of India (IAMAI), International Telecommunication Union (ITU), World Bank, and United Nations Population Division

In the clothing retail business, for example, this involves a deliberate reduction in the number of models presented per square metre of sales surface area and is considerably more successful in this respect than areas with a higher number of models per square metre of sales.

This trend has given rise to the concept of 'retail ecology' in which retail spaces are studied along with how shoppers interact with specific environments. Once the ecology of the retail space is known and understood, it can be used to make the shopping trip more efficient, more intuitive, and more effective for shoppers.

Branding through Retailers

In many countries today, the biggest players dominate the retail environment as also the consumer psyche. Although the Internet and catalogues allow manufacturers to sell directly to the public, these media currently only deliver a niche market opportunity. On its part, retailing is a highly competitive market, generally comprising a small number of very large retailers vying with each other for the top position. Further, in comparison to manufacturing, retailing is not all that profitable. Yet, retailers make a considerable mark-up on manufacturer prices. In a cluttered, fragmented media environment, the store now plays a prominent role as both a medium and a mediator between the brand and the consumer.

Over the last few years, the largest FMCG manufacturers are being increasingly threatened by large retailers because without them they would not be able to reach their customers, in terms of both logistics and consumer communication. The role of retailers as communicators for a particular brand is important—advertising is effective not only because it directly persuades consumers to buy a brand, but because it persuades retailers to allocate extra shelf space or 'facings' to that brand. This conveys to the consumers that the brand is much in demand, and, therefore, probably worth buying. Large retailers have started developing their own product brands that are displacing many manufacturer-branded goods. Thus, manufacturers must be able to build strong brands and maintain relationships with retailers.

Retailers' Choice of Brands

Most retailers seek to maximize the profit they make from each square yard/metre of shelf space. The increasing number of similar products on the shelves endangers manufacturers and market intermediaries alike. Therefore, the selection of the right products for the shelves becomes essential to retailers for their market success. Major retailers use store-planning software to optimize the mix of products on the shelf to generate maximum returns.

The latest trend is for retailers to consider appointing category managers, whereby suppliers bid for the right to manage an entire category of products, both their own and competitors', by offering the highest guaranteed rate of return to the retailer. Some of the brand categories of products that are stocked by an astute retailer are: profit earner—where the brand earns more profit than its competition for example Pillsbury and Ashirwad wheat flour; traffic builder—where the brand attracts more traffic, for example, Lux and Tata Salt; and image builder—where the brand has greater image impact than the competition, for example, Levis and Casablanca.

Role of Retailers in New Product's Success

The role of retailers in obtaining success for a new product is crucial because they assume the role of a gatekeeper who decides which new products find their way to the shelves. It is, therefore, necessary for manufacturers of consumer products to explore the needs of their partners in the marketing channel. Product quality, product novelty, compatibility, and launch strategy related factors have previously also been found to impact new product adoption by retailers. Competitive pressure measures and market variability are other important factors for retailers while deciding on taking a new product.

Manufacturers Maximizing Brand Exposure in a Given Retail Outlet

The following are some of the ways by which manufacturers can maximize exposure of their brands in a retail outlet.

- Number and size of physical 'facings' on the shelves
- Prominent positions in the store (check-outs)
- Multiple positions within the store and promotional opportunities outside the store (shop windows)
- Identified brand areas (branded racking, dispensers, and cabinets)
- In-store shop floor promotions such as taste testing, live demonstrations, and leaflets.
- In-store advertising (shelves, floors, walls, ceilings, counters, and dispensers)
- Promotions and packaging (tell the customers a story, as has been adopted by a leading detergent and fast food manufacturer)
- Inclusion in the retailer's communication process

Lifestyle Clustering

The proliferation of choices available and the growth of personal style possibilities are creating a new kind of store that acts as a 'choice editor' for shoppers. A large part of what the store stands for is communicated by limiting the brands and types of products they carry. The trend is now towards grouping products by lifestyle as opposed to the type of product. This is proving to be an effective tactic for retailers. Rather than working through traditional category management such as putting all the shampoos together and all the skin creams together, retailers are creating lifestyle clusters inside their stores; for example, all low fat-food, beverages, snacks, and other food products in one section.

Consumption-related Mega Trends

There are certain trends in consumption behaviour that have a direct and significant impact on the business strategy and profitability of retail business. These trends relate to the changing demography, increasing individualization, computerization, mobility, and demand in terms of sustainability and dematerialization.

Demographically, there is an increase in the number of consumers with greater purchasing power and more migrant consumers. In the West, there is a fall in the number of young and increase in the number of senior consumers. In India, there are more young consumers than their senior counterparts. The composition of households is also changing with an increase in smaller and newer forms of the family unit.

There is also an increase in consumer power both on an individual and on a collective basis. It is reflected in demand-led production and focus on narrow niches. There has also been a perceptible focus shift in consumption from merely acquiring a product or service to experiencing it. The retail industry has tried to respond to these trends with greater focus on customer service and retail atmospherics.

Technology has facilitated the move towards online consumption and making it independent of time (24/7) and space. Product and price comparison has become easier. With process globalization setting in, consumers want a broad variety of products, and the consumption of imported products has risen significantly. Faster and easier mobility has contributed to the rise of the leisure commuter. The frequency of holidays too has increased. En route consumption at stations, gas stations, and airports has also gone up. Internationalization of business has caused a rise in international business trips.

There has been an increase in the demand for high quality and sustainable products. While expenditure on bio-dynamic and healthy food products has increased, people now aspire 'honest', 'original', and 'green' products and services. Preference for eco-tourism, recycling, and alternative environment-friendly modes of transport is on the rise. This will doubtless have implications on retail merchandise and brand stocking decisions, store positioning, and packaging. Many retail outlets such as The Body Shop, Fab India, and Khadi and Village Industries Commission (KVIC) outlets are such examples. The latest popular trend is that of dematerialization, where experiencing services has become more important than acquiring them.

DRIVERS OF SUCCESS IN THE RETAIL SECTOR

With the growing competition both on and off the Web today, it is becoming increasingly difficult for retailers to survive in the new economy. A new revolution is taking place. For retailers to thrive today, they must possess revolutionary thinking which involves a desire to embrace changes within their organization. Changes include a more focused approach to strategic planning, advanced marketing skills, a stronger customer focus, and enhanced exposure on the Internet. Faced with an environment where it is hard to raise prices or sales volume, retailers are seeking subtler ways to increase profits.

This section essentially puts together different ideas introduced in the chapter and attempts to elucidate some of the fundamental factors that are necessary for success in the retailing industry today.

Customers—The Driving Force in Change

With double-income families, busier schedules, and less time to shop, retailers must also offer more convenience than ever before. Today's busy consumers have less free time to shop in a leisurely manner.

Further, they are becoming more demanding and less forgiving as their shopping options have increased in number, size, and variety. They are less interested in the lowest price or the biggest selection and more interested in finding solutions to their problems. They seek and demand unexpected services forcing the stores to go the extra mile to meet their demands. With little time on hand, they get bored quickly and expect retailers to blend shopping, eating, and playing into the retail equation.

Retailers may want to offer added convenience by extending their hours of operation, improving their website purchasing, or by speeding up check-out lines. They will also have to learn how to sell diversely to multiple generations and genders. This investment in customers will yield more sales and greater loyalty.

Understanding the Customer

The key to success in retail is two pronged—knowing what the customer wants, and providing what the customer wants just as it is required in the most cost-efficient manner. The first requires customer intimacy, that is, the combination of soft market research (focus groups, laddering, psychographics) with hard data analysis—trends, patterns, statistical clustering, and demographics.

The second requires a supply chain that is efficient and just-in-time. It requires the information to flow quickly and purposefully from the point of sale to the supplier while integrating the logistics provider. Today, the scope for improvement is tremendous. Currently, most of in-store personnel time is spent on non-sales activities and margins have been squeezed down to one per cent for many items.

Retailers must encourage their sales staff and allow them to personalize relations with the customers by spending more time listening to each customer and understanding their needs. Smaller retailers can get to know their customers by name and learn more about their families and personal interests to make stronger one-on-one connections. Larger or corporate retailers may offer shopper-friendly terminals that will help consumers locate what they are looking for without searching for the sales help. User-friendly kiosks will offer self-service to customers.

Re-evaluating the Marketing Plan

Along with the growth in competition, advertising prices too will continue to rise. Retailers will stand out as leaders and authorities in their respective markets by focusing their advertising on the product benefits to changing customer base and aspirations.

Mass advertising has become less effective as many retailers advertise from just one sale to the next. The word sale has been overused and is becoming a less effective vehicle to drive traffic into the retail stores. Even corporate discount merchants have discovered the need for a more upscale image to reach a larger customer base. For example, Target, a worldwide mass discount retailer, has learned how to effectively use a more upscale image to build a strong brand image with their customers.

Generic advertising is becoming less and less effective in its impact and a strong public relations campaign has emerged as a more effective way to get customer attention for many retailers. Public relations is often perceived as a stronger option, and in some cases, a less expensive one. Retailers could also establish themselves as experts in their niche industries by writing articles for local or international publications or getting interviewed on radio and TV.

Advanced Education for Retailers is Critical for Growth

Innovative retailers have discovered that to improve and adjust to changes quickly within their environment, they must continue to learn and become cutting-edge to remain ahead of their competitors. They must begin to work on their businesses by going out and seeking opportunities for growth. Attending innovative retail seminars and workshops, meeting other retailers, and learning from both will add to the competitive edge that retailers must have today.

Strong Visual Appeal

About 70–80 per cent of the buying decisions in mass retailing today are made at the point of purchase. Therefore, visual marketing has become increasingly important to drive more sales. Retailers must take on a new approach to be successful. It is extremely important for retailers to learn how to focus on their customers' needs and to view their business through their customers' eyes. To build an effective business image, retailers must be aware of all the details that make up an overall consistent and effective image. In a matter of seconds, prospective customers begin to scrutinize every detail of a business from a retailer's business card, displays, employees, or directly through their website.

Workplace Challenge

Employees will be even more difficult to come by as information technology and other high-paying professions lure applicants who would have otherwise taken retail positions. Retailers are expected to counter this threat by hiring more part-timers and being more flexible with hours, or by choosing to pay a lot more. They may cope with this challenge by offering more continued education, greater appreciation, and motivation for their employees. Regular manager and sales staff meetings are necessary to build a strong relationship. Retailers should accept inputs from their staff and encourage them to have an independent thinking.

Planning for Success

The retailing world of tomorrow will be very different from today. To survive in retailing one must begin to plan for the evolution and shifts in the industry. Strategic planning, which is a combination of strategic thinking and long-range planning, is the key to planning for success. It can be a retailer's blueprint to achieve the goals and plans for future growth. In addition, strategic planning can increase the focus on marketing approach and also help to build a supportive team of employees.

In contrast to the situation a few years ago, competitive advantages in the retailing sector today, once achieved, are short lived unless accompanied by superb management quality or based on a unique position. The efforts required to maintain such advantages for long are getting incomparably greater. Against this backdrop, cooperation will have a decisive effect on the future of the retail sector. The necessity of achieving market power, as well as the drive for size, profitability, and efficiency, will continue to produce profound changes in the retail sector in the future. This means, for the majority of those that do not master a particular market or category/niche will have little or no chance of surviving. It also means that non-organized retail businesses in particular will have to struggle more than ever in future to justify their existence. Overall, the opportunities are shrinking for traditionally structured retailers to maintain themselves against vertical players and companies external to the sector.

The manner in which India's retail industry is shaping up, the foreseeable future indicates that large retailers would most certainly cut into a sizeable share of the branded market, which was hitherto largely controlled by small players. The trend of large national chain stores replacing small independent retailers is continuing unabated. Rapidly growing catalogue and Internet usage confront small retailers with new challenges and dramatic changes that force them to adapt rapidly or perish. As a result, small retailers will feel the heat of high mark-ups and may shift to lower price point merchandise. Thus, they would be required to sell larger volumes to compensate the high price point drop. The independent stores that survive and prosper will be those that (1) recognize and act on their competitive strengths and weaknesses; (2) understand who their customers are and what they want; and (3) identify and fill a viable niche in the marketplace.

Small retailers will also have to match the ambience provided by their larger rivals. They may opt for different business models such as speciality stores, fixed price shops, or discount stores. A few may consider switching over to large format stores and enhance their capabilities in terms of range, merchandise, and price points. Some retailers might even be forced to move to different categories or even change their line of business. In a similar manner, large stores might turn to operating out of small format outlets with speciality offerings, catalogue showrooms, transit stores, and satellite warehouses for parent showrooms.

The tendency towards integration into a common value chain will increase significantly in future and will become an essential component of strategies between companies. Tough negotiation of conditions will give way to considerations as to how, for example, a prompt and predominantly regional sourcing strategy can guarantee product range and sales policies adequate to customer requirements and how synergies may be realized in sales and marketing. Retail concepts with the potential for future success are based exclusively on a close network of all parties involved in the process chain. Lone fighters do not stand much of a chance, unless they have a dominant position in the market on account of their innovative leadership or strong brand image.

In the Indian market in particular, concepts focused on emphasizing value-for-money considerations will accelerate the polarization of the market across all sectors and will outperform their respective market segments.

SUMMARY

Retailing is defined as the conclusive set of activities or steps used to sell a product or service to consumers for their personal or family use. It is responsible for matching of individual demands of the consumer with supplies of all the manufacturers. The word 'retail' is derived from the French word *retaillier,* meaning 'to cut a piece off or 'to break bulk'. Some of the key aspects of retailing are direct customer interaction, small unit size of sales, point-of-sale promotions, criticality of location, and emphasis on customer service.

The retailer performs various functions such as sorting, breaking bulk, holding stock, channel of communication, storage, advertising, and certain additional services. Retailers can be classified on the basis of number of outlets, margin versus turnover, location, and size. The key drivers of change in the retail sector are the changing demographics and industry structure, expanding computer technology, emphasis on lower costs and lower prices, accent on convenience and service, focus on productivity, added experimentation, and continuing growth of non-store retailing. It is important for retailers to carefully plan their strategy. In this context, the following steps to plan the retail strategy need to be taken: (a) defining the business of the firm in terms of orientation towards a particular sector; (b) setting short-term and long-term objectives with regard to image and profitability; (c) identifying the target market towards which to direct efforts on the basis of the customer's characteristics and needs; (d) deciding the broad direction which the company must take in the future; (e) implementing an integrated plan that encompasses all the aspects of retailing such as pricing, location, and channel decisions; and (f) evaluation and revision of the plan depending on the nature of the internal and external environment.

KEY TERMS

Department store A retail establishment which specializes in satisfying a wide range of the consumer's needs for his or her personal and residential durable goods

Distribution channel Comprises a manufacturer, a wholesaler, and a retailer

E-commerce (electronic commerce or EC) The buying and selling of goods and services on the Internet

Gross margin Net sales minus the cost of goods sold and gross margin percentage is the return on sales

Inventory turnover The number of times per year, on an average, retailers sells their inventory

Relationship marketing A marketing strategy whose objective is to establish and maintain a profitable and long-term relationship with a customer

Retailing A set of activities or steps used to sell a product or a service to consumers for their personal or family use

EXERCISES

Concept-review Questions

1. What is retailing? Enlist the retail activities carried out by retailers.
2. Discuss briefly various types of retail formats.
3. What are the drivers of changing face of retail structures in the developing world, particularly India?
4. What is the role of Internet technology in redefining the retail industry in the entire value chain?

Project Work Assignments

1. Identify the retail functions of the following types of retailers:
   (a) Mom-and-pop store *(Kirana)*
   (b) Department grocery store
   (c) Independent apparel store
   (d) Franchised food outlet
2. Identify the nature of Internet usage by two retailers in different product categories in your city. Further, analyse the reasons for using this new interface.
3. Compare the nature of retail formats employed and their impact on retail penetration of any two FMCG companies.

CASE STUDY

RETAILING IN PERISHABLES—COMPULSIONS AND IMPACT OF CONSOLIDATION

In recent years, the fresh fruit and vegetable value chain has gone through a process of restructuring that has had considerable impact on the food-retailing format. Stable food prices, slowing growth in at-home food spending, the increasing share of expenditure on food service channels, and the growth of food sales by non-traditional retailers, including online shopping options, have heightened competition among grocery retailers. Many food retailers have opted to merge, citing cost savings and efficiency gains to compete better.

Fresh fruit and vegetable market in the US was estimated at around $83.5 billion in 1990. Over the last decade, the US food system has experienced the entry of new competitors playing by new rules, placing greater competitive pressure on conventional food retailers. Chief among these new competitors are mass merchandisers introducing supply chain management, a procurement model designed to streamline the distribution system by eliminating non-value-adding transaction costs. Increasing investment of European supermarket chains in the US market has likely reinforced this trend, as many European chains have advanced further in the implementation of supply chain management compared to conventional US retailers. As they have invested in the US system, they have gradually begun to modify the American procurement model, including a greater reliance on private labels.

More recently, retailers have been faced with the challenge of positioning themselves in a market place that offers nascent business to consumer food marketing choices (online food shopping) and emerging e-commerce procurement options, both of whose impacts and roles are yet uncertain. The future role of business-to-business e-commerce in fresh produce is particularly unclear given the perishable nature of the products and differences in quality and volumes both intra- and inter-seasonally. While the dry grocery industry long ago adopted EDI, this system never functioned in the volatile produce sector, which operates more through personal relationships rather than automated procurement systems.

Still, as buyers grow, there are compelling reasons to streamline fresh produce procurement and firms are beginning to attempt to treat fresh produce such as other food commodities with more stable pricing and volumes. The recent emergence of retailer-shipper procurement contracts is a part of this process and demonstrates the introduction of supply chain management methods in the US fresh produce system. E-commerce platforms tailored to the fresh produce sector have the potential to become successful alternatives to EDI.

The new competitive pressures have contributed to retail and wholesale consolidation as firms seek efficiency gains through mergers and acquisitions to strengthen their competitive positions. As the leading retailers and wholesalers have grown, they have begun to exercise greater buying power, including in the procurement of fresh produce. Greater buying power has caused an increase in the level and types of fees and services being required from fresh produce suppliers and is leading to more closely coordinated relationships between buyers and sellers. Suppliers are changing by adopting information technology and developing the systems and services capable of serving the needs of the few larger buyers. Given the costs associated with a higher level of services and the need to more-or-less match the scale of larger buyers, supplier's consolidation is beginning to occur, whether through ownership or strategic alliances.

Finally, consumers are in the driver's seat, increasingly demanding more services, including convenience in food-purchasing and preparation, taste, quality, safety, and variety. This presents both challenges and opportunities for firms at all levels of the fresh produce marketing system.

Consolidation in Food Retailing

From 1992 to 1999, the four largest food retailers' share of grocery store sales rose from 15.9 per cent to 29 per cent whereas the share of the eight largest retailers increased from 24.9 per cent to 42 per cent. Most of these gains occurred after 1996, when a number of firms consolidated.

Today, there are ten integrated wholesale-retailers each with over 1000 stores and selling over US $1 billion in fresh produce annually. For each of the two largest supermarket chains, fresh produce sales are estimated to exceed US $4 billion. Clearly, the buying power of these groups is impressive with half of US food sales now accounted for by these ten integrated wholesale-retailers. Suppliers who are not equipped to sell to these very large buyers must focus their efforts on the remaining, more fragmented portions of the food system, both retail and other.

Consolidation in Food Wholesaling

Consolidation is also occurring rapidly among merchant food wholesalers, many of whom have acquired specialized fresh produce wholesalers, as well as merging with general-line grocery wholesalers. Acquisitions and mergers continue to reshuffle the ranks of the leading companies. According to a report by Planet Retail and Supermarket News, Wal-Mart with total annual revenue of US $485.65 billion (FY 2015) and over 11,000 stores in 27 countries, under a total 71 banners has become the largest food retailer. Costco Wholesale Corporation with its high-sustainable growth rate, Kroger Co., which operates 2625 stores either directly or through its subsidiaries, Safeway, and SuperValu are other big players in this field.

While the food-service distribution industry continues to experience a high level of merger activity, it remains relatively fragmented, with the top ten specialized food-service wholesalers accounting for 25 per cent of the US $147 billion in total food-service wholesale sales in 1998, whereas the top four firms had 21 per cent share. Fragmentation in the food-service wholesaling industry is because of the huge number of final users served.

While there are about 30,600 supermarkets in the US there are over 627,000 commercial food-service outlets, and around 112,000 non-commercial outlets. In addition, while large retailers predominantly buy fresh produce directly from shipping point, avoiding wholesalers, food-service buyers still rely greatly on wholesalers and terminal markets. Sysco Corporation is by far the largest foodservice wholesaler, with sales of US $17.4 billion in 1999, up from US $14.8 billion in 1997. While Sysco distributes a full line of food and non-food products, fresh produce now accounts for six per cent of its sales, equivalent to about US $1 billion. In August 2000, Royal A's US food-service acquired PYA/Monarch, creating a group with combined annual sales of US $10.7 billion and making it the number two player in this segment.

As consolidation occurs in food-service channels, buyers will procure greater volumes of fresh produce directly from shipping point, just as retailers have increasingly done in recent decades. Since much of the product moving through wholesale markets is destined for food-service users, as large foodservice buyers grow in importance, wholesalers will need to become more service-oriented if they are to retain these customers.

Impact on Produce Suppliers

Retailers expect efficiency in the procurement of many products, including produce, as a result of mergers. By purchasing more volume, retailers hope to lower the per-unit cost of goods by negotiating lower prices. In return, retailers may develop partnerships with preferred suppliers, concentrating volumes with such firms, potentially benefiting suppliers with more predictable firm level demand. When demand and supply are more closely coordinated, buyers and sellers can work together to stimulate sales, and achieve more consistent volumes and quality. On the other hand, as price takers in a low margin business, many shippers feel that they have little ability to absorb lower FOB prices, reporting that volume discounts are not cost-justified for commodity-based fresh produce shippers (as opposed to shippers of value-added produce like packaged salads).

Retailers also expect reduced marketing and selling costs as a result of relationships with preferred suppliers. Suppliers and distributors are being asked to help retailers with the design and provision of category management, effective design of promotions, promotional allowances, and special packaging. To make this type of marketing support function, effective retailers should share sales data with suppliers to better evaluate promotions, seasonal effects, price responses, and other characteristics of consumer demand. However, till now it is mainly the mass merchandisers that aggressively share information with shippers, reducing the effectiveness of supply chain management in conventional retail channels. Clearly, firms on both sides of the retail-shipper interface are still in the initial phases of capturing the potential benefits of partnering.

Although the economic effects of the recent mergers on fresh produce have not yet been determined, many suppliers fear that competition will erode. To date, many recently merged chains are still in the process of integrating their buying systems and some still buy produce on a division basis (with divisions defined along the lines of the incorporated chains), lessening the effect of consolidation. However, this is changing with corporate purchases growing in importance at most chains. Grower-shippers will increasingly face fewer but larger buyers as consolidated food retailers reduce the number of buying offices and combine orders into larger volumes. Produce suppliers have also cited new marketing and trade promotion practices, such as slotting allowances and fees, as evidence that produce buyers may enjoy an unfair advantage in bargaining with suppliers. However, recent research by USDA and UC Davis has shown that most fresh produce shippers of commodities as opposed to value-added fresh-cut produce, are not paying slotting allowances, at least to date.

Still, produce suppliers will be challenged to meet the needs of food wholesalers and retailers who adopt supply chain management practices. Many smaller grower-shippers may form joint ventures, cooperatives, or other alliances to better serve large retailers. Other produce suppliers may seek niche markets either product or buyer-derived to meet the procurement needs of different sizes and types of buyers. For example, niche markets exist for speciality fruits and vegetables or organically-grown products, and independent retailers and upscale restaurants can be profitable niche markets for high quality produce of all varieties.

The fresh produce industry has clearly embarked upon a path leading to greater vertical coordination of the distribution system via more supply chain-oriented procurement models, despite the fact that conventional retailers are lagging behind mass merchandisers in this regard. The explosive growth of the supercentre format is a compelling force that will continue to move conventional retailers in this direction.

Discussion Questions

1. Identify the nature of structural changes experienced by the entire value chain for perishable products.
2. Analyse the factors that have contributed to structural changes in the value chain for perishable products.
3. Analyse the response of the traditional retailers to meet the consolidation effort at various levels of value chain.
4. What kind of benefits retailers foresee through the vertical consolidation in the perishable food chain?

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