Chapter – 2

Retailing

2.1 Introduction

Retailing is the vital part of the business world as it is the final link between consumers and manufacturers. The past century has been witnessing many changes in business scenario of the existing world. Industrial and technological growth has made a significant impact on the lives of common men as consumers. One such industry that has made a phenomenon impact on our daily life is Retailing Industry. The Retailing Industry is considered as an important Industry in the existing economic structure of any country.

Organized retailing has emerged in a big way since 2000 onwards and with it, the business has witnessed the emergence of new forms of retailing. The retailers market can be segmented on the basis of various retail formats to concentrate or focus on the needs of particular consumer groups. Ultimately, this has led to the retailing market; retailers are seeking new consumer groups and new ways to tap this market. The important reason for growth in the consumer demand for retail outlets could be that there is a growing middle class of consumers with high disposable income, rise in consumer aspiration for global life style due to media exposure.

A retailing outlet is a place which has a sincere long term desire to please customers. In doing so it uses a customer –centered, chain wide approach to strategy development and implementation; it is value driven
and it has clear goals. Together these four principles form the retailing concept, which should be understood and applied by the retailer.

The four principles of retailing concept are:

**Customer orientation** – The retailer determines the attributes and the needs of its customers and endeavors to satisfy these needs to the fullest.

**Coordinated effect** – The retailer integrates all plans and activities to maximize efficiency.

**Driven value** – The retailer offers good value to the customers, means the prices of the commodities are appropriate for the product and service.

**Goal orientation** – The retailer sets goal and then uses its strategy to attain them.

The retailing concept is fairly easy to adopt. It means communicating with shoppers viewing their desire as a critical to the firm’s success, having a consistent strategy, fair price offerings to the customers and working to achieve the meaningful, specific and reachable goals.

The retailer meets the expectations of the customers by providing the following essential services

**Accessibility of the location**

Product and services have no value for customer until they acquire them. Successful retailers make a range of product and services, often from a distant location accessible to the customers.
Convenience of timing

The successful retailer ensures goods and services are available when people require them. Opening hours of the retail outlets reflect the social and economic changes and demand greater flexibility in service provision.

Convenience of size

Successful retailers adopt the quantities to suit their customer's needs.

Information

In the existing complex society, the retailer has to provide the required information to the customer the amount of information that people receive ensure the successfulness of the retailing.

Lifestyle support

Most consumers identify with a particular lifestyle that integrates many commodities in their regular way of living. The successful retailer provides to their customer the choice of these appropriate goods and services.

Retailer, like other business, needs to make profit to stay in the business. The retailer must plan the development activities to ensure continuous success. The success in retailing depends upon many activities. The successful retailing establishes its market position to serve the needs of a well defined group or groups of consumers.

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2.2 History of Retailing

In the ancient world, trade flourished simple because some has a surplus of one good and desired the goods they did not have or could not produce. The earliest traders were Cretans who sailed the Mediterranean and carried on trade with the people of that area. They flourished for 2,000 years, and their culture influenced other great trading civilizations.

The Phoenicians followed the Cretans as civilizations major traders. You could view them as distributors. They distributed the goods of Egypt and Babylonia. Tyre, Sidon, and Carthage were the principal trading cities of this empire.

This group was in turn succeeded by the Romans. The Romans established a sophisticated form of retailing. Numerous small shops were set up with centers. In fact, ancient ruins indicate that the world's first department store was in Rome!! With the fall of this empire, retailing disintegrated.

During the period after the fall of the Roman empire, the only retailers were peddlers. They carried their store around on their back. They went from village to village selling their wares. They often offered inferior merchandise.

By the 13th century fairs and markets flourished. Early fairs often had a religious foundation. On feast days people would gather at their churches and exchange goods. Larger markets were also called fairs and people travelled long distances to participate. These fairs eventually became amusement and exist in an entertainment form today.
By the 12th century artisans and tradesmen began to organize into "guilds" and opened up small shops. They helped them gain social and economic advantages.

Many American retailing institutions originated after 1850. Prior to that, many Americans lived on farms and were self sufficient. During this time itinerant peddlers and general stores were basically the only retailers in the country.

After 1850, department stores became important. For example, Richs was established in Atlanta in 1867 by 4 Hungarian immigrants. Simon Lazarus, an immigrant from Poland, opened a men's clothing store in Columbus, Ohio in 1851. Macy's can be traced to 1858.

It's a business that's been around for ever, and always will be, because as long as people are willing to pay for something they want and need, you can guarantee that there will always be somebody willing and able to sell it to them.

As department stores grew in cities, the citizens made use of catalogs from mail order houses. This allowed them to get the goods they needed without the hassle of traveling long distances into the city.

For centuries, most retail sales were made by the street vendor or the small family owned shop, which provided their customers with the convenience of not having to grow their own food or make their own clothes. By the mid nineteenth century, most of the goods that we find in today's superstores were supplied by craftsmen or local manufacturers who dealt directly with their customers.
As manufacturing methods improved, and as the road and rail transport network extended, there developed specialist manufacturers who needed retail stores to sell their goods. Over time, the small retail store concept grew, and by the mid 1950's small stores blanketed every high street.

While most people loved the individual attention and great service that the small store provided, it became more and more difficult for the small store to offer the kind of prices and selection that the consumer really needed, not to mention that they probably had to travel all over town to get their shopping done.

The next big revolution in retailing was the emergence of the retail chains, and later the superstores. The consumer of the 70's demanded the convenience of having their favorite stores in one enclosed location where they could easily hop from store to store without having to concern themselves about the weather. This shopping mall concept was quickly embraced by the consumer, but unfortunately the crowds and traffic of today's mega malls can often turn what should have been a convenient and comfortable shopping experience into a mission of hand to hand combat!

In recent years, the mail order business has experienced some of the most impressive growth, which would also seem to echo the continuing consumer demand for convenience. Most retailers are recognizing that they simply have to offer their customers the ability to order products or services from the comfort of their own home or office in order to compete in today's retail marketplace.
2.3 Retailing – An industry, the Strategies and Technology

Retailing business is the largest private industry in the world with total sales of $6.6 trillion. This industry accounts for 8 percent of the Gross Domestic Product in the Western economics and around 3 percent growth in the Asian countries. Organized retailing has emerged in a big way since 2000 onwards. The world is witnessing the emergence of new forms of retailing. World over, the retail sector is not only the oldest but also one of the most advanced users of technology. It plays a significant role in the world economy.

It is believed that globally, retail management followed a passive supply led approach, i.e. the markets were assumed to be existing and the retailer was only required to provide an acceptable outlet to enable the consumer to make purchases.

In initial stages of retailing, there were minimal branding and competitive advantages were obtained by creating efficiencies in operational costs.

The other prospective of looking at the marketing – retail relationship, is from that of the retail industry itself, every retailer needs marketing. The marketing efforts of a multi brand retailers are different from those of own brand retailer. While modern marketing theory may have stemmed from the needs of produce.

Retailing is not only an integral part of the economic structure but also shapes the way of modern society, in recent times the buying and selling of products has become a much more formalized and brand dominated activity. The retail sector is increasingly being viewed as an important activity in the economy and its impact on society in general is
readily acknowledged. This acceptance is a reflection of many factors, for example, retailing accounts for a significant proportion of the economy, it employs a large proportion of the workforce and retailers today are among the largest and most sophisticated organization.

There were some important factors which prompted retailers and manufacturers to work closely in order to satisfy the needs of the customers. These factors are

- An increase in demand to serve similar markets, coupled with the risks associated with the marketplace, has prompted retailers to make better use of marketing to survive at the marketplace.

- With the growing affluence of consumers, it was necessary for retailers to use marketing to focus on promotion, improve its image as the retail outlet.

- The continuous increase in the number of customers-prompted retailers to feel the need to get closer to them by gathering more information on their needs and also take advantage of the economics of scale of central buying with the help of marketing research.

- The constant changes occurring as the society developed required retailers to go for market segmentation and formulate different marketing mix strategies and approaches on the basis of customer groups, product groups and shopping/usage occasions.
2.3.1 Retailing Strategy:

A strategy in the commercial parlance would mean the plan or the method by which an organisation wishes to achieve its objectives. Thus, a retail strategy would mean a clear and definite plan that the retailer outlines to tap the market and build a long-term relationship with the consumers.

The process of strategy formulation in retail industry is the same as that for any other industry. It starts with the retailer defining or stating the mission for the organisation. The mission is at the core of the existence of the retailer. The other aspects of the strategy may change over a period of time or may vary for different markets.

After defining the mission of the organisation, an analysis of the internal strengths and weaknesses and external threats and opportunities is then undertaken to help the management to decide on the best way to carry out the organisation’s mission. The options which can be pursued, are then examined.

Next, the management identifies the major strategic alternatives it could pursue. Markets in which the retail organisation chooses to complete are then determined. Once this is determined, then the objectives to be achieved are determined, the resources are obtained and allocated to help to achieve the objectives. The strategy must then be implemented. Finally, results must be measured and evaluated to ensure that the strategy is working and any changes necessary must be effected.
The mission statement is a statement of the long-term purpose of the organisation. It describes what the retailer wishes to accomplish in the markets in which it chooses to compete. A retailer mission statement would normally highlight the following elements.

- The products and services that will be offered.
- The customers who will be served.
- The geographic areas that the organisation chooses to operate.
- The manner in which the firm intends to complete in its chosen markets.

Mission statements need to provide a clear sense of direction for the organisation and often, reflect an organisation's values or corporate culture.
Once the mission has been defined, the retail organisation needs to look inwards and understand what its strengths and weaknesses are and at the same time, look outwards and analyse the opportunities and threats, which may arise in the environment. Over the years, many management experts have developed various models for conducting a situation analysis. These include the PEST analysis, SWOT analysis and the BCG Matrix. An industry analysis can be done using the framework developed by Michael Porter, known as Porter's five forces. This framework helps to evaluate entry barriers, suppliers, customers, substitute products and industry rivalry.

A situation analysis basically, helps the retailer to determine his position and strengths and weaknesses. This helps formulate a clear picture of the advantages and opportunities which can be exploited and the weaknesses that need to be worked upon and forms the basis or the core element of any strategy.

After determining the strengths and weaknesses of the organisation vis-à-vis the environment, the retailer needs to consider the various alternatives available to him, for tapping a particular market. Igor Ansoff presented a matrix which looked at growth opportunities by focusing on the firm's present and potential products in the existing and new markets. This matrix, popularly known as Ansoff's Matrix, can also help to understand the options available to a retailer.

The alternatives available to the retailer are:

- Market penetration
- Market development
- Retail format development and
Market Penetration:

This is a strategy adopted by the firm when it seeks to achieve growth with the existing products, in the market segments that it operates in. Thus, a retailer who targets an existing market in the existing retail formats, is said to be following a strategy of market penetration. This strategy may focus either on:

- Increasing the number of customers,
- Increasing the quantity purchased by the customers, i.e. the basket size, or increasing the frequency of purchase.

Increasing the number of customers can be achieved by adding new stores by modifying the product mix to bring in new customers. Another approach is to encourage sales people to cross-sell. Cross-selling involves salespeople from one department, attempting to sell complementary merchandise from other departments, to their customers. For example, a salesperson who has just sold a pair of trousers to a customer, may take the customer to the shirt and tie area and try to sell to the customer, a shirt and tie that complement the pair of trousers. Increasing the frequency with which customers purchase a particular product may not really be easy. A lot of companies resort to freebies to attract customers. For example, Pizza Parlours offer a discount on the purchase of a second pizza within a specific period of time.

The market penetration strategy is the least risky one, since it leverages many of the firm's existing resources and capabilities. In a growing market, simply maintaining one's market share will result in growth, and opportunities may exist to increase the market share if
competitors reach capacity limits. However, market penetration has limits, and once the market approaches saturation, a new strategy needs to be pursued if the firm is to continue to grow.

**Market Expansion / Development:**

A retailer is said to follow a strategy of market development if he reaches out to new market segments or completely changes his customer base. Thus, this strategy involves:

- Tapping new geographical markets, or
- Introducing products to the existing range that appeal to a wider audience.

Expansion by adding new retail stores to the existing network is an example of geographical expansion. Introducing a pharmacy in a super market (e.g. The Medicine Shoppe at the Haiko super market in Mumbai) is an example of a retailer introducing new products, which appeal to different audience. Another example of the same is McDonald’s, who introduced ice creams for Rs.7. This not only created add on sales, but also brought in customers who had the perception that Mc. Donald’s was an expensive fast food restaurant.

**Retail Format Development:**

Developing a retail format would mean introducing a new retail format to customers. Good examples are fast food retailers like McDonald’s and Subway, who offer limited menus in smaller locations, many a time, inside large department stores. Another example is of the bookstore chain Crosswords, opening smaller format stores by the name of Crossword corner at Shopper’s stop.
This strategy may be appropriate if the retailer’s strengths are related to specific customers, rather than to specific products. In this situation, the retailer can leverage it by developing a new product targeted to his existing customers. Just as in the case of market development, there is more risk inherent in new format development as compared to simply attempting to increase the market share.

**Diversification:**

The retailer grows by diversifying into business by developing new products for new markets. A good example of diversification in India, is that of tobacco giant, ITC, who has entered the business of apparel retail through its Wills Lifestyle stores and now plans to enter the greeting cards business.

The objectives are translation of the mission statement into operational terms. They indicate the results to be achieved. The purpose of setting objectives is to give direction and set standards for the measurement of performance. The management normally sets both long-term and short-term objectives. One or two year time frames for achieving specific targets are short term. Long-term objectives are less specific than short-term targets and reflect the strategic dimension of the firm.

The resources that a retailer need are human as well as financial. Financial resources take care of the monetary aspects of the business, like shop rent, salaries and payments for merchandise. Human resources are just as vital to the success of a retail operation as are financial resources and physical facilities. The human resources plan must be consistent with the overall strategy of the retail organisation. Human resources
management also involves a variety of issues such as recruiting, selecting, training, compensating, and motivating personnel, and it is essential that these activities be managed effectively and efficiently.

At this stage, the retailer determines the strategy by which he will achieve the objectives set forth. The target market is defined and the retail mix that will serve the audience is finalised.

The target market is that segment of the consumer market that the retail organisation decides to serve. There is no definite or best way of deciding upon and selecting the target market in terms of both the size and the consumer segments to which it might appeal. From these segments, he identifies a smaller number of segments that hold the most promise for the firm and these are possible targets. The retailer then zeroes in on possible targets and applies a set of screening criteria to help select the final targets. A number of variables like the growth potential of each likely target market, the investment needed to complete and the strength of the competition, etc. are normally evaluated for each segment in order to arrive at the ones which are most compatible with the organisation’s resources and skills.

In order to be successful in segmenting the market, the retailer must ensure that it is:

- Measurable – Is the segment measurable and identifiable?
- Accessible – Will focusing marketing efforts on a particular market segment have a positive impact on the efforts for eliciting the desired responses?
• Economically viable – Is the segmentation variable shared by enough potential customers to justify the expense and effort of focusing the marketing efforts on that segment?

• Stable – Are the consumer characteristics stable indicators of the market potential?

Once the retailer has chosen the target market, the retail mix needs to be determined. This involves the determination of the merchandise mix, the pricing policy, and the types of locations that the retail store would be located at, the services that would be offered at the store and the communication platform that would be adopted by the retailer.

The key to the success of any strategy lies in its implementation. To implement a firm’s desired positioning effectively, every aspect of the store must be focused on the target market. Merchandising must be single-minded; displays must appeal to the target market; advertising must talk to it; personnel must have empathy for it; and customer services must be designed with the target customer in mind.

Once a strategy is implemented, managers need feedback on the performance of the new strategy. The effectiveness of the long-term competitive strategy of the firm must be evaluated periodically. Such an evaluation covers all the elements of the plan. This type of evaluation guarantees that the firm’s plan does not degenerate into fragmented, ad hoc efforts that are not in harmony with the overall competitive strategy of the business. Management can also use the process to decide the changes, if any, should be made in the future to ensure that the combination of the retailing mix variables supports the firm’s strategy.
Technology is any tool that helps one succeed in a given endeavor. This technology helps a retailer succeed in carrying out strategy. Advances in the technological environment are important to retailers for many reasons, one of which is customer value. Retail technology can be used to create customer relationships and to integrate and develop effective retailing operations.

Technology in retailing can manifest itself in many areas such as integrated marketing communication, direct marketing, digital photography, in-store communication, database use, distribution and procurement etc. In addition the technologies can help develop and monitor the retailer’s customer value and retentionship strategies and executions.

Technology is used or forecasting and the development of financial and accounting systems. In addition technology can be used for service retailing, E-tailing, franchising and market segmentation. Other uses of technology include electronic data interchange(EDI), electronics fund transfer, point of sales information and perpetual invitatatory systems.

Technology has been developed for many areas of logistics, including inventory replenishment, inventory management, customer relationships, and geographical information systems. Optimal store atmospheres as well as retail audits can be managed with the assistance of technology. In short, technology offers the retailer, new and exciting ways to expand on existing or future market opportunities.

Technology has changed the way world operates, e-commerce gives customer on line capabilities that they never enjoyed. The customer
can track their orders for goods and services using the internet. This provides the retailers with more capabilities than ever before. Retailers can develop computerized functions that allow them to eliminate some service workers, thus reducing costs and potential errors. Technology can help to reduce risk and capital tie ups. It can help to create and keep customers and increase the value of the entire retail operation. The customer can track their orders for goods and services using the internet.

2.4 Retailing – Customer values and Services

The existence of the customers is the integral part to the existence of the retailer. The ability to understand consumers is the key to develop successful retailing strategy. To satisfy the customers, it is necessary to understand them, their need and how they respond to the various marketing efforts undertaken by the retail organisation. As competition increases and the customers become more and more knowledgeable and demanding, the retailer needs this knowledge to stay ahead of their competitors and build a competitive advantage.

The first step in understanding customers is identifying the customers for the product or service, i.e., the target segment, the demographics of this segment, their needs and their buying behaviour.

Factors influencing the retailer customer in decision making

Understanding the reasons behind the consumers in choosing or patronising a store over others is important for the retailer. This is true for the retailer across the world. The factors that influence the customer behaviour are as shown in figure 2.2
Range of merchandise

The range of merchandise is perhaps the most important reason for the customers to patronise a particular outlet. The initial curiosity of a new store may draw a customer to the particular retail store, but to convert him into a buyer and to retain him over a period of time, is largely dependent on the quality and the range of merchandise offered by the store. If the merchandise is similar to that of another store, the customer may not see any reason for switching store. The range of the merchandise offered plays an important role in the case of categories like durables books and music, apparel and the life style products.
Convenience shopping

The element of convenience is fast gaining prominence in the world of organised retail outlet. This is especially true in the case of items like grocery, fruits, medicine and apparel.

Time to travel

The time required to reach a particular retail location is again, fast becoming critical. This is especially true in big cities and urban areas where the travelling time is high. Keeping this in mind, many retailers have opened their outlets in the local areas.

Socio-Economic background and culture

The Socio-Economic background of the customer largely determines their life style. This influences the kind of store that they feel comfortable for shopping. The customers' buying behaviour varies from market to market and is largely influenced by the culture of the region. The need hierarchy is different for each market. The need the retailer can fulfill needs to be clearly understood by the retailer.

The stages of the Family life cycle

The stage of the family life cycle that the customer belongs to, also largely influences the needs of the customers. The retailer needs to be clear about the target market that linked with the stages of life cycle of the society.

The customer decision making process
After knowing the factors that influence the decision of the customer, it is necessary for the retailer to understand the manner in which the customer
makes a decision. This requires the understanding of the consumer behaviour.

![Diagram of the customer decision making process](image)

**Figure 2.3: The customer decision making process**

The need of the product and service starts when the need of the particular product or service arises. A need may be psychological or functional. Psychological needs are associated with the personal gratification that the consumer may get from purchasing or owning a particular product. A functional need is directly related to the function of the product.

The next stage is how the consumer gets the information about the products and the place where he can make the purchase. The source of information may be through media, family friends, and internet. Any earlier experience of buying product or service would also affect the decision to purchase.

Depending on the criteria important to the customer, the customer will evaluate the various options available and narrows down the choices
to a few store, where the consumer make the purchase. The customer may visit couple of store before making a decision to buy.

Retailer can provide information to the customers at various stages of the process. Regular advertisements in the different media can create awareness about a particular product and may also create desire to buy the product. A friendly and knowledgeable sales staff can assist the customer in gathering information about the product. Services offered by the retailer like, acceptance of the credit cards, free home delivery the convenience in shopping will affect the customers buying decision.

The experience during the shopping and after it, will lead to satisfaction or dissatisfaction with that retail store. The customer assimilates the experience that he had during the shopping as well as his experience post purchase. The customer is also influenced by the opinions and the experiences that friends and the family have had with the store. Over a period of time all these factors lead to a customer patronizing a particular store. The customer assimilates the experience that he had while shopping, as well as his experience in post purchase. The retailers need to understand this process adopt into the buying process so that they can develop loyalty over a period of time.

2.5 Indian Scenario

Liberalisation and steady economic growth have mainly driven a vast change in India. The scene is very different today, with malls, lifestyle stores, department stores and speciality stores, all vying for the customers' attention. In a short span of a little over ten years, the market dynamics have changed phenomenally.
2.5.1 Reasons for change in the Indian Consumer:

Media Explosion

With the advent of cable television and growth of the internet, the Indian consumer is more aware of what the market place, both national and international has to offer. The customer is aware of the life styles of more affluent markets and the level of aspirations is increased. The retailer thus needs to have a product in line with what is sold internationally to satisfy the customer. Thus the consumer has become demanding in terms of the product offered, its quality, price and the level of service.

Increase in the income of middle class family

India has transitioned from a state managed economy to a market managed economy steady economic growth and liberalisation has increased the amount of disposable income in the hands of consumers. The growth of the urban middle class, which demands value for money, has led to lot of changes on the retail front.

Increase in earning young people

The past few years have also seen a large increase in the number of youth who are beginning to earn early. As per an estimation made by NRS 2002, there is an increase of about 20%, among the youths between the ages 15 years to 18 years started earning. This is largely due to the growth in opportunities for the urban youth in the business process out sourcing industries and the software sector. Most of the people working in these areas earn salaries ranging from Rs. 8,000 to Rs. 25,000 per month. The increase in double income, house hold have also led to a change in the spending patterns across urban India. The discretionary spending power in the hands of these groups makes a big impact on the
ability to spend. Their level of aspirations is also different from that of the older generation.

**Change in expenditure pattern**

The expenditure of Indian households on health services, education, domestic appliances and food has undergone a substantial change. There is a significance change as the distribution of consumption expenditure between food and non food items reflects the economic well being a population.

**Increase in the number of working women**

The increase in the number of working women, especially in urban India, has fuelled the growth of retail formats like super markets, convenience shops and product like ready to eat meals. While the spending power has increased, the demand is now for quality merchandise and a certain level of service.

The young customers are growing force in many global markets, increasing not only in number, but also in spending power. This segment in urban India has an unlimited appetite for clothes, fast food, and gadgets. If targeted correctly it can be a lucrative market for today’s retailer11.

This earning youth has a phenomenal influence over the parent’s purchasing power, popularly referred as “pester power”. This segment is also important for retailer as the demographic profile of the customer in this segment changes very rapidly, with a small increase in the age.
The age profile of the population helps, the retailer to determine the kind of product mix that will appeal to the customers and it also plays a significant role in determining the kind of ambience layout and service that will be needed in the store.

The existence of the customer is the integral part of the retailing. The ability to understand the customer is important for developing a successful retail strategy. A key factor in understanding the customer is to identify the customer for the product or service, their need and buying behaviour.

In a short span of ten years the change that has occurred in Indian consumers has been phenomenal. Liberalisation and steady economic growth have been main factors which have driven this change.

2.6 Supply chain management and Retailing

A supply chain is a network of facilities and distribution options that performs the functions of procurement of materials, transformation of these materials into intermediate and finished products, and the distribution of these products to the consumers.

Supply chain management ensures a smooth and efficient flow, from raw material to finished goods in to the hands of the consumers. It is concept which has increasingly replaced the traditional, fragmented management approaches to procuring, storing and moving goods. Supply chain exists in both service and manufacturing organizations, although the complexity of the chain may vary greatly from industry to industry and from firm to firm. It aims to integrate activities across the entire merchandise flow, to achieve quick response in supplying products and
services to customers who need them. By doing this, production time can be set close to selling period, achieving better prediction of selling period, achieving better prediction of selling targets. Figure 2.4 illustrates the flow of materials right from the stage of procurement, till they reach the retail store as finished products. This is the flow of goods. On the other hand the information on the products purchased by the consumer, flows back from the retail store to the various intermediaries, to aid to the creation of the right product. This is the flow of information.

![Fig. 2.4 The Basic Supply chain](image)

It is difficult to put down the value of the supply chain industry. However, it is estimated that the global market size of the supply chain and logistics industry, is US$3 trillions, which is a significant chunk of global domestic gross product.

The estimated market size for supply chains globally, includes aspects like trucking, warehousing, inventory costs, transaction costs and the administration costs for these key elements. The importance of supply chain management in India, can be gauged from fact that logistics cost constitutes 10-12 percent of our GDP. It is estimated that over Rs.1,00,000 crore of the total capital, is tied up in inventories in the industrial sector. This is close to 22 percent of the aggregate industry sales.
Not long ago, retail stores existed to cater to the needs of local markets. When one needed bread and eggs, one visited the local grocery store. To buy garments, one simply, either bought fabric and had it tailored or bought what was available in the market. Buying for the retail organization was a much simpler task then. It meant dealing with a few products and a limited number of suppliers. What existed at that time was a simple supply chain, as illustrated in Fig2.5, managing this was fairly simple and easy for the retailer.

![Fig2.5 A simple Supply chain](image)

However, as the markets expanded and the retailer’s business grew, the number of products offered by the retailer, also increased. While the number of suppliers increased, there was also an increased pressure on margins. Retailers needed to think of ways of cutting the costs. In order to be able to cut down on the costs, it was necessary to integrate the complete supply chain.
Supply chain management today, links demand management, resource management and supply chain management and hence, plays an important role in retailing.

Today, retailers operate in a dynamic world. Customer's buying habits are constantly changing, and competitors are continually adding and improving their product offerings. Demand changes mean a shorter life cycle for the company's products and inventory. The cost of holding inventory may restrict the company from providing a reasonably priced product, as funds are tied up in inventory. The number of suppliers to an organization may vary from a few hundred to thousands, depending on the range of products offered to the consumer, sourcing, vendor management and depending on the range of products offered to the consumer, sourcing, vendor management and logistics play a major role in getting the right product to the right place, at the right time and in the right condition. The second reason is the increased national and international competition. Customers have multiple sources to choose from, to satisfy their demands; locating the product throughout the distribution channel for maximum customer accessibility, at a minimum cost, becomes crucial. The third reason is the increasing pressure on the profit margins earned. Companies are becoming aware that they need to look at the whole picture and not at the functional excellence of individual departments, alone.

Lastly, it is a technology driven world today. Advances in technology enable companies to get sales, inventory and production data, across various locations, not only within the country, but also internationally. Information is the key enable of supply chain management.
Early beginning of the supply chain management initiative can be traced to the apparel industry in USA. The textile industry in the USA faced intense competition in the 1980s. The industry leaders came together and formed the Crafted with Pride in the USA council, in 1984. They commissioned a study on supply chain analysis. This study found that the delivery time for the apparel supply chain, from raw material, to the final customer, was 66 weeks long, 40 weeks of which were spent in warehouses or in transit. The long supply chain had resulted in major losses to the industry, due to the need for financing the inventory and the lack of the right product in the right place, at the right time.

In order to overcome the problem, the strategy of Quick Response (QR) was developed. The basic premise of quick response is to share information. Retailers and suppliers work together, to respond more quickly to consumer needs, by sharing information. The installation of the Point of Sale (POS) scanning systems and sharing of data through Electronic Data Interchange (EDI), became a new standard of the industry. The industry also adopted the Universal Public Code (UPC). QR incorporates marketing information on promotions planned, discounts and forecasts into the manufacturing and distribution plans. It increases the product availability and lowers inventory investments. It also helps in reducing logistics expenses. With QR systems, retailers ca negotiate a direct store delivery system, in which the vendors supply floor ready merchandise to each store, rather than to the Distribution Centre (DC). The cost of the DC and transportation can thus be eliminated.

The success of the QR initiative prompted a group of grocery industry leaders in the USA, to create a joint industry task force, is called the Efficient Consumer Response (ECR) working group. This group
primarily, worked on identifying opportunities to make the supply chain more competitive in grocery retailing. Studies commissioned by this group revealed that by expediting the quick and accurate flow of information up the supply chain, ECR enabled distributors and suppliers to anticipate future demand far more accurately than the current system. A little change in the technology was required to improve the performance, besides further development of the EDI and POS systems.

A useful framework for analyzing the issues involved in developing a supply chain can be represented as a pyramid. This framework is depicted in the Fig. 2.5

At the strategic level, the retailer can focus on service levels required to support the unique 'value proposition' that the retailer has developed. The retailer can then evolve appropriate channels and networks, to achieve uniqueness desired.

The next, structural level, allows the retailer to identify the suppliers and stock points and to develop an appropriate transportation model. The extent of outsourcing is also determined at this level.

At the functional level, the operational details are worked out. This includes developing policies and procedures around the facilities and the equipment that the right organizational and training inputs are provided.

The constructs developed using any framework, must be successfully implemented. Successful implementation usually requires a program approach to ensure that the implementation is effective the goals are achieved.
As stated earlier, supply chain management links, demand management, resource management and supply chain management. Let us understand this in terms of retail organization. In a typical retail organization, the marketing team or department would be the one looking always to meet these targets. The merchandising and design team would work on the designing of the products so as to fulfill the customers' needs, while the purchase department would work on getting the best price for the materials required to manufacture the product. The aim of each department would be different and while they may individually excel, the organization as a whole, would benefit only when they share a common approach and the information. This creates the need for an
integrated supply chain, where information is shared between
departments, suppliers and vendors.

The nature of the industry that the retail organization operates in,
also influences the supply chain and logistics decisions. Nowhere is this
more apparent than in the apparel and grocery industries. Retail markets
in these industries typically exhibit the following characteristics.

- **Short Life Cycles**: Many products in these sectors have a short life
cycle. In many cases, the product may have been created to
capture the mood of the moment; consequently, the time period in
which it is saleable is likely to be short and seasonal. Similarly,
due to the perishable nature of the products in the grocery business,
the shelf life is short.

- **High Volatility**: The demand for these products is rarely stable or
linear. It may be influenced by these vagaries of weather, movies,
TV shows or indirectly, by advertising.

- **Low Predictability**: Due to the volatility, the demand is extremely
difficult to forecast, with any accuracy.

- **High Impulse Purchase**: Many buying decisions for these products
are based on impulse and occur at the point of purchase.

Conventional wisdom holds that the way to cope with uncertainty
is to improve the quality of forecasts. However, as this may not always
be possible, ways must be found to reduce the reliance on forecasts and
focus on lead-time reduction. Shorter lead times, mean, by definition, that
the forecasting horizon is shorter—hence, the risk of error is lower. There are three critical lead times that must be managed by organizations that seek to complete successfully in the retail business.

- **Time-to-market**: The time that it takes the business to recognize a market opportunity, translate this into a product or service and to bring it to the market.

- **Time-to-serve**: The time that it takes to capture a customer’s order to deliver the product to the retail customer’s satisfaction.

- **Time-to-react**: The time that it takes to adjust the output of the business, in response to the volatile demand.

**The Lead Time Gap**:

The fundamental problem that faces many companies is, that the time that it takes to source the materials, convert them into products and move them into the market place, is invariably longer than the time that the customer is made to wait. This difference between what might be called the logistics pipeline and the customer’s order cycle, is termed the lead-time gap. The challenge for logistics management is to fine ways to reduce, if not, close the gap.

Successful companies in retail, seem not only to be able to capture the imagination of the consumer with their products, but are also often, characterized by their agility. Many organizations have found that it is possible to make significant improvements by adopting a twin strategy of simultaneously reducing the logistics lead time and capturing information sooner, on actual customer demand.
Cross Docking:

Cross docking is a function of the warehouse or distribution centers, which was introduced by Wal-Mart. Cross docking is a system in which the vendors ship merchandise to a distribution centre, pre-packed in quantities required by each store. The merchandise is delivered to one side of the DC; the floor ready merchandise is then transferred to the other side of the DC, for delivery to a store. That is, the merchandise goes from delivery to the shipping dock, thus, the expression cross docking. The DC's are equipped with miles of laser guided conveyor belts that read the UPCs on the incoming cases and direct them to the right truck for their onward journey. These DCs are less costly than the traditional DCs because there is little or no storage required and the processing is minimal.

Collaborative Planning, Forecasting and Replenishment (CPFR)

Collaborative Planning, Forecasting and Replenishment, or (CPFR), is one of the hottest buzzwords in the chain context. By aligning the forecasts of a retailer and the vendor, CPFR offers the opportunity to increase in-stock positions, gross margins and sales, while reducing inventory investments and stock-outs.

CPFR is a business practice that reduces inventory costs, while improving product availability across the supply chain. The process begins with an agreement between the trading partners, to share information with each and to collaborate on planning, with the ultimate goal of delivering products based on the true market demand. The business partners share forecasts, results and data over the internet. CPFR technology analyses the data, and if the forecasts do not match, it notifies the planners at both the companies. The two then work together to
resolve these expectations. The final plan agreed to by both, describes what’s going to be sold and how it will be merchandised and promoted.

The function of supply chain management is perhaps the most important function of a retail organization. Indian retail organizations still lack supply chain sophistication. However, with organized retailing set to grow in India, and the increase in competition in each sector, efficient management of the supply chain is bound to become a necessity.

Retail Logistics:

An integral part of supply chain management is Logistics Management. The main objective of logistics management is to reduce inventory-holding costs and improve profits.

The word logistics is derived from the French word ‘loger’, which means to quarter and supply troops. In the last decade, there have been several well-published logistics exercises, internationally. The gulf War of 1991 was one of the largest, since World War II.

Many international retailers have built their successes on logistical process. Speedy restocking of goods, elimination of poor sellers, and promotion of successes, also contribute to a clear sales advantage. Logistics entails more than the mere trucking and distribution of goods. For without good information about sales and insight into customer needs, the finest distribution center and transport capabilities are likely to send the wrong place, at the wrong time. Effective logistics therefore, needs an efficient information system, as well as good transport, distribution center and store-handling capabilities.
A single recipe for success does not exist. A logistics system has to be built to suit the needs to the organization, keeping in mind the kind of products that the company retails and the competition prevailing. Fashion retailers may need to focus on speed, discount retailers on cost. The needs of each are different.

Retail logistics is the organized process of managing the flow of merchandise, from the source of supply to the customer. Thus, it incorporates the following functions:

- Physically moving the goods from one location to another, where the location may be distribution center, warehouse, store or manufacturer.
- Stocking the goods at the locations needed, in the quantities needed. The management of this entire process.
- Good logistic cuts costs, speeds work, and improves customer service.

A logistics strategy can either be a pull strategy or a push strategy. A pull logistics strategy has orders for merchandise being generated at the store level, on the basis of demand data captured by orders for merchandise being generated at the store level, on the basis of demand data captured by the point of sale (POS) terminals. A push logistics strategy has merchandise allocated to stores, based on the historical demand and the inventory position of the store and the warehouse.

As retail operations become more complex and the flow information within the organization is established, more retailers are now moving towards the pull strategy. At the heart of logistics is the Distribution Centers (DC). It serves several functions, from coordinating the inbound
transportation, receiving, checking, storing and cross docking, to coordinating the outbound transportation.

The method used for handling logistics largely depend on the nature of the industry and the number of outlets that the organization has in each city, state, or region. Food World, a grocery retail chain in India, works on the ‘hub and spoke’ system. The hub is the distribution center, which it develops in each city. The hub services all the shops in that particular city.

On the other hand, a department store, like the Shopper’s stop, may find that it is not feasible to develop and maintain a distribution centre in each city, as it would have one or at the most, two shops in every city. In such case, a regional distribution centre may be developed. Some retail organizations in India, like Globus, have outsourced their needs for logistics and distribution.

At the simplest level, the disposition of returned goods consists of junking them or giving them away. But with more sophisticated systems and processes, returned goods can be put back into the inventory, sold at liquidation centers, or broken down to component parts – steps that can cut costs, increase profits, and improve customer service. How companies handle product returns can also be a competitive differentiator. It is a new area to exploit for increased efficiencies.

However, handling reverse logistics is not easy. Specifically designed software is needed for this purpose. Many third party service providers, such as Federal Express Worldwide Logistics, GenCorp Distribution system, and UPS Worldwide Logistics, use customized
systems to usher customers' returned products to a central recovery centre, where they are sorted for parts, reconditioned or junked.

**E-Retailing or E-tailing an emerging concept**

Electronic retailing is referred as internet retailing or e-tailing. In this retailing the retailer and the customer communicate with each other in a typical non personal interactive system, that is internet an electronic media.

E-tailing has been growing dramatically, many firms now utilizes both e-tailing and traditional retailing approaches for selling.

More than 100,000 companies have internet addresses and around 20,000 companies have their homepages on the internet. E-tailing can help the company to establish synergy for its products or services. It can assist with retailing research; it also helps in establishing relationship between suppliers, and its customers. E-tailing can help with inventory and enable simultaneous exchange of information among many sources. All most all retail function can be performed online except the physical delivery of goods.

E-tailing offers a relatively easy way to bring buyers and sellers together at a moderate cost. Although e-tailing has grown tremendously over the fast decade still some companies are in infancy stage of this e-commerce. e-tailing can effectively increase a company's trading area by giving it access to people worldwide who may desire the offered product or service.
The greatest advantages of e-retailing are the speed at which retailers can make sales, process them, and follow through on delivery. For consumers, e-tailing provides access to a great quality of products and service.

Another advantage of the e-tailing is opportunity to save costs associated with traditional retailing. Marketing, distribution, personnel, phone, postage, and printing costs can be reduced with an effective planning. The cost associated with opening of a physical store can be eliminated in e-tailing.

E-tailing also has some disadvantages. The biggest drawback is consumer's perception of the product, lack of privacy and security.

Most traditional retailers have experienced intense competitive threats from quick-to-market "pure play" e-retailers that sell commodity, low-cost products in high volumes at very competitive prices. Flush with venture capital and under no immediate pressure to show a profit, they invest heavily in technology and advertising to get their sites up quickly and to build brand recognition from ground zero. In-depth product information and comments or reviews from experts as well as consumers become important areas of differentiation for this channel.

Multi-channel retailers respond by developing an Internet channel (in house or as a separate company), turning themselves into "clicks and mortars." With the advantages of brand recognition and integrated advertising and promotional programs across all channels, they can successfully attract buyers to their sites. Still, they face major challenges, including:
• Growing sales volume quickly
• Building a scalable site through the use of flexible technology
• Meeting or exceeding performance and availability standards created by cutting-edge e-retailers
• Creating information-rich applications for customer advisories and personalization programs

In 1997, a 100-year-old “brick-and-mortar” specialty retailer with more than 1,000 stores launched its Web site and introduced its established brand to the Internet marketplace. It formed partnerships with a leading portal and an Internet search site. Initially, one category of merchandise was offered, with more categories to be gradually added, but the easy-to-sell, low-priced items of the original category represented 90 percent of all sales. In a crowded field with low barriers to entry, this company faced stiff competition from one particular pure-play e-retailer.

From the beginning, this company’s strategy for expansion to the electronic marketplace was to invest in building a huge customer base and rapidly scale the site. The multi-channel retailer’s e-strategy was to distinguish itself by offering the largest on-hand inventory in its primary merchandise category, to provide fast fulfillment. The new business model presented major technology challenges, and the company’s late start, nearly two years after its competition, gave it little time to experiment. It needed a workable Web site, backed by databases that could manage millions of Stock Keeping Units from hundreds of vendors while handling thousands of simultaneous hits, up and running fast.

Experiencing a 300 percent revenue growth in the first year, the company quickly faced administrative and operational challenges.
Managing the individual databases was time consuming. Some storage pools went unused while others were overloaded, resulting in overall poor site performance. Backups were being performed in an irregular and consistent manner. Loss of even one of these databases would have been catastrophic to the business. Data restoration was slow, if not impossible. Content refresh was cumbersome and not timely.

Internet retailing has gone through several stages of development. Initially it was felt that users would prefer to access WWW retailers through virtual shopping malls, with a range of different retail business, similar to actual retail shopping centers.

2.7 Information Technology in Retailing and Retailing Information System

The retail business is the early adopter of Information Technology. This one business which requires accurate information right from actual stores, to distributors, to warehouses and to manufacturers. The use of information technology in retail involves a wide swathe of technologies, covering software, hardware and communication system. His industry uses advanced constructs such as data warehousing/data mining for trend analysis and customer management and highly specialized solution for supply chain management.

The spread of internet has opened up a number of opportunities for using IT innovatively, to extend the reach of retailers to the home of customers. The internet is expected to revolutionize the retailing industry, IT has been applied to some of the unique requirement of the retail business, such as need of the product identification, quick billing and
settlement of bills electronically, and for specialized logistic application.

A typical retail store offers at least, few hundred units of products to the consumer. In order to understand what has been sold and to be sold and to be able to reorder products, the retailer needs to know the quantities, the types, colors, size and other characteristics of the product sold. If this has been done manually, it is time consuming and could be error ridden. Thus there will be machine readable system, which could help identify the product across various retail locations and provide the information about the product to be associated with it, quickly.

The Universal Product Code (UPC) or bar code developed for this need. The Universal Product Code (UPC) basically a product identifier made up of a series of bars and spaces, which represent alpha numerical information. Another similar product code followed in Europe is European Article numbering (EAN) used for the same purpose.

The importance of information technology in retail, stems from the importance of data. Data is nothing but information, which aids in decision making. The right data, in right form, to the right set of people, at the right time, is one of the greatest tools in the hands of the retailer. Information is always with reference to a particular time frame.

The Information technology importance in retailing activities for the following
Efficient stocking of Merchandise

The items purchased provide information on merchandise sold in the store; this is the basis of sale analysis and decision on replenishment, re-ordering and merchandise planning. If the information is passed to the manufacturer, it can help reduce the production time. The use of technology aids in the collection and transmission of the information so that the replenishment is faster. The trend in the sales can be analyzed. This helps in avoiding situations of stock outs and helps spot merchandise or products timely mark downs and higher inventory turns.

Collection of Data

Another important use of Information technology is the data collection. Data about consumers, their purchases, the frequency of buying and the typical basket size can be collected. This information can help the retailer to identify the customers who shop that particular retail outlet frequently this information to know the brand preferences and the promotional aspects. The data collected will be passed to the merchant establishment for bill payment through credit card system and settlement of bills.

Efficiency in Operation

The use of information technology serves as a basis for integrating the functions of various departments. The merchandised process get automated, the time involved in the task is reduced and settlements of the bill will be easier at the point of sale systems.

Helps in communication

Communication with in the organization will be faster with the help of information technology. Retail stores can also communicate with
each other and with the warehouses. This can be possible for twenty four hours a day and seven days a week. Electronic Data Interchange (EDI) can also be used for communication with suppliers and vendors.

Every retailer may want to harness the power of information technology and use it to its optimum advantage, many factors affect its use of information technology are scale and scope of operations, Financial resources, nature of business and Human resource.

2.8 Growth of Retailing in India

By the turn of the 20th century, the face of the Indian retailing industry had changed significantly. The retailing industry, which, until the early 1990s, was dominated by the unorganized sector, witnessed a rapid growth in the organized sector with the entry of corporate groups such as Tata, RPG, ITC and Bennet Coleman & company in the retailing market.

With the liberalization and growth of the Indian economy since the early 1990s, the Indian customer witnessed an increasing exposure to new domestic and foreign products through different media such as television and internet. Apart from this, social changes such as increase in the number of nuclear families and the growing numbers of working couples results in increased spending power also contributed to the increase in the Indian customers' personal consumption14.

The emergence of retailing in India has more to do with the increasing purchasing power of buyers, specially post liberalization, increase in product variety, and the increasing economies of scale, with the aid of modern supply and distribution management solutions.
The current retailing revolution has been provided an impetus from multiple sources. These revolutionaries include many conventional stores upgrading themselves to modern retailing, companies in competitive environments entering the market directly to ensure exclusive visibilities for their products and professional chain stores coming up to meet the need of the manufacturer. Attractiveness, accessibility and affordability seem to be the key offerings of the retail chain.

The traditional grocers, by introducing self service formats as well as value added services such as credit and home delivery, have tried to redefine themselves. However, the boon in retailing has been confined primarily to the urban markets in the country. Even there, large chunks are yet to feel the impact of organized retailing. There are two primary reasons for this. First, the modern retailer is yet to feel the saturation effect in the urban market. Second the modern retailing trend, despite its cost effectiveness, has come to be identifies with lifestyles.

Retail in India is still at a very early stage. Most retail firms/companies from other industries that are now entering the retail sector on account of its amazing potential. There are only a handful of companies with a retail background. One such company is Nilgiri’s from Bangalore that started as a dairy and incorporated other areas in its business with great success. Their achievement has led to the arrival of numerous other players, most with the backing of large groups, but usually not with a retail background. Most of the new entrants to the India retail scene are real estate groups who see their access to and knowledge of land, location and construction as prime factors for entering the market.

New retail stores have traditionally started operations in cities like Mumbai and Delhi where there has been an existing base of metropolitan
consumers with ready cash and global tastes. The new perspective to this trend is that new entrants to the retail scenario should first enter smaller cities rather than focusing entirely on the metro’s. Spending power in India is not concentrated any more in just the 4 metros (Delhi, Mumbai, Chennai, Kolkata). Smaller but upcoming cities like Chandigarh, Coimbatore, Pune, Ahmedabad, Baroda, Trivandrum, Cochin, Ludhiana, Simla etc will fast be catching up to the metro’s in their spending capacity.

Cities in south India have taken to the supermarket style of shopping very eagerly and so far the maximum number of organized grocery and department stores are in Chennai, Bangalore and Hyderabad. The north has a long way to go to come up to par. International stores now prefer to gauge the reaction of the public in these cities before investing heavily in a nation-wide expansion. Milou, the Swiss children’s wear retailer, recently opened up its first store in Chennai, bypassing Delhi and Mumbai.

Besides the urban market, India’s rural market has just started to be seen as a viable option and companies who understand what the rural consumer wants will grow to incredible heights. The bulk of India’s population still live in rural areas and to be able to cater specifically to them will mean generating tremendous amounts of business.

Business, specifically retail business must focus on the most important factor in the Indian mind-set - Value for Money. Indian consumers are ready to pay almost any amount of money for a product or service as long as they feel they are getting good Value for Money. This
is often misconstrued as being tight fisted or interested in lower priced and/or lower quality products.

In the past decade, international companies entering India have generally offered moderately priced to expensive items. They have aimed for the upper-middle and rich classes of Indian society. These are consumers who travel abroad often and can buy these items overseas quite easily. Instead, international companies should be focusing on the lower and lower-middle classes of India. This is where the real potential is, the aspirational class of consumers who want to lead a better lives and believe in education, hard work and absorb knowledge from every possible angle. The phenomenal success of Big Bazaar, Pantaloons version of Wal-Mart, is proof that there is enormous potential in providing products and services to this class of consumers.

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The Indian retail industry is at nascent stage but is growing steadily. The spread of super market chain across the cities is evidence of the fact that the organized retailing in India has emerged in a big way\textsuperscript{14}. Market liberalization and increasingly assertive consumers are sowing the seeds of retail transformation. Even multi national players entering the scene. It is a fast growing sunrise industry which is also an opportunity creator for meeting consumer expectations, increasing value perception and offering the right mix of price, product differentiation, experience and service.

The retailing business in India is highly fragmented and just a handful retail chains are in operation. Only two percent of retailing in India falls in the organized sector. Retailing in India is thoroughly unorganized. There is no supply chain management perspective. The size of India's retailing industry at Rs. 4,00,00 cr. Which will increase to 8,00,00 cr. By the end of 2007 with an annual increase of 20%. If retailing continues along its current growth in India, sales are likely to touch $300 bn by 2010.

Experts say, that the retail business in India will change dramatically in the next five years. The bazaar mentality will disappear, and the retail landscape will from actual dominating small family business into organized retailing with few national and international big chains.

Organized retailing is spreading and making its presence felt in different parts of the country. The trend in grocery retailing has been slightly different with a growth concentration in the south. These changes lead to the rapid growth in the retailing industry. Increased availability of
retail space, rapid urbanization and qualified man power also boosted the growth of the organized retailing sector.

The retail industry in India is emerging along the lines of the economic evolution of the society. India is predicted as top three economies in the world by 2050. An economic survey predict that there will be a total of 75 million households, under the consuming classes category with in an annual income level of Rs.50000-Rs.250000 by the year 2005-2006.

The Indian retail industry in valued at about Rs.15000 billion and is expected to grow to Rs21500 billion in 2010 and Rs.32500 billion in 2015. Only three percent of Indian retail is organised. Retailers of multiple brands can operate through a franchise or a cash-and-carry wholesale model.

Retail is India’s largest industry, accounting for over 10 percent of the country’s GDP and around eight percent of employment. Retail in India is at the crossroads. It has emerged as one of the most dynamic and fast paced industries with several players entering the market. That said, the heavy initial investments required make break even hard to achieve and many players have not tasted success to date. However, the future is promising; the market is growing, government policies are becoming more favourable and emerging technologies are facilitating operations.

Retailing in India is gradually inching its way to becoming the next boom industry. The whole concept of shopping has altered in terms of format and consumer buying behavior, ushering in a revolution in shopping. Modern retail has entered India as seen in sprawling shopping
centres, multi-storeyed malls and huge complexes offer shopping, entertainment and food all under one roof.

The Indian retailing sector is at an inflexion point where the growth of organised retail and growth in the consumption by Indians is going to adopt a higher growth trajectory. The Indian population is witnessing a significant change in its demographics. A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing working-women population and emerging opportunities in the services sector are going to be the key growth drivers of the organised retail sector. Initially, this was about Indian corporate houses rolling out malls and supermarkets, but with Wal-Mart coming into the Indian market, the era of the superstore is dawning. Unlike the kirana stores that served us for decades, this new breed of retail chains is heavily dependent on IT.

Wal-Mart, the world's largest retailer, and Bharti Enterprises have signed a Memorandum of Understanding (MoU) to explore business opportunities in the Indian retail industry. This joint venture will mark the entry of Wal-Mart into the Indian retailing industry.

The biggest competitor for Bharti-Wal-Mart is likely to be Reliance Retail, the retail wing of Reliance, which had planned to establish 10,000 stores by 2010. It had already opened 11 pilot stores under the "Reliance Fresh" format in Hyderabad.

All these trends and developments present a great business opportunity for software and hardware vendors from across the globe. Indian solution providers are targeting this segment have reason to
rejoice. For while organised retail occupies a miniscule two to three percent of the overall Indian retailing industry, that is poised to change.

In spite of the prospects being good things aren't quite as rosy when it comes to awareness of IT systems. In most cases, organised retailers in India have installed solutions that help them automate transactional systems.

With the retail sector in India undergoing a transformation due to the entry of large corporate houses, IT managers and CIOs are now looking forward to know how IT can help them achieve the business goals of their organisations.

Standards-based architecture and software support all kinds of mission-critical IT applications for enabling greater efficiency, significant cost savings, and new business value. The critical activities that can be handled by IT are finance and accounting, business intelligence, vendor development and management, supply chain management, merchandising and inventory management, facilities management, stores management, customer relationship management, branding, marketing, sales promotion and HR.

Like any other vertical, retail also stands to benefit from elaborate IT set-ups. However, this is subject to the scale and size of the organisation, as well as an objective assessment of its requirements. Key common challenges that can be tackled through IT implementations include accurate merchandising, improved planning, increasing profitability, enhancing customer experience, strengthening store operations, improved workforce management, and improving the supply chain. This is in fact one of the key imperatives facing retailers in India,
to have a robust and scalable supply chain that will facilitate rapid growth.

Since a basic objective is to make data available to users and customers, proper IT implementation and superior IT infrastructure ensure that in spite of getting minimal details, the retailer captures the right information, which flows to everyone from the back office staff to the head office managers. The entire information flow must be seamless. A retail business works on a network environment because the stores connect to one another as well as to supplier sites. This is because in the retail business quick response is the key to success. Proper IT implementation also ensures that investment in retail reduces substantially.

Retailing in India is currently estimated to be a USD 200 billion industry, of which organised retailing makes up 3%, or USD 6.4 billion. By 2010, organised retail is projected to reach USD 23 billion. There are multiple factors driving Indian retail growth.

With roughly 60% of the total population below 30 years of age, favourable demographics are expected to drive consumption across categories. The retailing sector in India is highly fragmented. There are about 12 million retail outlets spread across the country, of which more than 80% are run by small family businesses using only household labour. Traditionally, small-store (kirana) retailing has been one of the easiest ways to generate self-employment, as it requires limited investment in land, capital and labour. Consequently, India has one of the highest retail densities in the world at 6% (12 m retail shops for about 200 m households).
India's organised retail sector is in the early stages of development and represents only 2.5% of the market. It is way behind the development curve when compared with modern economies (in the US, organised retail penetration constitutes about 85% of total retail sales). India also lags behind other emerging markets in Asia (Taiwan, Malaysia, Thailand, Indonesia, China), Eastern Europe (Poland) and South America (Brazil) where significant progress has been made in the last two decades.

Organised retail in 2005-06 was Rs 36,000 crores which is estimated to reach Rs 1,10,000 crores by the year 2010.

Organised retailing can be divided into two forms - value and lifestyle. The key demand side drivers for value retailing are basic consumer needs such as:

* Cheaper prices for same quality
* More variety of goods
* Superior shopping experiences (air-conditioned environment, family outing, in shop promotions-cum-entertainment and the aspirational feel-good factor)

The second type of organised retailers, lifestyle, has different growth drivers. Here, key factors are:

* Improving purchasing power
* Changing consumption patterns
* Higher aspiration levels of a burgeoning middle class in big cities
* Distinctions between the "metro urbanite" consumer and the "second tier city urbanite" are blurring
* Hypermarkets are the key retail formats in this type of organised retailing. Only in recent years have private sector retailers recognised the growth potential.
Standalone supply models have started to appear while others have started to open in the malls that are mushrooming all over the country. Pantaloon is the leading Indian hypermarket operator. It has gained valuable experience in modern format retailing over the last 10 years and is now the first Indian hypermarket player to expand aggressively.

A distinctive feature of organised retailing in India is that it is largely an urban phenomenon so far. Organised retail has been more successful in cities more so in the south and west of India. India is witnessing various experiments to tap this latent potential. ITC is experimenting retailing through its e-Choupal and Choupal Sagar - rural hypermarket. HLL is using its Project Shakti initiative - leveraging women self help groups - to explore the rural markets. Mahamaza is leveraging technology and network marketing concepts to act as an aggregator and serve the rural markets. Over the last 3 years, there have been clear signs of an emerging revolution in Indian retail. A multitude of factors are responsible for this new awakening. Principal among these is the new demand for better products and retailing from India's first generation of demanding and cash-rich consumers. This demand has elicited a strong response in the shape of new supply - of products, formats and, most of all, options - and new competition. This is in line with the experience of other economies where economic development drove channel modernisation.

The early indicators of this revolution are the mushrooming of better quality retail outlets, a profusion of brands and product options and increasing consumerism. Business houses such as the Tatas, Birlas, Reliance, RPG, ITC and HLL have expressed interest in the area, as have many foreign retailers. It even finds pride of place on the pages of the business press.
The key drivers of this emerging transformation are:
* New demand: customers call the shots
* Rising incomes
* Explosion of media
* Change in women and in family structure
* Rural market waking up
* New supply: supply chain is getting established
* New competition: corporates are entering while established players are expanding
  * Organised retailers have begun entering the arena in the past 5 years
* Family owned businesses are expanding
* New entrepreneurs are entering
* Manufacturers are building chains around brands
* Clear base being established for organised retail
* Hubs of retail activity have emerged
* Scale of operations changing
* Purchasing habits in metros shifting towards supermarkets
* More competitors are eyeing the sector
* Foreign retailers looking for entry options

The Indian grocery market, at $90 billion, although extremely large, is very underdeveloped. It is only in the very recent past that modern formats have entered the market but the industry is now rapidly reaching a transition point, and it is likely that some of India's biggest retailers, with sales exceeding $1 billion, will emerge from this sector.

In sharp contrast to the global market structure, grocery retail in India is highly fragmented with very little change over the last decade. However, a number of players are beginning to build significant positions
of late, especially in South India, and the industry appears poised for a significant transformation.

Though it is an extremely large market, the organised sector's share of this market is very small. Grocery has three components: branded grocery products, including packaged foods, dry unprocessed grocery, including grains and cereals, and fresh grocery, including fruits and vegetables, meat, dairy and deli products.

The key imperative facing retailers in India is to have a robust and scalable supply chain that would facilitate rapid growth. One measure of efficient operations is the inventory turns ratio. The US retail sector has an average inventory turns ratio of about 18. The best global retailer like a 7-Eleven has over 50 turns of inventory. Most Indian retailers KPMG surveyed have inventory turns levels between 4 to 10.

Another metric of efficient supply chain management is the stock availability on the retail shelves. Global best practice retailers achieve more than 95% availability of all Stock Keeping Units on the retail shelves (translating into a stock out level of less than 5%).

The stock out levels among Indian retailers surveyed ranged between 5 to 15%. Looking at the inventory turns and stock availability metrics, retailers in India clearly need to augment their operations.

Unavailability of good quality real estate has hindered organised retail in India. It is one reason why some of the first modern-format retailers have been real estate developers.

Large Indian corporate groups like Tata, Reliance, Raheja, ITC, Bombay Dyeing, Murugappa & Piramal Groups, besides foreign
investors and private equity players are firming up plans to identify investments opportunities in the Indian retail sector. The quantum of investments is likely to sky rocket as the inherent attractiveness of the segment lures more and more investors to earn more profits. Investments into the sector are estimated at INR 2000 - 2500 crore in the next 2-3 years and over Rs 20,000 crore by the end of 2010. Current regulations do not permit any foreign retailers to own and manage retailing to consumers in India. At present, the foreign retailers can enter B2C retailing through franchise arrangements. For example, Marks & Spencers, McDonald's, Domino's, and TGIF operate through a franchisee system.

However, FDI (Foreign Direct Investment) in wholesale trading is now allowed. The main reason for this was to help improve inefficiencies in the system, introduce "best practices" and boost employment. For example, Metro, the German hypermarket chain, entered India in 2003 in the cash and carry segment despite protests from local wholesalers and retailers.

Indian retailers will need to step up their efforts and ensure that they can meet the challenges of managing organised retail by:

* Accessing specialist skills, developing talent, investing in infrastructure and systems,

* Driving for scale, organise the real estate markets, increasing land supply, including modern retail needs within urban developmental plans, relax supply chain regulations,
Relax SSI regulations, remove distribution constraints, ensure flexible labour laws, permit foreign direct investment and simplify legislation.

If retail continues along its current growth path in India, sales are likely to touch $300 billion by 2010, with 6-7% of this flowing through modern channels ($18-20 billion).

Retailing is now a recognised industry. In addition, the sector has been unshackled - supply chain constraints have been eased, global retailers permitted to compete in India, real estate markets made more organised and, finally, the tax structure rationalised. More than 3 bn. US dollars (INR 150 bn) of capital expenditure is required if the organised retailing sector is to grow to 8% of total business. It is difficult to forecast total capital expenditure outlay of the various corporates over the next five years because of:

* The dynamic growth plans of retailers
* Lack of visibility beyond two years in available business plans; and
* The limited availability of information from most unlisted retailers

FDI in retail could help bridge the funding shortfall as it did in Central and East Europe. FDI in retailing in India is inevitable. However, it is believed that it will not affect the competitive landscape for at least two years. The longer FDI is delayed, the greater the increase in scale, resilience and competitive intensity in the respective business models of domestic retailers. The brief window of opportunity allows home grown retailers to acquire real estate and roll out stores in a protected environment without global competitors bidding up the prices. The domestic players will need financing, but equity markets should be
prepared to support these retailers who have almost guaranteed first-mover advantage to tap a huge consumer base.
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