

Chapter 1 : Introduction to Retailing

Learning Objectives

- Understand the concept and economic significance of retailing
- Know the functions performed by retailers
- Get an overview of the current retail scenario

Definition

- Retailing constitutes “all the activities involved in selling goods or services to the final consumer for personal, non-business use.”
- In the supply chain, retail is the final stage in movement of goods and services to end consumer.
- Since consumer is the focal point of retail, the success of a retailer will depend on customer satisfaction.

Retailer's Role

- Traditionally, retailers role was to provide suitable selections of products in small quantities that is to break bulk into smaller quantities. Hence the term 'retail'.
- In the twentieth century, retailers were mainly 'stockists'.
- The role of retailers has undergone a sea-change, from being a passive distributor.

Retailer's Role

- Retailer is a proactive intermediary who controls all aspects of the product range and merchandise assortment.
- Retailers role is to cater to customer convenience. Hence understanding the retail consumer, his buying preferences and habits is important for retail success.

Retail Sector

- Retail includes sale of products in a store as well as services like consultation with a doctor, a hair cut, home delivery of grocery or pizzas.
- Retail is a very dynamic sector that is continuously evolving.



Retail Sector

Retailers can be classified as:

- **Store retailers** such as FabIndia, Lifestyle, Reliance Retail.
- **Nonstore retailers** such as those that operate via the mail, telephone, TV and Internet. Eg Tupperware, Avon, Amway.
- **Service Retailers** – travel agents, beauty parlours.

Examples of service retailers

- Hair cut
- Spa treatment
- Doctors
- Hotels
- Travel and tour operators
- Schools and colleges
- A plumbers work

Essential characteristics of a retailer

- He is regarded as the last link in the chain of distribution.
- He purchases goods in large quantities from the wholesaler and sell in small quantity to the consumer.
- He deals in general products or a variety of merchandise.
- He develops personal contact with the consumer.
- He aims at providing maximum satisfaction to the consumer.

Retailers Marketing Mix Decisions

- 4 Ps for the retailer are – Product, Place, Price and Promotion.
- **Product Assortment Decisions**
 - Width and Depth of Assortment
 - Quality of Products
 - Product Differentiation Strategies
- **Services Mix**
 - Key Tool of Nonprice Competition for Setting One Store Apart From another.
- **Store's Atmosphere**
 - Physical Layout
 - “Feel” That Suits the Target Market
 - and Moves Customers to Buy

Functions of Retailing

- **Buying/ breaking bulk** retailer buys a wide variety of goods from different sources and provides an assortment to consumer.
- Retailer **holds inventory** or stock of goods for consumer to choose from.
- **Transportation:** He makes arrangement for delivery of goods.
- **Financing:** Some retailers grant credit to customers.

Functions of Retailing

- **Sales promotion:** A retailer displays goods to persuade consumers to buy.
- Provide many **services** like free home delivery, installation, after sales servicing, gift wrapping
- Retailer **creates demands** for products, especially new product categories via the retail communication and advertising mix.

Thus we can conclude that, the key functions performed by a retailer outweigh the difference in price of the product from the manufacturer.

Economic Significance of Retailing

- Retail sales are an excellent **economic indicator** because consumer spending drives much of the economy.
- Retail aids local economies and **provide jobs**.
- Retail sales enables **exchange of money**.
- Retailers develop many innovative products.

Economic Significance of Retailing

- **Value creation** : Utilities provided by retailers create value for customers.
- **Support for community** via various socially and environmentally responsible activities.

Retailing vs Wholesaling

- Wholesaling consists of all the activities involved in selling goods and services to those buying for resale or business use.
- Wholesalers focus on the retailers needs while the retailers focus is the end consumer.

Types of Wholesalers

- **Merchant Wholesaler** is an independently owned business that takes title of the merchandise it handles.
- **Brokers/ Agents** don't take title to the goods and perform only a few functions. A broker brings buyers and sellers together and assists in negotiation whereas an agent represents buyers or sellers on a more permanent basis.
- **Manufacturers' Sales Branches and Offices** - Wholesaling by sellers or buyers themselves

Functions of wholesalers

- Role of wholesaler is the same as the retailer except they may not advertise as much or even very little.
- Wholesalers usually do not have an impact on the final sales and creation of demand.
- Wholesalers are often better at performing the channel functions, hence they are used frequently.

Overview of Global Retail Scenario

- Global retail industry accounts for over US\$15 trillion.
- Wal-Mart is the worlds largest retailer.
- Current retail trends
 - a. Mobile shopping
 - b. Personalizing consumers needs
 - c. Omnichannel retailing
 - d. Extensive **use of integrated technology**

Overview of Indian Retail Scenario

- Indian retail sector is highly fragmented and unorganised.
- Organised retail sector constitutes only 8%.
- In 2013, the Indian retail sector was estimated at US\$520 billion.
- Organized retail penetration, is expected to clock a 19-20% p.a. growth to reach 10% by 2018.

Overview of Indian Retail Scenario

- By 2018, the Indian retail sector is likely to reach a size of US\$950 billion.
- Tier-II and tier-III cities such as Jaipur, Nagpur, Ludhiana are emerging as the new “hot spots” of consumption
- India’s online retail industry has grown at a tremendous pace.

Characteristics of Indian retail market

- Highly fragmented sector
- Barriers to entry are low, thus many competitors
- Absence of economies of scale leads to higher prices
- High transportation cost
- Good locations for stores are few

Characteristics of Indian retail market

- High cost of real estate results in high rentals
- Wide geographic spread and diverse market needs varying with each region
- Complex distribution network
- Little use of IT systems results in low transparency and higher losses

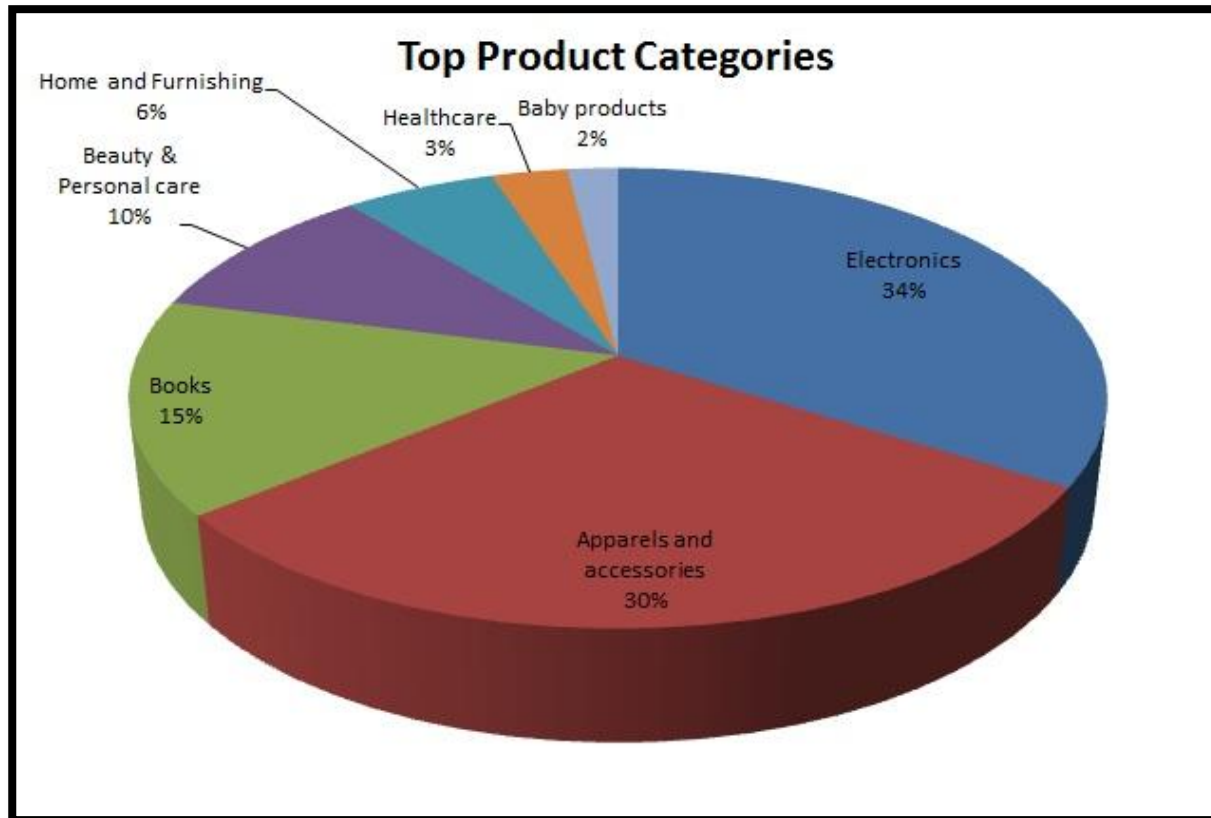
Drivers of retail change in India

- GDP growth of 6-7%
- Changing Income profiles
- Growing young population – about 50% of India's population is in the age group of 25-35 years
- Rapid urbanization and increasing consumerism

Drivers of retail change in India

- The changing role of women in the family and decision making since they are also earning members.
- The changing consumption basket
- Increase use of internet and online shopping
- Increased use of Credit cards also contributes to increased online shopping

Most popular categories for online retail



- Source : <http://www.onlineworld-glan.com/shopping-blog-47/> research by ASSOCHAM

Online vs Offline Retailers

- Increasing competition from online retailers such as Flipkart , Myntra and Jabong is eating into the revenues of physical retailers.
- Online retail has started to threaten brick-and-mortar retail to an extent that many physical retailers have started to establish or beef up their online presence on a war footing.