

ECONOMIC SIGNIFICANCE OF RETAILING IN INDIA & WORLDWIDE

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What is 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.

A retailers role in a distribution channel

- **Retailer:** is a business that sells products and/or services to consumers for their personal or family use. Retailers are the final business in a distribution channel that links manufacturers to consumers.
- **Distribution Channel:** is a set of firms that facilitate the movement of products from the point of production to the point of sale to the ultimate consumer.
- **Manufacturers:** typically make products and sell them to retailers or wholesalers.
- **Vertical integration:** means that a firms performs more than one set of activities in the channel, such as investments by retailers in wholesaling or manufacturing.
- **Backward integration:** arises when a retailer performs some distribution and manufacturing activities, such as operating warehouses or designing private label merchandise.
- **Forward integration:** is when a manufacturer undertakes retailing activities, such as Ralph Lauren operating its own retail stores.

Functions Performed by Retailers

- **Providing Assortments:** Supermarkets typically carry 20,000 to 30,000 different items made by over 500 companies. Offering an assortment enables their customers to choose from a wide selection of brands, designs, sizes, colors, and prices at one location.
- **Breaking Bulk:** To reduce transportation costs, manufacturers and wholesalers typically ship cases of frozen dinners or cartons of blouses to retailers. Retailers then offer the products in smaller quantities tailored to individual consumers and households consumption patterns.
- **Holding Inventory:** A major function of retailers is to keep inventory that is already broken into user-friendly sizes so that products will be available when consumers want them. Thus, consumers can keep a smaller inventory of products at home because they know local retailers will have the products available when they need more. By maintaining an inventory, retailers provide a benefit to consumers; they reduce the consumers cost of storing products.

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- ① **Providing Services:** Retailers provide services that make it easier for customers to buy and use products. They offer credit so consumers can have a product now and pay for it later. They display products so consumers can see and test them before buying.
- ① **Increasing the Value of Products and Services:** By providing assortments  breaking bulk, holding inventory, and providing services, retailers increase the value consumers receive from their products and services.

Opportunities in Retailing

- ① **Management Opportunities:** To cope with a highly competitive and challenging environment, retailers are hiring and promoting people with a wide range of skills and interests. Students often view retailing as a part of marketing because the management of distribution channels is part of a manufacturer's marketing function. But retailers operate businesses and, like manufacturers, undertake most traditional business activities. Retailers raise capital from financial institutions; purchase goods and services; develop accounting and management information systems to control operations; manage warehouses and distribution systems; design and develop new products and undertake marketing activities such as advertising, promotions, sales force management, and market research.
- ② **Entrepreneurial Opportunities:** Retailing also provides opportunities for people who wish to start their own business. Some of the world's richest people are retailing entrepreneurs

Social and Economic Significance of Retailing

- ① **Support for Community:** Retailers are also responsible for developing many innovative products and services.
- ① **Retail Sales:** Retailing affects every facet of life. Just think of how many daily contracts you have with retailers when you eat meals, furnish your apartment, have your car fixed, and buy clothing for a part or job interview.
- ① **Employment:** Retailing also is one of the nations largest industries in terms of employment.
- ① **Global Retailers:** With worldwide retail sales estimated at \$8 Trillion, the 20 largest retailers represent a 12 percent share of the world market.

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- ① **Structure of Retailing and Distribution Channels around the World:** The nature of retailing and distribution channels in the United States is quite unique. The US distribution system has the greatest retail density and the greatest concentration of large retail firms. Many US retail firms are large enough to operate their own warehouses, eliminating the need for wholesalers. The combination of large stores and large firms results in a very efficient distribution system. In contrast, the Japanese distribution system is characterized by small stores operated by relatively small firms and a large independent wholesale industry. The European distribution systems falls between the US and Japanese systems on this continuum of efficiency and scale, but the northern, southern, and central parts of Europe have to be distinguished, with northern European retailing being more similar to the US system.

The growth factors of the retail sector of Indian economy:

- ① Increase in per capita income which in turn increases the household consumption
- ① Demographical changes and improvements in the standard of living
- ① Change in patterns of consumption and availability of low-cost consumer credit
- ① Improvements in infrastructure and enhanced availability of retail space
- ① Entry to various sources of financing

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- The infrastructure of the retail sector will evolve radically. The emergence of shopping malls are going steady in the metros and there are further plans of expansion which would lead to 150 new ones coming up by the year 2008. As the count of super markets is going up much faster than rate of growth in retail sector, it is taking the lions share in food trade. The non-food sector, segments comprising apparel, accessories, fashion, lifestyle felt the significant change with the emergence of new stores formats like convenience stores, mini marts, mini supermarkets, large supermarkets, and hyper marts. Even food retailing has become an important retail business in the national arena, with large format retail stores, establishing stores all over India. With the entry of packaged foods like MTR, ITC Ashirbad, fast foods chains like McDonald's, KFC, beverage parlors like Nescafe, Tata Tea, Café Coffee and Barista, the Indian food habits has been altered. This stores have earned the reputation of being 'super saver locations'.

With the arrival of the Transnational Companies(TNC), the Indian retail sector will confront the following round of alterations. At present the Foreign Direct Investments(FDI) is not encouraged in the Indian organized retail sector but once the TNC'S get in they would try to muscle out their Indian counterparts. This would be challenging to the retail sector in India.

The future trends of the retail sector of Indian economy:

- ① The retail sector of Indian economy will grow up to 10% of total retailing by the year 2012.
- ① No one single format can be assumed as there is a huge difference in
- ① cultures regionally.
- ① The most encouraging format now would be the hypermarkets
- ① The hypermart format would be further encouraged with the entry of the TNC's

The Retail Management Decision Process

- **Competitors:** At first glance, identifying competitors appears easy. A retailer's primary competitors are other retailers using the same format. Thus, department stores compete against other department stores and supermarkets against other supermarkets. This competition between the same types of retailers is called intratype competition.
- **Variety:** To appeal to a broader group of consumers, many retailers are increasing the variety of their merchandise. Variety is the number of different merchandise categories within a store or department. By offering greater variety in one store, retailers can offer one-stop shopping to satisfy more of the needs of their target market.
- **Scrambled Merchandising:** The offering of merchandise not typically associated with the store type, such as clothing in a drug store, is called scrambled merchandising. Scrambled merchandising increases intertype competition, or competition between retailers that sell similar merchandise using different formats, such as discount and department stores.

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- **Customers:** The second factor in the microenvironment is customers. Customer needs are changing at an ever-increasing rate. Retailers must respond to broad demographic and lifestyle trends in our society, such as the growth in the elderly and minority segments of the US population and the importance of shopping
- **Retail Strategy:** indicates how the firm plans to focus its resources to accomplish its objectives. It identifies
 - 1) the target market, or markets, toward which the retailers will direct its efforts;
 - 2) the nature of the merchandise and services the retailer will offer to satisfy the needs of the target market; and
 - 3) how the retailer will build a long-term advantage over its competitors.
- **Strategic Decision Areas:** The key strategic decision areas for a firm involve determining its market, financial, location, organizational structure, and human resource, information systems, and supply chain, and customer relationship management strategies.

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- **Retail Mix:** To implement a retail strategy, management develops a retail mix that satisfies the needs of its target market better than that of its competitors. The retail mix is the decision variables retailers use to satisfy customer needs and influence their purchase decisions.
- **Ethical and Legal Considerations:** When making the strategic and tactical decisions discussed previously, managers need to consider the ethical and legal implications of their decisions in addition to the effects those decisions have on the profitability of their firms and the satisfaction of their customers. Ethics are the principles governing the behavior of individuals and companies to establish appropriate behavior and indicate what is right and wrong.

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