

Retail Management

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- Retail is the end or final stage of any economic activity. The word “retail” comes from the old French word “retailleur”, which means to cut off or to break bulk.
- Retailer may be defined as a dealer or trader who sells goods/ services in small quantities to consumers for personal or family use.
- According to Philip Kotler “Retailing includes all the activities involved in selling goods or services directly to final consumers for personal, non business use”.
- Retailer or retail store is any business enterprise whose sale volume comes primarily from retailing.
- Retailing is a set of business activities that adds value to the products and services sold to consumers for their personal or family use.
- Retailing may be understood as the final step in distribution of merchandise, for consumption by the end consumers.

- Any organization selling to final consumer is retailing , whether they are:
 - ✓ A Manufacturer
 - ✓ A Wholesaler
 - ✓ A Retailer
- It does not matter how they sell or serve by -
 - ✓ Person
 - ✓ Mail
 - ✓ Telephone
 - ✓ Vending Machine or
 - ✓ Internet

Or
- Where these are sold - A store, street or Consumer's House

- **Retail Management** is a process of promoting greater sales and customer satisfaction by gaining a better understanding of the consumers of goods and services produced by a company.
- It includes all the steps required to bring the customers into the store and fulfill their buying needs
- It is an art as it requires a number of management tools for a complete end user satisfaction.

Role of Retailer in a Supply Chain

- Retailers are a key component in a supply chain that links manufacturers to consumers by delivering the goods and services.
- Manufacturers design and make products and sell them to retailers or wholesalers.
- Wholesalers engage in buying, storing, and physically handling goods in large quantities and then reselling the goods (usually in smaller quantities) to retailers or other businesses.
- Generally wholesalers focus on satisfying retailers' needs, while retailers direct their efforts to satisfying the needs of consumers.

A Typical Supply Chain



Role of Retailer in a Supply Chain

The value creating activities of Retailer are:

- 1. Providing an Assortment of Products and Services** – Big retailers carry large number of items made by several companies. Offering an assortment enables the customers to choose from the wide selection of brands, designs, sizes, colours etc. at one location.
- 2. Breaking Bulk** - Retailers offer products in smaller quantities tailored to individual consumers' and households' consumption patterns.
- 3. Holding Inventory** – Retailers keep inventory, broken into user – friendly sizes so that products will be available when consumers want them.
- 4. Providing Services** – Retailers provide services that make it easier for customers to buy and use products.
- 5. Increasing the Value of Products and Services** - Thus by providing assortments, breaking bulk, holding inventory and providing services, retailers increase the value that consumers receive from their products and services.

Scope of Retailing

- 1. Merchandising:** Merchandising and buying is the key function of any retailer as this department is responsible for the procurement of merchandise to be sold in the stores by sourcing it from vendors or manufacturers
- 2. Marketing:** In retail marketing, functions may be centralized and may include different departments like advertising, sales promotion, public relations etc.
- 3. Store Operations:** Retail professionals in the store operations area have to monitor the overall store operations and profits. They may occupy positions including Head of Store Operations, Regional Manager and District Manager.
- 4. Sales:** Areas in sales include responsibilities of a sales associate, cashier, store stock associate and stock receiver.

5. Human Resource Management: Human Resource in retail may range from recruiting and hiring employees to broader areas like training and motivating employees.

6. Accounting and Finance: This includes accounting for income, paying expenses, compiling and maintaining financial records, money management and cash flow control, banking, credit policies etc.

7. Technology and E-commerce: Retail business incorporates major use of information technology

8. Supply of Information: The retailer informs and educates customers about product features and benefits

9. Visual Merchandising: Visual merchandising is associated with creating the overall look of the store

10. Supply Chain Management and Logistics: Supply chain management and logistics are fast emerging as key focus in retail.

Economic and Social Significance of Retailing

1. Social Responsibility

(E.g.: A retailer might reduce the energy consumption of his store, use paper bags)

2. Retail Sales

3. Employment

4. Supply of Information

5. Economic Development

6. Creation of Utilities

- Form Utility
- Time Utility
- Place Utility
- Ownership/ Possession Utility

Economic and Social Significance of Retailing

7. Creates Value

- Providing an assortment of products and services
- Breaking Bulk
- Holding Inventory
- Providing Services

Global Retailers

- Retailing is a global industry. Many retailers are pursuing growth by expanding their operations to other countries.
- Globally, Walmart remains the undisputed leader in the retail industry, with sales that are more than three times greater than those of Carrefour, the second - largest retailer.
- In the Global scenario, it is seen that retailers that focus on hard lines such as consumer electronics, appliances, and furniture experience better financial performance than FMCG and apparel retailers.
- The nature of retailing and distribution channels around the world differs.

Global Retailers

- Retailing is a global industry.
- Many retailers are pursuing growth by expanding their operations to other countries.
- List of 20 largest retailers in the world. Walmart remains the undisputed leader in the retail industry, with sales that are more than three times greater than those of Carrefour, the second - largest retailer.

	Name of Company	Country of Origin	2007 Retail Sales (\$ billions)	Countries of Operation	2002-2007 Retail Sales CAGR (%)*
1	Walmart Stores, Inc.	U.S.	374,526	15	10.3
2	Carrefour S.A.	France	112,604	34	3.6
3	Tesco plc	U.K.	94,740	13	12.4
4	Metro AG	Germany	87,586	32	4.6
5	The Home Depot, Inc.	U.S.	77,349	6	5.8
6	The Kroger Co.	U.S.	70,235	1	6.3
7	Schwarz Unternehmens Treuhand KG	Germany	69,346	24	12.6
8	Target Corp.	U.S.	63,367	1	7.6
9	Costco Wholesale Corp.	U.S.	63,088	8	10.7
10	Aldi GmbH & Co. oHG	Germany	58,487	15	4.3
11	Walgreen Co.	U.S.	53,762	2	13.4
12	Rewe-Zentral AG	Germany	51,929	14	2.8
13	Sears Holdings Corp.	U.S.	50,703	5	10.5
14	Groupe Auchan SA	France	49,295	10	5.5
15	Lowe's Companies, Inc.	U.S.	48,283	2	12.8
16	Seven & I Holdings	Japan	47,891	4	n/a
17	CVS Caremark Corp.	U.S.	45,087	1	14.4
18	E. Leclerc	France	44,686	6	4.5
19	Edeka Zentrale AG & Co. KG	Germany	44,609	3	n/a
20	Safeway, Inc.	U.S.	42,286	2	5.6

Source: 2009 Global Powers in Retailing (New York: Deloitte Touche Tohmatsu, January 2010).

*Compound annual growth in sales over the last five years.

The Indian Retail scape

- The retail industry in India is mainly divided into:-
 - 1) Organised and
 - 2) Unorganised Retailing
- Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately-owned large retail businesses.
- Modern trade can be defined as any organised form of retail or wholesale activity (both food and non-food, under multiple formats), which is typically a multi-outlet chain of stores or distribution centres run by professional management.

Organized and Unorganized Retail

- Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, owner manned general stores etc., E.g. the local kirana shops, paan/beedi shops, convenience stores, hand cart and pavement vendors.
- According to the National Accounts Statistics of India, the 'unorganised sector' includes units whose activity is not regulated by any statute or legal provision, and/or those, which do not maintain regular accounts. In the case of manufacturing, this covers all manufacturing units using power and employing less than 10 workers or not using power and employing less than 20 workers.
- The Indian retail sector is highly fragmented with large majority of its business being run by the unorganized retailers.
- The Indian distribution systems are characterized by small stores operated by relatively small firms and a large independent wholesale industry.
- Retail has become the largest source of employment and has deep penetration into rural India.

Classification of Retailers

The most basic characteristics used to describe the different types of retailers is their retail mix.

1. Type of Merchandise/ Service Sold
2. Variety and Assortment of Merchandise Sold

Variety (breadth of merchandise) : number of merchandise categories a retailer offers

Assortment (depth of merchandise) : number of different items in a merchandise category

Stock Keeping Unit (SKU) : Each different item of merchandise

3. Services Offered
4. Price of Merchandise

Classification of Retailers

Retailers can be classified under three broad heads:

- A. Food Retailers
- B. General Merchandise Retailers
- C. Service Retailers

A. Food Retailers

1. Supermarkets

- Self - service food store offering groceries, meat products, non food items such as health and beauty aids and general merchandise.
- Perishables including meat, baked goods, and dairy products account for 44% of supermarket sales, having higher margins than packaged goods.
- Conventional supermarkets carry about 30,000 SKUs, limited assortment supermarkets, or extreme-value food retailers, only stock about 2,000 SKU's.
- Limited-assortment supermarkets offer one or two brands and sizes, one of which is usually a store brand.
- Supermarket has a selling area of between 400 sq. m. and 2,500 sq. m, selling at least 70% of its merchandise comprising of foodstuffs and everyday commodities.

A. Food Retailers

- Although conventional supermarkets still sell a majority of food merchandise, they are under substantial competitive pressure, especially from Supercenters and Warehouse Clubs as they offer broader assortments of food and general merchandise at attractive prices.
- To compete effectively, conventional supermarkets are differentiating their offerings by:
 - ✓ **Emphasizing fresh perishables** - Fresh-merchandise categories are the areas around the outer walls of a supermarket, known as the “power perimeter,” that include the dairy, bakery, meat, florist, produce, deli, and coffee bar. These departments attract consumers and are very profitable. Fresh supermarkets are smaller (30,000 versus 40,000 square feet) and more convenient than traditional supermarkets and have less space devoted to packaged goods.

A. Food Retailers

- ✓ **Targeting health-conscious and ethnic consumers** – Conventional supermarkets are offering more natural, organic, and fair-trade foods for the growing segment of consumers who are health-conscious and environmentally conscious.
- ✓ **Providing better value with private-label merchandise** – Conventional supermarket chains have started offering more private-label merchandise that benefits the retailers as well as customers.
- ✓ **Providing a better shopping experience** - Creating an enjoyable shopping experience through better store ambience and customer service is another approach that supermarket chains use to differentiate themselves from low-cost, low-price competitors.

A. Food Retailers

2. Supercenters

- Supercenters are large stores (185,000 square feet) that combine a supermarket with a full-line discount store.
- By offering broad assortments of grocery and general merchandise products under one roof, supercenters provide a one-stop shopping experience.
- General merchandise (non-food) items are often purchased on impulse when customers' primary reason for coming to the supercenter is to buy groceries.
- General merchandise has higher margins, enabling the supercenters to price food items more aggressively.
- However, supercenters are very large, so some customers find them inconvenient because it can take a long time to find the items they want.

A. Food Retailers

Hypermarkets are large (100,000 to 300,000 square feet), combination food (60 to 70 percent) and general merchandise (30 to 40 percent) stores.

- The world's second-largest retailer, Carrefour, operates hypermarkets.
- Hypermarkets stock fewer SKUs than the supercenters - between 40,000 and 60,000 items, ranging from groceries, hardware, and sports equipment to furniture and appliances to computers and electronics.
- Hypermarkets and supercenters are similar. They are both large, carry grocery and general merchandise categories, offer self-service, and are located in warehouse-type structures with large parking facilities.
- However, hypermarkets carry a larger proportion of food items than do supercenters and have a greater emphasis on perishables.
- Supercenters have a larger percentage of non-food items and focus more on dry groceries, such as breakfast cereal and canned goods.

A. Food Retailers

3. Warehouse Clubs

- Warehouse Clubs are retailers that offer a limited and irregular assortment of food and general merchandise with little service at low prices for ultimate consumers and small businesses.
- The largest warehouse club chains in USA are Costco, Sam's Club (Walmart)
- Customers are attracted to these stores because they can stock large packs of basics like paper towels, large-size packaged groceries, best-selling books and CDs, fresh meat and produce, and an unpredictable assortment of upscale merchandise and services at low prices.
- Warehouse clubs are large (100,000 to 150,000 square feet) and typically located in low-rent districts. They have simple interiors and concrete floors.
- Warehouse clubs can offer low prices because they use low-cost locations, have inexpensive store designs and offer little customer service.

Cash and Carry (C&C)

- Cash and carry is a form of trade in which goods are sold from a wholesale warehouse operated either on a self-service basis or on the basis of samples (with the customer selecting from specimen articles using a manual or computerized ordering system but not serving themselves) or a combination of the two.
- Customers (retailers, professional users, caterers, institutional buyers, etc.) are members who settle the invoice on the spot in cash and carry the goods away themselves.
- C & C wholesalers arrange the transport of goods themselves and pay for the goods in cash, and not on credit.
- It offers wide assortment of goods, food and non-food items.

A. Food Retailers

4. Convenience Stores

- Provide a limited variety and assortment of merchandise at a convenient location in 3,000 to 5,000 square-foot stores with speedy checkout.
- These stores enable consumers to make purchases quickly, without having to search through a large store and wait in a long checkout line.
- They offer only limited assortments and variety, and they charge higher prices than supermarkets.
- To increase convenience, these stores are opening smaller stores close to where consumers shop and work.
- Easy access, storefront parking, and quick in-and-out access are some of the benefits offered by convenience stores.

B. General Merchandise Retailers

1. Department Stores

- Department stores are retailers that carry a broad variety and deep assortment, offer customer services, and organize their stores into distinct departments for displaying merchandise.
- Department stores attract customers by offering a pleasing ambience, attentive service, and a wide variety of merchandise under one roof. They sell both soft goods (apparel and bedding) and hard goods (appliances, furniture, and consumer electronics).
- The major departments are women's, men's, and children's apparel, home furnishings, cosmetics, kitchenware, and small appliances.
- Each department within the store has a specific selling space allocated to it, as well as salespeople to assist customers. The department store often resembles a collection of specialty shops.

B. General Merchandise Retailers

- Department stores chains can be categorized into three tiers:
 - ✓ The first tier includes upscale, high-fashion chains with exclusive designer merchandise and excellent customer service.
 - ✓ The second tier of traditional department stores, in which retailers sell more modestly priced merchandise with less customer service.
 - ✓ The value-oriented third tier caters to more price-conscious consumers.
- Department stores are not as convenient as discount stores as they are located in large regional malls rather than local neighborhoods.
- Customer service has diminished in the second and third-tier stores because of the retailers' desire to increase profits by reducing labor costs.
- Department stores, because of the large number of fashionable SKUs, have not been as successful as discount stores and food retailers in reducing costs by working with their vendors to establish just-in-time inventory systems.

B. General Merchandise Retailers

- To deal with their decreasing market share, department stores are:
 - ✓ attempting to increase the amount of exclusive merchandise they sell
 - ✓ undertaking marketing campaigns to develop strong images for their stores and brands
 - ✓ Expanding their online presence.
- Today the department stores are placing more emphasis on developing their own private-label brands, shifting their marketing activities from promotional sales to brand-building activities, involving television advertising and participating in multichannel retailing.

B. General Merchandise Retailers

2. Full-Line Discount Stores

- These are retailers that offer a broad variety of merchandise (private labels and national brands), limited service, and low prices. Discount stores offer both.
- They face intense competition from category specialists that focus on a single category of merchandise.
- Supercenters are more efficient because of the economies of scale that result from the high traffic generated by the food offering.

B. General Merchandise Retailers

3. Specialty Stores

- These stores concentrate on a limited number of complementary merchandise categories and provide a high level of service.
- They tailor their retail strategy toward very specific market segments by offering deep but narrow assortments and sales associate expertise.
- E.g. Victoria's Secret, leading specialty retailer of lingerie and beauty products in the United States, Levi's (jeans and casual apparel), Apple (computers, phones), Coach (purses and leather accessories)
- Specialty stores may be located at several places such as malls, lifestyle centers etc.

B. General Merchandise Retailers

4. Drugstores

- Specialty stores that concentrate on health and personal grooming merchandise.
- Major drugstore chains are offering a wider assortment of merchandise, including more frequently purchased food items, the convenience of drive-through windows for picking up prescriptions, and in-store medical clinics.
- To build customer loyalty, the chains are changing the role of their pharmacists from simply dispensing pills to providing health care assistance, such as explaining how to use a nebulizer.
- Drugstores are expanding their role as a fill-in trip destination by carrying products typically found in convenience stores, such as beverages, and making them easily accessible at the front of the store.

B. General Merchandise Retailers

5. Category Specialists

- These are big-box stores that offer a narrow but deep assortment of merchandise, use a self-service approach, but offer assistance to customers in some areas of the stores.
- By offering a complete assortment in a category, category specialists can “kill” a category of merchandise for other retailers and thus are frequently called category killers.
- Using their category dominance and buying power, they buy products at low prices and are ensured of supply when items are scarce.
- Department stores and full-line discount stores located near category specialists often have to reduce their offerings in the category because consumers are drawn to the deep assortment and relatively low prices at the category killer.

B. General Merchandise Retailers

- Although category specialists compete with other types of retailers, competition between them is intense.
- They all provide similar assortments, because they have similar access to national brands, and they all provide the same level of service. Thus they compete on price and location and sometimes services offered.

B. General Merchandise Retailers

6. Extreme-Value Retailers

- Small discount stores that offer a broad variety but shallow assortment of household goods, health and beauty aids, and groceries at very low prices.
- They primarily target low-income consumers, who want well-known brands but cannot afford to buy the large-size packages offered by full-line discount stores or warehouse clubs.
- E.g. Vendors such as Procter & Gamble often create special, smaller packages for extreme-value retailers.
- Higher income consumers are increasingly patronizing these stores for fun and an opportunity to find some hidden treasure among the household staples.

B. General Merchandise Retailers

7. Off-Price Retailers (also known as closeout retailers)

- Offer an inconsistent assortment of brand-name merchandise at a significant discount off the manufacturers' suggested retail price (MSRP), reason being their unique buying and merchandising practices.
- Most merchandise is bought opportunistically from manufacturers that have overruns, canceled orders, forecasting mistakes causing excess inventory, close-outs, and irregulars.
- **Closeouts** are end-of-season merchandise that will not be used in following seasons.
- **Irregulars** are merchandise that has minor mistakes in construction.

B. General Merchandise Retailers

- Off-price retailers can buy at low prices because they do not ask suppliers for advertising allowances, return privileges or delayed payments.
- A special type of off-price retailer is the outlet store. **Outlet stores** are off price retailers owned by manufacturers or retailers. Those owned by manufacturers are also referred to as **factory outlets**.

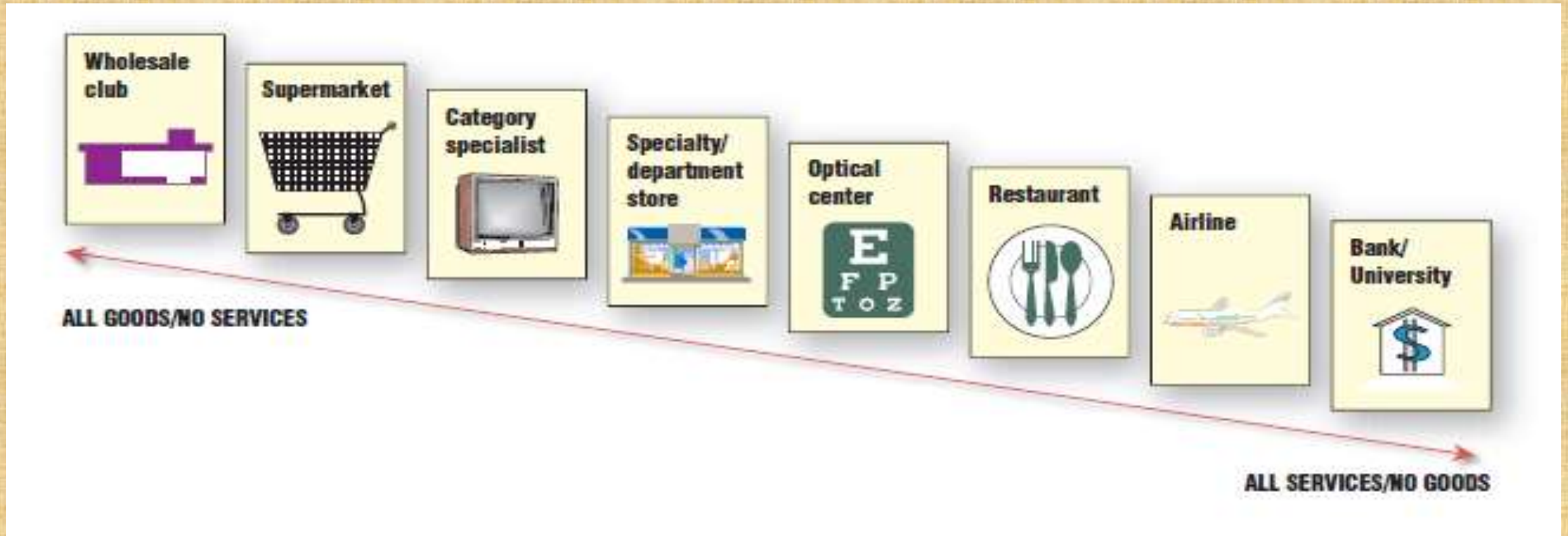
C. Service Retailers

- Services retailers, or firms that primarily sell services rather than merchandise, are a large and growing part of the retail industry.
- These companies are retailers because they sell goods and services to consumers. However, some are not just retailers. For example, airlines, banks, hotels, and insurance and express mail companies sell their services to businesses as well as consumers. Also, many services retailers, such as lawyers and doctors focus on local markets and do not have a national presence.
- Organizations such as banks, hospitals, health spas, entertainment firms, and universities that offer services to consumers traditionally have not considered themselves retailers. Yet due to increased competition, these organizations are adopting retailing principles to attract customers and satisfy their needs.

C. Service Retailers

- All retailers provide goods and services for their customers. However, the emphasis placed on the merchandise versus the service differs across retail formats.

Continuum of Merchandise and Services Retailers



Difference between Service and Merchandise Retailers

The important differences in the nature of the offerings provided by services and merchandise retailers are:

- Intangibility
- Simultaneous production and consumption
- Perishability
- Inconsistency of the offering to customers

Classification of Retailers by their Ownership

- We have seen how retailers may be classified in terms of their retail mix and the merchandise and services they sell.
- Another way to classify retailers is by their ownership. The major classifications of retail ownership.
- They can be classified as
 - A. Independent, single-store establishments
 - B. Corporate chains
 - C. Franchises

A. Independent, Single-store Establishments

- Single-store retailers rely on their owner managers' capabilities to make the broad range of necessary retail decisions.
- To compete against corporate chains, some independent retailers join a wholesale sponsored voluntary cooperative group, which is an organization operated by a wholesaler offering a merchandising program to small, independent retailers on a voluntary basis.

B. Corporate Chains

- A retail chain is a company that operates multiple retail units under common ownership and usually has centralized decision making for defining and implementing its strategy.
- Retail chains can range in size from a drugstore with two stores to retailers with thousands of stores, such as Walmart, Target, and JCPenney.
- Some retail chains are divisions of larger corporations or holding

C. Franchises

- Franchising is a method to do business that involves a contractual agreement between two parties - a franchisor and a franchisee, for the marketing and distribution of products and services.
- ✓ **The Franchisor:** is the provider of the franchise.
- ✓ **The Franchisee:** is the person who pays for and purchases a franchise from a franchisor and operates a business using the name, product, business format and other items provided by the franchisor.
- The franchise concept began in the 1850s when Singer Sewing Machine Company (franchisor) sold sales rights to independent entrepreneurs (franchisees) in an effort to raise business capital.
- McDonald's was one of the first companies to sell franchises internationally in the 1970s.

C. Franchises

- In a franchise contract,
 - ✓ The franchisee pays a lump sum plus a royalty on all sales for the right to operate a store in a specific location.
 - ✓ The franchisee agrees to operate the outlet in accordance with procedures prescribed by the franchisor.
 - ✓ The franchisor provides assistance in locating and building the store, developing the products or services sold, training managers, and advertising.
 - ✓ To maintain each franchisee's reputation, the franchisor also makes sure that all outlets provide the same quality of services and products.
 - ✓ The franchise ownership format attempts to combine the advantages of owner managed businesses with the efficiencies of centralized decision making in chain store operations.

C. Franchises

- ❖ According to the International Franchise Association, A franchise is the agreement or license between two legally independent parties which gives:
 - a person or group of people (franchisee) the right to market a product or service using the trademark or trade name of another business (franchisor)
 - the franchisee the right to market a product or service using the operating methods of the franchisor
 - the franchisee the obligation to pay the franchisor fees for these rights
 - the franchisor the obligation to provide rights and support to franchisees

Types of Franchising

- 1. Product Franchise:** In this type, manufacturers control how retail stores distribute their products. Through this kind of agreement, manufacturers allow retailers to distribute their products and to use their names and trademarks. To obtain these rights, store owners must pay fees or buy a minimum amount of products
- 2. Manufacturing Franchise:** Through manufacturing franchises, a franchiser grants a manufacturer the right to produce and sell goods using its name and trademark. This type of franchise is common among food and beverage companies.
- 3. Business Format Franchise:** In this format, a company expands by supplying independent business owners with an established business, including its name and trademark.

Advantages of Franchising

- Easy Start of Business
- Continuous Support (may be in terms of training and development, sharing recipes, promotional campaigns, marketing etc.)
- Business Relationships
- Increased Purchasing Power
- Lower Failure Rate
- Credibility
- Goodwill/ Recognition

Limitations of Franchising

- Franchise Costs
- Lack of Creativity and Excessive Control
- Restrictions

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