KARNATAKA STATE OPEN UNIVERSITY

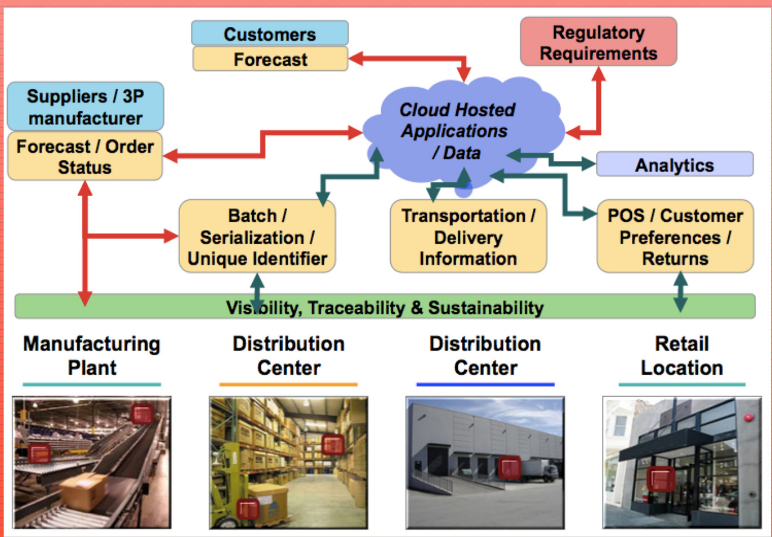
Mukthagangotri Mysuru-57006

MBA

(Fourth Semester)

Elective B: Marketing

RETAILING AND SUPPY CHAIN MANAGEMENT



Department of Studies and Research in Management

Course 22B

Module 1 to 5

KARNATAKA STATE OPEN UNIVERSITY

MUKTHAGANGOTHRI, MYSURU- 570 006.

DEPARTMENT OF STUDIESAND RESEARCH IN MANAGEMENT

M.B.A IV Semester

ELECTIVE - B - MARKETING

COURSE - 22B

RETAILINGAND SUPPLY CHAIN MANAGEMENT

MODULE - 4 : SUPPLY CHAIN

MODULE - 5 : SUPPLY CHAIN MANAGEMENT

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Dr.C. Mahadevamurthy
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Dear Learner,

It gives me immense pleasure to welcome you to the Department of management to study MBA Second Year (Fourth Semester) in our esteemed university.

I am Extremely happy in placing this study material in your hand. The Department of Studies and Research in Management, Karnataka State Open University is providing you Self Learning Materials (SLM) for all the courses developed by the team of experts drawn from various conventional universities, Open Universities, B-Schools Management institutions and professionals.

This study material explains even the most complicated topics in a very simple and user-friendly manner, it starts with the Objectives, explanation of concepts followed by Case study, Notes, Summary, Key Words, Self Assessment Questions and References. It provides more value added information on contemporary issues.

Department has focussed on conceptual learning and on avoiding bulky and prolonged description. Every concept has been explained in the simplest manner. Some complicated concepts have been simplified in the study material, so that the learner can learn easily.

The Department of Management, Karnataka State Open University is offering three electives or specialization. You have already chosen the stream in which you wish to specialize i.e. Finance, Marketing and People Management. Hope you will gain expertise in you field.

The specialization in an MBA is due to business complexities and diversities. The MBA is over 100 years old now. Leading management institutes are trying to come up with new and innovative ways to educate the next generations of business leaders. In an MBA, an elective facilitates learners to plank extra focus on one particular area of interest and tailor their MBA in a different way depending on their background and future goals.

a) **Finance** – Finance is one of the most popular specializations of Master of Business Administration (MBA) program. MBA specialization in finance offers, benefits to working professionals in a variety of industries, including commercial and corporate banking, investment services and real estate. MBA in Finance gains you business and financial skills need to work in a number of enterprises. Finance Specialization balances mathematical rigor with management techniques. The finance papers offered by the department builds you as a stock market experts coupled with the knowledge of corporate finance and banking.

b) **Marketing** – Marketing has become one of the most desired specialization both by students and employees in recent years. With the shift to digital and online marketing, most businesses now have their own, in-house marketing teams specialized in bringing customers to the company. Prospective students aspiring to demonstrate that they have the potential to become an excellent marketing manager require a broad skill set. Individuals with soft skills, such as communications, tend to grow well in marketing field. Other desired skills for marketing typically include analytical and leadership skills. The department has carefully chosen the papers to impart the above skills in you.

c) **People Management** – The ever increasing importance of the individuals in the success of a business, makes an in depth study of human behaviour very crucial. Effective management requires insight over the aspects of human behaviour, which can only be gained through study of the related theories and principles of people management. The department has strived to provide you knowledge on training, change management, labour loss and so on to prepare you to face these soft challenges.

In addition to the study material provided to you, I advise you to go through the books which are suggested in the reference of every unit. Further, I also suggest you to make yourself acquainted by reading newspapers and journals.

Apparently, the curriculum designed by the board of studies helps you to prepare for UGC NET, various state commission examinations and UPSC examinations. With these words I welcome you for the wonderful learning experience of business education.

I wish all the best and good luck in your education and successful management career.

Dr. C. Mahadevamurthy
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INTRODUCTION

Although Retailing and supply chain management are two different discipline they are highly interconnected. Retailing is the front face where as the supply chain is the back face of the same coin.

SCM and retail is an end to end process in merchandise planning and movement, from planning the inventory (preparing the purchase order) to the point of reaching the merchandise to the customer. It is an integrated process where every activity is interlinked with the system for information throughout the cycle time of each step of the process so that timely action can be taken. Individual activities of the SCM process that is warehousing, distribution , transportation both for inbound and outbound movement of merchandise which were handled separately in the past are now carried out in logical sequence following a specific time table that is Logistics. Managing continuous supply of right products, at right time from different entities is the challenge of managing supply chain. Information technology tools have helped retailers in greatly reducing cycle times and attaining efficiency.

Efficient logistics system needs strong systems for information and transport, DC and handling capabilities. A logistics system has to be built to suit the needs of the retail organization keeping in mind the kind of products, and competition. Retail logistics is the process of managing the flow of merchandise from the source of supply to the customer. It involves

1-Physical movement from store

2-Stocking,

3- Entire process management.

In this subject you will get a deeper insight about the subject. Since the retailing and supply chain are assuming greater importance in the present day scenario owing to multi speciality stores, super stores and online buying, it is expected that a marketing professional must have wider knowledge about these aspects.

The present subject retailing and Supply Chain Management consists of 5 modules wherein first 3 modules speaks about retailing and the last two modules speak about Supply Chain Management.

Module 1 consists of 4 units. In the first unit we will discuss about the introduction to retailing. Unit 1 gives basic introduction about retailing. Unit 2 provides an overview of retailing in India. Unit 3 speaks about various retailing forms and their classifications. Unit 4 explains about retail planning and development.

Module 2 consists of 4 units. Unit 5 makes an attempt to analyze retail shoppers behaviour. Unit 6 describes about managing of retail business. Unit 7 help to determine retail pricing and merchandizing. unit 8 advices on retail brand management.

Module 3 possesses 4 units. Unit 9 analyses the problems of retailing. Unit 10 try to measure FDI in retail sector. Unit 11 makes an attempt to current trends in retail audit. Unit 12 provides an insight on retail store Layout and location.

Module 4 had 4 units. Unit 13 provides you the fundamentals of supply chain. Unit 14 identifies strategies for sourcing. Unit 15 anlayses the supply chain network , design and distribution strategy. Unit 16 estimates inventory and supplies

Module 5 contains 4 units. Unit 17 speaks about supply chain integration. Unit 18 focuses on IT in supply chain. Unit 19 discusses about reverse supply chain and agro supply chain. Unit 20 identifies the various components of supply chain management.

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MODULE – 1
INTRODUCTION TO RETAILING

UNIT – I : AN OVERVIEW OF RETAILING

Structure:

1.0 OBJECTIVES

After studying this unit, you should be able to;

- Define the concepts- retailing, retailer,
- Explain the characteristics and functions of retailer.
- Have an over view of global retailing, major players,
- Identify trends and challenges to retailing globally.

1.1 INTRODUCTION

Retailing consists of series of activities of marketing and distribution. It involves the movement of goods or merchandise from a location such as a departmental store, boutique or kiosk or by mall, in small or individual lots for direct consumption by the buyer to the ultimate consumer. It may include supporting services, such as purchase, storing, sorting, packing and delivery. Retailing involves identification of the target market, interpreting the needs of the target market, evolving a system of assorting the offers and making them available for consumption. According to Philip Kotler, 'All the activities involved in selling goods or services directly to the final consumer for personal or non-business use is called retailing.

In the words of Michael Levy, Barton A. Weitz, " Retailing is a set of business activities which adds value to the product and services sold to consumers for the personal or family use".

Retailing is emerging as an organized business and a body of systematic study and research in Marketing. Globalization of business has given a boost to the growth of this business.

Persons who are involved in retailing are **"retailers"** .They buy goods or products in large quantities from manufacturers or importers, either directly or through a wholesaler, and then sells in smaller quantities to the end-user. A retailer may be a person, agent, agency, company or an organization, shop or store which is instrumental in reaching the goods or services to the end customers. Retailing may be the sale or services like that of a restaurant, parlor , pizza outlets or delivering at home. Rental agencies and selling through internets, mails etc also form part of retailing.

Retailer's as a link in a distribution chain: A retailer's business is to sell products or services to consumers for their personal or family use or consumption.

Retailer is the final business in a distribution channel that links manufacturers to c… tributio… f firms … e move… s f… produc… f sale to … sumer.

Manufacturers → Wholesalers → Retailers → Consumers

Manufacturers typically produce goods and sell to wholesalers who, in turn, sell the same to the retailers. The retailers sell the products to the ultimate consumers. Manufacturers satisfy the needs of the wholesalers, the wholesalers satisfy the needs of the retailers and the retailers direct their efforts to satisfy the needs of the ultimate consumers. Retailers can provide different type of services as a channel member in the form of **Vertical integration** by performing more than one set of activities of the distribution channel such as investment or facilitating in wholesaling or manufacturing.

Backward integration role of retailers can be seen where they performs several distribution and manufacturing activities such as operating warehouses or manufacturing private labels as Nilgiris and Heritage do. **Forward integration** is one when a manufacturer undertakes retailing activities such as Grasim Suiting operating its own retail stores ,Reliance Vimal, Raymonds, Titan are of this type.

1.2 CHARACTERISTICS OF RETAILING

Retailing is very different from other business activities like manufacturing in several ways:

- There is a direct interaction with the ultimate customers. They are in a position to understand the customer preferences more accurately than the other members in the distribution chain. Because of this manufacturers are able to fine-tune their product features and the marketing strategies.
- Retailing is an important point of value addition to the product as it creates place utility by making the product available for consumption.
- This is the only point where product promotion can be made by sales people by giving the required information to the buyers.
- Sales in small quantities will be made.
- As retail houses are located near the customers using the provisions of gurantee and warrantees is easy.
- Retailing is emerging as an organized and corporate business on it's own.

1.3 CREATION OF UTILITY BY RETAILERS

1. Form utility: The retailer supplies the goods in the form that is acceptable to the customers. He does not offer the raw materials but in the form of finished goods that is of value to the customers.

2. Time utility: He creates time utility by keeping the stores open during convenient times for the customers

3. Place utility : This is offered by locating the stores at convenient locations for the customers to shop from

4. Ownership utility : When the product is sold to customers , ownership utility is created

1.4 FUNCTIONS OF RETAILERS

Retailers perform several functions as both a member of the distribution channel and an independent business unit. The following are the important and relevant in both the contexts.

1. Selection of stores location.
2. Sourcing, Merchandising and purchasing.
3. Assortment, categorization and inventory management
4. Promoting sales and brand building.
5. Planning for productivity in retailing.

1. **Location of the Store:** Retailing is an act concerned with facilitating consumption by supplying products in small quantities as and when it is required by the consumers. Therefore retailers are required to identify appropriate place for setting up of an outlet that helps the movements of products from the manufacturers to consumers.

2. Sourcing and Merchandising: Retailers are required to decide the items to be procured from the manufacturers or from any other source through an economically viable means. Based on the demand and supply proper procurement and storage are to be made.

3. Assortment, Categorization and Inventory Management: Retailers need to decide the type of products and their quantities to be procured from the source and display for sales in appropriate quantities. Arrangements must be made to store the unsold stock in the required manner.

4. Promoting Sales and Brand Building: Retailers are the direct link between the manufacturers and the consumers. They can build a positive image of the product in the minds of the consumer through efficient and timely services.

5. **Planning for Productivity in Retailing:** Retailers can help the manufacturer to achieve customer satisfaction by suggesting the methods of services that are economical and customer friendly.

1.5 TYPES OF RETAILERS

Retailers can be classified into major categories on the basis of the following;

A. Based on owner ship ;

a. Retailer may be an individual who owns a single retail unit or owners who own several retail outlets whose management decisions are taken in a central unit.

b. There may be retailers who uses a portion of the space in a major store or outlet on lease or rent basis

c. A vertical marketing unit owned by an individual or an entity who undertake all the three functions of business namely manufacturing, wholesaling and retailing.

B. Based on Product line;

On the basis of product type with which the retailers deal they can be grouped in to the following;

a. Specialty stores: Generally displaying merchandise which have narrow product lines like Jewells, Sports ware, Healthcare etc.

b. Departmental stores: Dealing with several type of products under a single roof like Life style, Pantaloon and Westside.

c. Super markets: Usually Departmental stores with self help type of offerings where the customer can pick anything from a wide variety displayed.

d. Hyper markets: They are large super markets which can store and offer a variety of products.

e. Shopping malls: It is an arrangement that provides a right mix of shopping. The retail space is normally shared by a major popular store and other retailers as tenants.

f. Discount stores: Normally they offer a broad variety of products on discount for a short period.

C. Based on Service Vs goods retail strategy

In goods retailing physical products are sold where as in service retailing services are rendered. Services retailing may be in form of rented goods services, owned goods services or non goods services like, Car rentals, Annual maintenance services and consultancy in stock purchase or training for personality development etc.

D. Non –store retailing: Non store based retailing may be in the form of Direct selling, Direct marketing and Automatic vending machines through which goods or services can be delivered.

1.6 AN OVERVIEW OF GLOBAL RETAILING

The Global Retail Industry:

Of the world's 10 largest retail companies, five are from the US and five are from Europe in 2010. These top ten had combined sales of $ 1.15 trillion in 2010, according to international consulting group, Deloitte. Retailing is a primary driver of the global economy. To maintain the highest level of profitability, retailers are establishing a presence in overseas markets. Retail organizations now view their potential market share to include worldwide consumers, not just customers in their home country.

The U.S. Retail Industry:

Five of the top 10 retail organizations in the world were U.S. based companies, according to the Deloitte report. Measured solely by revenue numbers, the U.S. is the undisputed leader of the retail industry.

Retail is the second largest industry in USA in terms of both the number of establishments and the number of employees. The retail industry employs over 23 million Americans and generates more than $ 4 trillion in retail sales annually.

Wal-Mart Stores, Inc. (branded as **Walmart**) an American public corporation that runs a chain of large, discount department stores. In 2010 it was the world's largest public corporation by revenue, according to the Fortune Global 500**.** The company was founded by Sam Walton in 1962, incorporated on October 31, 1969, and publicly traded on the New York Stock Exchange in 1972. Wal-Mart is the largest majority private employer and the largest grocery retailer in the United States. It also owns and operates the Sam's Club retail warehouses in North America.

The performance figures of Walmart in 2011 are as below:

Sales - $ 419 Billion

Net Profit - $ 16 billion

Total assets - $ 180 billion

Total employees – Approximately 21,00,000

Wal-Mart's operations are organized into three divisions:

1. Wal-Mart Stores U.S., ($260 billion – sales)
2. Sam's Club ($49 billion – sales)
3. Wal-Mart International ($109 billion – sales)

The company does business in nine different retail formats: supercenters, food and drugs, general merchandise stores, bodegas (small markets), cash and carry stores, membership warehouse clubs, apparel stores, soft discount stores and restaurants.

Wal-Mart Stores in US takes care of the US operations in all formats.

Sam's Club is an American chain of membership-only retail warehouse clubs owned and operated by Wal-Mart Stores, Inc., founded in 1983 and named after Walmart founder Sam Walton. As of 2008, the Sam's Club chain serves more than 47 million U.S. members.Sam's Club ranks second in sales volume among warehouse clubs behind Costco Wholesale, despite the fact that Sam's has more retail locations.

Sam's club is a 'cash and carry' store and is different from regular retail chains which target professional customers rather than end-consumers. This concept is based around self-service and bulk buying and serves registered customers only. The core customer groups are hotels, caterers, traders and other business professionals. Such stores aim to prevent any intervention by middlemen and requires buyers to make their own arrangements and assume all risk.

Wal-Mart international operates in several countries in the world

- ♦ Wal-Mart is the world's largest retailer. It is the largest corporation and private employer in the United States.
- ♦ Wal-Mart is the biggest employer in 25 states in USA. They set the standard for wages and labor practices.
- ♦ Wal-Mart has more than 3,000 stores in the US and almost 1,300 International operations.
- ♦ The Walton family is worth about $102 billion.
- ♦ Wal-Mart topped the Fortune 500 list of America's largest corporations ranked by sales for the fourth year in a row.
- ♦ Wal-Mart is the top U.S. seller of products ranging from dog food to diamonds

Top retail companies in USA:

1. Wal-Mart Stores, lnc

2. The Kroger Co
3. The Home Depot, lnc
4. Albertson's, lnc
5. Sears, Roebuck and Co
6. Kmart Corporation
7. Target Corporation
8. Safeway Inc
9. Costco Companies, lnc
10. IGA lnc

1.6.1: The European Retail industry

Carrefour S.A. is a French international hypermarket chain. Headquartered in Levallois-Perret, France, Carrefour is the largest hypermarket chain in the world in terms of size, the second largest retail group in the world in terms of revenue and third largest in profit after Wal-Mart and Tesco. Carrefour operates mainly in Europe, Argentina, Brazil, China, Colombia and in the Dominican Republic, but also has shops in North Africa and other parts of Asia. Carrefour means "crossroads" in French.

The company's founders created the concept of the hypermarket, an expanded supermarket offering a wide variety of merchandise—including groceries, electronics, clothing, and automotive supplies—that allowed consumers to accomplish most of their shopping at one store. Hypermarkets became a rapid success, revolutionizing the retail industry in France

The Group has formulated a policy based on convenience, trust, low prices and quality products and services. All over the world, Carrefour is working to bring consumer products within the reach of the greatest number of people. It is succeeding by tightly integrating its stores into the local fabric, adapting its product lines and services, providing continuing professional training to its employees and taking actions to support local sustainable development in the regions where it operates.

The Carrefour group - Leading the way in Europe's mature and growth markets

One of the group's main assets on the European market relates to having two drivers of growth: mature countries and growth countries.

The group's four mature markets are France, Spain, Belgium and Italy, which together account for over 72% of the sales. Despite the economic backdrop in these countries, with competition and market consolidation, the Carrefour group can count on several key assets that have ensured its leadership position in each of the four.

The Carrefour brand is one of the most well-known and well-appreciated in the market. The group's multi-format model is the key to meeting a very diverse set of customer lifestyles and continually changing needs. Finally, each store's product offering corresponds with the purchasing power of its customers. Carrefour stores are among the least expensive within each of the group's trading areas. Each store also tailors its product offering to best suit local culture. In Italy, for instance, 89% of own-brand food products are locally produced. Carrefour intends to continue its expansion in these mature markets by leveraging the aforementioned assets and continually adapting to specific lifestyles and consumption patterns.

On Europe's growth markets, in fact, Carrefour is synonymous with modern business practice. From very early in the 1990s, the group had the foresight to establish presence in promising markets, such as Greece (1991), Turkey (1993), Poland (1997) and Romania (2001). Everywhere they are located, Carrefour stores are appreciated for their low prices, modernity, quality products, and customer services. Carrefour has continued its expansion on these markets, via its multi-format, single-banner strategy and organic growth and acquisitions. The multi-format approach significantly boosts the group's development potential on these growth markets. It also serves as a powerful tool for accelerating the group's expansion and strengthening its market share. In Romania, for example, Carrefour became a market leader after buying the 21 Artima supermarkets, which are in the process of being transformed into Carrefour Express stores.

1.7 TRENDS IN GLOBAL RETAILING:

The following are the trends in retailing that influences retailing operations globally-

Social responsibility

Relatively affluent consumers in affluent countries are increasingly concerned about the impact that companies have on society, which includes the impact on the physical environment, on workers in countries that supply products, and the impact that products have on the consumers who purchase them. This focus social responsibility and product safety is likely to grow, especially as more consumers become aware of these issues through mass media.

The issue of green and sustainable retailing is closely associated with the broader topic of corporate responsibility, which involves community involvement, charitable giving, fair trade and good working conditions for employees.

Global consumer growth

During the past decade, the extraordinary growth of consumer spending in the US was a driving force for the global economy and for the global retailing industry in particular.

Quite the opposite is true in the rest of the world particularly in Asia. In China, for example economic growth has been fueled by exports

Commoditization

We live an age of great technological innovation. This has enabled ordinary people to enjoy standards of living unimaginable even to royalty a century ago. Improvements in manufacturing efficiency enable the highest quality products to be sold at amazingly low prices. Commoditization takes place when consumers view products as essentially undifferentiated other than on the basis of price.

Traditionally, basic products were considered commodities – petrol, cooking oil, basic apparel. Yet today consumers see electronics, fashion and processed foods as commodities. Avoiding commoditization therefore is becoming one of the significant challenges of our time for global retailers. Those that differentiate on the basis of something other than price will be the winners of the future.

Rise of 'long tail' retailing

The mass market has become saturated while the population of developed countries has become more fragmented in terms of income and shopping behavior. Within the mass market, retailers and their suppliers have become highly focused on price competition, thereby driving down, margins and failing to provide consumers with clearly differentiated offerings.

The fight to plant the flag in India

India has become the next big thing for the world's leading retailers. On the surface, this seems to represent the triumph of hope over experience. India is after all a country with more than a billion people which is moving towards a true market economy. For the world's leading retailers, India is a gamble, but one worth taking.

Emerging market investment in developed retailers

In the past, manufacturers of fast moving consumer goods (FMCG) were considered the leading marketers in the world. As retailers became bigger and more powerful, suppliers had to focus more on relationships with their customers than their consumers. Trade spending became important than mass media advertising.

Retail investments in services

This has certainly been the case in developed nations such as the EU, Japan and the US. In part, this is due to the higher rate of inflation in services. That, in turn is due to the lower productivity growth in service industries. The relative decline in the prices of goods leaves consumers with comparatively more to spend on services. Retailers that can successfully sell services related to their core merchandize or simply based on the strength of their brand names can increase their growth through expanded share of the wallet.

Mobile marketing.

Consumers opt in to a retailer's mobile marketing program by giving it both mobile phone number and explicit consent to be contacted with promotional offers. The retailer thus builds a database of customers with whom it has authority to conduct real-time communications.

The communication itself often takes the form of text messages alerting the customer to new products, special deals and other promotional offers. The messages can also contain coupons that are embedded with a code that is entered into the retailer's point-of-sale (POS) system at the checkout.

Consumers are being given the capability through their mobile phones of shopping, checking order status, signing up for text alerts and other interactive functions.

The important thing is that the retailer's mobile commerce site is optimized for a small phone screen so that the shopping experience is comparable to that of sitting at a normal computer screen.

The retailer's mobile store can also carry links to the retailer's social networking pages on sites such as Facebook, MySpace, Twitter, YouTube and Flickr.

Green products and performance equivalence.

A challenge confronting the growing number of natural product retailers in sectors such as food and cosmetics is to convince consumers that natural products are not just better for the environment but also perform with equal effectiveness to artificial products.

Popup shops.

These are temporary stores set up by retailers either in unconventional locations (e.g. churches or university campuses), or in vacant conventional retail space. They are used by retailers to introduce themselves into new markets where they have not yet established a real presence.

Customization.

Retail chains are making a greater effort to tailor merchandise assortments to local markets. However, the customization trend runs much further than that.

Advancing technology ahead of the point-of-sale.

Technology went mainstream at the malls a long time ago but now mobile handheld devices are being used in a variety of ways to speed the checkout process and improve the efficiency and enjoyment of the shopping experience. For example, portable terminals are now being used by some retailers that enable customers to scan items before they reach the checkout, where they simply need to pay. These technological tools, like corporate responsibility, add to a retailer's cache and represent a genuine marketing advantage.

Social media.

Retailers are increasingly using social media networks such as Twitter and Facebook as market research and marketing channels. The sites provide an opportunity for retailers to form and interact with communities of consumers, and to direct them to virtual or physical space such as other websites or physical stores.

Using vacant shop windows as advertising signs.

This is the classic case of making a silk purse out of a sow's ear: use the increasing number of vacant shop windows in shopping centres to promote retailers and retailers' products. This can often be hi-tech, involving the use of digital displays, and draws the shopper's attention to specific merchandise or promotions in a nearby store.

The table below highlights the extent of organized retailing in various countries in South Asia.

	Organized Retailing %	**Traditional Retailing %**
Malaysia	50%	50%
Thailand	40%	60%
Philippines	35%	65%
Indonesia	25%	75%
South Korea	15%	85%
China	20%	80%
India	5%	95%

Table 1.1

Highlights of Global Retailing

1. The US distribution system has the greatest retail density and the greatest concentration of large retail firms. Many US companies are large enough to operate their own

warehouses thus eliminating the need for wholesalers. The combination of large stores and large firms result in a very efficient distribution system.

2. In contrast the Japanese distribution system is characterized by small firms and small stores. Because of this, there is a need for wholesalers for stocking. There are large number of wholesalers to make the delivery to the large number of small retailers

3. The European system falls in between the US and Japan.

4. The Indian retail industry is in transition. There is a move from the indigenous small stores to big corporate malls and bazaars.

5. Avenues of growth: Globalization of economies has led towards increased income to most of the countries. The increase in spending as changed the lifestyles of the people hence, there is an outburst of the retail units all over the world.

6. India and China: More and more international retail companies are planning to enter India and China because of the growth potential

7. Retail investments on the service sector: Changing lifestyles has created demand for services of all kind hence, there is an increased potential for retailing in service sector.

8. Multi-channel integration: The IT Revolution and spread of e-commerce has integrated several channels of marketing to give better results in the form of efficient delivery of the products.

9. Focus on customer experience: Retailers are beginning to understand that one way to create ‘ differentiation’ in the customers’ minds is to create a superior experience in the stores or on-line. Inside the stores they focus on good layout, arrangement of merchandise, lighting, car parking etc.

Why are these characteristics different in different countries?

The reasons are as below:

1. Social and political reasons in many European countries, there are strict laws to preserve green spaces within cities. This is to preserve the environment. Because of this it is not possible to set up huge retail outlets within the cities or immediate suburbs.

2. Availability of Space, Population density is low in USA as compared to other European or Asian countries. The area is large and there is adequate real estate to set up huge stores.

3. The available land is limited in Japan and in many European countries with respect to their population. Hence real estate is expensive.

4. The USA market size is very large as compared to Japan or any single European country. Europe and Japan are not able to achieve the economies of scale that is possible in USA.

5. Even though there are associations for regional cooperation like European Council (EC), there are still some trade restrictions in Europe. There is no such problem in USA as it is a single country.

1.8 OPPORTUNITIES FOR GLOBAL RETAILING:

The following opportunities have been observed in the field of global retailing.

a. Economic reforms and globalization of business has created a wide opportunity for doing business across the globe.

b. Increased consumer education and brand loyalty opened up opportunities for global brands.

c. Advancement in information technology and communication made it easy to reach customers in the faraway markets.

d. Increased purchasing power all over the world has contributed for quality consciousness and demand for quality products.

e. Improved means of transportation, communication and storage facilities made it easy to take orders and to supply products as and when required by the market.

f. Mobility of capital from one country to another has increased the scope of retailing in different countries.

1.9 CHALLENGES IN GLOBAL RETAILING:

The following challenges have been observed in the field of global retailing

a. Increased competition between global players with high quality products

b. Increased demand for sophisticated and high-tech services by customers across the globe.

c. Too many rules and regulations by the government to regulate the retailers.

d. Changing taste, fashion and lifestyle and the resultant short span of product lifecycle.

e. Increased cost of logistics and sales promotion.

f. Socio-Cultural barriers between countries and the unique requirements of the customers of different countries.

g. Commoditization: Because of technological advancements, the production cost of many items have gone down. Commoditisation takes place when consumers view the products as undifferentiated. Traditionally, the basic products like petrol, cooking oil and apparel were considered as commodities. Now more and more items are viewed as commodities. Avoiding commoditization is a major challenge for the retailers currently. Those who differentiate their products will stand to gain.

1.10 IMPACT OF ENVIRONMENT ON RETAILING

Macro and Micro Environmental Influences

Retailers do not operate in isolation. Short-term and long-term changes take place in the world surrounding them, which may be favorable or unfavorable will influence their business. Retailers must analyze the changes and adapt the same in such a manner to thrive in the new environment. The environmental forces may be controllable and uncontrollable. Most of the forces that are beyond the control of a firm like the socio-economic and political happenings are called macro environmental forces, those with-in the close proximity are called the micro environmental forces. The Micro-environment influences the retail organization directly. It consists of elements within the environment that immediately impinge upon the retailer on a day to day basis and that require immediate responses. It includes suppliers that deal directly or indirectly, consumers and competitors, and other local stakeholders. Micro tends to suggest small, but this can be misleading. In this context, micro describes the relationship between firms and the driving forces that control this relationship. It is a more local relationship, and the firm may exercise a degree of influence.

The macro-environment includes all factors that can influence the organization, but that are out of their direct control. It is made up of those elements within the environment that consist of the larger societal forces such as demographic, economic, cultural and social , political, legal, technological and natural factor.

The retailing Macro-environment

The components of macro environment are highlighted.

Demographic factors: The retailer must scrutinize the demographic data to determine the target customers, their expectations and perceptions so as to design and deliver an effective value proposition. Increase in the number of working women, increase in the composition of younger age group in the total population, growth in the working population, change in pattern of spending, urbanization, change in the life style etc should be considered by the retailer while framing the retail strategies.

Economic factors: Increase in the number of middle income and high income group of consumers, increase in the disposable income and the resultant increase in the standard of living of population etc., provides a positive influence on the retail sector. Other economic factors to be monitored include growth of GDP, the rate of inflation, cost of credit and the long term prospects of the economy.

Cultural and social factors: Individuals are becoming more becoming more self centered and show a greater need for self expression. This is reflected in the growing need for designer labels and specialist apparel stores. Consumers are paying more attention to the quality of life and healthy living and concern for environment. Growing awareness about consumer rights requires business to operate in the best interest of consumers. Lifestyles are changing which is reflected in the form of change in the patter of food consumption, clothing and leisure time spending activities.

Consumers pay greater emphasize to both price and quality. These changes are reflected in the needs and wants of consumers, their demands and expectations from the shopping experience. A retailer should be aware of these changes so as to deliver the same to the satisfaction of the target customers.

Political factors: Different political philosophies can have a major effect on retail organizations. The problems of inflation, internationalization of retail sector, liberalization and privatization issues will be tackled in different ways by different political parties in the power. Government's economic policy will have a major impact on the interest rates, taxation, inflation, employment generation and a host of other factors that will have an impact on the retail business and its profitability.

Legal factors: Legal factor is closely associated with the political philosophy. The role of law and the regulating authorities set up to administer and enforce the law are affected by the political power. The laws relating to retail establishment and management will also change constantly. For examples the laws relating to FDI, labeling requirements, pricing, hours of trading etc is being constantly updated and therefore affects the retail operation.

Technological factors: Changes in technology not only affects the products that the retailers sell but also the way they sell them. The influence of information technology and the development of sophisticated data capture facilities has led to revolutionizing certain sectors of the retail industry. For example the introduction of Electronic fund transfer systems, allows the transfer of funds from a customer's accounts to the retailers account without the need for paper work. Likewise shopping and e-tailing enriches the shopping convenience of the retailer.

Natural factors: environmental groups have brought to focus the problems of pollution, water conservation, energy shortage and diminishing limited natural resources. The awareness regarding these issues has led to a shift in the consumption pattern. For example the demand for green products, organic products and the like has increased.

The retailing micro-environment

The components of the micro-environment viz., the competitors, channel members, customers and other stake holders are highlighted below:

Competitors: Retailer cannot exert any direct influence on the competitors but can change his strategies to meet or synchronize with that of the competitors.

Competition can be between two retail stores of the same type or between different types of retail stores. A retailer should perform 'SWOT' analysis for himself as well as for the competitor so as to identify and position himself in a better manner. Perceptual mapping will enable a retailer to identify the manner in which the retail stores are positioned in the minds of consumers compared to that of the competitors. The competitors retail mix should be carefully monitored along with other strategies followed.

Channel members: Retailers are the final link in the distribution chain. Product passes from the original manufactures through several intermediaries' viz., wholesalers, agents etc before reaching the retailer. If problem arises in a single line in the chain the retailer being the last link suffers. Hence it is imperative for retail organization to approach channel decision in an informed and systematic way.

Consumer: *C*onsumers decide the success or failure of retail concern. The need and wants of consumers, their perception, the social, personal, psychological, demographic factors influencing the customers should be given due consideration by the retailer (dealt in detail in Unit V). The spending pattern, change in the profile and lifestyle etc should also be tracked by the retailer so as to position themselves successfully.

Other stake holder: Other stakeholder includes the creditors, shareholders, employees, top management, public etc who have a impact on the retailers performance.

A retailer should scan the environment so as to identify the challenges and opportunities.

This will enable them to frame strategies to successfully overcome the same. Adaptability of a retail organization to the micro and macro environment requires a constant process of scanning, which is both art and science.

1.11 NOTES

1.12: SUMMARY:

Retailing as an economic activity and a form of distribution of goods and services plays an important role in business. There are different forms of retailing on the basis of ownership, nature of the product and services dealt by the retailers. Organized retailing is an emerging trend all over the world. Many national and international companies are setting up retail houses with huge investment and manpower. The type of retailing outlets and the quantum of their business depends on the changing trends in terms of socio-economic, political and technological advancements. India is one of the most desired destination for global retailers due to its huge market and potential for growth. The government of India has been regulating the domestic and multinational retailers through legal enactments passed from time to time.

1.13 KEYWORDS

Retailing

Global Retailing

Environmental Impact

1.14: SELF ASSESSMENT QUESTIONS

1. Define retailing, retailers and explain their functions in marketing of a product
2. What are the different types of retail outlets?
3. Describe the trends in global retailing.
4. Explain the influence of environment on retailing business.

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UNIT – II : RETAILING IN INDIA

Structure:

2.0: OBJECTIVES

After studying this unit, you should be able to;

- Explain the evolution of retailing in India
- Justify the reasons for the growth of retail industry in India
- Sketch the recent trends in Indian retailing
- Construct a profile of major players in Indian retailing

2.1: INTRODUCTION

Retailing in India is one of the pillars of the economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US$ 500 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.27 billion people. Retailing is attracting the attention of most of the business entities and a buzz word as IT & BT in the last decade. It is one of the largest economic activities in the country and accounts for about 10% of the GDP. It is estimated as the fifth largest retail destination in the world. Most of the organized retail houses are located in cities. There is a big potential for expansion in the rural area where majority of the population lives. On account of its wide market, India has become the most preferred retail destination for global retailers.

As of 2013, India's retailing industry was essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians (3.3% of Indian population). As a major source of employment retailing offers a wide range of career opportunities including; store management, merchandising and owning a retail business. Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets.

As the Indian retailing is getting more and more organized various retail formats are emerging to capture the potential of the market.

- Mega Malls
- Multiplexes
- Large and small supermarkets
- Hypermarkets

- Departmental stores are a few formats which are flourishing in the both big and small regional markets

As the major cities have made the present retail scenario pleasant, the future of the Indian Retailing industry lies in the rural regions. Catering to these consumers will bring tremendous business to brands from every sector. However as the market expands companies entering India will have to be more cautious with their strategic plans. To tap into the psyche of consumers with different likes and dislikes and differing budgets a company has to be well prepared and highly flexible with their product and services.

2.2 EVOLUTION OF RETAILING IN INDIA

Retailing is largely in the unorganized sector, since several centuries it has been operating in a unique and indigenous manner in the form of weekly Haats, Hawkers, Pedlers and vendors who used to display their products and sell in small quantities. Kirana shops, multipurpose departmental stores are the initial organized form of retailing. The earliest form of organized retailing can be seen in the acts of shopkeepers who use to store large quantities of products in big outlets in cities like Mumbai and Chennai. After the economic liberalization in India, Retail Industry has undergone tremendous changes due to the following reasons-

a. Entry of multinational large sized retail houses

b. Liberalized policies of the government to encourage retail industry

c. Rapid growth of the middle class population and their requirements

d. Increase in the number of nuclear and double income families

e. Increase in the disposable income and the changing priorities of spending

f. Increased exposure to media and electronic communication

g. Introduction of plastic money and electronic payment system

h. Increased availability of credit and lone facilities.

i. Changing composition of young population and their preference of online retailing

j. Improved logistics and transportation system

Despite of a revolutionary growth in the number of organized retail houses, the overall retail sector is very small when compared to the size of the country. In the report of *Goldman Sachs* BRIC, among Brazil, Russia, India, and China, India is considered to be the top three economies in the world by 2050, along with China and Brazil, and hence organized retailing is going to expand in an impressive rate in the next decade. It is the opportunities in the retail sector that in attracting major global players to do business in India. Reasons for global retailers to reach India-

a. Improved living standards and economic growth in India

b. Friendly business environment for investment

c. Scope for corporate collaborations and foreign direct investment.

d. Increased brand consciousness of urban population

e. Improvements in the physical infrastructure

f. Government policies to encourage retail sector

However, there are obstacles for global retailers due to the following-

a. Increased cost of real estate and the congested market places

b. Heavy tax and duties by the government

c. Shortage of storage facility and skilled manpower

d. Socio-economic and geographical differences of the people and their expectations

e. Red Tapism and corruption

f. Protest and opposition by the local vendors and environmentalist.

After liberalization, Indian market has changed significantly. Unlike in the past corporate retailers started coming into the market. Departmental stores and malls, such as Pantloon, Shoppers Stop, Ebony, WestSide, Indigo Nation, Fountain Plaza, McDonalds, PizzaHut, Big Bazaar and Metro have become the buzz words. Consumers on account of their changed lifestyles due to increased income, work pressure and shortage of time, started looking for a place where they can get everything. They are also quality conscious and have develop brand loyalty which has opened the gates of opportunity for organized retailers in the country.

While barter is considered to be the oldest form of retail trade, since independence, Retail in India has evolved to support the unique needs to our country given. Haats, Mandis and Melas have always been a part of the Indian landscape. They will continue to be present in most parts of the country and form an essential part of life and trade in various areas.

The PDS or the Public Distribution System would easily as the single largest retail chain existing in the country. The evolution of the public distribution of grains in India has its origin in the 'rationing' system introduced by the British during the World War II. The System was started in 1939 in Bombay and subsequently extended to other cities and towns. By the year 1946, as many as 771 cities / towns were covered. The system was abolished post war, however, on attaining Independence, India was forced to reintroduce it in 1950 in the face of renewed inflationary pressures in the economy.

Tracing the evolution of Indian retail would be incomplete without mention of the Canteen Stores Department and the Post Offices in India.

The Khadi & Village Industries (KVIC) was also set up post independence. Today, there are more than 7,050 KVIC stores across the country. The Co-operative movement was again championed by the government which set up Kendriya Bhandras in 1963. In Maharashtra, Bombay Bazaar, which stores under the label Sahakari Bhandar, and Apna Bazaars run a large chain of Co-operative stores.

In the past decade, the Indian marketplace has transformed dramatically. However from the 1950's to the 80's investments in various industries was a limit due to the low purchasing power in the hands of the consumer and the Governments policies favoring the small- scale sector. It was at this time that many steps towards liberalization were taken in the period of 1985-90. It was at this time many restrictions on private companies were lifted, and in the 1990's the Indian economy slowly progressed from state led to becoming 'market friendly'.

While independent retail stores chain like Akbarally'sVivek's and Nalli's have existed in India for a long time, the first attempts at organized retailing were noticed in the textiles sector. One of the pioneers in this field was Raymond's which set up stores to retail fabric. It also developed a dealer network to retail its fabric. These Dealers sold a mix of fabrics of various textile companies. The Raymond's distribution network today of 20,000 retailers and over 429 showrooms across the country. Other textile manufacturers who also set up their own retail chains were reliance – which set up Vimal Showrooms – and Garden Silk Mills with Garden Vareli. It was but natural that with the growth of textile retail, readymade branded apparel could not be far behind and the next wave of organized retail in India saw the likes of Madura Garments, Arvind Mills, etc, set up showrooms for branded men's wear. With the success of the branded men's wear store, the new age departmental store arrived in India in the early nineties.

2.3 RETAIL TRENDS IN INDIA

The following are some of the estimates about the retail industry in India:

Market size in 2010 - $ 427 billion/annum

Current market size - $ 500 billion / annum

Estimated market size in 2014 - $ 637 billion/annum

Annual rate of growth of modern retail - 35%

Penetration of modern retail – about 5%

Number of retail outlets - 12 million

Number of persons employed - 21 million

Retail industry business contributes **10% of the GDP** of India. Retail industry provides employment to 10% of India's working population. (In 2010, the GDPs are USA: $14.66 Trillion, China $5.88 Trillion, Japan 5.46, Germany 3.32 etc. India is 10th and its GDP is $ 1.54 Trillion)

High disposable income, easy availability of credit and exposure to popular local/ international brands has considerably increased the propensity to spend/consume.

GRDI Ranking: India has been ranked first in the Global Retail development Index for three consecutive years 2005, 2006 and 2007 conducted by A T Kearney among 30 emerging markets. India is rated as the most preferred destination for the international investors.

In 2012, India remains a fifth high-potential market with accelerated retail market growth of 15 to 20 percent expected over the next five years, supported by GDP growth of 6 to 7 percent, rising disposable income, and rapid urbanization. The following Trends can be observed by studying the Indian retail industry.

1. Migration from 'Traditional' to 'Modern'

Indian retail market is witnessing a rapid migration from conventional formats to modern formats like malls / branded outlets. Modern retail outlets are increasingly matching the international standards set in contents and functioning.

There are over 12 million small and medium retail outlets in our country, which is the highest in any country in the world. Traditional formats of retail outlets like 'kirana shops', push cart vendors, melas, mandis etc are very common in rural areas and small towns. Slowly but surely, the organized and modern retail outlets are entering our country and increasing number of domestic and foreign companies are entering the scene.

Indian retailing has long been associated with friendly neighborhood 'kirana' stores, mom-and-pop stores etc. Contributing to nearly 95% of the retail sector, the average size of these outlets is just 50 square feet. The other type is government-run or government-supported. Examples are Khadhi centre or village industries outlet.

The wake of 1980s witnessed the beginning of the modern retailing. Textile sectors with companies like Bombay Dyeing, Raymond's, S Kumar's, Reliance Vimal and Grasim first saw the emergence of retail chains. Later Titan successfully entered into the retailing and set up series of showrooms for its premium watches. However it was the 90s that ushered in a fresh wave of entrants with a shift from the manufacturers to pure retailers. Examples are Food World, Subhiksha and Nilgiris in food and FMCG; Planet M and Music World in music. Crossword, Fountainhead and Landmark in books.

2. **Emergence of specialized categories:**

The major emerging categories in retail are

- Watches
- Footwear
- Clothing, Textiles, Fashion accessories
- Books, music and gifts
- Health and Beauty care
- Consumer durables and home appliances
- Furnishing, Furniture, utensils
- Catering service
- Entertainment
- Jewellary
- Pharma
- Retail banking

Growth across segments

- Food and beverage segment constitute 74% of the retail pie in India
- Apparels and consumer durables are the fastest growing segments
- Telecom is another segment which is witnessing a very fast growth because of the rapid growth of the industry in the past decade and because about 5 million new users are being added every month
- The home décor sector is also growing rapidly as many people acquire home at an early age now
- Beauty care, music, gifts etc are also receiving increased attention because of the change in life style

3. Employment in Retail sector:

- Only 5% of the retail sector is in the organized segment concentrated exclusively in the larger urban conglomerations.
- In fact, only 4% of Indian retail outlets occupy an area of more than 500 sq. ft.
- After agriculture, the retail sector is estimated to be the largest single sector, both in terms of turnover as well as employment.
- The importance of the retail sector in the national economy is not in dispute. All economists have agreed that giving the retail sector a thrust will not only result in boosting the economy, but also that the retail sector has the potential to be leveraged in order to rejuvenate specific targeted sectors, including the rural economy.
- **The purchasing power** of the Indian consumer is increasing at the rate of 8% (Symbiosis study) per annum and as a result there is tremendous growth in retail.
- Food and apparel sectors are spearheading the retail revolution with many new sectors like telecom and healthcare sectors joining the party.
- The untapped or partially-tapped rural markets are providing a huge opportunity to players like ITC, HLL, Cavincare, Brittania etc
- E-Commerce platforms are creating an alternative channel for retailers in the area of ticketing, tourism, heath products etc

4. Study by Economic Times - 20 cities dominate the retail scenario

A joint study conducted by Roopa Purushothaman and Rajesh shukla (of Economic Times) has identified 20 cities in India which accounted for nearly $ 100 billion in retail sales in 2007-08. There are 8 mega cities, 7 boomtowns and 5 Niche cities.

The 8 mega cities that have high population and have large consumer markets are Mumbai, Delhi, Kolkatta, Chennai, Bangalore, Hyderabad, Ahmedabad and Pune.

The 7 boomtowns that have big population and also a high household income are Surat, Kanpur, Lucknow, Jaipur, Nagpur, Bhopal and Coimbatore.

The 5 Niche cities that have relatively smaller population but have a high income level are Faridabad, Amritsar, Ludhiana, Chandigarh and Jallandar.

It is projected that the business in these cities will grow at the rate of 10.1% till 2016.

5. Study by Earnest & Young - Metros leading the way in retail opportunities

- Six million Indian households are termed ‘Rich’ as their income is over $ 4700 per annum. Over half of them live in Bangalore, Mumbai and Delhi.

- One million household in India are considered ‘super rich’ and this segment grows by 20% annually.
- 62% of the market for premium products are in these three cities
- 85% of the country’s retail market is concentrated in eight cities
- Delhi has the highest number of ‘rich’ and ‘super rich’. It has the highest mall space availability
- Mumbai is home to people of different income groups requiring different retail service. Mumbai has everything to meet the different demands.
- The retail activity in Bangalore, Chennai and Hyderabad are increasing rapidly and so is the retail stores development in these 3 cities
- Delhi and Mumbai offer attractive market for lifestyle and luxury products since these cities have the highest number of people whose income is above Rs 12 lakhs per annum.

6. Mall Space Availability

♦ From setting up of the first mall in 1999, there is a steady migration of the retail from the traditional to the organized format and the trend is more in the urban areas. There is an the space occupied by the retailers for mall space in seven cities of India namely Delhi, Mumbai, Calcutta, Chennai, Bangalore, Hyderabad and Pune

7. Evolving consumer behaviour

- The life style of Indian Middle class is greatly influenced by increasing contacts with western countries and growing brand consciousness
- The outlook for Indian consumerism is buoyant as the customer’s mindset is changing from ‘saving’ to ‘spending’.

8. Easy availability of credit

- Banks and financial institutions have increased their range and amount of retail credit and service offerings. There is growing acceptance of plastic money
- Home loans and personal loans are being offered more liberally. This will have an additional impact on retail business

9. Emergence of India as a retail sourcing hub

- Riding on the back of a strong manufacturing industry, India is becoming a very important sourcing hub for several well-known international brands. Wal-mart’s s ourcing from India was estimated to be about $ 1 billion.

- Textiles dominated the scene in 1990s and thereafter consumer goods and footwear started getting more attention. Unilever sources most of its consumer products through Hindustan Unilever Ltd.
- Adidas has opened a branch in Bangalore and has started sourcing from India.

2.4 EMERGING TRENDS IN MODERN RETAIL FORMATS OF INDIA

1. Most of grocery retailers are region centric to suit different segments and taste preferences.

2. **Trial & error**: Now a number of retailers are in a mode of experimentation and trying several formats which are essentially to fit into the consumer mind space. For example Pantaloon Retail India is experimenting with several retail formats to cater to a wide segment of consumers in the market.

3. **Govt. is also promoting the development of modern retail formats** by policies like tax exemptions as Punjab government did.

4. **Increasing acceptance of rural markets-** Real estate developers are jumping very fast to take mall culture further from Metro cities to smaller cities.

5. **Emergence of Private-Label Brands**: The private labels are offering flexibility to both the retailer and the consumer on price front.

6. **Emergence of convenient stores**: In India, Convenience stores occupied 23 thousand sq. meter of retail space with sales of about Rs 1347 million in 2005 and are expected occupy 85 thousand square meter of selling space by 2010. It offers ease of shopping and customized service to the shoppers

7. **Category Killer**: A New Concept imported from U.S- Category Killer is a kind of discount specialty store that offers less variety but deep assortment of merchandise. By offering a deep assortment in a category at comparative low prices, category specialist can be able to "kill' that specific category of merchandize for other retailers.

8. **Hyper markets-** Hypermarkets not only offer consumers the most extensive merchandise mix, product and brand choices under one roof, but also create superior value for money advantages of hypermarket shopping. With product categories on offer ranging from fresh produce and FMCG products to electronics, value apparels, house ware, do it yourself (DIY) and outdoor products, the hypermarkets are emerging as one of the popular formats in India. Egpantaloon's Big Bazaar.

9. Most of the **customers still rely on traditional supermarkets** which sells grocery, fresh, cut vegetables, fruits, frozen foods, toiletries, cosmetics, small utensils, stationery and Gift items.

10. **e-Retailing or internet retailing** is also emerging as a new trend all over the world. Eg.e Bay and rediff are providing a platform to vendors to sell their products online and they do not take the responsibility of delivering the product to buyer.

11.**Rural Retailing-** rural retailing is witnessing explorations by companies – ITC's ChoupalSagar, HLL's project Shakthi and Mahamaza are some of the models being tried out.

12. Dollar stores & e-tailing.

2.5 GOVERNMENT POLICIES TOWARDS RETAILING IN INDIA:

Rules on FDI in retail

- FDI upto 100% is allowed under automatic route for 'cash and carry' wholesale trading and export trading (examples: Metro AG, Shoprite, and Wal-Mart, among others).
- FDI upto 100 % is allowed with prior approval for retail trade in 'single brand' products

  This was only 50% and recently increased to 100%. Companies which were operating at 50% were Fendi, Louis Vuitton, Nike, Llardo, Rino Greggio, Damro, ETAM, Zegna and Lee Cooper, among others
- FDI of retailing goods under multiple brands, even if produced by the same manufacturer, is not allowed

According to clarification single brands should conform to certain policy norms, including an obligation on the foreign firm to sell the products under the same brand internationally. "Single brand product retailing would cover only products, which are branded during manufacturing and should be sold under a single brand internationally," said a statement from the DIPP.

Selling "internationally" would mean sales of the product in one or more countries, outside India.

Government policies: Related liberalizations for the Indian market

- Value Added Tax (VAT) has been introduced in all states to address multiple taxation issues and to bring the prices to a uniform level across the country. Octroi has been abolished in most areas towards the same goal.
- Government has relaxed certain norms and permitting flexibility for certain emerging retail hubs like Bangalore and Hyderabad

- Laws on restriction on working hours, mandatory closure for one day in a week etc are being reviewed to suit modern retailing context without affecting the employees adversely
- The Government is working towards reducing impediments by introducing a single window clearance system for all those interested in setting up retail industry in India. This will ensure hassle-free and timely clearance of applications
- The Government is releasing a large area of undeveloped land in Mumbai and in Delhi (National Capital Region) for retail industry. This is to be soon followed by State Governments also. The Government will also be benefited because of the additional revenue in the form of sale value of the land as well as taxes from the retail operations.
- Problems related to lease rentals and pro-tenancy laws which deter the international investors are being addressed by the governments. Special economic Zones (SEZ) are being created with government-controlled lands.
- The Agricultural Produce Marketing Committee Act (APMC) which curtails direct sourcing of agricultural products (grocery items, dairy products etc) is proposed to be amended soon with a model draft act. The new act will promote direct marketing of the products by the farmers and producers to the government without any intermediaries.
- The government is encouraging 'contract farming' which will enable farmers to get direct access to a larger market of corporate retailers and will enable the retail industry to source agricultural products at competitive prices with a assured long term supply.
- The government is now focusing on developing and modernizing several 'mandis' in rural areas with facilities of cold storage, sorting, grading etc.

2.6 AN OVERVIEW OF MAJOR PLAYERS

The Indian retail industry has experienced high growth over the last decade with a noticeable shift towards organised retailing formats. The industry is moving towards a modern concept of retailing. The size of India's retail market was estimated at US$ 435 billion in 2010. Of this, US$ 414 billion (95% of the market) was traditional retail and US$ 21 billion (5% of the market) was organized retail. India's retail market is expected to grow at 7% over the next 10 years, reaching a size of US$ 850 billion by 2020. Traditional retail is expected to grow at 5% and reach a size of US$ 650 billion (76%), while organized retail is expected to grow at 25% and reach a size of US$ 200 billion by 2020.

The US-based global management consulting firm, A T Kearney, in its Global Retail Development Index (GRDI) 2011, has ranked India as the fourth most attractive nation for retail investment, among 30 emerging markets.

As India's retail industry is aggressively expanding itself, great demand for real estate is being created. The cumulative retail demand for real estate across India is expected to reach 43 million square feet by 2013. Around 46 per cent of the total estimated demand between 2009 and 2013 will be come from Tier-1 cities. For instance, Pantaloon Retail added 2.26 million square feet (sq. ft.) of retail space during the fiscal 2011 and booked over 9 million sq. ft of retail space to fructify its expansion plans in future.

Some of the key players in the Indian retail market, with a dominant share are:

1) Pantaloon Retail Ltd, a Future group venture: Over 12 mn sq. ft. of retail space spread over 1,000 stores, across 71 cities in India.

2) Shoppers Stop Ltd: Over 1.82 mn sq. ft. of retail space spread over 35 stores, in 15 cities.

3) Spencer's Retail, RPG Enterprises: Retail footage of over 1.1 mn sq. ft. with approx 250 stores, across 66 cities.

4) Lifestyle Retail, Landmark group venture: Has approximately 15 lifestyle stores and 8 Home centres.

Other major domestic players in India are Bharti Retail, Tata Trent, Globus, Aditya Birla 'More', and Reliance retail. Some of the major foreign players who have entered the segment in India are–

- Carrefour which opened its first cash-and-carry store in India in New Delhi.
- Germany-based Metro Cash & Carry which opened six wholesale centres in the country.
- Walmart in a JV with Bharti Retail, owner of Easy Day store—plans to invest about US$ 2.5 billion over the next five years to add about 10 million sqft of retail space in the country.
- British retailer Tesco Plc (TSCO) in 2008, signed an agreement with Trent Ltd. (TRENT), the retail arm of India's Tata Group, to set up cash-and-carry stores.
- Marks &Spencers have a JV with Reliance retail.

List of international players and their chosen route

- Franchisee: Pizza Hut, Dominos Pizza, NIKE, SUBWAY (S & D Enterprises , Spencer Plaza is a franchisee of NIKE in Chennai and they sell all NIKE products including footwear, apparels and sports goods) (Jubilant Foodworks Ltd hold the master franchise for Domino Pizza in India , Nepal, Sri Lanka and Bangladesh)
- Cash and carry wholesale trading: METRO, SHOPRITE, Bharti-Walmart

- Joint Venture : McDONALD, REEBOK (McDonald's in India is a Joint-Venture (JV) partnership run by Indians. McDonald's International through its wholly owned subsidiary McDonald's India entered into two JVs, one with Connaught Plaza Restaurants Pvt. Ltd. managed by Mr. Vikram Bakshi in the Northern & Eastern region and another with Hard Castle Restaurants Pvt. Ltd. managed by Mr. Amit Jatia in the Western & Southern Region)
- Manufacturing : BATA, United Colors of Benelton
- Distribution : HUGO BOSS, SWAROVSKI (HUGO BOSS, a German company, covers all the main fashion accessories for men and women , including apparels, perfumes, shoes, fragrances etc)

Available routes for foreign players to Indian market in retail

- Strategic license agreement : This route allows a foreign company entering into a licensing agreement with a domestic retailer or partnering with Indian promoter-owned companies
- Cash and carry wholesale trading: 100% FDI is allowed in wholesale trading which involves building of a large distribution network
- Distribution: An international player can set up a distribution office in India and supply products to the local retailers. Franchisee outlets also can be set up in this route.
- Franchisee route: The route of having a master franchisee and a regional franchisee route is widely used by companies having a number of international brands
- Manufacturing route: A company can establish a manufacturing facility in India with a 'stand alone' retail outlets
- Joint Venture: International companies can enter into a joint venture with an Indian company and set up base in India. Only 49% ownership is permitted.

2.7 CHALLENGES IN RETAILING IN INDIA

- **Foreign investment** is restricted in this sector by Governmental policies
- **Indian culture and mindset** always is towards saving money rather than spending
- Due the growing population, **the pressure on land** is also growing. **Real estate costs** are shooting up in all parts of the country. Real estate cost is a significant portion of the total cost in retail industry.
- **The taxation system** is complex and the suppliers could be from several locations and this may add to the complexity

- The development of **supply chain** management systems is still not adequate to meet the needs of this industry. Supply could be uncertain because of the infrastructure bottlenecks
- Most Indians believe that the branded products are expensive and the manufacturers charge a very high premium on branded products
- Indians , by nature, believe that products sold in huge malls and supermarkets will be necessarily more expensive
- Many middlemen currently in the retail business are of the view that the entry of organized retail industry will deprive them of their livelihood and are staging protests
- There are political parties which are opposed to the entry of multinational retail chains to India as they are of the opinion that it will kill the smaller retail traders
- Modern retailing is all about directly having "first hand experience" with customers, giving them such a satiable experience that they would like to enjoy again and again. Providing great experience to customers can easily be said than done. One of the key observations by customers is that it is very difficult to find the uniqueness of retail stores. The problem: retail differentiation
- The next problem in setting up organized retail operations is that of supply chain logistics. India lacks a strong supply chain when compared to Europe or the USA. The existing supply chain has too many intermediaries: Typical supply chain looks like:- Manufacturer - National distributor - Regional distributor - Local wholesaler - Retailer - Consumer. This implies that global retail chains will have to build a supply chain network from scratch. This might run foul with the existing supply chain operators
- In addition to fragmented supply chain, the trucking and transportation system is antiquated. The concept of container trucks, automated warehousing is yet to take root in India. The result: significant losses/damages during shipping
- Merchandising planning is one of the biggest challenges that any multi store retailer faces. Getting the right mix of product, which is store-specific across organization, is a combination of customer insight, allocation and assortment techniques
- **Frauds in Retail:** It is one of the primary challenges the companies would have to face. Frauds, including vendor frauds, thefts, shoplifting and inaccuracy in supervision and administration are the challenges that are difficult to handle. This is so even after the use of security techniques, such as CCTVs. As the size of the sector would increase, this would increase the number of thefts, frauds and discrepancies in the system

- Transportation, including railway systems, has to be more efficient. Highways have to meet global standards. Airport capacities and power supply have to be enhanced. Warehouse facilities and timely distribution are other areas of challenge. To fully utilize India's potential in retail sector, these major obstacles have to be removed.
- Huge gap in the demand and supply of trained work force. There is only a limited supply of trained workforce and all labour laws only proetect the employee and not the employer
- Small retail space (by international standards)
- Socio-economic and cultural diversity hampers in projecting an established model and pattern of consumption
- Intrinsic complexity of retailing – low margins, danger of product obsolescence & constant price changes
- Complex legislation and bureaucratic red tape resulting in difficult navigation – To open a large organisation, the trader has to obtain clearance from 10 – 15 governmental agencies
- Taxation that favours unorganised retail players
- High cost of operation
- Price conscious consumers with an age old culture of saving rather than spending
- Retail margins are already wafer-thin, compared to markets like Middle East. The management of LifeStyle, which runs more than 200 stores there says that the retail margin after tax in India is only 4% as against 10% in Middle East.

The local laws do not permit keeping the stores open beyond 7.30 PM in Delhi and also on Sundays and holidays. This stands in contrast to the modern retail concept which advocates that the shop is to be kept open as per the convenience of the shoppers. Recently the Shopper's Stop obtained permission from authorities in Delhi for this.

2.8 OPPORTUNITIES IN RETAILING IN INDIA

- India and China are the only countries which are growing at a rate of over 8 to 9% and this growth will also be reflected in the retail sector also due the increasing income of the people and consequently the purchasing power.
- Only a small portion of the rural areas have been tapped so far. As the rural areas grow at a faster pace, it provides opportunities
- There are many smaller towns which have still not developed in the retail sector

- Branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery, are slowly becoming lifestyle products that are widely accepted by the Indian consumer.
- Indian retailers have the opportunity to diversify and introduce new formats in the brand building process. The emphasis here is on retail as a brand rather than retailers selling brands. The focus should be on branding the retail business itself. In their preparation to face fierce competitive pressure, Indian retailers must come to recognize the value of building their own
- The organized retail industry's share is only about 5% in India. Therefore there is a great opportunity in this sector
- Liberalisation of the Indian Economy (From Licence Raj of 50s and 60s)
- Rapid Urbanisation (currently nearly 30% if Indian population is categorized as 'urban')
- Sharp rise in the Per Capita Income
- Changing lifestyles
- Shift in the consumer shopping behaviour pattern.
- Increase of dual income nuclear families
- Internet revolution opening new doors to the global market
- Increasing population of young working people under 25
- High prospect of India becoming a sourcing base for international retail companies
- Availability of great quality real estate
- A billion population (and rising)
- Two third of India's population is under 35 years of age. More than 60% of the population is in the working age group (between 15 and 60). The median age in India is 23 as against the world's mean of 33. Hence India is young and this adds to the future prospects.
- Retail Management is a sought-after educational course and 15 primier institutes are offering the same. This means there will be adequate number of educated managers for the segment.

THE FUTURE

Organized retail is a new phenomenon in India and despite the downturns, the market is growing exponentially, as economic growth brings more of India's people into the consuming classes and organized retail lures more and more existing shoppers into its open doors. By 2015, more than 300 million shoppers are likely to patronize organized retail chains. The growing middle class is an important factor contributing to the growth of retail in India. By 2030, it is estimated that 91 million households will be ‘middle class’, up from 21 million today. Also by 2030, 570 million people are expected to live in cities, nearly twice the population of the United States today.

Consumer markets in emerging market economies like India are growing rapidly owing to robust economic growth. India’s modern consumption level is set to double within five years to US$ 1.5 trillion from the present level of US$ 750 billion. Thus, with tremendous potential and huge population, India is set for high growth in consumer expenditure. With India’s large ‘young’ population and high domestic consumption, the macro trends for the sector look favorable.

Online retail business is another format which has high potential for growth in the near future. The online retail segment in India is growing at an annual rate of 35 per cent, which would take its value from Rs 2,000 crore (US$ 429.5 million) in 2011 to Rs 7,000 crore (US$ 1.5 billion) by 2015. For instance the Tata Group firm Infiniti Retail, that operates its consumer durables and electronics chain of stores under the ‘Croma’ brand, is in the process of tapping net savvy consumers. Similarly, the Future Group, that operates a dedicated portal ‘Futurebazaar.com’ for online sales, has revealed that it is targeting at least 10 per cent of the company’s total retail sales through the digital medium.

2.9 NOTES

2.10 SUMMARY

Indian retailing is one of the largest in the world, However organized retailing is yet to develop to meet the requirements of the huge market. Most of the big retail houses are located in the cities. As India is a country of villages, majority of the market has remained untapped. After economic reforms a number of multinational retailing companies have started their operations in India. The socio-economic changes happened over the last two decades have created opportunities for large scale retailing with high quality branded products in the Indian market. The successive governments in India since independence have passed several regulations to control and monitor the growth of retail sector in India.

2.11 KEYWORDS

- Retailing in India
- Evolution
- Retail Houses
- Indian Retail Industry

2.12 SELF ASSESSMENT QUESTIONS:

1. Describe the evolution of retailing in India.
2. What are the different forms of retail houses operating in India?
3. Explain the socio-economic reasons for the growth of retailing in India.
4. Give an account of the major players in Indian retail industry.
5. Explain the policy of the union government towards multinational retailers in India.
6. Explain the government policy towards retailing in India.

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UNIT – III: RETAIL FORMATS AND CLASSIFICATION

Structure:

3.0 OBJECTIVES

After studying this unit ,you should be able to;

- Identify the different forms of retailing.
- Distinguish between retailing operation based on ownership, product line, store and non-store retailing.
- Make decisions regarding retailing operations
- Interpret the retailing life cycle in decisions on retailing business.

3.1 INTRODUCTION

A business format is the manner in which a business chooses to serve its customers and stakeholders. In retail, a business model would dictate the product and/or services offered by the retailer, the pricing policy that he adopts, the communication that he follows to reach out to his customers and the size, look and the location of his retail store.

A retail format is the overall appearance or impression of a store as it is presented to its customers. It includes the external look and internal layout, the range of products offered and the pricing approach.

The evolution of retail in India has led to the emergence of the various formats in the retail industry .The first hypermarket that was developed was Carrefour in France in 1963.This format gave the customer the choice of picking up a product , comparing it with others and then taking a decision to buy . The decision making of a customer has changed and there are three principles that have become fundamental to modern selling:

1) Stores fix the product prices before sales and the customer buy's at the set prices.
2) The prices were determined on the basis of stock turnover and the amount of profit that was generated from the product.
3) The retailers departmentalize the products. Accounting system was devised to determine the contribution of various departments which enable them to drop unprofitable goods.

3.2 RETAIL FORMATS

The format or structure of a retail business is designed to deliver access and convenience to the shoppers by adding value. The important function that the retailers discharge to increase the value of the product they sell is to facilitate the timely distribution by making product assortments, breaking the bulk, holding stock and arranging for the supporting services. Hence, a retail format must facilitate for the delivery of the products in an efficient way for consumption. A format used for retailing must facilitate smooth flow of merchandise from retailers to consumers, help in publicity for the retailer, provides for the control of operations and fixing responsibility for employees. Therefore a good retail format must be based on the following-

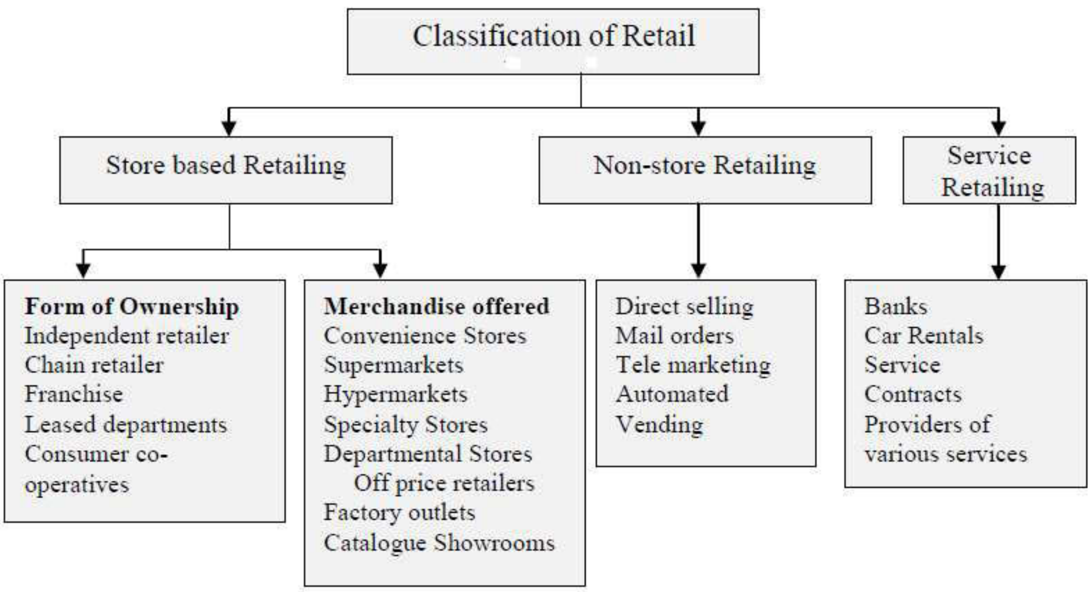
a. Location and the nature of the product

b. Number of employees and their work specialization

c. Accountability and relationship with the superiors

The following chart gives a brief explanation of retail formats:

Formats of Retailing



(Source : Berman & Evans (2007) Retailing Management, Prentice Hall, Pg. No. 5)

Fig 3.1

Retailing can be classified based on three distinct characteristics namely, the legal format or the ownership of the retailing and on the basis of store and non-store basis.

Classification on the Basis of Ownership

On the basis of ownership, a retail store can be an independent retailer, a chain retailer or a corporate retail chain, a franchise or a consumer co-operative.

Independent retailer

An independent retailer is one who owns and operates only one retail outlet. Such an outlet is managed by the owner & proprietor and a few other local hands or family members working as assistants in the shop. Many independent stores tend to be passed on from generation to generation.

In India, a large number of retailers are independent retailers. Stores like the local baniya / kirana store and the panwala are examples of independent retailers, as are stores like Benzer, Instyle, Premsons, Amarsons, etc. The ease of entry into the retail market is one of the biggest advantages available to an independent retailer. Depending on the location and product mix that he chooses to offer, he can determine the retail strategy. The independent retailer often has the advantage of having a one to one rapport with most of his customers. However, on the flip side, the advantages of economies of scale and the bargaining power with the suppliers is limited.

A chain retailer or a corporate retail chain

When two or more outlets are under a common ownership, it is called a retail chain. These stores are characterised by similarity in the merchandise offered to the consumer, the ambience, advertising and promotions. Examples in India include Wills Sports (ITC), Louis Phillippe, Van Heusen (Madura Garments), Arrow (Arvind Mills) and department stores like Globus, Westside and Shopper's Stop. Food world, Music world, Planet M, etc., are also examples of chain retailers.

The biggest advantage that a chain retailer has is that of the bargaining power that he can have with the suppliers. Cost effectiveness is also possible in advertising and promotions. However, since chains expand across cities and regions, it may not always be possible to take into account the regional or rural and urban preferences. The ability to give attention to each of the stores becomes fairly restricted.

Franchising

A franchise is a contractual agreement between the franchiser and the franchisee, which allows the franchisee to conduct business under an established name as per a particular business format, in return for a fee or compensation. Franchising can be:

- **A product or trade mark franchise—**where the franchisee sells the products of the franchiser and/or operates under the franchiser's name. Archie's stores, which have come up across India, are an example of product franchising.
- **A business format franchise—**McDonald's is perhaps one of the best examples of business format franchising.

Under both the mentioned methods of franchising, the franchise may be for a single store, a multiple number of stores or for a region or country. While outlets of Van

Heusen, Louis Philippe, Arrow and Benetton are examples of individual franchises in India, Mc Donald's operates at a level of two regional franchises. Pizza Hut, Dominoes and Subway are also franchises operating in India.

Leased departments

These are also termed as shop-in-shops. When a section of a department in a retail store is leased/ rented to an outside party, it is termed as a leased department. A leased department within a store is a good method available to the retailer for expanding his product offering to the customers. In India, many large department stores operate their perfumes and cosmetics counters in this manner. A new trend emerging in Indian retail is that of larger retail chains setting up smaller retail outlets or counters in high traffic areas like malls, department stores, multiplexes and public places like airports and railway stations. These stores display only a fraction of the merchandise/products sold in the anchor stores. Their main aim is to be available to the consumer near his place of work or home.

Consumer co-operatives

A consumer co-operative is a retail institution owned by its member customers. A consumer cooperative may arise largely because of dissatisfied consumers whose needs are not fulfilled by the existing retailers. As the members of the co-operative largely run these co-operatives, there is a limitation on their growth opportunities. Examples of co-operatives in India are the Sahakar Bhandar and Apna Bazaar shops in Mumbai and Super Bazaar in Delhi.

Classification on the basis of the Merchandise offered

Convenience stores: These are relatively small stores located near residential areas; they are open for long hours and offer a limited line of convenience products. The Food Marketing Institute defines this format as a small store selling mainly groceries, open until late at night or even 24 hours per day and is sometimes abbreviated to c-store. The store ranges from 300 sq.mt. to 800 sq.mt. and they are targeted at customers who want to make their purchases quickly. The retail stores that have started coming up at petrol pumps in major cities like HP Speed mart and In & Out are examples of convenience stores. International examples of retailers who operate convenience stores include 7-Eleven, Circle K, Albert Heijn and SPAR.

Supermarkets: These are large, low cost, low margin, high volume, self-service operations designed to meet the needs for food, groceries & other non-food items. This format was at the forefront of the grocery revolution, and today, it controls more than 30% of the grocery market in many countries.

The most widely used definition is a store with a selling area of between 400 sq.mt. and 2500 sq.mt. selling at least 70% foodstuffs and everyday commodities.12 ASDA, Safeway, Kroger and Tesco are some of the large international players. Example of supermarkets in the Indian market scenario are Food Bazaar, More for you, Spinach, Reliance Fresh, D Mart and Spencers.

Hypermarket: The word hypermarket is derived from the French word *hypermarche*, which is a combination of a supermarket and a department store. This retail business format has evolved since its invention by retailer Carrefour in Sainte Genevieve des Bois near Paris, in the year 196313. A retail store with a sales area of over 2500 sq.mt., with at least 35% of selling space devoted to non-grocery products, is termed as a hypermarket.14 The stores occupy an area which ranges anywhere between 80,000 to 2,20,000 sq.ft. and offers a variety of food and non food products like clothes, jewellery, hardware, sports equipment, cycles, books, CD's, DVD's, TV's, electrical equipments and computers. It combines supermarket, discount & warehouse retailing principles. The hypermarkets are designed to attract customers from a significantly large area with their low price offers, unique range and offers.

Hypermarkets are today synonymous with one stop shopping. The cheapest prices will normally be found in these stores. Across the world, hypermarkets are usually part of a retail park with other shops, cafeterias and restaurants.

Key retailers who operate in this business model are Carrefour, Wal-Mart, Meijer, Super Targets, Tesco Extra Stores and Asda. Examples of hypermarkets in India include Giant, Big Bazaar, Hypercity, Central and Star India Bazaar.

Speciality stores: A store specialising in a particular type of merchandise or single product of durable goods viz, furniture, household goods, consumer electronics and/or domestic electrical appliances or a range of normally complementary durable goods product categories is termed as a speciality store. Such a business model is characterised by a high level of service or product information being made available to customers. These are also characterised by a narrow product line with deep assortments in that product line. Speciality stores usually concentrate on apparel, jewellery, fabrics, sporting goods, furniture, etc. They have a very clearly defined target market and their success lies in serving their needs.

Internationally, most speciality retailers would operate in an area under 8,000 sq. ft. Examples of international retail chains, which are speciality retailers, include The Gap, Ikea, High & Mighty, Big & Tall, etc. In India, speciality stores is one of the fastest emerging formats. Examples of speciality stores in India include retail chains like Proline fitness station and Gautier furniture.

Departmental stores: A departmental store is a large-scale retail outlet, often multi-levelled, whose merchandise offer spans a number of different product categories. Traditionally, department stores can be defined as averaging 7,000 sq.mt. selling at least fashion clothing, accessories, cosmetics, household goods and often a much broader assortment, from more or less separate departments on several floors. These establishments depend on food, clothing and home related items for at least 10% but less than 70% of their sales. Furthermore, these stores have at least 50 employees and a self-service ratio of less than 50%.

While department stores have been around in India for a long time, this format of retailing has a fair amount of action over the past few years. The size of average Indian departmental store varies from 20,000 to 40,000 sq.ft. and stocks anywhere between 50,000 to 1,00,000 SKU's. Some of the national players are Shopper's Stop, Globys, Westside, Lifestyle, Akbarally's, Bombay stores.

Off Price retailers: Here, the merchandise is sold at less than retail prices. Off-price retailers buy manufacturers' seconds, overruns or off seasons at a deep discount. The merchandise may be in odd sizes, unpopular colours or with minor defects. Off price retail stores may be manufacturer owned or may be owned by a speciality or departmental store. These outlets are usually seen by the parent company as a means of increasing the business. The factory outlets in case the manufacturer owns them, may stock only company merchandise. Examples of these include Pantaloon Factory Outlets, Levi's Factory Outlets, etc. On the other hand, off price retailers owned by the speciality or departmental store may sell merchandise from the parent company as well as merchandise acquired from other retailers. This format depends on volume sales to make money.

Catalogue showrooms: Catalogue retailers usually specialize in hard goods such as houseware, jewellery and consumer electronics. A customer walks into this retail showroom and goes through the catalogue of the product/s that he would like to purchase. Some stores require the customer to write out the product code number and hand it over to the clerk, who then arranges for the product to be brought out from the warehouse for inspection and purchase. Some of the popular showroom retailers in the world include Argos, Service Merchandise and Best Products. India's most exciting retail store, Hyper City, has joined forces with Argos, the UK's best loved high street name, to bring a new shopping experience to the customer. With over 680 stores and 34 years' experience, Argos offers what customers want, when they want it, and has built a reputation on providing exceptional value and convenience. The Argos catalogue in India offers over 4000 top quality products for the home, from furniture to fitness, and from cookware to computing.

Non-Store Retailing

The ultimate form of retailing directly to the consumer is non-store retailing. A direct relationship with the consumer is the basis of any kind of non-store retail venture. It may be broadly classified as direct selling and direct response marketing. While direct selling involves direct personal marketing, direct response marketing, the customer becomes aware of the products/ services offered through a non personal medium like mail, catalogues, phone, television or the internet.

Direct selling

Direct selling involves making a personal contact with the end consumer at home or at the place of work. Cosmetics, jewellery, food and nutritional products, home appliances and education materials are some of the products sold in this manner.

Direct selling may follow the party plan or the multilevel network. In the party plan, the host invites friends and neighbours for a party. The merchandise is displayed and demonstrated in the party atmosphere and buying and selling takes place. .

In the multi level network, customers act like master distributors. They appoint other people who work with them as distributors. The master distributor earns a commission on the basis of the products sold and distributed by the distributors.

Mail Order Retailing / Catalogue retailing: This form of retailing eliminates personal selling and store operations. Appropriate for specialty products, the key is using customer databases to develop targeted catalogues that appeal to narrow target markets. The basic characteristic of this form of retailing is convenience. .

Television shopping: Asian Sky Shop was among the first to introduce television shopping in India. In this form of retailing, the product is advertised on television, details about the product features, price and things like guarantee / warranty are explained. Phone numbers are provided for each city, where the buyer can call in and place the order for the product. The products are then home delivered.

Electronic Shopping: It allows the customer to evaluate and purchase the products from the comfort of their home. The success of this form of retailing largely depends on the products that are offered and the ability of the retail organisation to deliver the product on time to the customer. Strong supply chain and delivery mechanisms need to be in place for this to be a success.

Information Kiosks have emerged in the western markets as a new type of electronic retailing. These kiosks, comprising of computer terminals housed inside and a touch screen on the outside provide customers with product and company information and may actually aid the customer in making a purchase. A large number of international cosmetic companies have used this technology to an advantage. The terminals also serve as a market research tool for the retailers. A large amount of information about the people who have interacted with the system can be collected and programmes and products developed accordingly.

Automatic Vending / Kiosks: This is the most impersonal form of retailing. However, it provides convenience to the customers, as they have access to the products round the clock.

It is a popular form of retailing abroad and is used to sell routinely purchased items like soft drinks, candy, cigarettes and newspapers. While tea and coffee vending machines are a popular sight at the airports in India, the Automated Teller Machines operated by banks are perhaps the most successful example of automated vending in India.

Kiosks have their applications in different areas of retail like within the retail environment as I-kiosks, which aim to provide access to far more products than the physical store can stock. Applications can also be seen across the government sector, banking and tourism, where not only Information is provided but other facilities like transit routes and the ability to create personalized itineraries may also be provided. Large retailers like McDonald's are using kiosks to let customers key in orders at some restaurants.

Service Retailing

Services have become an inseparable part of marketable products. About 70% of business in the present market are happening in the form of services. Services may be in the form of transportation, communication, entertainment, healthcare, hospitality, banking, insurance and other ancillary activity that facilitates the consumers to get satisfaction. Many organizations that offer services to customers have started operating in different forms of retailing like retail outlets, franchise, exclusive dealers, and specialty stores. Banks and insurance companies open satellite branches or special counters, and keep drop boxes, travel agents or manufactures, booking counters, delivery of goods or services through electronic vending machines are the different forms of retailing.

3.3 RETAILING DECISION PROCESS

Retailing is a dynamic and highly competitive business activity. The success in this operation like in any business depends on the decisions made at the appropriate time. No doubt the objective on any business is to make profit, along with that the major considerations that are to be kept in mind while making decision related to retailing are scope for the future growth of business, short term profitability, nature of the risk and means to overcome them, expectations of the market and the society, government policy and the nature of competition.

The most important decisions that are to be made are concerned with selecting the merchandise, market and type of customers to be targeted. Once the product and the customers are selected a marketing strategy of reaching the customer's expectations is to be developed. The strategies are to be executed in the light of marketing realities. Therefore retailing decision making process can be analyzed at three most important levels, namely-

a. Analyzing the market and retailing opportunities

b. Developing marketing strategy

c. Developing a retail plan

Before staring up of any business it is necessary to understand business environment in order to identify opportunities and threats which will help evolving competitive advantage for the business. Therefore a retailer has to scan the environment in terms of competition, demographic factors, political and social changes, government policies and legal system, technological advancement, opportunities for new type of business, changing expectations of the customers. Based on the opportunities and the threats in the environment basic decisions with regard to the product or products to be dealt in, location and the type of stores to be opened, type of ownership and the sourcing of finance, manpower requirements and the source of getting required manpower, technology and its implementation in business are to be decided.

The second level in the retail decision process are concerned with developing marketing strategy, where in decisions regarding the breadth, depth and the quality of the merchandise are to be decided. The retailer's need to identify the target market and the segment to be catered with appropriate marketing techniques. Decisions with regard to all the controllable and uncontrollable variables related to retailing are to be taken, for instance the uncontrollable variables are the technology, government policy, changing taste and fashion, where as the controllable variables are location of the store, timing of its operation nature of service and assistance, facility and infrastructure to retail buyers. Product assortment is one of the important decision as it is concerned with the categories of products that are likely to be displayed in the store. The assortment may vary from a narrow to a wide range. Once the assortment decisions are made the next decision to be made is about the quantity of the stock and the duration to which the stock is to be maintained. Inventory management is another important decision to be taken at this stage. After deciding the product procurement and storing, pricing decisions are to be made. Before executing any pricing policy retailers need to consider macro environmental factors like the government policy, technological advancement and competitors pricing policy. Normally retailers will have to follow stage wise pricing strategy. An initial low price or a fixed or a very high price by following penetration or skimming strategy to attract customers attention, then developing a pricing policy of their own to compete against others in the market, to fix independent prices based on the customers demand and the cost of sales and then following a pricing policy which can be adjusted as and when the situation like market dynamics, competitors pressures, demand fluctuations and changing seasons.

Another important decision to be taken at this stage is about the promotion of retailing. Retailers use different forms of communication to attract customers towards their outlets. The retail promotion mix is expected to achieve several objectives like increasing the stores traffic by attracting the new customers, increasing the sales, developing an image and loyalty for the retail outlet. Like any other business retailers can use a promotion mix made up of advertising, publicity, personal selling, sales promotions like contest displays, sponsoring events and offering discounts or bonus to attract customers.

The third level of retailing decisions are concerned with the development of retail plans. The retailer have to decide the operational issue related to his business like what product items are to be procured?, what quantities of items and brands are to be procured?, what should be ideal source of procurement?, what are the arrangements are to be made for storing, packaging, labeling, branding, rebranding, how-long the products must be kept in display?. At this level decisions related to merchandise planning, sales forecasting, buying procedures, product assortment, and inventory management related decisions are to be made.

3.4 RETAIL LIFE CYCLE

Retail management and decisions are influenced by both micro and macro environmental factors. There are several approaches to explain how a retail outlet and its operations are influenced by the factors like consumers demand and expectations. Environmental forces and their cyclical fluctuations will influence the operations of retailers. Retail life cycle is a theory used to explain the process of changes in retailing happned over a period of time due to the changes in the business. Like any other business retailing institutions are also passes through a cycle of four distinct stages. The concept of product life cycle as explained by Philip Kotler, can also be applied to retail organizations, as retail organizations, pass through identifiable stages of innovation, development, maturity and decline. This is what is commonly termed as the **retail life cycle**.

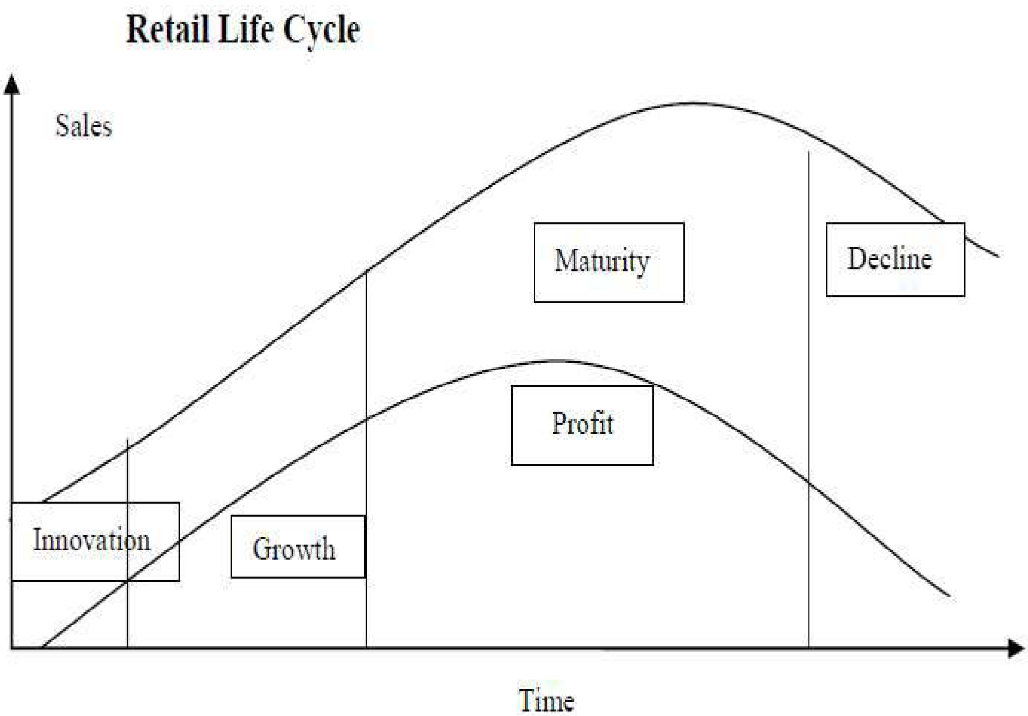
Attributes and strategies change as institutions mature. The ‘Retail Life cycle’ is a theory about the change through time of the retailing outlets. It is claimed that the retail institutions show a ‘s-shaped’ development through their economic life. The s-shaped development curve has been classified into four main phases:

a: Innovation

A new organization is born - it improves the convenience or creates other advantages to the final customers that differ sharply from those offered by other retailers. This is the stage of innovation, where the organization has a few competitors. Since it is a new concept, the rate of growth is fairly rapid and the management fine-tunes its strategy through experimentation. Levels of profitability are moderate and this stage can last up to five years depending on the organization.

b: Accelerated Growth

The retail organization faces rapid increases in sales. As the organization moves to stage two of growth, which is the stage of development, a few competitors emerge. Since the company has been in the market for a while, it is now in a position to pre-empt the market by establishing a position of leadership. Since growth is imperative, the investment level is also high, as is the profitability. Investment is largely in systems and processes. This stage can last from five to eight years. However towards the end of this phase, cost pressures tend to appear.



c. Maturity

The organization still grows, but competitive pressures are felt acutely from newer forms of retail that tend to arise. Thus, the growth rate tends to decrease. Gradually, as markets become competitive and direct competition increases, the rate of growth slows down and profits also start declining. This is the time when the retail organization needs to rethink its strategy and reposition itself in the market. A change may occur not only in the format but also in the merchandise offered.

d. Decline

The retail organization loses its competitive edge and there is a decline. In this stage, organization needs to decide if it is still going to continue in the market. The rate of growth negative, profitability declines further and overheads are high. The retail business in India has only recently seen the emergence of organized, corporate activity. Traditionally, most of the retail business in India has been small owner-managed business. It is hence, difficult to put down a retail organization, which has passed through all the four stages of the retail life cycle.

3.5 NOTES

3.6: SUMMARY:

Retailing may be in the different forms on the basis of the ownership, nature of the product line, and the operations in the form of stores or non-store method. With the advancement of technology and communication, different routes of reaching the customers have been developed by the retailers. Retailers have to make decisions about their marketing, location and other managerial issues. Retail environment is a dynamic system made up of controllable and uncontrollable variables. A decision maker has to take into account the changes in the environmental forces and the stage in which his business is in its lifecycle.

3.7: KEY WORDS

Retail Formats

Retail life Cycle

Retail Decisions

3.8: SELF ASSESSMENT QUESTIONS:

1. Explain the different types of classifications of retail organizations.
2. What are the four types of store retailing formats based on the merchandise mix?
3. Discuss the key dimensions of retail ownership.
4. Explain the important steps of retail decision process.
5. Identify the stages of retail life cycle of your favorite retail brand.

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UNIT – IV : RETAIL PLANNING AND MANAGEMENT

Structure:

4.0 OBJECTIVES

After studying this unit ,you should be able to;

- Describe the process of retail planning.
- Explain the factors that influence retailing plans
- Analyse the importance of retail shop management and activities involved in the retail shop management.

4.1 INTRODUCTION

Retail Planning in its broadest sense, is the planning that can encompass plans for everything from store location to signage, displays, and consumer traffic patterns in a store. Quite simply, it means operational planning for the profitability of every store. Developing a reliable retail strategic plan is the key to the success of any retail chains. Retail planning is the process of strategic planning for business success.

4.2 RETAIL PLANNING

The two keys to effective retail planning are forecasting sales and planning inventory needs to support that level of sales. When actual sales come in over or under the forecast, appropriate adjustments can be made to how much inventory will be needed in subsequent planning periods.

Sales forecasting and inventory management, then, work together. You can't plan inventory levels if you haven't developed a sound sales forecast.

With inadequate retail planning, your stores will inevitably be plagued with overstocks and out-of-stocks. Both situations hurt you financially—through markdowns, cash flow problems, missed sales opportunities, and potentially lost customers. Moreover, reactive attempts to address out-of-stocks may make matters worse later on with increased overstocks.

Strategic Retail Planning Process-

The strategic retail planning process is the set of steps that a retailer goes through to develop a strategic retail plan. It describes how retailers select target market segments, determine the appropriate retail format, and build sustainable competitive advantages. The planning process can be used to formulate strategic plans at different levels within a retail corporation.

Step 1: Define the Business Mission- The mission statement is a broad description of a retailer's objectives and the scope of activities it plans to undertake. It should define the general nature of the target segments and retail formats that the firm will consider. In developing the mission statement, managers must answer five questions:

(1) What business are we in?

(2) What should be our business in the future?

(3) Who are our customers?

(4) What are our capabilities?

(5) What do we want to accomplish?

Step 2: Analyze the situation- An analysis of the opportunities and threats in the retail environment and the strengths and weaknesses of the retail business related to its competitors, government policy and socio-economic environment is to be made.

A situation audit is composed of four elements: market factors, competitive factors, environmental factors, and strengths and weaknesses analysis.

a. Market Factors- Some critical factors related to consumers and their buying patterns are market size and growth, sales cyclicality, and seasonality. Market size, typically measured in retail sales dollars, is important because it indicates a firm's opportunity for generating revenues to cover its investment. Large markets are attractive to large retail firms, but they are also attractive to small entrepreneurs because they offer more opportunities to focus on a market segment. Growing markets are typically more attractive than mature or declining markets. In general, markets with highly seasonal sales are unattractive because a lot of resources are needed to accommodate the peak season, but are underutilized the rest of the year.

b. Competitive Factors- The nature of the competition in retail markets is affected by barriers to entry, the bargaining power of vendors, and competitive rivalry. Retail markets are more attractive when competitive entry is costly.

- Barriers to entry are conditions in a retail market that make it difficult for firms to enter the market. These conditions include scale economies, customer loyalty, and availability of locations.
- Scale economies are cost advantages due to a retailer's size. Markets dominated by large competitors with scale economies are typically unattractive.
- Retail markets dominated by a well-established retailer that has developed a loyal group of customers offer limited profit potential.
- The availability of locations may impede competitive entry.

- A retail market with high entry barriers is very attractive for retailers presently competing in that market, but unattractive for retailers not already in that market.
- Another competitive factor is the bargaining power of vendors. Markets are unattractive when a few vendors control the merchandise sold in it. In these situations, the vendors have an opportunity to dictate prices and other terms, such as delivery dates, and thus reduce the retailer's profits.
- The final industry factor is the level of competitive rivalry in the retail market, which is the frequency and intensity of reactions to actions undertaken by competitors. Conditions that may lead to intense rivalry include: (1) a large number of competitors that are all about the same size, (2) slow growth, (3) high fixed costs, and (4) the lack of perceived differences between competing retailers.

c. Environmental Factors- Environmental factors that affect market attractiveness are technological, economic, regulatory, and social changes. When a retail market is going through significant changes in technology, present competitors are vulnerable to new entrants that are skilled at using the new technology. Some retailers are more affected by economic conditions than others. Government regulations can reduce the attractiveness of a retail market. Finally, trends in demographics, lifestyles, attitudes, and personal values affect retail markets' attractiveness.

d. Strengths and Weakness Analysis- The most critical aspect of the situation audit is for a retailer to determine its unique capabilities in terms of its strengths and weaknesses relative to the competition. A strengths and weaknesses analysis indicates how well the business can seize opportunities and avoid harm from threats in the environment.

Step 3: Identify Strategic Opportunities- After completing the situation audit, the next step is to identify opportunities for increasing retail sales. The strategic alternatives are defined in terms of the squares in the retail market matrix.

Step 4: Evaluation of Strategic opportunities- The evaluation of strategic opportunities identified in the situation audit determines the retailer's potential to establish a sustainable competitive advantage and reap long-term profits from the opportunities under evaluation.

Thus, a retailer must focus on opportunities that utilize its strengths and its area of competitive advantage. Both the market attractiveness and the strengths and weaknesses of the retailer need to be considered in evaluating strategic opportunities. The greatest investments should be made in market opportunities where the retailer has a strong competitive position.

Step 5: Setting objectives and resources allocation- The retailer's overall objective is included in the mission statement. The specific objectives are goals against which progress toward the overall objective can be measured.

Specific objectives have three components: (1) the performance sought, including a numerical index against which progress may be measured, (2) a time frame within which the goal is to be achieved, and (3) the level of investment needed to achieve the objective.

Typically, the performance levels are financial criteria such as return on investment, sales, or profits.

Step 6: Retail Mix strategy and its implementation - The next step is to develop a retail mix for each opportunity in which investment will be made and to control and evaluate performance.

Step 7: Performance Appraisal- The final step in the planning process is evaluating the results of the strategy and implementation program. If the retailer fails to meet its objectives, reanalysis is needed. This reanalysis starts with reviewing the implementation programs; but it may indicate that the strategy (or even the mission statement) needs to be reconsidered. This conclusion would result in starting a new planning process, including a new situation audit.

4.3 RETAIL SHOP MANAGEMENT

Retail Shop Management is an important element of Retail Management process. Retail shop management involves several important functions like Management of Visual Merchandise, Retail Space Management, Store Building-layouts, Inventory Management, Retail Advertising and Promotions, Retail Audit, Retail Management Information System, etc. some of these topics are explained below to give the reader a brief idea of what retail Shop Management consist of and are further discussed in detail in the following modules.

I. Retail store building, format, layout:

Retail store's physical characteristics are referred as atmospherics of retail store.

This will appeal customers and encourage them to buy more things. Physical structurecan broadly be classified exterior, interior, store lay out and visual merchandising(display). Exterior refers to aspects like store front, display windows, surrounding businesses, look of the Shopping Centre etc. It is considered important to attract newcustomers. The interior atmospherics refers to aspects like lightings, colour, interior decorations etc.

Role of atmospherics (physical components) in retail business

- Enhance the image or retail outlet
- Attract new customers
- Create a define USP
- Generate excitement
- Facilitate easy movement inside the store
- Facilitate access to merchandise inside
- Ensure optimum utilization of retail space
- Ensure effective and desired presentation the merchandise
- Reduce product search time for the customers
- Reinforce the marketing communication of the outlet
- Influence the service quality experience

Exterior atmospherics

Exterior atmospherics refers to physical environment found outside the store. It significantly affect store traffic and sales. Store exterior include –

- store entrance
- main board marquee windows
- Lightings
- Height of the building
- Size of the building
- Visibility
- Sign board
- Uniqueness
- Surrounding stores
- Parking facilities, etc.

In the competitive markets, retailers can use the store front differentiating factor and attract and target new customers.

Interior atmospherics Interior atmospherics refers to all aspects of the physical environment foundinside the store. Interior atmospherics affect sales, time spent in the store, approach / behavior of target segment, some of the important interior atmospherics are-

- Flooring
- Music
- Interior design
- Level of cleanliness
- Lightings

Retail store layout

Store layout refers to the interior retail store arrangements of departments or grouping of merchandise. A retail store layout is often designed to make customers spend more money than they planned to. It is important for retailers to evolve a customer friendly layout. This involves paying adequate attention to factors such as expected movements of customers, visiting the store and space allotted to customers to shop, and making adequate provision for merchandise display. Customer friendly layout is likely to motivate the shoppers to move around the store and shop more than what they had planned for.

Store layout planning involves decisions about allocation of floor space, product groupings and nature of traffic flow, which can take the form of straight or gird traffic flow, free form flow (curving) or racetrack flow.

II. Visual Merchandising:

Visual merchandising includes various aspects like: store floor plan, store windows, signs, merchandise display, space design, fixtures and hardware, and the elements that come with it which may be too many to mention. Visual Merchandising has been around since the dawn of civilization, since humans started selling merchandise to a customer. Visual Merchandising has become more sophisticated and more encompassing than arranging merchandise for easy access to customers. Visual Merchandising elements are put into practice from designing the floor plan of the store to the beautiful mannequins that grace the store floor.

When buying store fixtures and display merchandise for a retail store, a number of factors must be considered to be able to make the best possible choice. Some of the key factors are discussed below.

Product Line

Characteristics of merchandise need to be considered while deciding the fixtures to be used for display. Wooden racks or shelves can be effectively used for apparel or packaged FMCG products. However, mirrored showcases are preferred for jewelry or gift items sine they ensure better safety and presentation.

Customer Profile

Retailers have to take into consideration the profile and expectations of its target segment. Stores, which primarily cater to functional rather than hedonic needs, do not require very fancy fixtures. Hence they can reduce intensive investments in fixtures and pass on the benefits to the customer.

Examples of such stores are 'Kirana' shops, chemist store, and other neighborhood stores. Many smaller eating joints and 'Dhabas' use inferior quality or low cost furniture and fixtures. This is done keeping in mind the socio-economic profile of its customers and also the fact that customers do not expect Dhabas to provide fancy and expensive decor. Stores targeting the high-end customers invest a lot in fancy and unique fixture design and arrangement to generate an exciting and inviting store environment, thereby attracting customers and building its store image.

Level of Competition

Level of competition is a significant factor in determining the kind of fixtures to be used by a retailer since it provides him with a unique selling proposition. For instance, most of the eating joints and garment stores in urban centers of India were using very limited display options. However the advent of international players such as McDonald's, KFC, Marks and Spencer, Benetton, Levy etc. the more up-market retailers are pushed to refurbish their display and interiors to keep pace with competition and continue to attract customers.

With a theme of the display determined and the location for it planned, the retailer needs to examine the components of the display. The various components of the display are as follows:

Wall Displays

Wall Displays refers to slatwall panels and fixtures, gridwall panels and displays, slotted wall standards, face-outs, hangrails, and shelving.

Floor Fixtures

Gridwall panels and accessories, garment racks, display cases and counters, metal shelving gondolas, floor and cube merchandisers. A dump display is merchandise displayed by being dumped or heaped in a pile, usually in a bin or on a table. Dump display can be used as Bulk Dump Display and Dump Table Display.

Display Products

Display Products like mannequins and body forms, clear acrylic displays, countertop and jewelry displays, Supplies and Equipment: include hangers and steamers, tagging supplies and labelers, packaging and shopping bags, etc.

Promotional Items

Promotional Items like window signs and banners, sign holders and sign cards, sale tags and tickets. These items should be used to enhance the product for sale or help in furthering the story or theme

Lighting Fixtures

Lighting Fixtures include track lighting and accessories including rope lights. It is important to use proper lighting to make the product "pop' in the display. Incandescent spots are very effective here. Lighting needs to come from more than one direction for a balanced presentation.

Signage

Signage should be professional, never handwritten, and regardless of the size. Bin tags, bin labels, peg tags, shelf labels, planogram tags. Shelf tags aid in the proper placement of product and frequently include price information for customers in lieu of price marking the individual items.

III. Space Management:

As a retailer one of your greatest assets is 'space'. However in many situations the amount of space you have is a finite resource so the asset has to be sweated – in other words made to work harder for you! It needs to be well managed. What should be your space management objectives? It goes without saying that space needs to be used effectively. This means providing a logical, sensible, convenient and inspirational customer offering and making sure that the right products are available at the right time. Space management is about maximizing every inch of the selling floor.

The key objectives of retail space management are:

1) To obtain a high return on investment by increasing the productivity of retail space. This requires effective utilization of space for merchandise display and customer movement.

2) To ensure compatible, exciting, and rational interface between customer; merchandise and sales people.

The space management decision also has an important influence on sub-decisions like:

a) Location of various departments

b) Arrangements between departments within the shop floor

c) Selecting the layout with customer behavior in mind

d) Planned traffic flow of customers

‘Space management’ needs to be viewed as a management activity in its own right with rules of good practice and correct processes to follow. It should not be a random ‘ad hoc’ activity! First you need to measure the total amount of space available and divide this available space into selling areas, and non-selling areas (paths, till points, storage etc). Once you have obtained a figure for the total amount of selling space available, you then need to allocate space to each product category. The amount of space devoted to each product category will be determined generally by historical data or forecasted data.

IV. Inventory management:

Inventory is a term used to describe unsold goods held for sale or raw materials awaiting manufacture. These items may be on the shelves of a store, in the backroom or in a warehouse miles away from the point of sale. In the case of manufacturing, they are typically kept at the factory. Any goods needed to keep things running beyond the next few hours are considered inventory.

Inventory management simply means the methods you use to organize, store and replace inventory, to keep an adequate supply of goods while minimizing costs. Each location where goods are kept will require different methods of inventory management.

Inventory control is the technique of maintaining the size of the inventory at some desired level keeping in view the best economic interest of an organization.

Types of inventory

1. Based on stage

- ♦ Raw materials
- ♦ Working in progress
- ♦ Finished products

2. Based on purpose

- ♦ Movement
- ♦ Buffer
- ♦ Anticipation
- ♦ Decoupling
- ♦ Cycle

3. Based on material

- ♦ Components
- ♦ Spare parts

♦ Consumables

Purpose of inventory management

a. Stocking the right product

b. Able to locate the products

c. Maintain optimum level of inventory

Effective inventory management should

♦ Ensure a continuous supply of raw materials to facilitate uninterrupted production.

♦ Maintain sufficient stocks of raw materials in periods of short supply and anticipate price changes

♦ Maintain sufficient finished goods inventory for smooth sales operations, and efficient customer service

♦ Minimize the carrying cost and time

♦ Control investment in inventories and keep it at an optimum level.

V. Retail Pricing:

Price is the monetary value assigned by the seller to something purchased, sold or offered for sale and on transaction by a buyer, as their willingness to pay for the benefits the product and channel service delivers. Issues related to retail pricing is discussed in detail in the next module

External influences on retail pricing strategy are:

a. Customers

b. Suppliers

c. Competitors, and

d. Government

VI. Retail promotion:

Retail promotion involves a mix of communication activities carried out by retailers in order to make a positive influence on the customer's perception, attitude and Behvaiour which can lead to an increase in store loyalty, store visits and product purchases. It is any type of communication by a retailer that informs, persuades, and/or reminds the target market about any aspect of that firm.

Promotional Objectives

♦ Increase sales

- ♦ Stimulate impulse and reminder buying
- ♦ Raise customer traffic
- ♦ Get leads for sales personnel
- ♦ Present and reinforce the retailer image
- ♦ Inform customers about goods and services
- ♦ Popularize new stores and Web sites
- ♦ Capitalize on manufacturer support
- ♦ Enhance customer relations
- ♦ Maintain customer loyalty
- ♦ Have consumers pass along positive information to friends and others

Retail promotion mix

- ♦ Public relation
- ♦ Advertisement
- ♦ Personal selling
- ♦ Sales promotion
- ♦ Publicity
- ♦ Public relation

1. Public Relations

Public Relations - Any communication that fosters a favorable image for the retaileramong its publics

- ♦ It can be non personal or personal
- ♦ It can be Paid or
- ♦ Sponsor-controlled or not
- ♦ Publicity – Any non personal form of public relations whereby messages are transmitted through mass media, the time or space provided by the media is not paid for, and there is no identified commercial sponsor.

Advantages

- ♦ Image can be presented or enhanced
- ♦ More credible source

- No costs for message's time or space
- Mass audience addressed
- Carryover effects possible
- People pay more attention than to clearly identified ads

Disadvantages

- Some retailers do not believe in spending on image-related communication
- Little control over publicity message
- More suitable for short run
- Costs for PR staff, planning activities, and events

2. Advertising

It is a Paid, non personal communication transmitted through out-of-store massmedia by an identified sponsor.

- Key aspects
- Paid form
- Non personal presentation
- Out-of-store mass media
- Identified sponsor

Advantages

- Attracts a large audience
- Gains pass along readership (for print)
- Low cost per contact
- Many alternatives available
- Control over message content; message can be standardized
- Message study possible
- Editorial content surrounds ad
- Self-service operations possible

Disadvantages

- Standardized messages lack flexibility
- Some media require large investments

- ♦ Geographic flexibility limited
- ♦ Some media require long lead time
- ♦ Some media have high throwaway rate
- ♦ Some media limit the ability to provide detailed information

3. Personal Selling

It is an Oral communication with one or more prospective customers for the purpose ofmaking a sale.

Advantages

- ♦ Message can be adapted
- ♦ Many ways to meet customer needs
- ♦ High attention span
- ♦ Less waste
- ♦ Better response
- ♦ Immediate feedback

Disadvantages

- ♦ Limited number of customers handled at one time
- ♦ High costs
- ♦ Doesn't get customer in store
- ♦ Self-service discouraged
- ♦ Negative attitudes toward salespeople (aggressive, unhelpful)

4. Sales Promotion

Encompasses the paid communication activities other than advertising, public relations,and personal selling that stimulate consumer purchases and dealer effectiveness

Advantages

- ♦ Eye-catching appeal
- ♦ Distinctive themes and tools
- ♦ Additional value for customer
- ♦ Draws customer traffic
- ♦ Maintains customer loyalty

- ♦ Increases impulse purchases
- ♦ Fun for customers

Disadvantages

- ♦ Difficult to terminate
- ♦ Possible damage to retailer's image
- ♦ More stress on frivolous selling points
- ♦ Short-term effects only
- ♦ Used as a supplement

VII. Retail store image:

A good store design represents value and a positive store image. An aesthetic presentation of merchandise and creative props entice people to come in and purchase your products. In addition, the image of your store provides customers the opportunity to have a delightful shopping experience. Having a poor store image will cause you to have fewer walk-in customers; remember that fewer costumers result in less income.

Creating and maintaining the proper image, the way a firm is perceived by its customers, is an essential aspect of the retail strategy mix. The components of a firm's image are its target-market characteristics, retail positioning, store location, merchandise assortment, price levels, physical facilities(exterior and interior), customer services, community service, mass advertising and publicity, personal selling, and sales promotions.

The store exterior is comprised of the storefront, marquee, entrances, display windows, building height and size, visibility, uniqueness, surrounding stores and area, parking, and congestion. It sets a mood or tone before a prospective customer even enters a store. The general interior of a store encompasses its flooring, colors, lighting, scents and sounds, fixtures, wall textures, temperature, width of aisles, dressing facilities, vertical transportation, dead areas, personnel, self-service, merchandise, price displays, cash register placement, technology/modernization, and cleanliness. The interior of an upscale retailer is far different from that of a discounter — portraying the image desired, as well as the costs of doing business.

In laying out a store's interior, six steps are followed. One, floor space is allocated among selling, merchandise, personnel, and customers; and adequate space is provided for each, based on a firm's overall strategy. Two, product groupings are set, based on function, purchase motivation, market segment, and/or storability. Three, traffic flows are planned, using a straight or curving pattern. Four, space per product category is computed via a model stock approach or sales-productivity ratio. Five, departments are located. Six, individual products are arranged within departments.

The behavior of retailers and their service quality are the two main important components to increase the images of retailers.

VIII. Retail audits:

Retail audit helps to ascertain the sales personnel's efficiency at the point of sale or to find out the average time take on a normal day or during week end.

♦ Retail process audit – such retail process audits helps to examine a store's efficiency in terms of its operating processes or reduce the cycle time. For instance, with the help of retail process audit the retailer can work out ways to improve customer service deliveries and improve performance.

♦ Retail store audit – auditors from well known research firms carry out retail store audits by counting the inventory on hand and recording deliveries to the store since the last visit. The sales for a particular period can be obtained by computing.

IX. Retail Information System:

The Retail Information System (RIS) is a flexible tool that enables you to collect, aggregate and analyze data from retailing activities. The Retail Information System integrates data from the areas of Purchasing, Sales and Distribution, and Inventory Management, and also enables you to evaluate data that is particularly significant for Retail (data relating to retail price change documents or the POS interface, for example).The Retail Information System is a component of the logistics Information system. The Logistics Information System is divided into the following information systems:

- ♦ Sales Information System (SIS)
- ♦ Purchasing Information System (PURCHIS)
- ♦ Inventory Controlling (INVCO)
- ♦ Quality Management Information System (QMIS)
- ♦ Retail Information System (RIS)

The Logistics Information System (LIS) also includes the following information systems:

- ♦ Production Information System
- ♦ Plant Maintenance Information System

4.4 CASE STUDY

Visual Merchandising Gone Wrong!

Ankit Jam, son of a very successful Delhi-based businessman decided to venture into the business of speciality retailing after his MBA. Café shops had always earned a special place in his heart since his college days and so he decided to open a café shop near Vikaspuri.

Location wise, Café Point, Ankit's brainchild was perfect. The place was in the vicinity of several management and general colleges. Also, there were various shopping malls and big brand retail stores nearby. In short, the café shop was ensured of garnering both eye balls as well as footfalls.

The exterior presentation of the store was perfectly done. The exterior sign along with well defined walks and entry with some amount of landscaping in front was just perfect for any potential customer to drop in and check out the shop and its services.

Ankit had a friend who was in a placement consultancy firm who helped him source the right kind of manpower for Café Point. The ser-vice staffs were found to be quite skilled in customer service and prod-uct knowledge. Café Point, apart from offering Coffee also offered pizzas, burgers, pastries, fruit juices etc. It was found that during the day, Café Point mainly had visitors who were college goers but in the evenings or during the weekends, there were many families who were frequenting the shop.

The color scheme that Ankit decided upon for his shop was grey interiors and the dresses of his service staff were also of the same color to bring in consistency. The mats on the tables were also of the grey color and the shop was dimly illuminated most of the time. Instrumental music was mostly played at the shop.

After a span of some 3-4 months, Ankit noticed that there was hardly any additional footfall in the store. Actually footfalls had dropped and most of the customers who visited the shop were new faces. It meant that people who had once experienced the shop did not feel like coming back which was quite contrary to what is observed among customers in the context of café shops. They generally like to hang out at their favourite café shops. What was wrong? Ankit pondered. He had a great service staff, had competitive menu and above all, his shop was at a great location.

Questions

1. Identify the shortcomings in the visual merchandising strategy adopted by Ankit?

2. What are your recommendations that will allow Ankit to enhance footfalls at his shop and make repeat customers visit Café Point?

4.5 NOTES

4.6: SUMMARY

Retail shop management is a process of designing the retail outlet. Retail outlets are to be structured in a way that helps the buyers and the retailers for the exchange of the merchandise. There are several factors that influence the shop layout and the space usage. Customer's expectations and the usage of information technology are the important factors that makes the layouts effective or ineffective. A good store should provide for the display, inventory, exchange, attraction and motivation to buy the product or service.

4.7: KEYWORDS

Retail Shop Management

Retail Promotion mix

Visual merchandizing

4.8: SELF ASSESSMENT QUESTIONS

1. Explain the process of retail shop management.
2. Discuss the factors that influence a retail shop layout.
3. Explain the elements of retail promotion mix
4. What is visual merchandising?
5. Write short notes on the following-
6. Retail Information System
7. Retail store operations management
8. Retail store image

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MODULE – II
RETAILING

UNIT - 5 : RETAIL SHOPPERS BEHAVIOUR

Structure :

5.0 OBJECTIVES

After studying this unit, you will be able to;

- Distinguish between consumer and buyer.
- Describe the retailing shopper characteristics.
- Analyze shoppers Behavior
- Examine the factors influencing for growth of retail industry in India.

5.1 INTRODUCTION

One of the most important constraints among all of us, despite our differences, is that above all, we are consumers. We consume or use products/services on regular basis. As consumers, we play vital role in the health of the economy, be it local, national or international. The era of digital revolution, has introduced several drastic changes in to business environment.

This digital revolution of the market place and its impact on consumer's behaviour present many challenges for marketers. Consumer Behvaiour focuses on how individuals make decision to spend their available resources, time, money and efforts on consumption related items.

Consumer behavior signifies the totality of consumers' decisions with respect to the acquisition, consumption and disposition of goods, services, time and ideas by human decision making units. Clearly, consumer behavior frequently involves decisions within retailing contexts or with retail phenomena serving as boundary or framing conditions. The importance of understanding consumer behavior has been more important to retailers than ever.

In particular, effective retail strategy satisfies consumer needs and understanding consumer needs buying behavior is critical, for effective retail decision-making as well as the subsequent development and implementation of retail strategy. To woo the consumers, the retail industry must understand the behavior of the consumers. But understanding consumer behavior is complex, as it is related to psychology of consumers and also depends on various factors which have a direct bearing on consumer behaviour.

5.2 MEANING & DEFINITIONS

Consumer and Buyer

Consumer:

"A consumer is an individual who buys products or services for personal use and not for resale. A consumer is someone who can make the decision whether or not to purchase an item at the store, and someone who can be influenced by marketing and advertisements. Any time someone goes to a store and purchases a toy, shirt, beverage, or anything else, they are making that decision as a consumer".

"A consumer is a person who uses a product or service, and is often called an "end user" because he is the last stop and does not usually transfer or sell the item to another party. A buyer can be a consumer, as in the example of a teenager buying and using a video game. At the same time, a consumer is not necessarily the buyer - for instance, if a mother purchases cereal for herself and her family, each family member is a consumer of the product".

Buyer:

Any person, who buys a product/service, may not be necessarily user or consumer. On the other hand, "a buyer is a customer—he is an individual or business that makes a purchase from a seller. Regardless of the scenario, the buyer is the party that gives or transfers money to the seller to secure a product. A teenager getting a video game from a store at the mall is a buyer as is a distribution company that purchases raw materials from a manufacturer on credit".

Consumer and Customer

In common usage, we do not differentiate them. The customer is someone who regularly purchases from a particular store or a product of a particular company.

Consumer

A consumer is anyone who typically engages in any one or all of the activities in evaluating, acquiring, using or disposing of goods and services. This is a broad term for individuals that use products and services that are generated in the economy.

They are the ones who consume the products or services they have bought or were bought for them. They use these products based on what they have heard or seen and apply all the information where deciding whether they need the product or not.

Customer

Came from the term, "custom," meaning habit or tradition. These are people or organizations who frequently visit your store, they purchase from you preferably. The owner or store keeper also makes sure that his/her customers are satisfied. In this way, owner and customer maintain their relationship, which means expected buys in the future. Today, this relationship is popularly called as Customers Relationship Management. With this term, another slogan for customers was revealed "the customer is always right."

Difference between Consumer and Customer

Consumers either buy or don't buy the products that they necessarily use while customers are people who buy some goods and services but may not use the merchandise themselves. Consumers have goals and purpose while buying items while customers buy these products and may not use them personally, they either buy them to resell or buy for those who want them. Consumers pertain mostly to an individual or family while customers can be an individual, organization or another seller. Consumers play a role in the demand of products in the economy while customers can simply decide if this will go or not.

Retail Shopper Characteristics:

Since globalization, Retail in India has evolved in different dimensions to support the unique needs of this country with many sizes and complexity. Organized retailing is not in existence in India till the 1990s, but the roots are traced in 1800s with the entry of the 'Spencer's' departmental store in South India in 1897.

India's retail sector is contributing in country's GDP for about 9-10%, and accounts 8% of the total employment but still it is noticed that it remains one of the least developed sectors in India. The estimated annual retail sales accounts for about $ 6 billion and is expected to reach $ 17 billion dollar mark by the year 2010, according to a study done by the Associated Chambers of Commerce & Industry (ASSOCHAM).

According to the report, "Retail in India: Getting Organized to Drive Growth," by global consultant A.T. Kearney ranked India as 5th in Global Retail Development Index and 3rd in Confidence Index in retail business. And the CII, India's retail industry is growing with a 5% compounded annual growth rate (CAGR) and has $ 320 billion in annual revenue. It is noticed that, Wal-Mart's $ 315.6 billion in global sales last year is about the same size of the whole Indian retail industry.

Organized retail in India stands at around 3% out of the total retail market. It is showing signs of bigger and better growth of around 30% CAGR. The Indian consumer is turning into a convenience shopper and so retail formats are being driven to all-in-one format, which includes shopping, eateries and even entertainment like movies. According to some trend forecasts, organized retail in India has a very high potential.

The retailing business in India has witnessed huge growth due to emergence of Super markets as well as centrally air conditioned malls. Presently, there are 1500 super markets, 11025 departmental stores and 300 shopping malls having 45 million square feet area of retailing space. Although, Indian retail industry is 25 years lagging behind the USA, but it will take just five years to fight back the competition.

Lastly, Indian consumers today are more global with their thinking, which they have experienced with changing retail scenario.

5.3 CUSTOMER BUYING BEHAVIOR PROCESS

Understanding Retail Shopper Behavior

Retail shopper behaviour is that subset of human behaviour that is concerned with the decisions and acts of individuals in purchasing and using products of a manufacturer or purchasing from particular retailers. Buyer behaviour is concerned with the decisions that lead up to the purchase act. The person, who makes the buying decisions, may not the one who actually makes the purchase or uses the product, is most important to marketers.

Understanding this person helps marketers develop marketing mixes and predict how targeted customers will respond to them. Marketing efforts must focus on consumer's needs and provide an answer to buyer's problems. A key to understand consumer's needs and problems lies in the study of Retail shopper behaviour. Knowledge of Retail shopper behaviour gives the marketer the information to increase the chance of success in the market place.

Retail shopper behaviour is the study of when, why, how, and where people do or do not buy product. It blends elements from psychology, sociology, social anthropology and economics. It attempts to understand the buyer decision making process, both individually and in groups. It studies characteristics of individual consumers such as demographics and behavioural variables in an attempt to understand people's wants.

Retail shopper behaviour is defined as "the activities people engage in when selecting, purchasing and using products so as to satisfy needs and desires".

Customer is the central point and all the marketing activities revolve around him. Manufacturer makes what the customer wants. As the customer's buying behaviour differs from person to person the manufacturer must understand it. Manufacturer should identify the motives which prompt consumers to purchase so that he can offer a complete product satisfying their needs. It is buying motive that prompts the purchaser to purchase. Such buying motives may be desire for money, vanity, pride, fashion, passion, romance, affection or comfort. Retail shopper behaves in a particular manner as directed by his inner motive. The marketer has to study and analyze the consumer's behaviour in order to sell and improve the product.

Marketer must plan his production and distribution to suit the consumer's convenience rather his own. A company ignorant of Retail shopper preferences cannot possibly fulfill its obligations in a meaningful and responsible manner. This is exactly the reason why Retail shopper behaviour is given importance in modern marketing.

5.4 FACTORS INFLUENCING THE RETAIL SHOPPER BEHAVIOR

A buying decision goes through different stages, which are always influenced by behavioral forces. Culture, sub-culture and social class are very important in influencing shoppers behaviour. Buying behaviors covers the underlying influences and motives for purchase. It also tries to assess influences on the consumer from groups such as family, friends, reference groups, and society in general. The factors like economic, cultural, technological and political factors influence the Retail shopper behaviour.

Cultural Factors

Culture influences shoppers' behavior through the buying process. It is one of the fundamental determinants of shoppers' buying behavior.

Culture

The study of culture is the study of all aspects of a society – its language, knowledge, laws, customs – that give that society its distinctive character and personality. In the context of Retail shopper behaviour, culture is defined as the sum total of learned beliefs, values, and customs that serve to regulate the Retail shopper behaviour of members of a particular society. Beliefs and values are guides for Retail shopper behaviour; customs are usual and accepted ways of behaving.

The impact of culture on society is so natural and so ingrained that its influence on behaviour is rarely noted. However culture offers order, direction, and guidance to members of society in all phases of human problem solving. Culture is dynamic, and gradually and continually evolves to meet the needs of society.

Culture is learned as part of social experience. Children acquire from their environments a set of beliefs, values and customs that constitute culture. These are acquired through formal learning, informal learning, and technical learning. Advertising enhances formal learning by reinforcing desired modes of behaviour and expectations; it enhances informal learning by providing models for behaviour.

Culture is communicated to members of the society through a common language and through commonly shared symbols. Because the human mind has the ability to absorb and to process symbolic communications, marketers can successfully promote both tangible and intangible products and product concepts to consumers through mass media.

All the elements in the marketing mix serve to communicate symbolically with the audience. Products project images of their own; so does a promotion; price and retail outlet symbolically convey images concerning the quality of the product.

The elements of culture are transmitted by three pervasive social institutions: the family, the religious heads and centres, and the school. A fourth social institution that plays a major role in the transmission of culture is the mass media - both through editorial content and through advertising. Thus culture and values provide an effective basis for the segmenting Retail shopper markets.

Sub-Culture

Each culture consists of smaller sub-cultures that provide more specific identification and socialization for its members. This specifies shoppers' identification and specialization which includes nationalities, religions, racial groups and geographical regions. Many sub cultures make up important market segments and marketers often design product and marketing programmes tailored to their needs. They influence food preferences, clothing choices, recreation etc. The subculture makes it possible for a person who understands another culture with reference to his own subculture. These subcultures are used by the companies as the basis of segmentation.

Social Class

Social classes relatively are homogeneous and enduring divisions in society, and each division with similar values, interest and behavior. It is identified as relatively permanent and homogeneous group of people having certain identifiable characteristics. Social classes are relatively homogeneous and enduring divisions in a society, which are hierarchically ordered and whose members share similar values, interests and behavior (P. Kotler,). The marketer has to study the behavioral patterns of these classes so as to formulate his marketing strategy and promotional communication.

Social classes show distinct product and brand preferences due to different characteristics, which includes: (1) Persons of two different social classes tend to behave differently, (2) persons are perceived as occupying inferior or superior positions according to their social class, (3) a person's social class is indicated by a number of variables as occupation, income, wealth, education rather than by any single variable, (4) individuals can move from one social class to another up or down, during his life time.

Almost every society has some form of social class of structure. Social classes show distinct product and brand preferences in the products like clothing, phone, furniture, leisure activity, cars etc. The buying pattern of a rich family will be totally different from that of a poor family. A status conscious person will visit a prestige store for making purchase, whereas an ordinary person to an economy store. Costly Retail shopper durables like vacuum cleaner, washing machine, dish washer, microwave oven are meant for the higher income groups who treat these things as status symbol.

Social Factors

Shoppers' behavior is also influenced by social factors, which includes reference groups, family, roles and status.

Reference Group:

A person's behaviour is influenced by many small groups. Groups which have a direct influence and to which a person belongs are called membership groups. Reference groups are groups that serve as direct or indirect points of comparison or reference in forming a person's attitudes or behaviour. People often are influenced by reference groups to which they do not belong. For instance, an aspirational group is one to which the individual wishes to belong, he identifies with the group, though there is no direct contact between him and the group. Marketers try to identify the reference groups of their target markets. Reference groups expose a person to new behaviors and life styles, they influence the person's attitude and self concepts because he wants to fit in the group. They also create pressures to conform that may affect the person's product and brand choice.

Consumer's reference groups are groups that serve as a frame of reference for individuals in their purchase decisions. The concept of Retail shopper reference groups has been broadened to include groups with which consumers have no direct face-to-face contact, such as celebrities, political figures and social classes.

Family

The family is a major influence on the consumption behaviour of its members; it is also the prime target market for most products and product categories. As the most basic membership group, families are defined as two or more persons related by blood, marriage, or adoption who reside together. There are three types of families: married couples, nuclear families, and extended families. The basic functions of the family are the provision of economic and emotional support, childhood socialization, and a suitable lifestyle for its members.

The members of a family assume specific roles and tasks in their everyday functioning; such roles or tasks extend to the realm of Retail shopper purchase decisions. Key consumer-related roles of family members include influencers, gatekeepers, deciders, buyers, preparers, users, maintainers, and disposers.

A family's decision-making style is often influenced by its social class, life-style, role orientation, and stage in the family life cycle, and by the product importance, perceived risk, and time constraints of the purchase itself.

The majority of Retail shopper studies classify family consumption decisions as husband-dominated, wife-dominated, joint, or automatic decisions. The extent and nature of husband/wife influence in family decisions are dependent on the specific product or service, the stage in the decision-making process and the specific product features under consideration.

Retail shopper socialization is an important component of the socialization process of children. It is the vehicle through which the family imparts consumer-relevant knowledge, attitudes, and skills. Children are not only influenced by their families they also influence their family consumption decisions.

Roles and Status

Shoppers' behavior is reflected by his/her role and status in different groups. Each role carries a status. A person belongs to many groups – family, clubs, organizations. The person's position in each group can be defined in terms of both role and status. With his parents, Prof. Rao plays the role of the son; in his family he plays the role of husband; in his university he plays the role of professor. A role consists of the activities people are expected to perform according to the persons around them.

Each role carries a status reflecting the general esteem given to it by society. For example, the role of university professor has more status in our society than the role of son. As a Professor, Dr. Rao will buy the kind of clothing that reflects his role and status.

5.5 UNDERSTANDING THE CONSUMER NEEDS

Every shopper is always interested to satisfy his needs for which he goes for buying a product or service. The retailer tries to recognize such needs and tries his best to satisfy those with a profit for the organization. The quality of a retail strategy depends on how well a firm identifies and understands its customers and forms its strategy mix to appeal to them. This entails identifying consumer characteristics, needs, and attitudes; recognizing how people make decisions; and then devising the proper target market plan. It also means studying the environmental factors that affect purchase decisions.

In addition to understanding general demographic and economic trends, it is important to recognize the many motivations that drive consumes to shop, such as browsing, meeting a specific need, having the experience/fun, and comparing prices.

An individual consumer's needs and rationale for purchasing will differ throughout any given day, week, month, or indeed, a lifetime. Retailers will not be able to meet all consumers' needs at all times; however, those that can foresee and adapt to changing consumer needs and tastes will survive and prosper.

Consumer satisfaction and confidence:

Many shoppers are now more knowledgeable and cosmopolitan; more aware of trends in tastes, styles, and goods and services; and more sophisticated. Nonconforming behaviour is widely accepted since consumers are selfassured and better appreciate the available choices. Confident shoppers will experiment more. For example, "female shoppers want a retail space that's comfortable and has fewer but better choices." Retailers need to see that "It is not just about understanding the functional benefit of the brand or product, but understanding things like personal resonance – what it says about her and how it helps her express herself".

When developing a target market profile, a retailer should identify key consumer needs and desires. From a retailing perspective, needs are a person's basic shopping requirements consistent with his or her present demographics and lifestyle. Desires are discretionary shopping golas that have an impact on attitudes and behaviour. A person may need a new car to get to and from work and seek a dealer with Saturday service hours. The person may desire a Porsche and a free loaner car when the vehicle is serviced but be satisfied with a Saturn that can be serviced on the weekend and fits within the budget.

Consumers today spend proportionately less on basic necessities, such as food, clothing, and shelter, than they did 25, 35 or 50 years ago. But they spend more on discretionary purchases that are motivated by emotion and desire."

When a retail strategy aims to satisfy consumer needs and desires, it appeals to consumer motives, the reasons for their behavior. These are just a few of the questions to resolve:

- How far will customers travel to go to the retailer?
- How important is convenience?
- What hours are desired? Are evening and weekend hours required?
- What level of customer services is preferred?
- How extensive a goods/service assortment is desired?
- What level of goods/service quality is preferred?
- How important is price?
- What retailer actions are necessary to reduce perceived risk?
- Do different market segments have special needs? If so, what are they? Consumer patronage differs sharply by type of retailer. Thus, it is vital for firms to recognize the venues where consumers are most likely to shop and plan accordingly.

- Some supermarket customers also regularly buy items carried by the super market at convenience stores, full-line department stores, drugstores, and specialty food stores.
- Some department store customers also regularly buy items carried by the department store at factory outlets and full-line discount stores.
- The majority of web shoppers also buy from catalog retailers, mass merchants, apparel chains, and department stores.
- Cross-shopping is high for apparel, home furnishings, shoes, sporting goods and personal care items.

5.6 CASE STUDY

Spykar Style Lab - Innovative Format

Spykar has created a fan following for itself in the genre of casual wear. They claim to be the first manufacturers of cargoes in India and have constantly been adding innovations to their ranges. The company currently sells around 60,000 – 70,000 pieces per month reaching out to over 3 million customers across India. The brand is present in over 500 MBOs, 67 large format stores including Shoppers Stop, Globus, Lifestyle, Pantaloons, Piramyd etc. and retails across 97 EBOs across cities such as Ahmedabad, Ghaziabad, Faridabad, Hyderabad, Indore, Kolkata, Lucknow, Mumbai, Nashik, Bhopal, Jaipur, Nagpur, New Delhi, Cochin, Surat and Pune. In February 2006, the brand also opened its first exclusive store in London.

To cater to the growing needs of the youth in India in terms of fashion, Spykar went ahead to introduce a completely novel approach to its stores calling them Spykar Style Lab. Unlike the Spykar store Spykar Style Labs are a mix of clothing store, a hair salon and a complete ‘makeover studio’, which houses a tattoo parlour, a skin clinic and soon a nail art parlour. The objective behind setting up Spykar Style Lab was to create an expression for individuals by bringing about complete metamorphosis of their personalities as desired by them by offering them attire, hairdo, tattooing and accessorizing options and selections. The first Spykar Style Lab was launched on June 1, 2006 in Andheri Mumbai; the 2 nd store came up in Pune on Feb 14, 2007.

Store Specifications

Spread over an area of 2012 sq. ft the Pune store is stretched over 3 levels (ground, first and second) and offers what is truly a visual treat to the eyes. Done up using minimalist interiors, the ease to move around the store across all levels is a one of kind experience. The rough finish used for the flooring, the stone wall on the ground level and different colour combinations used for each wall, all extend a warm feel to the store.

The ground level is dedicated for men's wear. The offerings are attractively merchandised on browsers, which are made of iron and wood. The accessories rack on the ground level is used to display the most recent accessories being offered by the brand, which could range from scarves to caps to belts or shoes.

Taking a flight of stairs up takes you to the 'active' area on the left that is dedicated to clothes and accessories in vogue, and to the women's wear section on the right. With two huge trial rooms including neat in-built seating arrangements, the women's wear section has attractive wall murals and a chart to display the various kinds of fits available (most important, since for the most Indian women fits are typically a hassle). No special lights or exotic props are to be seen, yet visual merchandising is appealing to the eyes simply because of the simplicity of it all.

Instead of having railing for the stairs, suspended wires are used to add to the store aesthetics. From the first level, the journey to the second level takes you to the hair salon on the left and skin care centre along with a tattoo and piercing parlour n the right. The products used at the salon are given special counters for their display. Yet again, this place is done up using minimalist interiors with no special lights, etc. used but this simplicity is a catch to the eyes by itself. The tattoo and piercing parlour is like a small cubicle but the place is well utilized and the walls are generously used to display the different kinds of tattoo's one can get done. The skin centre which again is a small room but well equipped with machines to suit the needs of the customers coming in for treatment.

Spykar Style Lab is a very different concept for any Indian brand to offer to its customer who actually walks in the store to purchase just a pair of jeans but walks out with a complete makeover.

Questions

1. How is Spykar's outlet in synchronisation with its line of business?
2. Can this format be replicated for departmental store? Why?

5.7 NOTES

5.8 SUMMARY

Customer is the central point and all the marketing activities revolve around him. He takes different roles in the different situations such as buyer, consumer and customer. Manufacturer makes what the customer wants. As the customer's buying behavior differs from person to person the manufacturer must understand it. Manufacturer should identify the motives which prompt consumers to purchase so that he can offer a complete product satisfying their needs. It is buying motive that prompts the purchaser to purchase. Such buying motives may be desire for money, vanity, pride, fashion, passion, romance, affection or comfort. Retail shopper behaves in a particular manner as directed by his inner motive. The marketer is to study and analyze the consumer's behaviour in order to sell and improve the product. The retail shopper behavior is influenced by such factors as economic factors, personal factors, cultural and social factors. The recent times have seen increasing activity in retailing. Though the retailers will have to face increasingly demanding customers and intensely competitive rivals, more investments will keep flowing in and the share of organized sector will grow rapidly. Consumer durables industrial sector is poised for a quantum leap due to technological improvements, falling prices due to competition, aggressive marketing and declining import tariffs. The saying, "the only thing that is constant is change" is very relevant in the retail industry. Consumer and consumer preferences used to change slowly, providing retailers an opportunity to spend time analyzing the implications to their business, allowing them to make well-informed decisions. However, today, as in life, change in consumer preference happens rapidly. This has forced retailers to become more observant and better prepared to make strategic decisions.

5.9 KEY WORDS

Retailer, Consumer, Behaviour, consumer needs & Retail industry

5.10 SELF ASSESSMENT QUESTIONS

1. State the reasons for growth of retail industry in India.
2. Explain the retailer characteristics.
3. Distinguish between consumer and buyer.
4. What are the functions of retailers?
5. What are the factors influencing retail shopper behavior?
6. Why is an understanding of the retail shopper buying decision process important to marketers?

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UNIT - VI : RETAIL BUSINESS MANAGEMENT

Structure :

6.0 OBJECTIVES

After studying this unit, you will be able to

- Describe the concept of Retail Management.
- Evaluate the importance of Operations in retailing.
- Explain how retailing is done in rural sector.
- Examine the impact of brand loyalty in retail business.

6.1 INTRODUCTION

Retail management

The various processes which help the customers to procure the desired merchandise from the retail stores for their end use refer to retail management. Retail management includes all the steps required to bring the customers into the store and fulfill their buying needs.

Retail management makes shopping a pleasurable experience and ensures the customers leave the store with a smile. In simpler words, retail management helps customers shop without any difficulty.

Retailing includes all the activities involved in selling products and/or services to the final consumer. It covers diverse products such as apparels, footwear, financial services and leisure.

There are two types of retailers: store retailers and non-store retailers.

Store retailers usually operate from a fixed location and serve walk-in customers. Examples of store retailers that sell products are Big Bazaar, More, Garuda, Hall. Examples of store retailers that sell services are dentists, hair salons, etc.

Non-store retailers reach out to customers at their homes or offices by:

- Electronic or online formats (e.g. books retailer – Amazon.com)
- Catalogues or mail order (e.g. clothing retailer – Lands' end)
- Door-to-door selling (i.e. selling by knocking at consumers' home)
- Telemarketing (i.e. selling of goods or services by phone)
- Television or radio (i.e. selling of goods or services via some advertisements to encourage consumers to call in to place an order)
- Vending machines (i.e. selling of goods or services by a machine)

E-tailing is a term that is used for retail businesses that utilize the Internet or other electronic formats for their consumer transactions.

Today, many retailers sell their products and services through multiple formats and channels. They not only sell through their physical store but also offer customers the convenience of buying selected products through the Internet.

6.2 MEANING & DEFINITIONS

Retailing is defined as the process of selling merchandise to the consumers for their end use in small quantities. The retailer sells products to the end-users either in single units or in small quantities as per their need and capability.

Retail involves the sale of goods from a single point (malls, markets, department stores etc) directly to the consumer in small quantities for his end use. In a layman's language, retailing is nothing but transaction of goods between the seller and the end user as a single unit (piece) or in small quantities to satisfy the needs of the individual and for his direct consumption.

6.3 MANAGEMENT OF RETAIL BUSINESS

Need for Retail Management - Why retail management?

Peter wanted to gift his wife a nice watch on her birthday. He went to the nearby store to check out few options. The retailer took almost an hour to find the watches. This irritated Peter and he vowed not to visit the store again.-An example of poor management.

You just can't afford to make the customer wait for long. The merchandise needs to be well organized to avoid unnecessary searching. Such situations are common in mom and pop stores (kirana stores). One can never enjoy shopping at such stores.

Retail management saves time and ensures the customers easily locate their desired merchandise and return home satisfied.

An effective management avoids unnecessary chaos at the store.

Effective Management controls shopliftings to a large extent.

- The retailer must keep a record of all the products coming into the store.
- The products must be well arranged on the assigned shelves according to size, colour, gender, patterns etc.
- Plan the store layout well.

- The range of products available at the store must be divided into small groups comprising of similar products. Such groups are called categories. A customer can simply walk up to a particular category and look for products without much assistance.
- A unique SKU code must be assigned to each and every product for easy tracking.
- Necessary labels must be put on the shelves for the customers to locate the merchandise on their own.
- Don't keep the customers waiting.
- Make sure the sales representatives attend the customers well. Assist them in their shopping. Greet them with a smile
- The retailer must ensure enough stock is available at the store.
- The store manager, department managers, cashier and all other employees should be trained from time to time to extract the best out of them. They should be well aware of their roles and responsibilities and customer oriented. They should be experts in their respective areas.
- The store manager must make daily sales reports to keep a track of the cash flow. Use software's or maintain registers for the same.
- Remove the unsold merchandise from the shelves. Keep them somewhere else.
- Create an attractive display.
- Plan things well in advance to avoid confusions later on.
- Ask the customers to produce bills in case of exchange. Assign fixed timings for the same. Don't entertain customers after a week.

6.4 RETAIL ORGANIZATION

The organizational structure of a retail store will vary by the size and type of the business. A lot of the tasks involved with operating a retail business will be the same, or have some overlap. However, small or independent retail stores may combine many sectors together under one division, while larger stores create various divisions for each particular function along with many layers of management.

For example, a small specialty shop may have all of its employees under one category called Store Operations. A large department store may have a complete staff consisting of a manager, assistant manager and sales associates for its Sporting Goods department, Home and Garden, Bed and Bath, and each additional department.

When a store is part of a large retail chain, the jobs are likely to be clearly defined and not vary greatly from store to store. But if you're just starting out building a retail business, you may need to take a good look at who's doing what, to keep things from descending into chaos.

Challenges to Retail Development in India

- **The Kiranas Continue**

The very first challenge facing the organized retail industry in India is competition from the unorganized sector. Traditionally retailing has established in India for centuries. It is a low cost structure, mostly owner operated, has negligible real estate and labour costs and little or no taxes to pay. Consumer familiarity that runs from generation to generation is one big advantage for the traditional retailing sector. On the other hand, organized sector have big expenses to meet and yet have to keep prices low enough to compete with the traditional sector.

- **Retail Not Being Recognized As An Industry In India**

Lack of recognition as an industry hampers the availability of finance to the existing and new players. This affects growth and expansion plans.

- **The High Costs of Real Estate**

Real estate prices in some cities in India are amongst the highest in the world. The lease or rent of property is one of the major areas of expenditure; a high lease rental reduces the profitability of a project.

- **High Stamp Duties**

In addition to the high cost of real estate the sector also faces very high stamp duties on transfer of property, which varies from state to state (12.5% in Gujarat and 8% in Delhi). The problem is compounded by problems of clear titles to ownership, while at the same time land use conversion is time consuming and complex as is the legal process for settling of property disputes.

- **Lack of Adequate Infrastructure**

Poor roads and the lack of a cold chain infrastructure hampers the development of food and grocery retail in India. The existing supermarkets and foods retailers have to invest a substantial amount of money and time in building a cold chain network.

- **Multiple And Complex Taxation System**

The sales tax rates vary from state to state, while organized players have to face a multiple point control and system there is considerable sales tax evasion by small stores. In many locations, retailers have to face a multi point octroi with the introduction of value Added Tax (VAT) in 2005, certain anomalies in the existing sales tax system causing disruption in the supply chain are likely to get corrected over a period of time. There is price war between different retail organizations. Each and every one is saying to provide goods at low cost and offers various promotional schemes. In such a case it is difficult to keep one's customers with oneself.

♦ **Font Size**

Retail marketing gets various opportunities to grow up in the Indian market. Not only retailing but Manufacturers as well as suppliers, and buyers have various opportunities, some of which are mentioned below

♦ **Visibility**

Organized retail provides brands much needed visibility and platform for customer interaction. It also helps in launching of new product or product variant and in market penetration. It has wider product range and more frequent, speedier deliveries.

♦ **Urbanization**

Increased urbanization has shifted consumers to one place and thus a single retail can catch more customers.

♦ **Nuclear Family**

As the time passed away joint families came in a new form i.e. nuclear family. Again the income level of these nuclear families increases because both members started earning. This results into increased power of purchase and lack of time. Now they want everything under one roof. This brought the concept of organized retailing.

6.5 EMERGING TRENDS IN RETAILING

In recent years the nature of retailing has changed dramatically, as firms try to protect their positions in the market place. Many customers are no longer willing to spend as much time on shopping as they once did. Some sectors of retailing have become saturated, several retailers are operating under high levels of debt and number of retailers after running frequent "sales", have found it difficult to maintain regular prices. Retailers are adapting to*the shopping needs and time constraints of working women, dual earner households and the increased customer interest in quality and customer service:

Shopping Malls:

A growing number of shopping malls are coming up all over the country. In north India; there seems to be a proliferation of such malls surrounding Delhi, in places like Gurgaon and Noida. In general they target higher income customers, with their prestigious speciality shops, restaurants and department stores.

Factory Outlets:

Manufacturers are opening factory outlets to sell off surplus inventories and outdated merchandise. This forward vertical integration gives manufacturers greater control' over distribution, than selling the merchandise to off price retailers. Mohini knitwear of Ludhiana (Punjab) and number of woolen and hosiery manufacturers set up their outlets in Delhi during winters.

Non Store Retailing:

Non store retailing is accelerating at a faster rate than in store retailing. This includes direct marketing. In Home shopping TV shopping and etailing etc.

Diversification of Offerings: Scrambled (unrelated products or services) merchandising is taking on a broader meaning and inter type competition among retailers is growing. For instance Citibank is organizing tourist trips and sending mail order catalogues to its credit card customers.

Impact of Technology on Shopping Behaviour:

The way retailers present their merchandise and conduct their transactions are changing. Cable TV Channels are used to present merchandise, Videos have replaced catalogues and computer linkages to acquire information and make purchases are on the increase. Virtual shopping through PDA's is another possibility

Multi Channel Retailing:

Traditional store based and catalogue retailers are placing more emphasis on their electronic channels and evolving into multi channel retailers, because they can reach new markets and overcome limitations posed by traditional formats.

6.6 RETAIL OPERATIONS MANAGEMENT

Retail Operations Management

In our daily life, we come across retail shops in the nearby residential areas or shopping malls. Retailing affects every facet of our life. A retail store is a business that sells products and/or services to consumers for their personal or family use. If you look around, you will find different forms of retail stores such as departmental stores, discount stores, variety stores, specialty stores, convenience stores, A retail store is also classified by the type of products they sell, for example food products, durable goods (appliances, electronics, furniture, sporting goods, etc.) and soft goods or consumables (clothing, apparel, and fabrics). Often people think of retailing which are sold and bought in stores, but retailing also involves the sale of services: staying in a hotel while on vacations, a haircut saloon or a beauty parlour, a DVD rental, or a home-delivered pizza. Not all retailing is done in stores. Examples of non-store retailing include online selling or the direct sales of cosmetics by Amway. Store operations is operating and overseeing all the functions of the store from setting up shop, deciding what type of products you want to sell, deciding on what type of customers you are trying to attract into your store, then ordering the products, hiring personnel, pricing the products, deciding on a location, taking an inventory, advertising the products, etc. What ever form, the retail store enters into for buying and selling, every retailer rolls out a standard operation procedure (SOP) which includes all functions of operating relating to customer service, health safety and protection, maintenance and distribution.

Retail operations refers to the work of individual(s) to keep store functioning. This includes retail sales people and managers in all type of stores, including small stores with only a handful of workers and large chain stores with hundreds of employees. It is general experience of shopping that it is extensively planned before entering into the retail environment. Sometimes decision of shopping any goods or item is made because of the layout and display of products but not because of planned shopping list. Many times these decisions are made by someone working in retail operations. The main Retail Operations include - Cash handling, Safety and Security, Customer Service, Refunds and Returns, Visual Merchandising and Inventory etc.

Store Atmosphere

The store must offer a positive ambience to the customers for them to enjoy their shopping and leave with a smile.

- The store should not give a cluttered look.
- The products should be properly arranged on the shelves according to their sizes and patterns. Make sure products do not fall off the shelves.
- There should be no foul smell in the store as it irritates the customers.
- The floor, ceiling, carpet, walls and even the mannequins should not have unwanted spots.
- Never dump unnecessary packing boxes, hangers or clothes in the dressing room. Keep it clean.
- Make sure the customers are well attended.
- Don’t allow customers to carry eatables inside the store.

Cash Handling

- One of the most important aspects of retailing is cash handling.
- It is essential for the retailer to track the daily cash flow to calculate the profit and loss of the store.
- Cash Registers, electronic cash management system or an elaborate computerized point of sale (POS) system help the retailer to manage the daily sales and the revenue generated.

Prevent Shoplifting/Safety and Security

- The merchandise should not be displayed at the entry or exit of the store.
- Do not allow customers to carry more than three dresses at one time to the trial room.
- Install CCTVs and cameras to keep a close watch on the customers.
- Each and every merchandise should have a security tag.
- Ask the individuals to submit carry bags at the security.
- Make sure the sales representative handle the products carefully.
- Clothes should not have unwanted stains or dust marks as they lose appeal and fail to impress the customers.
- Install a generator for power backup and to avoid unnecessary black outs.
- Keep expensive products in closed cabinets.
- Instruct the children not to touch fragile products.
- The customers should feel safe inside the store.

Customer Service

- Customers are assets of the retail business and the retailer can't afford to lose even a single customer.
- Greet customers with a smile.
- Assist them in their shopping.
- The sales representatives should help the individuals buy merchandise as per their need and pocket.
- The retailer must not oversell his products to the customers. Let them decide on their own.
- Give the individual an honest and correct feedback. If any particular outfit is not looking good on anyone, tell him the truth and suggest him some better options.

- Never compromise on quality of products. Remember one satisfied customer brings five more individuals to the store. Word of mouth plays an important role in Brand Promotion.

Refunds and Returns

- Formulate a concrete refund policy for your store.
- The store should have fixed timings for exchange of merchandise.
- Never exchange products in lieu of cash.
- Never be rude to the customer, instead help him to find something else.

Visual Merchandising

- The position of dummies should be changed frequently.
- There should be adequate light in the store. Change the burned out lights immediately.
- Don't stock unnecessary furniture at the store.
- Choose light and subtle colours for the walls to set the mood of the walk-ins.
- Make sure the signage displays all the necessary information about the store and is installed at the right place visible to all.
- The customers should be able to move and shop freely in the store.
- The retail store should be well ventilated.

Training Program

- The store manager must conduct frequent training programs for the sales representatives, cashier and other team members to motivate them from time to time.
- It is the store manager's responsibility to update his subordinates with the latest softwares in retail or any other developments in the industry.
- It is the store manager's responsibility to collate necessary reports (sales as well as inventory) and send to the head office on a daily basis.

Inventory and Stock Management

- The retailer must ensure to manage inventory to avoid being "out of stock".
- Every retail chain should have its own warehouse to stock the merchandise.
- Take adequate steps to prevent loss of inventory and stock.

Retail Store Operations Standard Procedure

It is important to document Store operation resources and daily procedures for creating internal controls for establishing retailing functions of the retail stores. The best time to establish policies and procedures for a retail business is during the planning stages. By anticipating problems, one can strategize how they can handle special situations, as well as the normal day to day operations. This helps avoid making mistakes once you're faced with customers. Standard Operating Procedures in Retail Standard Operating Procedure (SOP) is a set of written instructions that document a routine or repetitive activity followed by an organization. Operational procedures are vital to the business of running a retail store.

Procedures typically cover all activities in the store, from sales transactions to customer support to inventory. The development and use of SOP has various advantages for the organization. Following standard operating procedures increases sales, boosts worker productivity and enhances a store's image. Standardization An SOP minimizes the variation and promotes standardization through consistent implementation of a process or procedure within the organization. Technology Retail stores use some type of business software or point-of-sale system to track sales. This allows managers to determine what products are selling well and helps them track inventory. Retailers often use this electronic information to generate product orders when replenishing stock levels.

Inventory Management

Inventory management procedures pertain to the handling of products in a store. These procedures include receipt of inventory by verifying that each product is in the order as quoted; regular counting of inventory; and installing cameras or mirrors to limit or prohibit theft. Marketing Retailers use marketing strategies to draw customers into the store and entice them to purchase goods or services. Marketing tools include radio, newspaper and television advertisements; special pricing; in-store promotions; and signs outside the store to attract buyers. Labor Practices Employees are typically a large expense for retailers. Companies often devise schedules to ensure enough workers are available to cover the business' needs without increasing operating costs. Retailers sometimes hire younger people willing to work for lower wages to save the company money. Store Procedures in regard to Exchanges and Returns Depending on the size of the retailer, other transactions may take place at the point-of-sale. Small retailers commonly deal with lay-by, returns and exchanges at the point of sale area, whereas larger retailers may have a dedicated section dealing with these other transactions. The necessary documentation must be completed accurately and efficiently to facilitate the transaction.

In a retail environment, opening and closing times present unique security risks. At these times, employees are particularly vulnerable to robbery. The following policy can be modified for any retail business that stores cash and valuables such as banks and jewellery stores. This procedure assumes that the store has an alarm system designed to arm/disarm the premise alarms (motion detectors, door and window contacts, etc.) and burglar alarms (safes, vaults and other storage containers) separately. The policy can easily be modified to accommodate other alarm system configurations.

Opening Procedure

At least two employees must be present to open the facility. One employee will enter the facility, while the other waits outside in a locked vehicle with access to a mobile phone. The outside employee will maintain a clear view of the facility and wait for the predetermined all clear signal from his/her associate. If the outside employee notices anything suspicious, or does not see the all clear signal in a reasonable period of time, he/she will immediately call 100 and then call the company's security department. Upon entering the facility, the inside employee will relock the front door and disarm the premise alarm system.

If the employee is threatened while disarming the system, he/she will enter a duress code into the alarm system keypad. After disarming the premise alarm system, the employee will walk around premise to look of signs of intruders or forced entry. The employee will pay special attention to rest rooms, offices, and other areas where an intruder may hide. If an intruder is suspected, or a sign of forced entry is noticed, the employee will immediately leave the facility and call 911 and then call the company's security department. After checking the interior of the facility the inside employee will post the predetermined all clear signal. The signal must remain visible until all scheduled employees have reported for the day.

Safe and vaults should be disarmed at the latest practical time. If an employee is threatened while disarming the vault he/she will enter a duress code into the alarm system keypad. The front door will remain locked until opening time. Before opening for business, all camera views will be checked to make sure cameras are aimed properly. The DVR will also be checked to verify that it is recording. Any problems with the cameras or DVR will be reported to the security department immediately.

Closing Procedure

At closing time, one employee will lock the customer entry door(s) from inside. An employee will be stationed at the front door to let any customers remaining in the facility out one at a time. Employees should take special notice of any customers that seem to be loitering or intentionally trying to be last in line. Anyone who seems to be intentionally loitering should be reported to the manager. No customers will be admitted after the doors have been locked. Any employees attempting to gain entrance must show proper identification. No vendors or service technicians will be allowed access unless they have been given prior authorization.

After the final customer has left, and the front door has been locked, one employee will conduct an initial walk-through of the area. Special attention will be paid to restrooms, closets, employee lounge, storage rooms and any areas where individuals may be hiding. One employee will be designated to conduct a final walk through of the premises before final closing. At this time, the employee will confirm that all cash, negotiable items and valuables have been properly stored and that all safes and cabinets have been locked. The alarm system controlling the safes and vaults will be armed at this time. Prior to leaving, all lights should be turned off, except for those lights which will allow the lobby to remain visible from the street after hours. Two or more employees will remain in the facility until final closing. Before leaving, one employee shall arm the premise alarm system and verify that the employee exit door is locked from outside.

6.7 THE FUTURE CHALLENGE

The key to a successful future for retailing is to optimise the business plan, optimise the total value chain cost, and to build trust and understanding in the supply chain through sharing risk, and increasing the benefits for all through improved communication. The Institute of Operations Management Retail Special Interest Group has brought together a number of practitioners, consultants and academics to share and develop the benefits that are derived from adopting a strategic response to this exciting operations management challenge.

The contribution that can be made from the application of operations management tools and techniques is considerable. The process of moving product in response to actual or perceived customer demand is well defined in the manufacturing context. The challenge is to transfer the underlying principals to the retail context that is characterised by volatile demand patterns, short life cycles, cost versus replenishment times issues and service operations management influences on a global scale. The whole retail process is driven by customer service, normally seen as stock availability in store that is linked to brand or category management focussed not just on customer satisfaction of the sales transaction but more importantly on future customer retention. Operations management is the vehicle to consistently and reliably deliver these requirements to the end customer, the consumer to persuade them to return to the retail outlet for their subsequent purchase. This is a fragile choice that is vulnerable to marketplace changes and pressures where only those recognising the large contribution made by operations management will prosper.

6.8 CASE STUDY

Bharti group of Industries has tied up with an International retail chain 'WALMART' to open various cash and carry stores in wholesale segment. To start with, they have opened their first store in Amritsar (Punjab) and now are gradually expanding to other important Tier I and Tier II cities across India. They have appointed you as a consultant to advise them in various decision areas involved in Retail Management and want to seek your advise to ensure success of their operations.

Questions:

(a) What are the merchandise management decisions involved and what advise you will give for category management and planning?

(b) What performance measures you will suggest to measure the performance of their retail outlets?

(c) What Human Resource issues are involved and how these Human resources functions can be addressed? Give a brief account of them.

6.9 NOTES

6.10 SUMMARY

Retailing encompasses those business activities involved with the sale of goods and services to the final consumer for personal, family or household use. It is the final stage in a channel of distribution. Retailing has an impact on the economy because of the high volume of sales generated and the number of people employed. Retailers perform a variety of functions such as product assortment, providing information, handling merchandise and completing transactions. Retail businesses maybe classified according to a number of criteria including, variety of products they sell, types of ownership and style of operation. A number of hypotheses, including the "wheel of Retailing" have been proposed to explain the evolutionary development of retailing institutions. Traditional retail businesses (super markets, convenience stores, department stores, discount and specialty stores) have been joined by category specialists, super stores, hyper markets, and catalog show rooms etc. super markets are focusing more on food items and perishables.

6.11 KEY WORDS

Retail Sector, Supply Chain Management, Retail operations

6.12 SELF ASSESSMENT QUESTIONS

1. Define Retail Management? Explain the need for Retail Management.
2. What are challenges to develop retail management in India?
3. Briefly explain the operations in retail management?

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UNIT - 7 : MERCHANDISE MANAGEMENT & RETAIL PRICING

Structure :

7.0 OBJECTIVES

After going through this unit you should be able to,

- Explain the retail information system.
- Explain merchandise process.
- Assess the need for merchandise planning and merchandise budgets
- Define the concept of Retail Pricing.

7.1 INTRODUCTION

Indian retailing is undergoing a process of evolution and is poised to undergo dramatic transformation. The retail sector employs over 8 percent of national work force, but is characterized by a high degree of fragmentation. There are over 5 million outlets, 96 per cent of whom are very small with an area of less than 50 m^2. The retail universe more than doubled between 1978 and 1996 the number of outlets per 1000 people at an all India level, increased from 3.7 in 1978 to 5.6 in 1996. For the urban sector alone, the shop density increased from 4 per 1000 people in 1978 to 7.6 per 1000 people in 1996. Because of their small size, the Indian retailers have very little bargaining power with manufacturer and perform only a few of flows in marketing channels unlike a retailer in developed country.

The corner grocer or 'Kirana' store is a key element in retail in India due to the housewife's unwillingness to go long distance for purchasing daily needs. An empirical study was carried out by Sinha et al (2002) to identify factors that influenced consumer's choice of a store. Although convenience and merchandise were the two most important reasons for choosing a store, the choice criteria varied across product categories.

Consumer indicated convenience as the most important reason in the choice of groceries and fruit outlet, chemists and life style item while merchandise was indicated as most of important in durables, books and apparel.

The success of any retail operation is largely based on the retailer's ability to provide the right goods to the consumer, at the right place, at the right time and at the right price. The entire process of creating or procuring a product or service needed by the consumer and ensuring that it reaches the place where a consumer can buy it, is integral to the existence of any retail organization.

7.2 MEANING AND DEFINITIONS

Merchandise management can be termed as the analysis, planning, acquisition, handling and control of the merchandise investments of a retail operation.

The process of merchandise management includes the developing of strategies to ensure that the right product is bought at the right price, is available at the right place, at the right time, in the right amount, in order to satisfy the needs of the target customer. No one in retail can completely avoid any contact with merchandising activities. Merchandising is the day-to-day business of all retailers. As inventory is sold, new stock needs to be purchased, displayed and sold. Hence, merchandising is often said to be at the core of retail management.

7.3 RETAIL INFORMATION SYSTEM

An important element of the supply chain is the retail. Retail is the place where the products and goods are sold to the end users. Retailer purchases goods and products from producers in large quantities and in turn sells them to consumers in smaller quantities.

Characteristics of Retail Information System

The retail information system should have following characteristics:

- Retail Information systems Information systems should connect all the stores under the company's.
- Retail information system should allow instant information exchange between stores and management.
- Retail information system should handle the various aspect of product management.
- Retail information system should handle customer analysis.
- Retail information system should allow the store manager flexible pricing over a financial year.

Objectives:

The objective of the retail information systems is as follows:

- An information system should provide relevant information to retail manager regularly.
- An information system should anticipate needs and requirement of the retail manager.
- An information system should be flexible enough to incorporate constant evolving needs of the consumer market.
- An information system should be able to capture, store and organize all the relevant data on a regular and continuous basis.
- The retail Information systems should be aligned with strategic and business plans of the organization. Therefore, it should be able to provide information, which supports and drives this objective.

Role of Retail Information System

Retail information system should support basic retail function like material procurement, storage, dispatch, etc. It should allow the manager to monitor sales of product mix and daily sales volume. An information system should help in inventory management.

Variety of Retail Information System

Retail information system is applicable to different types industry within retail management. An information system can be developed to manage fashion store, pharmacy, a grocery store as well as a toy store.

7.4 MERCHANDISE MANAGEMENT

Factors Affecting the Merchandising Function

Merchandising does not function in isolation. It is affected by various factors, like the organization structure, the size of the retail organization and the merchandise to be carried. As in every retailing endeavour, the most fundamental activities are buying merchandise and re-selling it to its customers. The owner or the manager, who may be assisted by the sales person, may perform the buying function in the case of a single store. As the single store grows in terms of business, it may add departments. Functional departmentalization may occur and the number of persons involved in the buying process may increase.

In the case of a chain store, the buying function may be centralized or decentralized geographically, depending on the retail organization. Thus, the nature of the organizations is an important factor affecting the function of merchandising. The merchandise to be carried by a retailer largely determines responsibilities of the merchandiser. The buying for basic merchandise is fairly different from the buying of fashion merchandise. Basic are those products or items, which their retailer will always keep in stock. This primarily because these products are always in demand and the sales variance is minimal from year to year. Example of basics would be items like white shirts in clothing or items like pulses, oil, etc. Fashion products on the other hand, are products, which may sell very well in one season or year and may not have any demand in the next season. A merchandiser, who is handling fashion products, will need to spend more time in the market, looking for products, which will suit the needs of the store's consumers. He will also need to be aware of the fashion forecasts and the trends in the international markets. The organization structure that the retail organization adopts also affects the merchandising function. Some organizations may demarcate the role of the buyer and the role of a merchandiser as separate functions, which in a smaller organization, one person may carry out the all the duties.

Functions of a Merchandise Manager

The merchandise manager is responsible for particular lines of merchandise. For example, in department store, there may be separate merchandise managers for menswear, women's wear, children's wear, etc. They would be in charge of a group of buyers and their basic duties could be divided into four areas; planning, directing, coordinating and controlling.

1. Planning

Though the merchandise managers may not directly be involved in the actual purchase of the merchandise, they formulate the policies for the areas for which they are responsible. Forecasting the sales for the forthcoming budget period is required and this involves the estimation of the consumer demand and the impact of the changes occurring in the retail environment. The sales forecasts are then translated into budgets, to help the buyers work within the financial guidelines.

2. Organizing

It involves the establishment of an intentional structure of roles through determination and enumeration of the activities required to achieve the goals of an enterprise and each part of it. The grouping of these activities, the assignment of such groups of activities, the delegation of authority to carry them out, and provision for coordination of authority and informational relationship horizontally and vertically to be carried out by the merchandise manager.

3. Directing

Guiding and training buyers as and when the need arises, is also a function of the merchandise manager. Many a times, the buyers have to be guided to take additional markdowns for products, which may not be doing too well in the stores. Inspiring commitment and performance on the part of the buyers is necessary.

4. Controlling

Assessing not only the merchandise performance, but also the buyer's performance, is a part of the merchandise manager's job. Buying performance may be evaluated on the basis of the net sales, mark up percentage, the gross margin percentages and the stock turn. This is necessary to provide controls and maintain high performance results.

5. Coordinating

Usually, merchandise managers supervise the work of more than one buyer; hence, they need to co-ordinate the buying effort in terms of how well it fits in with the store's image and with the other products being bought by the other buyers.

The structure of the merchandise department largely depends on the organization structure adopted by the retail organization. Retail snapshot 6/1 illustrates the function of buying and merchandising at one such retail organization in India – shopper's stop. This organization has identified the trading manager and the buyer as the persons who will look after the merchandising function.

Functions of Merchandisers

- Inventory-level management
- Achieving sales & profit margins
- Plan merchandise
- Availability management, as per range plan
- Merchandising strategy & planning
- Processing of purchase orders
- Analysis of data & sales budgeting
- Profitability Target & expense control
- Vendor/supplier relations for both, in house products as well as for brands.
- While good merchandise management does not guarantee success, bad merchandise management will almost certainly result in failure.

7.5 RETAIL PRICING

The pricing technique used by most retailers is cost-plus pricing. This involves adding a markup amount (or percentage) to the retailer's cost. Another common technique is suggested retail pricing is simply charging the amount suggested by the manufacturer and usually printed on the product by the manufacturer. In Western countries, retail prices are often called psychological prices or odd prices. Often prices are fixed and displayed on signs or labels. Alternatively, when prices are not clearly displayed, there can be price discrimination, where the sale price is dependent upon the customer. For example, a customer may have to pay more if the seller determines that he or she is willing and/ or able to. Another example would be the practice of discounting for youths, students, or senior citizens.

The various factors affecting retail pricing are illustrated in the fig. shown below:

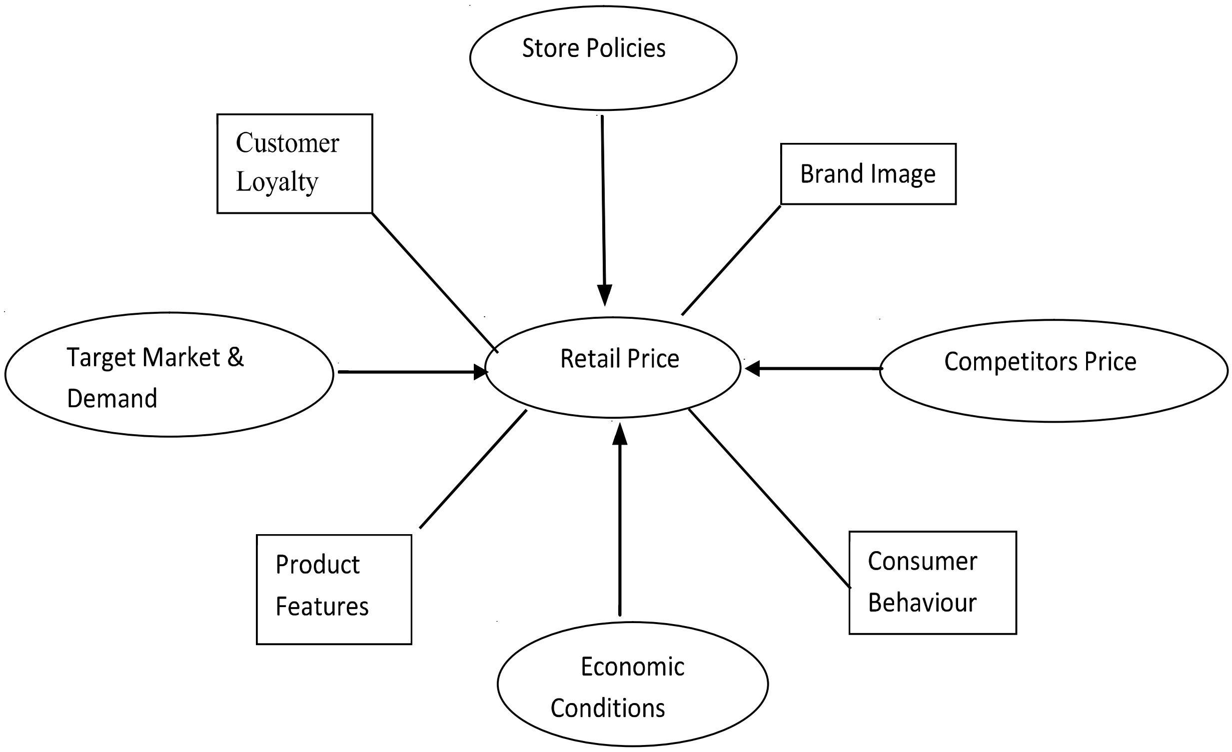

Fig 7.1 Factors Affecting Retail Pricing

Approaches to a Pricing Strategy

Price lining is a term used by the retailers, when they sell their merchandise only at the given prices. A price zone or price range is a range of prices for a particular merchandise line. A price point is a specific price in that price range.

The pricing strategies that can be followed include:

Market skimming

The strategy here is to charge high prices initially and then to reduce them gradually, if at all. A skimming price policy is a form of price discrimination over time and for it to be effective, several conditions must be met.

Market Penetration:

This strategy is the opposite of market skimming and aims at capturing a large market share by charging low prices. The low prices charged stimulate purchases sand can discourage competitors from entering the market, as the profit margins per time are low. To be effective, it needs economies of scale, either in manufacturing, retail or both. It also depends upon potential customers being price sensitive about particular item and perhaps, not perceiving much difference between brands.

Leader pricing:

Here, the retailer bundles a few products together and offers them at a deep discount so as to increase traffic and sales on complementary items. The key to successful leader pricing strategy is that the product must appeal to a large number of people and should appear as a bargain. Items best suited for this type of pricing are those frequently purchased by shoppers, e.g., bread, eggs, milk, etc.

Price Bundling:

Here, the retailer bundles a few products together and offers them at a particular price. For example, a company may sell a PC at a fixed price and the package may include a printer and a web camera. Another example is that of the Value Meal offered by McDonald's. Price bundling may increase the sales of related items.

Multi-unit Pricing:

In multi-unit pricing, the retails offer discounts to customers who buy in large quantities or who buy a product bundle. This involves value pricing for more than one of the same item. For example, a retailer may offer one T-shirt for Rs 255.99 and two T- shirts for Rs 355.99. Multi-unit pricing usually helps move products that are slow moving.

Discount pricing:

It is used as a strategy by outlet stores who offer merchandise at the lowest market prices.

Every Day Low Pricing

Every Day Low Pricing or EDLP, as it is popularly known, is a strategy adopted by retailers who continually price their products lower than the other retailers in the area. Two famous examples of EDLP are Wal- Mart and Toys "R" Us, who regularly follow this strategy.

Odd Pricing

Retail prices are set in such a manner that the prices end in odd numbers, such as Rs 99.99 or Rs 199, Rs 299 etc.

The buyer may adopt either the cost-oriented or a demand-oriented approach for setting prices.

In the **Cost-oriented method**, a fixed percentage is added to the cost price. This is determined by what mark up the retailer works on. Alternately, the demand-oriented method bases prices on what price the customer expects to pay for the product. The price fixed here is based on the perceived value of the product. Ultimately, it is the planned gross margin, which needs to be achieved, and which is a major consideration while fixing the retail price.

7.6 CASE STUDY

Printo – Innovative Retail Plans

Incepted in 2006, Printo is already off to a start with six stores in Bangalore, including one at Infosys, IT City. The first 1,500 sq.ft outlet came up at Koramangala in March 2006; offering full service facilities. A second anchor store came up at Jayanagar in February 2007, followed by the third anchor at Whitefield in May 2007. The beginning of June saw two nodal outlets coming up at Malleswaram and Domlur in quick succession.

The company scouts for and identifies locations where footfall for print and document services is perceived to be high for each of its stores.Of the planned 250 outlets, Printo plans to launch about 100 anchor stores, typically covering 1,000-1,500 sq.ft of retail space, and employing about 15-20 store staff. Three anchor stores, as mentioned earlier, have already come up in Bangalore. Apart from anchor outlets, the company plans to launch a total of 150 nodal stores with an average retail area of 600 sq.ft, that will also offer the same services to consumers. The first two have already been set up at Malleswaram and Domlur, Bangalore.

In its first phase of expansions, Printo will go ahead and set up 20-25 outlets in the South, "Including 13 stores in Bangalore and others in Mysore, Hubli, Mangalore, Hyderabad and Chennai," Srivats Asur, head - operations, Printo, said. In its second expansion phase, the company will target 54 stores in major metros, especially within Karnataka, by 2008.

By the third phase, Printo aims to reach 250 stores by 2010. At present, however, the company intends to dominate the southern market space, with added emphasis on Karnataka' and Andhra Pradesh, followed by Chennai and its suburbs.

Merchandise Mix

Printo retails through both traditional brick-and-mortar formats as well as its non-store e-retailing format: www.printo.in. Both online or-dering and in-store purchases are offered to target customers, who in-clude individual consumers for purchasing customized greeting cards, in-vitation cards, calendars etc., 5MBs for various business collaterals as well as large corporates for manuals, marketing collaterals, white papers etc.While business cards at Printo cost Rs 150 for Rs 100 cards, event collaterals range from Rs 1535 personalized diaries with photographs, messages and/or logos cost Rs 600 for a pair, and brochures designed from a selection of customizable templates come at Rs 2,OOO.

Other Printo offerings include: posters, certificates, bound documents, and personalised material such as invitation cards, greeting cards, photo cards, calendars, photo stands, digital photographs and more. Colour and B&W printing, lamination, binding and photocopying services are also offered at the stores.Customers can pick and choose from Printo's template bank, on the internet as well as in-store, and customise merchandise to their choice. This approach not only helps in getting customised print products but also helps source it with minimum lead-time. Importantly, Printo's cutting-edge digital printing equipment and internet technology provides customers with print outsourcing solutions right within their neighbourhoods.

Consolidating Industry Experience

Announcing the induction of the new member, Lalana Zaveri, co-founder and director, Printo, remarked, "A person of the stature of Naresh Malhotra accepting to join our Board and taking active interest is important in that it clearly validates the immense potential of our business model as well as this space.

Besides, from the point of view of the team at Printo, we are all excited about having him amongst us, since we will have the benefit of the expertise and experience that Naresh has of building one of India's biggest retail success stories from scratch."

For his part, Malhotra added," Printo represents the next frontier for organised retail in India - prising open hitherto untapped or mostly unorganised spaces that have significant market size and potential. Personally, it is exciting to be able to work on retail formats in two very different sectors and being able to play my role in driving the evolution of the organised retail space in India in the service sector."The Road AheadFounded in 2006, Printo Document Services Pvt Ltd is an innova-tive venture that seeks to capitalise on the opportunity presented by the un-organised Rs17,000 crore market for print and document services in India. Promoted by Manish Sharma and Lalana Zaveri, who between them have 23 years of expertise in digital printing, manufacturing, and IT services, Printo is experiencing exponential growth in all its areas of operations. The startup has the backing of Pravin Gandhi (cofounder, Infinity Ventures and SeedFund), Naresh Malhotra (Cafe Coffee Day) and Raju Venkatra-man (President & COO, ICICI OneSource) as advisors and investors.

The initial investment in the company was to the tune of Rs 5 crore, out of which Rs 4 crore was invested by the venture capital fund, Seed Fund. Turnover targets for Printo stand in the region of Rs 400 crore (US$100 million) by 2012. The South and the West are the regions where the company primarily intends to strengthen its retail reach. "I think that the centre of gravity of the Indian economy is shifting towards South India; with Karnataka, Andhra Pradesh and areas around Chennai coming up as the major growth hubs," adds Manish Sharma. And that is where Printo will stay focused for the moment. The young innovative venture is also seeking business alliances with technology as well as content providers for its retail business.

"While it is innovation on the go with everything that we do, we recognise that for this format to succeed, achieving a certain scale and level of efficiency quickly is critical. Over the next three years we plan to open 250 stores that will allow us to touch and service a consumer wherever they need us. That will lay the foundation for us to make the next big push, which then combined with our growing bouquet of packaged and value-added services will give us our competitive edge," informed Asur. The company plans to set up three large print hubs to start with; two in the South and one in the West. In the future the company also plans to set up a print hub in the North, when expansions reach the region.

Printo being a product-oriented retail concept, the company eventually plans to take its business overseas too. Though Printo is focusing initially on company-owned stores, at a later stage the company intends to operate about 70-80 stores on a franchisee model.

Questions

1. How can Printo revitalize its merchandising mix to keep abreast of the changing marketing environment?

2. What should be the merchandising strategy for Printo if it intends to achieve its future goals?

7.7 NOTES

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7.8 SUMMARY

The success of any retail operation is largely based on the retailer's ability to provide the right goods to the consumer, at the right place and at the right time. It is for this reason that the function of merchandising plays a key role in retail. With the growth of organized retail in the world, this function has gained significance. The size of the organization, the merchandise to be carried, the type of stores and the organization structure, all affect the merchandising function. The two key players in this function are the buyer and the merchandiser.

The starting point of the merchandising function is analysis. Analysis forms the basis of the sales forecast. A sales forecast is usually made for a specific time period. It is an outline of what sales needs to be achieved and what revenues are targeted.

Merchandise buying is a four-step process, which involves identifying the sources of supply, contacting the sources of supply, evaluating the sources of supply and negotiating with the sources of supply, Sources of supply may be domestic or international. Various aspects associated with international souring, like Foreign Currency Fluctuations, Tariffs, Foreign Trade Zones, Cost of Carrying Inventory and the Transportation Costs have to be taken into consideration.

7.9 KEY WORDS

Retail Information System, Merchandise Management, Retail Pricing,

7.10 SELF ASSESSMENT QUESTIONS

1. Briefly explain RIS with its characteristics and objectives
2. State the key functions of Merchandise Manager
3. What are factors affecting the merchandise function?
4. What is retail pricing? Mention the factors affecting it.

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UNIT - 8 : BRANDING AND RETAIL MANAGEMENT

Structure :

8.0 OBJECTIVES

After Studying this unit, you should be able to;

- Define the concept of Quality aspects in Retailing.
- Explain the importance of Branding in retailing.
- Examine how retailing is done in rural sector.
- Describe the nature and significance of brand loyalty.
- Examine the factors influencing brand loyalty

8.1 INTRODUCTION

Retail is the sale of goods and services from individuals or businesses to the end-user called the customer. Retailers are the integral part of a system called the supply chain which carries goods from the producer to the target market. A retailer purchases goods or products in large quantities from manufacturers directly or through a wholesale, and then sells smaller quantities to the consumer for a profit. Retailing can be done in either fixed locations like stores or markets, door-to-door or by delivery. Retailing is the process that the retailer adopts in selling the products including subordinated services, such as delivery and installation.

The term "retailer" is also applied where a service provider services the needs of a large number of individuals, such as a public. Shops may be in residential streets or in a shopping mall.. Sometimes a shopping street has a partial or full roof to protect customers from precipitation. Online retailing, a type of electronic commerce used for business-to-consumer (B2C) transactions and mail order, are forms of non-shop retailing.

For many years, product and service marketers felt customers were there with them for life, and started taking brand loyalty for granted. However, there has been a transformation in the Indian market and consumers are now loyal to 'perceived value' and not necessarily to brands.

Today's market is characterized by cut-throat competition. Every manufacturer wants to capture the major share of the market. This is possible through brand image in the market. Brand name helps in creating favorable disposition towards the products of a particular manufacturer in terms of quality and performance. The impact of the massive changes now underway affects brands and those who manage them in a variety of different ways. Brands can make or mar the businesses.

Brands are emerging as a vital competitive weapon in almost all industries and businesses. If companies are to thrive in the future, they need to make use of every competitive weapon at their disposal.

Switching over to another brand means change. People generally resist change because change means uncertainty. Even if people are fully aware of the rewards resulting from change, they are usually not happy going through it.

Familiarity brings in comfort, ease and, most importantly, the feeling of understanding and being understood. The brand becomes a part of the customer's routine and his life. This dynamic of 'familiarity' translates into consumers' preference for brands. They become habituated to the benefits of the brand and are averse to switching over to some other brands. The strongest example of this is your morning newspaper.

8.2 MEANING & DEFINITIONS

A brand name is a means of identification of the product as well as means of differentiation of the branded product from its competitors. Branding is the best way to capture and retain the consumer demand in a competitive market. The marketer can create brand equity, brand loyalty and brand image for his products only through branding. A well-promoted brand name which has a lot of goodwill and reputation in the market is very difficult to compete with.

Consumers pay a premium for a brand not because of its quality but because it stands for a certain way of life. Brands are often the most valuable assets for companies. Yet they can lose their value overnight if not managed carefully.

Manufacturers have every incentive to maintain quality. Trust continues to be the core attribute of any brand. The owners of brands have to work hard to retain that trust.

8.3 BRANDING ASPECTS IN RETAILING:

Retail brands have gained in popularity in the past decades. Today, brands exist by the grace of the relevance they bring to consumers. A relevance that is based on the unique underlying values of the brand - what the brand is, what the brand does and how the brand delivers here and now. If people can identify with those unique emotional and rational values, the brand will be successful.

Developing Brand Positioning

Brand positioning sets the direction of marketing activities and programs – what the brand should and should not do with its marketing. Brand positioning involves establishing key brand associations in the Minds of customers and other important constituents to differentiate the brand and establish (to the extent possible) competitive superiority (Keller et al. 2002). Besides the obvious issue of selecting tangible product attribute levels (e.g., horsepower in a car), two particularly relevant areas to positioning are the role of brand intangibles and the role of corporate images and reputation.

Integrating Brand Marketing

A variety of branding and marketing activities can be conducted to help achieve the desired brand positioning and build brand equity. Their ultimate success depends to a significant extent not only on how well they work singularly, but also on how they work in combination, such that synergistic results occur. In other words, marketing activities have interaction effects among themselves as well as main effects and interaction effects with brand equity. Three noteworthy sub-areas of this topic are the brand-building contribution of brand elements; the impact of coordinated communication and channel strategies on brand equity; and the interaction of company-controlled and external events.

Integrating Brand Elements

Brands identify and differentiate a company's offerings to customers and other parties. A brand is more than a name (or "mark"). Other brand elements such as logos and symbols (Nike's swoosh and McDonalds' golden arches), packaging (Coke's contour bottle and Kodak's yellow and black film box), and slogans (BMW's "Ultimate Driving Machine" and Visa's "It's Everywhere You Want to Be") play an important branding role as well.

A number of broad criteria are useful for choosing and designing brand elements to build brand equity (Keller 2003):

1) Memorability;
2) Meaningfulness;
3) Aesthetic appeal;
4) Transferability (both within and across product categories and across geographical and cultural boundaries and market segments);
5) Adaptability and flexibility over time; and
6) Legal and competitive protectability and defensibility.

Brand elements vary in their verbal vs. visual content and product specificity. Although a robust industry exists to help firms design and implement these various brand elements (Kohli and LaBahan 1997), comparatively little academic research attention, even in recent years, has been devoted to the topic of designing and selecting brand elements other than brand names.

Integrating Marketing Channels & Communications

Marketers employ an increasingly varied means of communication (e.g., various forms of broadcast, print, and interactive advertising, trade and consumer promotions, direct response, sponsorship, public relations, etc.) and multiple means of going to market (via retailers, company-owned stores or outlets, telephone, Internet, mail, etc.). Some marketers have attempted to orchestrate these activities to create synergistic effects

8.4 RETAILING IN RURAL SECTOR

In a market where life has revolved around deep rooted community values, joint families, and social customs and taboos (women, for example, are not allowed to wear trousers), marketers realize that the traditional routes of market entry and brand building employed in urban India are often not feasible. As Adi Godrej, Chairman of the Godrej Group, says, "The challenge [for brands] is to understand the [psyche] of the rural consumer, create better distribution, and [appreciate] the heterogeneity."

The Indian growth story is now spreading itself to India's hinterlands. The rural consumer market, which grew 25 per cent in 2008, is expected to reach US$ 425 billion in 2010-11 with 720-790 million customers, according to a white paper prepared by CII-Technopak, in November 2009. The figures are expected to double the 2004-05 market size of US$ 220 billion. The Union Budget for 2010-11 has hiked the allocation under the National Rural Employment Guarantee Act (NREGA) to US$ 8.71 billion in 2010-11, giving a boost to the rural economy. Rural marketing is confused with agricultural marketing. - "The future lies with those companies who see the poor as their customers." -C. K. Prahalad Today, rural market occupies a larger part of our economy and it is expected to grow at least four times the existing size. Another contributing factor for rural push was growing saturation in urban markets.

WHAT IS RETAILING?

The word "Retail" originates from a French-Italian word. Retailer-someone who cuts off or sheds a small piece from something. Retailing is the set of activities that markets products or services to final consumers for their own personal or household use. It does this by organizing their availability on a relatively large scale and supplying them to customers on a relatively small scale.

For a retailer it is essential to see in which segment it is catering in the above division of villages. For example Shakti caters to villages with a population of 500 or above. Where in Eveready considers even the remotest of village as its target customer. It operates through more than thousand company-owned vans and has over 4,000 distributors to directly providing service to 6,00,000 retail outlets.

Rural Retailing

With several states in the country permitting retailers to purchase produce directly from farmers, the farmers too are adapting to the new opportunity to cultivate assigned crops and take special care of the same. This gets them instant credit at higher prices than what they received from the erstwhile traders/middlemen. Corporate retailers like ITC, Godrej, Reliance, AV Birla and many others have already established the farm linkages. Indian farmers are finally making good money, after centuries of social and economic exploitation. The Indian government too has chipped in with a massive loan waiver worth Rs.60,000 crore to lighten the farmers debt burden.

Rural V/S Urban Consumer

Rural Consumers are heterogeneity in nature(Rural specific and Region specific) whereas Urban Consumers are homogenous in nature. Rural bias: Nearly two thirds of the stores are located in rural areas. Rural retail industry has typically two forms: "Haats" and "Melas". Haats are the weekly markets : serve groups of 10-50 villages and sell day-to-day necessities. Melas are larger in size and more sophisticated in terms of the goods sold (like TVs).

Role of Rural Retailing

Retailing is the final phase of the distribution channel and it is clear by now that it is availability and distribution that drives growth in rural Indian markets. Hence retailing will be significant and will undergo greater organisation and maturity as is being witnessed in the urban markets, even in the rural markets. Innovative retail models which take into account the nuances of rural markets is the way forward.

Study on buying behaviour of rural consumer indicates that the rural retailers influences 35% of purchase decisions. Therefore sheer product availability can affect decision of brand choice, volumes and market share. India offers a huge, sustainable and growing rural market which can be tapped effectively through innovative distribution channels with retailing being the most critical element of this strategy as it is the final touch point and the actual touch point with the customer which can be the most critical influence in the buying process.

Organized Retail in Rural India

The retail sector in India is witnessing a huge change in its retail industry as traditional markets make way for new formats such as departmental stores, hypermarkets, supermarkets and specialty stores. In this project an attempt has being made to understand the current scenario of the organized retail sector in India and the future challenges as well as the opportunities for the Indian retail sector. The challenges are such as opening of the multi brand retail to foreign players, who are at present only allowed to invest in single brand retail up to 51% and 100% in wholesale retail through FDI and also the threat possessed by foreign players such as Wal-Mart, Carrefour and Tesco because it is often said that emergence of this player changes the entire game of retail in the country. It would be challenging for the Indian players to grow in the market and grasp the hold on the consumers to bring them up shopping to their store. The history of Indian retail sector.

Traditional Rural Retail Fairs

Traditional family run convenience stores are too well established in India than to be wiped out and besides there is uniqueness in the traditional items that represent the sub-continent. Theretail stores in India are essentially dominated by the unorganized sector or traditional stores. Infact the traditional stores have taken up 98 percent of the Indian retail market. Now stores run by families are primarily food based and the set up is as Kirana or the 'corner grocer' stores. Basically they provide high service with low prices. If the stores are not food based then the type of retail items available are local in nature. Traditional rural retail fairs in India deal in a good number of handcrafts items which are mentioned below: Hand painted wooden chest drawers Wooden wall brackets Embossed wooden table.

8.5 FACTORS AFFECTING BRAND LOYALTY

Loyalty includes some degree of pre-dispositional commitment toward a brand. Brand loyalty is viewed as multidimensional construct. It is determined by several distinct psychological processes and it entails multivariate measurements. Customers' perceived value, brand trust, customers' satisfaction, repeat purchase behavior, and commitment are found to be the key influencing factors of brand loyalty.

Commitment and repeated purchase behaviour are considered as necessary conditions for brand loyalty followed by perceived value, satisfaction, and brand trust. Fred Reichheld, one of the most influential writers on brand loyalty, claimed that enhancing customer loyalty could have dramatic effects on profitability. Among the benefits from brand loyalty — specifically, longer tenure or staying as a customer for longer — was said to be lower sensitivity to price. This claim had not been empirically tested until recently.

Internal Factors

- Motivation

- Perception
- Learning
- Attitudes & Beliefs

External Factors

- Prices
- Income
- Assets

1. **Motivation:** It is the driving force by which humans achieve their goals. Motivation is said to be intrinsic or extrinsic. The term is generally used for humans but it can also be used to describe the causes for animal behavior as well. This article refers to human motivation. According to various theories, motivation may be rooted in a basic need to minimize physical pain and maximize pleasure, or it may include specific needs such as eating and resting, or a desired object, goal, state of being, ideal, or it may be attributed to less-apparent reasons such as altruism, selfishness, morality, or avoiding morality. Conceptually, motivation should not be confused with either volition or optimism. Motivation is related to, but distinct from, emotion.

2. **Perception:** Perception (from the Latin perceptio, percipio) is the process of attaining awareness or understanding of the environment by organizing and interpreting sensory information. All perception involves signals in the nervous system, which in turn result from physical stimulation of the sense organs. For example, vision involves light striking the retinas of the eyes, smell is mediated by odor molecules and hearing involves pressure waves. Perception is not the passive receipt of these signals, but can be shaped by learning, memory and expectation. Perception involves these "top-down" effects as well as the "bottom-up" process of processing sensory input. Perception depends on complex functions of the nervous system, but subjectively seems mostly effortless because this processing happens outside conscious awareness.

3. **Learning:** Learning is acquiring new or modifying existing knowledge, behaviors, skills, values, or preferences and may involve synthesizing different types of information. The ability to learn is possessed by humans, animals and some machines.

Human learning may occur as part of education, personal development, school or training. It may be goal-oriented and may be aided by motivation. The study of how learning occurs is part of neuropsychology, educational psychology, learning theory, and pedagogy.

Learning may occur as a result of habituation or classical conditioning, seen in many animal species, or as a result of more complex activities such as play, seen only in relatively intelligent animals. Learning may occur consciously or without conscious awareness. There is evidence for human behavioral learning parentally, in which habituation has been observed as early as 32 weeks into gestation, indicating that the central nervous system is sufficiently developed and primed for learning and memory to occur very early on in development.

Play has been approached by several theorists as the first form of learning. Children play, experiment with the world, learn the rules, and learn to interact. Vygotsky agrees that play is pivotal for children's development, since they make meaning of their environment through play.

4. Attitudes and beliefs: An attitude is a hypothetical construct that represents an individual's degree of like or dislike for something. Attitudes are generally positive or negative views of a person, place, thing, or event— this is often referred to as the attitude object. People can also be conflicted or ambivalent toward an object, meaning that they simultaneously possess both positive and negative attitudes toward the item in question. Belief is the psychological state in which an individual holds a proposition or premise to be true.

External Factors

All those factors outside the consumer constitute external factors influencing brand loyalty i.e. external factors refer to all those factors outside consumer's skin. They are price of the product/service, income earned by the individual, assets possessed by the individual etc. For instance, the income of consumers will, directly, have an influence on consumer behavior in general and brand possession in particular as it decides the purchasing power of the consumers.

A consumer's economic position greatly affects his product choice. Economic circumstances of the consumer consist of their disposable income, assets borrowing power, and attitude towards spending versus saving and price. Income available for spending is the amount available for personal consumption expenditures and assets. Disposable personal income represents the amount of income that a consumer possesses to be used for spending or saving after having paid the taxes, debt installments etc. The changes in disposable personal income are relevant to consumer buying decisions.

The consumer is not only influenced by his current income, but also by the future income. The expectations of future income will determine the level of future expenditure. If expectations of future income are strong, there will be a tendency to spend more and save less, whereas if expectations are weak, then there will be a tendency to spend less and save more in the present. Since, most of the consumers are not having sufficient disposable income; they are not in a position to fulfill all their wants. Consequently, they give priority to certain wants and satisfy them by purchasing the suitable products.

Thus the consumer's loyalty towards the brand will be influenced by the economic circumstances i.e. external factors of the consumers.

8.6 CASE STUDY

Reliance Mart

Reliance Mart has been opened with a lot of publicity and fan fare in Anantapur, the backward district of Rayalaseema region. The other shop-keepers who have been running their shops for the past several years are under threat. They felt that the Reliance would take away their livelihood. Small time traders, fruit and vegetable vendors were feeling in secure with the advent of Reliance Smart. On the opening day there was heavy rush and stampede in the Reliance Mall which became the eye-sore to the other traders. The local traders were feeling jealous of Reliance. They were nursing a grudge against Reliance as they lost all business and customers.

The customer was very happy as he was able to get best products for lowest price. The shoppers stopped going to the other shops. There was also a lot of price and quality difference between Reliance Mart and other shops. The local traders wanted to take revenge on Reliance as they lost their livelihood. All the shop keepers and small vendors attacked Reliance in the night and looted and vandalized all the goods available in the Mall.

Consumers and people in the neighborhood also started looting the TV, Refrigerators and other electronic goods. Even the Police could not control the situation. They set the Reliance Mart on fire. The whole Reliance Mart was burnt to ashes and the glory and splendor of Reliance Mall ended up in flames and ashes. It took two years to Reliance to restart the operations.

Questions

1. What was wrong with the Reliance entry level strategy?

2. If you are appointed as the Manager of the Retail Mall, what steps you would have taken to prevent the situation?

3. What steps reliance has to take to remove the apprehensions of the small traders?

8.7 NOTES

8.8 SUMMARY

Brand loyalty can be termed as the customers decision to repurchase a particular brand of a product continually. Consumer preference to repurchase is the result of his desired perception and satisfactory purchase decision about the specific brand which it offers right product feature, image, quality and price. Brand loyalty is the tendency of the consumers to stick to a particular brand of a product to fulfill his needs. It encourages repeat purchase of the brand and hence is an important factor contributing towards the growth of organization by maximizing its revenue. Brand loyalty is influenced by a lot of factors which can be categorized into internal factors and external factors. Internal factors include motivation, perception, learning, attitudes and beliefs while external factors include price of the product, income of the buyer and assets of the brand. Brand loyalty measurement is not an easy task, particularly because it is a measurement of something intangible. To measure it properly involves gauging brand awareness, recognition, knowledge, and recall. Consumers are exposed to hundreds of brands each day, yet not all of them register in the consumer's mind.

8.9 KEY WORDS

Quality aspects, Branding, Brand Loyalty, Rural sector, Retail branding.

8.10 SELF ASSESSMENT QUESTIONS

1. Explain the branding aspects in retailing
2. What is rural retailing? Explain its role.
3. Explain the nature and significance of brand loyalty.
4. What are the factors influencing brand loyalty?

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MODULE- III
RETAILING PROBLEMS AND CHALLENGES

UNIT - 9 : PROBLEMS OF RETAILING

Structure:

9.0 OBJECTIVES

After studying this unit, you should be able to;

- Define the meaning of retailing
- Explain the problems of retailing in India.
- Discuss the issues and challenges of retailing.

9.1 INTRODUCTION

Retailing in India is receiving global recognition and attention and this emerging market is witnessing a significant change in its growth and investment pattern. It is not just the global players like WalMart, Tesco and Metro group are eying to capture a pie of this market but also the domestic corporate behemoths like Reliance, KK Modi , Aditya Birla group, and Bharti group too are at some stage of retail development. Reliance, announced that it will invest $3.4 billion to become the country's largest modern retailer by establishing a chain of 1,575 stores by March 2017. The last couple of years have been rosy for real estate developers and the retailers are finding suitable retail space in prominent locations. The industry is buoyant about growth and the early starters are in expansion mood. There is increased sophistication in the shopping pattern of consumers, which has resulted in big retail chains coming up in most metros; mini metros and towns being the next target. Consumer taste and preferences are changing leading to radical alteration in lifestyles and spending patterns which in turn is giving rise to new business opportunities. Companies need to be dynamic and proactive while responding to the ever-changing trends in consumer lifestyle and behavior. Retailing in India is currently estimated to be a USD 200 billion industry, of which organized retailing makes up 3 percent or USD 6.4 billion. By 2020, organized retail is projected to reach USD 23 billion and in terms of market share it is expected to rise by 20 to 25 per cent. The report also predicts a stronger retailer growth than that of GDP in the coming five years. The generic growth is likely to be driven by changing lifestyles and by strong surge in income, which in turn will be supported by favorable demographic patterns. Rapid growth in international quality retail space brings joy to shoppers and shopping malls are becoming increasingly common in large cities, and announced development plans project at least 150 new shopping malls. The number of department stores is growing at a much faster pace than overall retail, at 24 per cent annually. Supermarkets have been taking an increasing share of general food and grocery trade over the last two decades.

9.2 MEANING OF RETAILING

Retailing is one area of the broader term, commerce. Retailing is buying and selling both goods and consumer services. With more number of educated and literate consumers entering the economy and market, the need for reading the pulse of the consumers has become very essential.

Retailing can be defined as the buying and selling of goods and services. It can also be defined as the timely delivery of goods and services demanded by consumers at prices that are competitive and affordable.

Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer. The industry has contributed to the economic growth of many countries and is undoubtedly one of the fastest changing and dynamic industries in the world today. Retail marketing is undergoing radical restructuring. This is because of increase in gross domestic product, increase in per capita income, and increase in purchasing power and also the ever changing tastes and preferences of the people. The entry of plastic money, ATMs, credit cards and debit cards and all other consumer finances, the taste for the branded goods also added for the evolution of retail marketing.

Retail marketing is not just buying and selling but also rendering all other personalized consumer services. With the RM picking up it has given a new look for various fast moving capital goods (FMCG) goods. This not only increased the demand for various goods in the market but also made retail marketing the second largest employment area, the first being agriculture.

9.3 BENEFITS OF RETAILING

Retail marketing takes place inside the store on the retail floor. It may consist of a variety of methods, including sales, sales associate suggestions and up-sell, interaction with specialized customer service professionals and membership discounts or store cards. All of these methods have one thing in common: They provide the customers with service and discounts that keep them coming back. The goal of all retail marketing is to create loyalty among the customer base, and that has several built-in advantages.

Personal Interaction

Retail marketing involves personal interaction that most other forms of marketing just do not entail. Personal interaction is meaningful on many levels to the client and can result in a lasting relationship between the brand and the consumer. Relationships are the foundation for future sales and a major factor in the customer's decision to select your goods or services over the competition. A certain amount of staff training and selective hiring is required to ensure the type of personal interaction that maximizes your company's retail marketing potential.

Real-Time Control

Retail marketing is easier to control, adjust and customize according to the situation, the specific customer and the needs of the brand. Unlike a print ad that will run for a predetermined length of time and cannot be altered, or a radio spot that must be rerecorded if changes are necessary, retail marketing can change from one day or even one hour to the next as the market and the conditions warrant. For example, if you are running a sale on widgets and notice that they are still not selling, you can change the promotion into a giveaway. One widget free with every $50 spent in the store. This accomplished your goal of moving the widgets while increasing your overall sales numbers.

Serious Customers

Retail marketing is often more effective than other forms of marketing, because it brings the customer to you. Consumers who shop in a particular store are demonstrating their interest in the products and services that business sells just by their willingness to take the trouble to visit. When you know that the consumers you are dealing with already patronize your store or at least have an interest in the product, the task of marketing further products and services to them is that much easier. Instead of creating an initial interest in your product, retail marketing allows you to expand that initial interest into repeat sales.

Loyalty Programs

Loyalty programs take retail marketing to the next step by combining in-store promotions with longer-term rewards that keep the customer involved now and into the future. For example, store rewards cards often provide special pricing for every item purchased and access to sales that non-members don't enjoy. Cardholders are also provided special coupons and discounts for the amount they spend in purchases. This type of reward structure not only creates incentives to purchase, it increases the number of touch points between your business and its customers and manages to keep your brand at front of mind over extended periods.

9.4 PROBLEMS IN RETAILING

The problems in retailing includes

1. Lack of Personal Touch
2. Non- Availability of Credit
3. Ease of Purchase

1. Lack of Personal Touch: The ambience of these mega stores is no doubt world class but even they fail to establish a personal touch. It is because in local kirana shops the owner and worker are same therefore he can easily remember all the customers of the locality in which he is operating and can build a rapport with them.

Where as in retail stores the buyers have to walk and select the item. And the ownership is different from the workers. So the employees just do what they are taught to do and they don't try to build bond with the customers.

2. Non- Availability of Credit: If we observe then we will find that, as the local kiranawala knows people in the locality he can supply goods to them and get cash later as he has that rapport. Whereas retail stores cant do so they can just provide privilege card or other such schemes.

Therefore the customer will go for local ones as they are providing much flexibility to the consumers.

3. Ease of Purchase: There is a lot of ease in buying goods from local shops than in retail stores. For eg. If you have to buy toothpaste then you have to just tell the shopkeeper and he will give the best. But in retail stores you have to go to the counter for billing which itself is a very time consuming process. Moreover, it becomes very uneasy to go to a retail store to buy a small item.

One more problem for the retail sector is the government policies. Through we know that the government is opening up the retail sector in India but, even then there is a fear that the government may make any rule that can disrupt the retail growth in case it feels that it is against the welfare of the people. So there stays a constant fear of rule change among the companies.

There is another threat from MNCs as they are entering into Indian retail market because of the government policy with regards to Foreign Direct Investment.

So, we can say that there is a 50:50 chance of Retail Industry, in India As, the traditional Indian household is not open to that type of culture but yes, even then the companies can work hard in changing that mindset.

9.5 ISSUES OF RETAILING

Retail Demand Depends on the Economy - Economic factors, including personal income, consumer confidence, job growth, and interest rates, can greatly affect consumer spending and the retail sector. During recessionary periods, retail sales growth can slow drastically and even decline. Retail spending grows rapidly during periods of strong economic growth, as consumers spend a greater share of income and increase their personal debt. Rising interest rates affect consumer credit and consumer ability to finance large retail purchases, such as cars.

Industry Concentration - In many retail segments, large companies dominate and hold the majority of the market. Even specialty retailers in fragmented markets must compete with mass merchandisers and warehouse clubs that offer a smaller selection of comparable merchandise at low prices. Suppliers favor large retailers by offering volume discounts. With limited marketing funds, small retailers struggle to compete with the large advertising budgets enjoyed by major retailers.

9.6 CHALLENGES OF RETAILING

The following are the challenges of retailing. They are:

INFRASTRUCTURE

Even though there is huge investment coming especially in the area of retail space development in the form of mall development, the challenges remain same from a retailer's view point as the cost to acquire retail space in mall is increasing. Researchers from Knight Frank India, a real estate consultancy, cipher that rentals in established malls in top metros have jumped by 20-30 % in the last six months. Generally retailers work out a rent-torevenue ratio with developers at which they feel they can sustain their business. Normally, this figure varies between 4% for a hypermarket (that is, rent will constitute 4% of revenues) and 10% for a department store, to nearly 20% for very niche retailers. But, at a monthly rate of Rs 200 per sq ft, a department store might have to make Rs 2,000 per sq ft per month just to break even. 25 In such a scenario the reality of retail business could change and sustaining profitable business could pose the highest threat of its kind.

TECHNOLOGY

Technology is going to play a major role in retail development in India. Retailers are going to experience the impact of technology in retail. Currently most of the retailers are operating almost everything manually. A country where almost 97 percent of retailing is in the hand of unorganized retailers it is predictable that the retailers are going have operational inefficiency. They face several challenges like maintaining inventory, ordering and above all keeping track of customer by maintaining consumer data base. Technology can be useful in this aspect. Most of the organized retailers are using available and affordable technology to capture consumer information. Modern retailers are using scanner data to figure out answer to lot of questions. Through technology retailers can capture a whole lot of segmentation variables and subsequently use them for shopper segmentation. Technology helps to take better decision in some critical areas such as new product introduction, suitable product offering, quicker ordering and assortment planning. Retailers use shopper's loyalty data to design customized promotional offering for different set of customers.

SUPPLY CHAIN

Till now most retailers in India have invested majorly into the front end but relatively little on the back end and supply chain. Even in countries like the USA, Germany and England where organized retail is highly developed supply chain efficiency is a concern. The nature of retail sector in India is different from other countries around the world. The biggest retailer in India, Pantaloon Retail is yet to open stores in each & every major city in India. Probably that is an indication of how the retail concentration is happening mainly in big cities. The sector is highly fragmented and organized retail contributes hardly 3-4 percent of total retailing pie. There are huge inefficiencies in the supply chain. For example Indian supply chain for food products is characterized by extensive wastage and poor handling. The wastage occurs because of multiple points of manual handling, poor packaging, and lack of availability of temperature controlled vans. The most important part of retailing business is to find a balance between investing in front-end and back-end operations.

HUMAN RESOURCE

Even though AT Kearny places India as most attractive retail market for the second consecutive year in a row but it is lagging behind in the retail labor index and positioned in the 8 th place. At this point of time talent is in short supply and employee churn has been high for all players. It is very difficult to get experienced store managers to run stores. For example, currently Pantaloon Retail India is operating around 48 Food Bazaars across the county and planning to increase the number to over 80 stores by the end of 2006. The retailer is ready with retail space in different malls and high traffic retail location but availability of qualified and experienced personnel is still a big concern for the retailer. Almost all retailers are indulged in poaching which is not a permanent solution. There is absolutely no issue in getting retailing space in prime locations but the bigger concern is to find additional store managers. The way the sector is growing in terms of opening stores it is very predictable that there is going to be huge scarcity of professionals to manage stores. Reliance Retail is planning to employ half a million work force in various levels in next five years. Currently the sector is facing a shortage of human resources. It is very difficult to develop human capital in a short time span of five years.

FOREIGN DIRECT INVESTMENT

Though talk of opening up the retail sector for FDI has been making the rounds for quite some time now, no major breakthrough has happened yet. The country is expecting a strong economic growth of about 8-10% per year and this can be achieved by raising the rate of investments as well as by generating demand for the increased goods and services produced. Retail contributes about 10% to the national GDP and is expected to increase over the next decade or so. Price water house Coopers estimates that Indian retail will get USD 412 by 2011and majority of investment will be directed toward the two most popular retail formats: hyper markets and supermarkets.

Complexity in tax structure:

The sales tax rates vary from state to state, while organized players have to face a multiple point control and system there is considerable sales tax evasion by small stores. In many locations, retailers have to face a multi point octroi with the introduction of value Added Tax (VAT) in 2005, certain anomalies in the existing sales tax system causing disruption in the supply chain are likely to get corrected over a period of time.

Currency fluctuation:

In the past three months, the dollar/INR exchange rate has fluctuated by approx. 8 per cent. This may put considerable currency risk on any foreign investment in India.

Red tape:

Entry of a multi-brand MNC retailer in the retail sector would fall under the approval route. This implies that the MNC retailer would have to go through different layers of Government departments before getting the go ahead.

Political risk:

The largest opposition party in India has opposed FDI in retail and some of its leaders have indicated that they will scrap the policy if their party comes to power. A political change in state and central governments puts a lot of political risk on investment in retail.

International standards:

Even though India has well over 5 million retail outlets of different sizes and styles, it still has a long way to go before it can truly have a retail industry at par with International standards. This is where Indian companies and International brands have a huge role to play.

9.7 PROSPECTS OF RETAILING

New after understanding the retailing and its various aspects, let's elaborate the prospects of retailing in India.

The first point that brightness the prospects is the highest percentage of youngsters in the Indian population. Because of it the companies be it Reliance, Tata, Birla, Big Bazaar of India or Wal-Mart, Carrefour, Metro and other global giants wants to enter into retailing in India.

Because they know that the spending power of the Indian youth is high.

And most of them prefer to buy things from the retail stores like Reliance fresh Food world, subhiksha, Big Bazaar etc. rather than from the local kirana wala, because of convenience, higher standard of hygiene and the attractive ambience.

If we look at the retailing scene in clothes and footwear. We will find the pressure of a large no. of unorganized players. They generally display a limited range of inexpensive and popular item. Whereas in contrast modern clothing and footwear stars are spacious with sample products displayed in windows.

With growth in incomes Indian has been spending more on health, beauty products, entertainment and food. Therefore, Big retailer are aiming to provide all these amenities under one roof through the mall culture. There people can go and shop with having fun and leisure.

This thing presently account for a tiny share but in the future the business is bound to grow as new and new mall will open.

Moreover, the laws are also getting more and more business friendly. Main rules regarding FDI in retail and real estates are getting lesser and lesser which means entry of large no. of players mainly foreign in the Indian market that will lead to a double-digit growth in this sector.

One more factors that help in retail growth is the fact that means of entertainment are less in India. So people generally feel these retail stores or malls as a place to end up spending amount on food and entertainment. So that means there is immerse potential in it. Therefore every one will keep this thing in mind and try to open up more avenues like this where people can enjoy and spend some quality time.

9.8 IMPACT OF ORGANIZED RETAIL ON UNORGANIZED RETAILING

Impact on Unorganized Retailers

- Unorganized retailers in the vicinity of organized retailers experienced a decline in their volume of business and profit in the initial years after the entry of large organized retailers.
- The adverse impact on sales and profit weakens over time.
- There was no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers.
- There is some decline in employment in the North and West regions which, however, also weakens over time.

- The rate of closure of unorganized retail shops in gross terms is found to be 4.2 per cent per annum which is much lower than the international rate of closure of small businesses.
- The rate of closure on account of competition from organized retail is lower still at 1.7 per cent per annum.
- There is competitive response from traditional retailers through improved business practices and technology up gradation.
- A majority of unorganized retailers is keen to stay in the business and compete, while also wanting the next generation to continue likewise.
- Small retailers have been extending more credit to attract and retain customers.
- However, only 12 per cent of unorganized retailers have access to institutional credit and 37 per cent felt the need for better access to commercial bank credit.
- Most unorganized retailers are committed to remaining independent and barely 10 per cent preferred to become franchisees of organized retailers.

Impact on Consumers

- Consumers have definitely gained from organized retail on multiple counts.
- Overall consumer spending has increased with the entry of the organized retail.
- While all income groups saved through organized retail purchases, the survey revealed that lower income consumers saved more. Thus, organized retail is relatively more beneficial to the less well-off consumers.
- Proximity is a major comparative advantage of unorganized outlets.
- Unorganized retailers have significant competitive strengths that include consumer goodwill, credit sales, and amenability to bargaining, ability to sell loose items, convenient timings, and home delivery.

Impact on Intermediaries

- The study did not find any evidence so far of adverse impact of organized retail on intermediaries.
- There is, however, some adverse impact on turnover and profit of intermediaries dealing in products such as, fruit, vegetables, and apparel.
- Over two-thirds of the intermediaries plan to expand their businesses in response to increased business opportunities opened by the expansion of retail.

- Only 22 per cent do not want the next generation to enter the same business.

Impact on Farmers

- Farmers benefit significantly from the option of direct sales to organized retailers.
- Average price realization for cauliflower farmers selling directly to organized retail is about 25 per cent higher than their proceeds from sale to regulated government mandi.
- Profit realization for farmers selling directly to organized retailers is about 60 per cent higher than that received from selling in the mandi
- The difference is even larger when the amount charged by the commission agent (usually 10 per cent of sale price) in the mandi is taken into account.

Impact on Manufacturers

- Large manufacturers have started feeling the competitive impact of organized retail through price and payment pressures.
- Manufacturers have responded through building and reinforcing their brand strength, increasing their own retail presence, 'adopting' small retailers, and setting up dedicated teams to deal with modern retailers.
- Entry of organized retail is transforming the logistics industry. This will create significant positive externalities across the economy.
- Small manufacturers did not report any significant impact of organized retail.

9.9 NOTES

9.10 SUMMARY

Indian retailing, thus enjoys many unique features, is still done in a primitive way. Barring a few exceptions, Indian retailers, particularly FMCG retailers, are not in a position to implement world-class practices of supply chain management. The concepts of Quick Response or Efficient Consumer Response are unheard of in Indian retailing. The two bases of modern retailing management, the Electronic Data Interface and a mutually respectable partnership among retailers and suppliers (the manufacturers) are missing to a great extent in Indian context. Also, Indian marketing channel members are performing some unnecessary tasks, which makes the channel structure heavy and inefficient. Though these inefficiencies are observed in all retailing irrespective of industry, the symptoms are more evident in Indian FMCG retailing. Inefficiency in retailing leads to lower profitability of the retailers and lower service outputs for the consumers.

Ways and means to strengthen the position of the retailing industry, doing away with the causes for the inefficiencies, therefore, are to be taken up in an urgent manner. Such measures may include establishment of retailer's co-operatives, merger and buy-out, use of technology to the greatest possible extent, setting up of non store retailing centers and increase in franchisee network.

9.11 KEY WORDS

- Retail
- Retailing
- Personal Interaction

9.12 SELF ASSESSMENT QUESTIONS

1. What is retailing?
2. Explain the significance of retailing.
3. Discuss the problems of retailing
4. Critically evaluate the issues and challenges of retailing
5. Explain the impact of unorganized retail to organized retailing

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UNIT - 10: FDI IN RETAIL SECTOR

Structure:

10.0 OBJECTIVES

After studying this unit, you should be able to;

- Define Foreign Direct Investment
- Explain the problems of Foreign Direct Investment
- Discuss the issues and challenges of Foreign Direct Investment
- Highlights the advantages and dis advantages of Foreign Direct Investment
- Examine the prospects of Foreign Direct Investment

10.1 INTRODUCTION

Foreign direct investment (FDI) is made into a business or a sector by an individual or a company from another country. It is different from portfolio investment, which is made more indirectly into another country's economy by using financial instruments, such as bonds and stocks.

There are various levels and forms of foreign direct investment, depending on the type of companies involved and the reasons for investment. A foreign direct investor might purchase a company in the target country by means of a merger or acquisition, setting up a new venture or expanding the operations of an existing one. Other forms of FDI include the acquisition of shares in an associated enterprise, the incorporation of a wholly owned company or subsidiary and participation in an equity joint venture across international boundaries.

10.2 MEANING OF FOREIGN DIRECT INVESTMENT (FDI)

A foreign direct investment is an investment in the form of a controlling ownership in a business enterprise in one country by an entity based in another country. It is thus distinguished from foreign portfolio investment by a notion of direct control.

Foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans". In a narrow sense, foreign direct investment refers just to building new facility, a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.

FDI is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. FDI usually involves participation in management, joint-venture, transfer of technology and expertise.

A foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country. Foreign direct investment is distinguished from foreign portfolio investment, a passive investment in the securities of another country such as public stocks and bonds, by the element of "control"

10.3 ADVANTAGES AND DISADVANTAGES OF FDI

The following are the advantages of Foreign Direct Investment

1. Economic Development Stimulation.

Foreign direct investment can stimulate the target country's economic development, creating a more conducive environment for you as the investor and benefits for the local industry.

2. Easy International Trade.

Commonly, a country has its own import tariff, and this is one of the reasons why trading with it is quite difficult. Also, there are industries that usually require their presence in the international markets to ensure their sales and goals will be completely met. With FDI, all these will be made easier.

3. Employment and Economic Boost.

Foreign direct investment creates new jobs, as investors build new companies in the target country, create new opportunities. This leads to an increase in income and more buying power to the people, which in turn leads to an economic boost.

4. Development of Human Capital Resources.

One big advantage brought about by FDI is the development of human capital resources, which is also often understated as it is not immediately apparent. Human capital is the competence and knowledge of those able to perform labor, more known to us as the workforce. The attributes gained by training and sharing experience would increase the education and overall human capital of a country. Its resource is not a tangible asset that is owned by companies, but instead something that is on loan. With this in mind, a country with FDI can benefit greatly by developing its human resources while maintaining ownership.

5. Tax Incentives.

Parent enterprises would also provide foreign direct investment to get additional expertise, technology and products. As the foreign investor, you can receive tax incentives that will be highly useful in your selected field of business.

6. Resource Transfer.

Foreign direct investment will allow resource transfer and other exchanges of knowledge, where various countries are given access to new technologies and skills.

7. Reduced Disparity Between Revenues and Costs.

Foreign direct investment can reduce the disparity between revenues and costs. With such, countries will be able to make sure that production costs will be the same and can be sold easily.

8. Increased Productivity.

The facilities and equipment provided by foreign investors can increase a workforce's productivity in the target country.

9. Increment in Income.

Another big advantage of foreign direct investment is the increase of the target country's income. With more jobs and higher wages, the national income normally increases. As a result, economic growth is spurred. Take note that larger corporations would usually offer higher salary levels than what you would normally find in the target country, which can lead to increment in income.

FDI also offers some advantages for foreign countries. For starters, FDI offers a source of external capital and increased revenue. It can be a tremendous source of external capital for a developing country, which can lead to economic development.

For example, if a large factory is constructed in a small developing country, the country will typically have to utilize at least some local labor, equipment, and materials to construct it. This will result in new jobs and foreign money being pumped into the economy. Once the factory is constructed, the factory will have to hire local employees and will probably utilize at least some local materials and services. This will create further jobs and maybe even some new businesses. These new jobs mean that locals have more money to spend, thereby creating even more jobs.

Additionally, tax revenue is generated from the products and activities of the factory, taxes imposed on factory employee income and purchases, and taxes on the income and purchases now possible because of the added economic activity created by the factory. Developing governments can use this capital infusion and revenue from economic growth to create and improve its physical and economic infrastructure such as building roads, communication systems, educational institutions, and subsidizing the creation of new domestic industries.

Another advantage is the development of new industries. Remember that a MNE doesn't necessary own all of the foreign entity. Sometimes a local firm can develop a strategic alliance with a foreign investor to help develop a new industry in the developing country. The developing country gets to establish a new industry and market, and the MNE gets access to a new market through its partnership with the local firm.

Finally, learning is an indirect advantage for foreign countries. FDI exposes national and local governments, local businesses, and citizens to new business practices, management techniques, economic concepts, and technology that will help them develop local businesses and industries.

DISADVANTAGES OF FDI

List of Disadvantages of Foreign Direct Investment

1. Hindrance to Domestic Investment.

As it focuses its resources elsewhere other than the investor's home country, foreign direct investment can sometimes hinder domestic investment.

2. Risk from Political Changes.

Because political issues in other countries can instantly change, foreign direct investment is very risky. Plus, most of the risk factors that you are going to experience are extremely high.

3. Negative Influence on Exchange Rates.

Foreign direct investments can occasionally affect exchange rates to the advantage of one country and the detriment of another.

4. Higher Costs.

If you invest in some foreign countries, you might notice that it is more expensive than when you export goods. So, it is very imperative to prepare sufficient money to set up your operations.

5. Economic Non-Viability.

Considering that foreign direct investments may be capital-intensive from the point of view of the investor, it can sometimes be very risky or economically non-viable.

6. Expropriation.

Remember that political changes can also lead to expropriation, which is a scenario where the government will have control over your property and assets.

7. Negative Impact on the Country's Investment.

The rules that govern foreign exchange rates and direct investments might negatively have an impact on the investing country. Investment may be banned in some foreign markets, which means that it is impossible to pursue an inviting opportunity.

8. Modern-Day Economic Colonialism.

Many third-world countries, or at least those with history of colonialism, worry that foreign direct investment would result in some kind of modern day economic colonialism, which exposes host countries and leave them vulnerable to foreign companies' exploitations.

10.4 FDI IN RETAIL SECTOR

According to the FDI policy, FDI in retail trading is prohibited except single brand product retailing with joint venture equity permitted up to 51 % subjected to the approval from Foreign Investment Promotion Board.

Earlier this year, global management consultant A.T Kearney identified India as the top destination for retailers. And when John Menzer, CEO of Wal-Mart International, made a high profile visit to India in May, he made no secret of Wal-Mart's plans to enter India should FDI be allowed in the sector. Now British retailer Tesco's Chief Executive, Sir terry Leahy, is eyeing on Indian market.

With the big daddies of foreign retail knocking on India's doors, it is no surprise that there is now a raging debate on whether foreign investment should be allowed. The entry of big foreign retailers threatens to displace labor in the retail sector, which employs a massive workforce, the majority of which is unskilled. This makes retail FDI a contentious issue for the Left-backed Government.

But with every passing week, the FDI buzz only grows louder, with a strong case being built for allowing foreign investment. There is a growing demand for modern retailing formats that offer a clean and hygienic environment to shop in. But organized retail at present accounts for a mere 2 percent of the total retail market in India, as against 20 per cent in China and 40 per cent in Thailand.

Proponents of FDI in retail believe that only foreign investment can hasten the pace of organized retailing. Their case in point, China. In just ten years after China permitted FDI in the sector, the share of organized retail has grown from 10 per cent to 20 per cent.

Those in favors of FDI argue that India has already provided 'backdoor' entry to international retailers. Current norms allow foreign retailers to set up shop in India via the franchisee route, as has been done by the likes of Marks and Spencer and mango. Foreign retailers are allowed outlets if they manufacture products in India or source their goods domestically. FDI is also permitted in cash-and-carry outlets, where goods are sold only to those who intend using them for commercial purpose. Foreign retailers therefore, have access to the Indian retail market, while India loses out on the investment, so goes the arguments.

The argument that the unorganized retail market would be affected by the entry of foreign players has also been contested. Competition for the neighbourhood kirana store could come just as easily from the Big bazaars and Food World of modern Indian retail. This was commented upon by the Minister for Commerce and Industry, kamal Nath, at a recent conference of economic editors. As he said, the country's retail trade was expanding 22 per cent each year with the addition of 25 million middle class consumers. In this scenario, he said, the interests of small time grocers had to be protected, not by the "color of money" alone.

10.5 ROLE OF FDI IN RETAIL SECTOR OF INDIA

As India strives to integrate with the world economy, the retail sector is bound to make giant strides. With the discussions and furore over FDI in retail gaining momentum, one question that remains unanswered is: "Whether it is the right time to open FDI in retail in India? The country is witnessing a period of boom in retail trade with the sector having an estimated market size of about $80 billion. Being the second largest employer after agriculture and contributing 14 % to GDP, the retail industry has emerged as a mainstay of the Indian economy. However, the share of the organized sector in retail trade is only 3% but is expected to reach 10-15% by 2010, throwing up big opportunities for new players. This sudden surge can be attributed to an increase in the disposable incomes of the middle and upper-middle classes.

The internet revolution is making the Indian consumer more accessible to the growing influences of domestic and foreign retail chains. Despite the presence of all the requisites essential for the growth of the retail industry in India, it still faces certain stumbling blocks. One of the key impediments is the lack of FDI status, which is in turn limiting capital investments in the supply chain infrastructure, technology, and skilled manpower, FDI policy of government, opposition from unorganized retail sector, local farmers and access to world class practices. In these circumstances, throwing the retail sector open to FDI would be advantageous in terms of improved employment quality, growth of organized format, augmented investment in supply chains besides assuring consumers of better product quality and services. Apart from this, the advent of FDI will boost quality standard and cost competitiveness of Indian producers. This will benefit not only the Indian consumer but also open the door for Indian products to enter the wider global market. This, in turn helps local manufactures, service providers and farmers.

Wal-Mart, Carrefour, and Tesco have been eagerly pacing the sidelines and will be quick to enter. They are actively seeking local partners. Foreign retailers operating via franchises like Marks and Spencer and Benetton will most likely switch to a hybrid model. Foreign retail giants, who are willing and waiting to trade into India, will bring with them better managerial practices and techniques. Countries such as Brazil, Poland and Thailand truly exemplify that FDI in retail sector catapults productivity, which result in lower prices to the consumer, more consumption and higher profit for the producer.

Since the market is growing at a faster pace, there is enough room for growth of both domestic and foreign investor. However, the government should ensure that any opening up of the FDI regime should be gradual so as to give Indian producers enough time to adjust to the changes and ensure that foreign companies do not indulge in voracious pricing. Hence, it is time to shake off the apprehensions tagged with FDI, as it can help the retail industry leverage market clout and efficiency to revolutionize itself.

10.6 IMPACT OF FDI ON INDIAN RETAIL SECTOR

Forex Reserve

As the limit is increased to 51% in the multi brand retail, the direct investment from abroad called FDI would inflow to start the business. The inflow of capital would increase the capital reserve in the Balance of payment which shows the ability of the nation in terms of Forex.

Farmers

The one of the current problem of Indian economic is fiscal deficit which is mostly caused by subsidy give to the farmers which is considered as unproductive. The one way to cut such subsidy is to make the farmers independent by making the system securing them to be paid good price for the commodity. The organized retailers that are capital giant are able to purchase directly from the farmers paying good price. So the government should be ensuring that the farmers are getting paid the price of what they are eligible to.

SME

In the norms that are instructed to the foreign player, they should purchase 30% of the product they deal with from the Small and Medium Enterprise. This ensures the development of

SME. The foreign player would like to provide the quality product. The SME would be encouraged to produce the commodity that is of high quality.

Infrastructure

The players are imposed with the restriction of investing 50% of their investment on the Back end infrastructure. The ruling party in India where the economic development is suffered by lack of infrastructure is very cautious about to invest in such area. It would become base for economic in many ways, say transportation.

Distribution

The distribution system is one of the factors determining the cost of the product. As they are invested in the infrastructure, they could follow JIT. Say Wal-Mart, they are not interested in expending in the stock maintenance.

Inflation

Inflation is the unruly one which is challenge to the country where the price sensitive people are. The scale of economy, capital and large turnover are the base by which the lower prices are offered to the consumer. The entries of multinational players lead to healthy competition that lowers the price then inflation consequently.

Food Wastage

With the poverty in one side, the wastage of food is on another side in the same country. It requires the effective distribution system to avoid food wastage. With the good back end infrastructure, they can able to serve the goods in an optimization way.

GDP

The decline in the GDP mainly due to the agriculture sector is making the economist worry more. The FDI in retail would improve the GDP by, economist say 0.5%. The booming industry that has potential capacity would contribute the GDP higher.

Employment

The more employment would be created in the country either directly or indirectly where youth pass out is increasing as much as creation of employment. It would be generated in the agriculture, manufacturing, service industry which consists of GDP. The more people get employed would rehabilitate the economic cycle.

Consumers

The ultimate beneficiary from the opening of FDI in multi brand retail is consumer. They are left to choose the retail that would give them goods at lesser price. The more middle income people living in India are preferred to have shopping more modern in lesser cost.

Retail Industry

Allowing FDI in multi brand retail would infuse the new blood into the industry that has potential. Foreign players that are competitive oriented would implement new strategy.

Another Side Impact

Middle Man

The middle man in the supply chain including non-hoarders shall get affected. In the long run, they will be deprived of trade business that causes unemployment. So it could be matched with the need of employees by the organized sector by appropriate policy by the government.

Dependability

The country may depend on another country as FDI inflow is increasing where the country independency is decreasing. The economic growth may become more endangered one depending on another country economic. The capital giant may dominate the industry exceeding the domestic player. The revenue would outflow abroad affecting Forex reserve.

10.7 ISSUES AND CHALLENGES OF FDI

In addition to India's poor performance in terms of competitiveness, quality of Infrastructure, and skills and productivity of labor, there are several other factors that Make India a far less attractive ground for direct investment than the potential she has. Given that India has a huge domestic market and a fast growing one, there is every reason to believe that with continued reforms that improves institutions and economic policies, and thereby create an environment conducive for private investment and economic Growth that substantially large volumes of FDI will flow to India.

1. Restrictive FDI regime
2. Lack of clear cut and transparent spectral policies for FDI
3. High tariff rates by international standards reinvestment 34 % Intra company 17 % equity 49 % 572 International Journal of Multidisciplinary Research and Development
4. Lack of decision-making authority with the state governments
5. Limited scale of export processing zones
6. No liberalization in exit barriers

7. Financial sector reforms

8. High corporate tax rates

CHALLENGES OF FDI IN INDIAN RETAIL

The new Modi government is committed to improving the foreign direct investments in India, particularly in the areas of defense, insurance and infrastructure. The companies which are considering in investing in India will look at several parameters. Some of them are discussed here.

1. Ease of doing business in India. This is probably one of the biggest stumbling blocks India faces in attracting FDI. The bureaucracy, corruption, labour and land acquisition laws are frighteningly complicated and slows down the entire process of setting up a business. A country which is anxious to attract business should look to see how other countries are managing these issues and what steps they have taken to make it attractive for the foreign companies to set up their shops.

2. Taxation that is applicable to the corporate profits. The global tax landscape has seen considerable changes in the recent past and this will continue to be the same in the near term. In the context of India, the total amount of revenues collected thru the various taxes and duties falls extremely short of the requirements. For ex., in the last budget presented by FM Jaitley which states that for every 100rs our government spends, Rs.24 is borrowed money. This is already extremely high, so our government is not in a position to lower the corporate taxes as the revenue collected will make the deficit even higher. Each country uses a particular tax rate which depends upon a number of factors including the historical baggage it carries. In the current state of the economy large amounts of money is required for socio-economic development and subsidies, etc. Currently, our Indian corporate tax for a domestic companies stands at 33.99% when the net income exceed 10 crores. We are presenting a table of corporate tax rates for other countries for comparison.

Name of the country	**Tax rate**
France	33%
Belgium	33.99%
Venezuela	34%
Argentina	35%
Zambia	35%
Japan	35.64%

US	40%
Brazil	34%
South Africa	28%
Hong Kong	16.5%
Singapore	17%
Australia	30%
Philippines	30%
China	25%
Malayasia	25%
Indonesia	25%
UK	21%
Canada	26.5%
Germany	29.58%
Italy	35.4%
Switzerland	17.92%
Taiwan	17%
Kuwait	15%
Ireland	12.5%
Bulgaria	10%
Qatar	10%

From this table, you can observe that India has one of the highest corporate tax rates.

3. Besides the taxes, corruption adds up significantly to the cost of doing business. It will not be far-fetched to say that 1-2% surrogate has been added due to corruption.

4. In the last few years, the land prices have shot through the roof. One estimate shows that the production costs in India is very much affected because of the land prices. The BJP government should ponder over this problem before they arrive at a reasonable tax rate for

multinational companies. Things such as education cess and surcharge should be totally removed to lower the tax rate. Unfortunately for India the tax collected from individuals is limited since less than 3% of the population pay income tax at all. India continues to be a welfare state and most of the costs associated with welfare are borne through deficits. The budget deficit in India is a nightmare and the accumulated deficits (debt) are around 77% of the GDP.

When you want to attract foreign capital, we should make it attractive for them to earn an reasonable rate of return from their investments. If taxes take away bulk of their earnings, then the amount they can distribute to the share-holders gets much smaller. The foreign investment also faces currency value changes and this makes it even more difficult for foreign companies to set up shops in India. While in India, we clammer for FDI, we also find that we are being marginalized because of the not-so-friendly nature of doing business here. Its time our government recognizes this and takes necessary steps to attract more and more FDIs. Every year, nearly 1 crore people join in the job market and hoping to find something useful to do with their lives. If the business climate is not favourable to foreign companies, they have alternative places to go, which is only at the cost of India's growth opportunities. Finally, the investors, no matter where they live in the world, will always prefer a higher rate of return for a given level of risk, the question to answer is whether India can deliver that.

Other challenges:

- Promote cartels and will create monopoly.
- Increase in the real estate prices.
- Marginalize domestic entrepreneurs.
- The financial strength of foreign players would displace the unorganized players.
- Absence of proper regulatory provisions and guidelines would induce unfair trade practices like Predatory pricing despite the above challenges there are certain other problem relating to foreign direct investment (FDI) in India is that it does not provide a level playing field to other players of the domestic and small sort.

10.8 SOCIAL IMPACT OF FDI ON RETAIL SECTOR

The social impact of larger FDI is dependent on India's policies and institutions. The flexibility of the labor market would determine employment opportunities. The extents to which the lower income groups can take advantage of the growth policies determine the growth poverty relationship. Yet disruption and controversy are inevitable. Wal-Mart has become the due facto lighting rod for criticism about modern retail. As the world's largest company and private employer, Wal-Mart maintains a low cost strategy that, according to opponents, scarifies local businesses, erodes a region's economic value, adds economic and inflationary risks at the country level, and favors foreign shareholder over local companies. One of the opponents of FDI in Indian Retail sector referred Wal-Mart, as the British Raj's The East India Company, the most powerful company at the time, came to colonize India's people and domestic and international trade and now Wal-Mart, the world's largest company is trying to enter India to do the same. One recent study by Global Insight reports that for every 100,000 square- foot store, Wal-Mart creates 97 retail jobs. However, because it brings its own wholesalers into a new market, about 30 local wholesale jobs will be lost, leaving a net gain of about 67 jobs. That's the good news. Other studies suggest that when the retail giants enters a new area, average employee income declines any where from 2 to 5 per cent. Labor displacement is another concern as people move from traditional retail jobs to urban modern retail jobs. In some cases, however, modern retail might not be as big a threat to smaller retailers as it appears.

10.9 NOTES

10.10 SUMMARY

Today India, major economy still is not very confident about FDI in retail sector. Practically no other country in the world has banned FDI in retail trade. Some country, imposed restriction in terms of location, number of shops etc, but allowed the entry of FDI in retail sector. It is true that to some extent the large retailer will wipe out the local small and tinny retail shops. But this risk is also there from the Gaint and Big Indian Bazzar. For example the ready made garments have displaced the family tailor, dharmshalas are replaced by hotels etc. it is just the way towards development. It is also true that even through FDI in not fully allowed in retail trading some of the big retail player have already set up their operation through franchise. If organized retail in India has to grow, it requires significant capital, technology and application of latest global best practices. In such case, restricted FDI regime may be an impediment. Growth of organized retail is likely to have a positive impact not only on end consumers, but also on employment generation, supply chain efficiency, agricultural practices, sourcing from India, etc.

Above all, in the era of liberalization and global competition the entry of FDI in retail sector is inevitable. But the fear of the destruction of domestic retail trading can be minimized with the implementation of government policies. That means, government interference and certain restriction are desired at least for few initial years. Entry of foreign investor must be gradual and region specific. Preference of opening the shops should be given at the metro cities. In the domestic front the existing retail sector are mainly unorganized and facing the problem of investment facilities. The government needs to evolve suitable policies to make the domestic retail sector efficient and competitive. By means of which it is possible to reap the benefits of both FDI and improvement of domestic retail sector. Finally we can hope that the Foreign Direct Investment will enrich our country with more employment generation, modernized agriculture sector, systematic tax collection and foreign earnings.

10.11 KEYWORDS

- FDI
- Prospects
- Organized
- Retailing

10.12 SELF ASSESSMENT QUESTIONS

1. What is FDI?

2. Explain the benefits of FDI in Retailing
3. Discuss the role of FDI in Retail sector
4. Explain the issues and challenges of FDI in Retail Sector

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UNIT - 11: CURRENT TRENDS IN RETAIL AUDIT

Structure:

11.0 OBJECTIVES

After studying this unit, you should be able to;

- Define retail audit
- Explain the significance of online retailing
- Discuss the concept of global retailing
- Highlights the logical and ethical issues of retailing

11.1 INTRODUCTION

Retail Audit is a Study of a selected sample of retail outlets; provide as subscription a based service by market research firms. Retail audit service provides gather information on a brand's sales volume, sales trends, stock levels, and effectiveness of in store display and promotion efforts, and other associated aspects.

11.2 PROCESS OF RETAIL AUDIT

"Retail audit process" refers to a high-stakes exercise marked by ambiguous data and confusing spreadsheets, we're here to challenge that assumption. Believe it or not, a retail audit can be empowering, especially when the technology behind it makes it easy to extract useful, action-ready insights and improve your stores.

While there is no one-size-fits-all approach to retail audits, AccuStore's mobile technology can help you carry out an audit that fulfills your unique performance and compliance goals – no spreadsheets required.

The following steps for Retail Audit Process

1. **Assemble the audit team:** Experienced, specialized auditors can help you uncover pertinent data and make informed business decisions. This audit team should understand the retail space and be aware of the unique challenges your stores face.

2. **Identify all audit objectives:** Establishing what to measure is the foundation of your audit. AccuStore lets you create a checklist of objectives that auditor's access right from their mobile devices. Teams can add checklist items that correlate with every compliance-related business dimension and include scoring for quantitative analysis. Consider the checkout line: wait times under two minutes might receive a score of 5 while wait times longer than six minutes receive a score of 1. Applying numerical standards will help you compare performance over time and understand audit results in context.

3. **Craft audit questions to minimize errors and inconsistencies:** Speaking of context, getting good data often means asking the right questions. The questions you ask

should be clear and repeatable. Clear questions help audit teams record accurate responses while repeatability ensures consistently relevant (and, therefore, consistently comparable) results across multiple audits.

4. **Capture photos:** It's hard to argue with the facts, and including photographic evidence with your audits adds visual validation to the standard checkbox approach. Wondering why your POP merchandising received a 3 out of 5? An image will tell the whole story, and AccuStore's mobile app automatically attaches photos to corresponding checklist items.

5. **Measure, adjust, and re-audit:** With your team and checklist ready for action, it's time to complete your store walk. The audit team will explore your facilities, collecting data and assigning scores in AccuStore. The best part? Our mobile app sends store data to decision makers in real-time, so there's no need for spreadsheets and more opportunities to make speedy, valuable changes at your stores. With established objectives and anytime access to past performance data, AccuStore helps you craft a repeatable audit process resulting in relevant, comparable intelligence.

11.3 ONLINE RETAILING

Online retailing is also know as online shopping is a form of electronic commerce which allows consumers to directly buy goods or services from a seller over the Internet using a web browser. Consumers find a product of interest by visiting the website of the retailer directly or by searching among alternative vendors using a shopping search engine, which displays the same product's availability and pricing at different e-retailers. As of 2016, customers can shop online using a range of different computers and devices, including desktop computers, laptops, tablet computers and smart phones.

An online shop evokes the physical analogy of buying products or services at a regular "bricks-and-mortar" retailer or shopping center; the process is called business-to-consumer (B2C) online shopping. When an online store is set up to enable businesses to buy from another business, the process is called business-to-business (B2B) online shopping. A typical online store enables the customer to browse the firm's range of products and services, view photos or images of the products, along with information about the product specifications, features and prices.

Online stores typically enable shoppers to use "search" features to find specific models, brands or items. Online customers must have access to the Internet and a valid method of payment in order to complete a transaction, such as a credit card, an Interact-enabled debit card, or a service such as PayPal. For physical products (e.g., paperback books or clothes), the e-tailor ships the products to the customer; for digital products, such as digital audio files of songs or software, the e-tailor typically sends the file to the customer over the Internet. The largest of these online retailing corporations are Alibaba, Amazon.com, and eBay.

11.3.1 Components of Online Retailing

Customers

Online customers must have access to the Internet and a valid method of payment in order to complete a transaction. Generally, higher levels of education and personal income correspond to more favorable perceptions of shopping online. Increased exposure to technology also increases the probability of developing favorable attitudes towards new shopping channels. In a December 2011 study, Equation Research surveyed 1,500 online shoppers and found that 87% of tablet owners made online transactions with their tablet devices during the early Christmas shopping season.

Product Selection

Consumers find a product of interest by visiting the website of the retailer directly or by searching among alternative vendors using a shopping search engine. Once a particular product has been found on the website of the seller, most online retailers use shopping cart software to allow the consumer to accumulate multiple items and to adjust quantities, like filling a physical shopping cart or basket in a conventional store. A "checkout" process follows (continuing the physical-store analogy) in which payment and delivery information is collected, if necessary. Some stores allow consumers to sign up for a permanent online account so that some or all of this information only needs to be entered once. The consumer often receives an e-mail confirmation once the transaction is complete. Less sophisticated stores may rely on consumers to phone or e-mail their orders (although full credit card numbers, expiry date, and Card Security Code, or bank account and routing number should not be accepted by e-mail, for reasons of security).

Payment

Online shoppers commonly use a credit card or a PayPal account in order to make payments. However, some systems enable users to create accounts and pay by alternative means, such as:

- Billing to mobile phones and landlines
- Cash on delivery (C.O.D.)
- Cheque/ Check

- Debit card
- Direct debit in some countries
- Electronic money of various types
- Gift cards
- Postal money order
- Wire transfer/delivery on payment
- Invoice, especially popular in some markets/countries, such as Switzerland
- Bitcoin or other cryptocurrencies

Some online shops will not accept international credit cards. Some require both the purchaser's billing and shipping address to be in the same country as the online shop's base of operation. Other online shops allow customers from any country to send gifts anywhere. The financial part of a transaction may be processed in real time (e.g. letting the consumer know their credit card was declined before they log off), or may be done later as part of the fulfillment process.

Product Delivery

Once a payment has been accepted, the goods or services can be delivered in the following ways. For physical items:

- Shipping: The product is shipped to a customer-designated address. Retail package delivery is typically done by the public postal system or a retail courier such as FedEx, UPS, DHL, or TNT.
- Drop shipping: The order is passed to the manufacturer or third-party distributor, who then ships the item directly to the consumer, bypassing the retailer's physical location to save time, money, and space.
- In-store pick-up: The customer selects a local store using a locator software and picks up the delivered product at the selected location. This is the method often used in the bricks and clicks business model.

For digital items or tickets:

- Downloading/Digital distribution: The method often used for digital media products such as software, music, movies, or images.
- Printing out, provision of a code for, or e-mailing of such items as admission tickets and scrip (e.g., gift certificates and coupons). The tickets, codes, or coupons

may be redeemed at the appropriate physical or online premises and their content reviewed to verify their eligibility (e.g., assurances that the right of admission or use is redeemed at the correct time and place, for the correct dollar amount, and for the correct number of uses).

- Will call, COBO (in Care Of Box Office), or "at the door" pickup: The patron picks up pre-purchased tickets for an event, such as a play, sporting event, or concert, either just before the event or in advance. With the onset of the Internet and e-commerce sites, which allow customers to buy tickets online, the popularity of this service has increased.

Shopping Card System

Simple shopping cart systems allow the off-line administration of products and categories. The shop is then generated as HTML files and graphics that can be uploaded to a webspace. The systems do not use an online database. A high-end solution can be bought or rented as a stand-alone program or as an addition to an enterprise resource planning program. It is usually installed on the company's web server and may integrate into the existing supply chain so that ordering, payment, delivery, accounting and warehousing can be automated to a large extent. Other solutions allow the user to register and create an online shop on a portal that hosts multiple shops simultaneously from one back office. Examples are Big Commerce, Shopify and Flick Rocket. Open source shopping cart packages include advanced platforms such as Interchange, and off-the-shelf solutions such as Magento, Commerce, Shop gate, Presta Shop, and Zen Cart. Commercial systems can also be tailored so the shop does not have to be created from scratch. By using an existing framework, software modules for various functionalities required by a web shop can be adapted and combined.

Design

Customers are attracted to online shopping not only because of high levels of convenience, but also because of broader selections, competitive pricing, and greater access to information. Business organizations seek to offer online shopping not only because it is of much lower cost compared to bricks and mortar stores, but also because it offers access to a worldwide market, increases customer value, and builds sustainable capabilities.

Information Load

Designers of online shops are concerned with the effects of information load. Information load is a product of the spatial and temporal arrangements of stimuli in the web store. Compared with conventional retail shopping, the information environment of virtual shopping is enhanced by providing additional product information such as comparative products and services, as well as various alternatives and attributes of each alternative, etc. Two major dimensions of information load are complexity and novelty. Complexity refers to the number of different elements or features of a site, often the result of increased information diversity. Novelty involves the unexpected, suppressed, new, or unfamiliar aspects of the site. The novelty dimension may keep consumers exploring a shopping site, whereas the complexity dimension may induce impulse purchases.

Consumer Needs and Expectations

According to the output of a research report by Western Michigan University published in 2005, an e-commerce website does not have to be good looking with listing on a lot of search engines. It must build relationships with customers to make money. The report also suggests that a website must leave a positive impression on the customers, giving them a reason to come back.

Dyn, an Internet performance management company conducted a survey on more than 1400 consumers across 11 countries in North America, Europe, Asia and the results of the survey are as follows:

- Online retailers must improve the website speed
- Online retailers must ease consumers fear around security

These concerns majorly affect the decisions of almost two thirds of the consumers.

User Interface

The most important factors determining whether customers return to a website are ease of use and the presence of user-friendly features. Usability testing is important for finding problems and improvements in a web site. Methods for evaluating usability include heuristic evaluation, cognitive walkthrough, and user testing. Each technique has its own characteristics and emphasizes different aspects of the user experience.

11.4 GLOBAL RETAILING

Globalization in the retail industry is the strategy of unlocking sales opportunities in new markets through a mix of exporting best practice and modifying existing models to suit local needs. As modest growth and mature conditions continue in domestic markets, overseas operations will become increasingly important for the world's leading grocery retailers. However, new opportunities are being considered more carefully than ever before, with the focus more on building scale in key markets rather than broadening operations by entering additional markets.

The main global retailers

By turnover, Wal-Mart, Carrefour, Metro and Tesco rank as the major global grocery retailers. Together, the grocery sales of these four retailers exceeded US$600 billion in 2011. Wal-Mart is leading the way with grocery sales alone of almost US$440 billion, dwarfing the combined grocery turnovers of Carrefour, Tesco and Metro. Wal-Mart's grocery sales are almost 2.5 times greater than those of the world number two, Carrefour.

11.4.1Recent Trends in Gobal Retailing

No doubt that organized retailing in developed world is far ahead than in India. According to estimates, over 80% of all retail sales in the USA are accounted for by the organized retailers while in Europe, this figure accounts to 70%, 40% in Brazil and Argentina and nearly 35% in Taiwan and Korea.

According to U.S. Department of labor, more than 22.5 million Americans are employed in the retailing industry in over 2 million retail stores. Retailers throughout the globe now have understood that sustainable competitive advantage can be achieved only by those retailing firms that integrate consumer demand directly into their merchandising and supply chain planning workflows. Global retailers know that if they have to stay ahead of changing consumer shopping habits and increasing merchandise choices, committed ethical behavior, community involvement, innovative promotions and pace with new technology is essential.

Besides this, in the recent years following trends in global retailing have been observed:

1. Going Internationalization:

As the domestic markets are becoming saturated, retailers have started looking to overseas markets for business growth, economies of scale, especially in Asia. Similarly staples and Nike are entering the Indian and Chinese markets. Target and Dollar stores (US based) also continue to grow their geographic presence aggressively in Asian countries.

Further, geopolitical developments, including Tie-ups, joint ventures, trade pacts within the regions is facilitating movements of goods and services across frontiers. The North American Free Trade Agreement (NAFTA) – and its likely extension to include some additional central and South American nations in the coming years, – the European Union (EU) and future alliances will gradually but steadily abolish traditional geographical and political borders.

2. Value driven retailer to values driven retailer:

Value retailers like Wal-Mart, Costco and Target which previously were recognized as the destination for the monthly stock-up trip now continue to improve "shopability," by providing more convenient store layouts and shopping experiences that make the customers buying quicker and easier.

This trend focuses on programs designed to meet consumer lifestyles and needs based on money, time, family size and type, and personal and social obligations.

Another example is of book stores; for centuries, bookshops have been associated with library-style presentation with sections signposted accordingly. Considering sea change in the consumer services, Amazon and Kindle world (famous booksellers) cannot afford to look stale. In Manchester, Waterstone's has opened a store that features graphics rather than words to guide shoppers around.

For instance, to find a crime novel, shoppers can look for the overhead picture of a misdemeanor about to be committed. The substitution of pictures for words is a trend that has been taking place for some time, but it is at its most obvious in a context where the primacy of print has rarely been in dispute. Singapore's Page One follows a similar path with an interior that imitates the pages of a book and features asymmetric bookshelves.

3. Enhancing service offerings:

Walgreen's, for instance, has built a superior brand proposition around pharmacy authority and convenience. Walgreen's capital spending, organizational energy, and marketing dollars all focus on delivering convenience at every level, through real estate strategy, quick in-and-out convenience, layout, assortment and micro-merchandising.

Best Buy has had a lot of achievements with its Geek Squad offering repair, support and installation services at all stores; PetSmart, the largest US pet supplies retailer, besides selling pets, is also providing pet services like Doggie Day Camp, grooming, training and boarding facilities.

A number of retailers associated with PetSmart, believe that since launching these services, they've seen a jump in both retail revenues as well as traffic to stores, which has boosted consumer loyalty.

Futuristic stores are increasingly seeking to interact with customers. In Nokia's London store, customers removing a handset from its display can view product information that appears on the walls above. And upstairs, a lounge washed in blue-light provides a hyper-modern retail environment.

Across the street, the Apple store offers free email access, a 'genius' bar and a 'learn-how-to' theatre. It's also worth noting Bangkok's SpaceGal – a Star Trek-style lingerie store that subverts expectations about how the retail segment should appear and encourages interaction.

4. Expanding Private Brands:

To increase margins and draw increase awareness to store developed private brands as compared to well established or third party brands, retailers now are introducing their own store brands. Retail firms believe that these own or private labels have evolved from 'cheap and nasty substitutes' to the real thing though 'copycat' private labels still remain a strong strategy for retailers.

However, the copycat no longer depends on the price advantage to fight the branded product; it has improved on quality and offers a value proposition to the consumer. For example, Wal-Mart, casts the net wider on private labels to create a 'house of brands'.

The only caution for retailers is that there should be a well thought-out blend of private labels and other brands. Manufacturers should also fight back by innovating: changing the way they look at consumers, seeking out early adapters for ideas, using sound marketing techniques and adopting a thorough product development process.

In India, Nestle (a well renowned Swiss MNC) popularized the coffee kiosk concept in India, where it offers various flavors through its vending machines installed at public places and places of high traffic such as PVRs, shopping plazas, food centers and office premises.

These vending machines come in different sizes and styles to meet varied needs of consumers at various locations. For instance, its high capacity multitask vending machines provides coffees with snacks, drinks, confectionary items and packed foods. Similarly Cadbury India, with the tie-ups of telecommunications companies like E-Cuba India and BPL Mobile has launched chocolate vending machines activated by mobile handsets in select corporate and congregation points in Mumbai.

5. Migration of retail format:

Over the past few decades, due to competition and entry of world's largest companies in this sector, retail formats have been changing radically. The co-operatives and basic department stores of the early 20th century have given entry to mass merchandisers (Wal-Mart), warehouse clubs (Marko, Sam's Club), hypermarkets (Carrefour), discounters (Aidi), convenience stores (7-Eleven), and category killers (Toys 'R' Us, Sports Authority). UK's Tesco Group operates supermarkets, hypermarkets, departmental stores, convenience stores, neighborhood stores, mail order, and like most others recently cyber retailing (on-line retailing/e-stores).

The most important business philosophy for various old, emerging and new retailing formats is convenience in terms of 'under-one roof, 'one-stop location', 'time saving or ease of shopping, making consumers 'king' in real sense.

6. Consolidation:

Since the dawn of 21st century, there has been a substantial re-structuring of the retailing in globe especially in Europe. The implications extend afar Europe but they have had largely impact within European countries. This corporate restructuring not only involves changes in existing horizontal competitive relationships amongst retailers but also involves new forms of relationship with manufacturers, vendors and wholesalers.

For instance, Home Depot (an American retailer of home improvement and construction products and services), acquired 12 stores in China from Home Way (a Chinese retailer) in the year 2006. Similarly Best Buy (a Fortune 100 company and the largest specialty retailer of consumer electronics in the United States and Canada, accounting for 21% of the market) acquired 75% stake in Jiangsu Five Star Appliance (China's third largest consumer electronic retailer).

11.5 ETHICAL AND LOGICAL ISSUES IN RETAILING

Issues in Retailing are divided in two categories;

A. Ethical Issues

This is a set of rules for human moral behavior

Explicit code of ethics: Written that specifies what ethical and unethical behavior.

Implicit: Unwritten but well understood set of rules/standards of moral responsibility

B. Legal Issues

- Set of law that dictate which activities society has deemed to be clearly wrong
- Activities for which retailer and their employee will be punished through federal or state legal system.
- In view of competitive nature and dynamic environment with which retail operates, it is important to monitor the legal and ethical constraints affecting the sector.
- Ethical codes vary from country to country. In Middle Eastern countries bribe is acceptable practice, but unethical and even illegal in US.

11.6 CUSTOMER RELATIONSHIP MANAGEMENT (CRM) IN RETAILING

"CRM is the business strategy that aims to understand, anticipate, manage and personalize the needs of an organization's current and potential customers"

Customer relationship activities have the most impact on customer retention. Every customer service encounter has the potential to gain repeat business or have the opposite effect. The expectation of personalized, relevant offers and service is becoming a primary driver of customer satisfaction and retention in financial services

Customer Relationship management (CRM) perhaps the most important concept in modern marketing until recently, CRM has been decide narrowly as customer data management activity .in its broader sense, CRM is the overall process of building & maintaining profitable customer relationship by delivering superior customer value & satisfaction. It deals with all the aspect of acquiring, keeping & growing customers. The key building lasting customer relationships is to create superior customer value & satisfaction. Organization can build customer relationship at many levels depending on the nature of the target market. To build customer relationships, companies can add structural ties as well as financial social benefits. Today the companies are building more long & lasting relationship with more carefully selected customers, changing demographics, more sophisticated competitors mean that are fewer customer to go around .Many organization are fighting for shares of flat or fading market .in a addition to being good at customer relationship management , marketers must be good at partner relationship , which mean working closely with goal departments outside the company to jointly bring greater value to customer Successful CRM focuses on the profiling or understanding the needs and desire of customer & is achieved by placing these needs at the heart of the business by integrating them with the organization's strategy & goal.

Customer relationship management in retail can increase customer satisfaction, reduce your costs and improve your company's performance in the marketplace. CRM software manages your relationships with individual customers to create advantages for both parties. To select the appropriate software and ensure it includes the features you need, you have to know how CRM works and what effects it has on your retail operations.

Importance of CRM

The customer is the real king of market the one who makes the difference between a company's success & failure .CRM facilitates growth in that it aids the reduction of cost & increased availability of information to the organization that can be used according the customer requirements the specific advantages derived through CRM are quoted below: • Better customer satisfaction.

- ♦ Gaining competitive advantage.
- ♦ Enhancing customer satisfaction.
- ♦ Easy handling of daily task.
- ♦ Makes awareness of customer needs.

Therefore organizations are now capitalizing on this need and are realizing the value of CRM application.

CRM IN RETAIL INDUSTRY

The emergence of Retail in India is cause for success of Indian organized Retail & Marketing. With the help of modern management techniques we will become the specialist Retailers in future. We know that the relationship between the Retailer & customer is very close than other chains of distribution. India is a nation of shopkeepers. We can see more than 16 million plus retail outlets in India, and India has highest density of retail outlets in the world. Retail Industry in India is at present estimated to be more than US $ 250 billion. On that part of organized retailing is estimated 3.5% i.e. $ 7.47 billion. By the year 2010 the vision of Industry is to attained more than the goal which was estimated US $ 23 billion in organized retail. If we are taking as base the size of retail market in India it was only US$ 215 billion in 2005 but in China it was US$ 225 billion in 1996 & US$ 400 billion in 2003. It means the status of India's size of retail market is not very matured as compare to China. The share of organized trade in retaining in India was quite more than 4% in 2005, but it was between 7-8% in 1996 and 17% in 2003 in China. At present USA is biggest retail market with 85% share of organized trade in retailing at the second step. There is Malaysia with 55% plus, Thailand with 40%plus , Brazil with 35%plus, Russia with 33%plus, Indonesia with 30%plus, Poland with 20%plus, China with 17% plus & then India with 6% plus only.

11.7 NOTES

11.8 SUMMARY

The emergence of Retail in India is cause for success of Indian organized Retail & Marketing. With the help of modern management techniques we will become the specialist Retailers in future. As modest growth and mature conditions continue in domestic markets, overseas operations will become increasingly important for the world's leading retailers. However, new opportunities are being considered more carefully than ever before, with the focus more on building scale in key markets rather than broadening operations by entering additional markets.

11.9 KEYWORDS

- Retail audit
- Online retailing
- Global retailing
- Customer Relationship Management

11.10 SELF ASSESSMENT QUESTIONS

1. What is retail audit? Explain the process of retail audit.
2. Discuss the role of CRM in Retailing.
3. Explain the legal and ethical issues in retailing
4. Discuss the significance of global retailing

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UNIT - 12 RETAIL STORE LAYOUT AND LOCATION

Structure:

12.0 OBJECTIVES

After studying this unit, you should be able to

- Define Retail store
- Explain the factors of Retail layout
- Discuss the factors affecting Retail Location

12.1 INTRODUCTION

Retail Layout is also known as Retail design is a creative and commercial discipline that combines several different areas of expertise together in the design and construction of retail space. Retail design is primarily a specialized practice of architecture and interior design; however it also incorporates elements of interior decoration, industrial design, graphic design, ergonomics, and advertising.

Retail design is a very specialized discipline due to the heavy demands placed on retail space. Because the primary purpose of retail space is to stock and sell product to consumers, the spaces must be designed in a way that promotes an enjoyable and hassle-free shopping experience for the consumer. For example, research shows that male and female shoppers who were accidentally touched from behind by other shoppers left a store earlier than people who had not been touched and evaluated brands more negatively. The space must be specially-tailored to the kind of product being sold in that space; for example, a bookstore requires many large shelving units to accommodate small products that can be arranged categorically while a clothing store requires more open space to fully display product.

Retail spaces, especially when they form part of a retail chain, must also be designed to draw people into the space to shop. The storefront must act as a billboard for the store, often employing large display windows that allow shoppers to see into the space and the product inside. In the case of a retail chain, the individual spaces must be unified in their design.

12.2 RETAIL LAYOUT STRATEGIES

A retail store requires comprehensive marketing planning, from determining the products being sold to how the in-store advertising materials will be displayed. Part of that planning is developing effective retail layout strategies. Each retail store needs to address basic strategy concepts, monitor customer response to any strategies used, and make changes that improve sales.

Walking Space

A good retail store layout allows for sufficient walking space for customers. The aisles must be wide enough to accommodate traffic flowing in both directions. If the store provides shopping carts, then there must also be space for customers to stop near a product display and park a cart without disrupting the flow of traffic. The ability of customers to easily navigate your aisles is important in retail layout design.

Flow

The layout of your retail store should allow customers to enter from the front and be encouraged to walk to the back of the store. This increases the amount of time that the customers spend in the store and boosts the chances that they will buy more product. Spread the better-selling items out among the shelves to encourage customers to browse the entire store to find what they want. The layout of aisles should be a horseshoe design that brings customers through the front door with impulse products and some high-demand items, works customers to the back of the store with higher-priced items and then allows them to exit through aisles of more impulse items at the cash register locations.

Eye Level

Putting products at the proper eye level will help to improve sales. But it is important to remember whose eye level you are trying to reach. If you are trying to sell tennis racket to adults, then put the tennis racket at adult eye level. A toy you are trying to sell to children needs to be at a child's eye level.

Display Cases

Display cases serve several important functions in the layout of a retail store. Expensive product can be put in a lighted display case to draw attention to it. The display case also acts as a countertop customer interaction area for convenience. For example, if someone sees a watch he likes in a lighted display case, then the sales associate can quickly pull the watch out to show the customer. Another function of display cases is that they can be placed near the cash register area and act as another impulse buy area for customers. You can increase the effectiveness of a display case at the cash-out area by putting a sales associate there to engage customers and answer questions.

12.3 FACTORS AFFECTING RETAIL LAYOUT

The following are the important factors affecting retail layout/ retail design.

1. Flow of Materials The flow of materials is very important in any layout, and it becomes all the more important when it is and assembly line. Whenever the layout is being designed it should be designed in such a way that the flow of materials is not being hindered. There are basically two types of flow in any layout, namely the internal flow and the external flow. The internal flow consists of the flow within the layout or how the materials move from one machine to another. Since it is an assembly line layout the flow of material is very important. The layout should facilitate the flow of the material. The external flow means the flow external to the layout, ie, the flow of the raw materials and the finished goods. The raw material pallet should be kept in such a way that they are near the aisles for easy transportation and also the finished goods pallets or trolleys should also be kept near the aisles for the easy movement.

Distance Travelled

The distance travelled is one of the performance criteria whenever the layouts are being designed. The distance travelled should be tried to reduce at any cost. The distance travelled is always considered to be the additional cost. The movement requires time and the time spent in travelling is the time lost. But we cannot eliminate the moment completely since it is an ultimate necessity. Even though the movement is a non value addition process this is unavoidable. Thus all the care should be taken to reduce the movement as much as possible. This can be done by keeping those machines closer which have larger flow between them closer. In case of sub-assemblies they should be kept close to the main assembly lines.

Material Movement

The material movement mostly refers to the external movement of the materials. This becomes important when the complete layout has to be designed. The material movement from the raw materials warehouse to the assembly lines and finally to the finished goods area. The layout should be so designed that this flow is facilitated and flow is continuous with out any one point having a very large traffic. This will lead to the smooth material flow and easy handing of the inventories.

Operator's Convenience

Operator's convenience should also be taken into consideration while designing a layout.

This is also very important since the operator is the one who is in the shop and who has to do the operation. Therefore it's the duty of the layout designer to take care of the ergonomic factors while designing a layout. Most of the shop floor operations are inherently tiring and require a great deal of physical work. So the layout should be designed in such a way that the operators effort is being reduced and he or she does not have to undergo high amount of physical strain. The operator's mental setup also comes into the action. For example in western countries the operators are used to work in the counter clockwise direction but in eastern countries it's the other way around. Therefore the work place design as well as the layout design should be done keeping these factors in mind.

Space Available

Space is always a constraint in the design of the layout in any case. The challenge is to come up with the best layout within the given space. The space is not always available as a luxury since the space comes only at a price. Moreover the available space should be used wisely since the space wasted is the money wasted. It can be seems that by closely analyzing the space utilization in almost of the existing layout and by careful rearrangement more space can be found out.

Country Laws and Norms

The country laws and norms should also be kept in mind before the layout is being designed. In many countries it has its own standards for the minimum space that should be there for the operator to operate in the machine. This should be followed strictly. Depending upon these conditions the layout should be re-designed or modified. Many times these factors tend to be neglected which may give rise to the legal issues. These laws clearly state all the points regarding the minimum space required, the maximum working hours, the wages and its calculations and the overtime wages too. For example in India the minimum space between any two operators should be 1.2m.

Types of operations

The type of operation is another major factor while designing the layout. A layout engineer should have a very good idea about the type of the operation and the difficulties faced by the operator. He should also be well aware of the issues arising while the operation is going on. The type of operation like those requiring high precision like that of a watch manufacturing will have a different set of issues regarding the layout design than that of a job shop or a foundry shop. Thus when layout designer designs the layout he should be well acquaintedwith the operations himself. The best way to be aware of the issues are by going to the floor and spending time over there, observing the operations, noting down the factors affecting the operations, doing a FUSA study, talking to the operators, etc.

Environmental Conditions

The environmental condition in which the operator has to operate is also an important factor that should be considered. For example in a watch factory the entire facility is air-conditioned and the humidity is also kept under control. This is important since the parts are too small and the accuracy is highly required. But when it comes to a foundry shop the especially the conditions prevailing near the furnace is completely different. Thus in a watch factory if the machines can be located close by then in a foundry shop there should be enough space between the machines for giving enough space for the operator to move and to reposition himself. Thus while designing the layout the exact conditions prevailing should be known and the spacing between the machines and facilities should be given taking all these factors into consideration.

12.4 RETAIL LOCATION

When it comes to business, retailers have one overall goal: to sell merchandise. That's why they focus on sales floor space, adequate parking for customers, and an overall image that draws in customers. Of secondary interest to many retail operations are office space and storage requirements, since most inventory is on the sales floor.

A retail operation's space is usually subdivided among display, office, and storage. As a rule of thumb, office and storage spaces take up 10 to 25 percent of the total floor area. While the storage and office spaces are important parts of any retail operation—to handle shipping and receiving and related chores, to take care of paperwork, and to store extra inventory—you want to get the most out of all space that's not used for display and sales. Here's where good organizational skills come in handy, along with shelves and cabinets and anything else that helps you maximize your space. If you're not an organizer by nature, hire someone who is. Look in the Yellow Pages under "Organizing Services—Household and Business."

Retail space comes in a variety of shapes and sizes and may be located in free-standing buildings, enclosed malls, strip shopping centers, downtown shopping districts, or mixed-use facilities. You will also find retail space in airports and other transportation facilities, hotel lobbies, sports stadiums, and temporary or special-event venues.

12.5 FACTORS AFFECTING THE CHOICE OF RETAIL LOCATION

Location is the most important consideration in setting up a retail store. You can make many mistakes in businesses that are not fatal, but having a poor location is usually a blunder so costly that most entrepreneurs fail to recover. Due to the prime importance of getting a good location, there are small entrepreneurs who have spent large sums of cash and effort in finding the best site.

Unfortunately, some of the advice given is applicable only to large chains or franchises. Those putting up their own stores need to make some changes to the traditional rules sincetheir situation is different. Blindly following what works for dominant firms is a recipe for disaster.

1. Style of operation.

Location should be consistent with your particular style and image. If your business is retailing, do you want a traditional store, or would you like to try operating from a kiosk (or booth) in a mall or a cart that you can move to various locations.

2. Demographics.

There are two important angles to the issue of demographics. First, consider who your customers are and how important their proximity to your location is. For a retailer and some service providers, this is critical; for other types of businesses, it might not be as important. The demographic profile you have of your target market will help you make this decision.

Then take a look at the community. If your customer base is local, does a sufficient percentage of that population match your customer profile to support your business? Does the community have a stable economic base that will provide a healthy environment for your business? Be cautious when considering communities that are largely dependent on a particular industry for their economy; a downturn could be bad for business.

3. Foot traffic.

For most retail businesses, foot traffic is extremely important. You don't want to be tucked away in a corner where shoppers are likely to bypass you, and even the best retail areas have dead spots. By contrast, if your business requires confidentiality, you may not want to be located in a high-traffic area. Monitor the traffic outside a potential location at different times of the day and on different days of the week to make sure the volume of pedestrian traffic meets your needs.

4. Accessibility and parking.

Consider how accessible the facility will be for everyone who'll be using it—customers, employees, and suppliers. If you're on a busy street, how easy is it for cars to get in and out of your parking lot? Is the facility accessible to people with disabilities? What sort of deliveries are you likely to receive, and will your suppliers be able to easily and efficiently get materials to your business? Small-package couriers need to get in and out quickly; trucking companies need adequate roads and loading docks if you're going to be receiving freight on pallets.

Find out about the days and hours of service and access to locations you're considering. Are the heating and cooling systems left on or turned off at night and on weekends? If you're inside an office building, are there periods when exterior doors are locked and, if so, can you have keys? A beautiful office building at a great price is a lousy deal if you plan to work weekends but the building is closed on weekends—or they allow you access, but the air conditioning and heat are turned off so you roast in the summer and freeze in the winter.

Be sure there's ample convenient parking for both customers and employees. As with foot traffic, take the time to monitor the facility at various times and days to see how the demand for parking fluctuates. Also make sure the parking lot is well-maintained and adequately lighted.

5. Competition.

Are competing companies located nearby? Sometimes that's good, such as in industries where comparison shopping is popular. You may also catch the overflow from existing businesses, particularly if you're located in a restaurant and entertainment area. But if a nearby competitor is only going to make your marketing job tougher, look elsewhere.

6. Proximity to other businesses and services.

Take a look at what other businesses and services are in the vicinity from two key perspectives. First, see if you can benefit from nearby businesses—by the customer traffic they generate—because those companies and their employees could become your customers, or because it may be convenient and efficient for you to be their customer.

Second, look at how they'll enrich the quality of your company as a workplace. Does the vicinity have an adequate selection of restaurants so your employees have places to go for lunch? Is there a nearby day-care center for employees with children? Are other shops and services you and your employees might want conveniently located?

7. Image and history of the site.

What does this address say about your company? Particularly if you're targeting a local market, be sure your location accurately reflects the image you want to project. It's also a good idea to check out the history of the site. Consider how it's evolved over the years.

Ask about previous tenants. If you're opening a restaurant where five restaurants have failed, you may be starting off with an insurmountable handicap—either because there's something wrong with the location or because the public will assume your business will go the way of the previous tenants. If several types of businesses have been there and failed, do some research to find out why—you need to confirm whether the problem was with the businesses or the location. That previous occupants have been wildly successful is certainly a good sign, but temper that with information on what type of businesses they were compared to yours.

8. Ordinances.

Find out if any ordinances or zoning restrictions could affect your business in any way. Check for the specific location you're considering as well as neighboring properties you probably don't want a liquor store opening up next to your day-care center.

9. The building's infrastructure.

Many older buildings don't have the necessary infrastructure to support the high-tech needs of contemporary operations. Make sure the building has adequate electrical, air conditioning, and telecommunications service to meet your present and future needs. It's a good idea to hire an independent engineer to check this out for you so you're sure to have an objective evaluation.

10. Utilities and other costs.

Rent composes the major portion of your ongoing facilities expense, but consider extras such as utilities—they're included in some leases but not in others. If they're not included, ask the utility company for a summary of the previous year's usage and billing for the site. Also find out what kind of security deposits the various utility providers require so you can develop an accurate move-in budget; however, you may not need a deposit if you have an established payment record with the company.

If you have to provide your own janitorial service, what will it cost? What are insurance rates for the area? Do you have to pay extra for parking? Consider all your location-related expenses, and factor them into your decision.

Other factors

Limited Resources

We often hear that we should get the best location possible. The best is usually defined as, first, having the most number of pedestrians or vehicular traffic; second, being highly visible; and third, it is nearest to the target market. However, the best location is almost always the most expensive and unaffordable for a start-up.

Often, the cost of leasing the best location is even bigger than the capital of the entire business. Simple math alone would show that very few ventures could afford such a place. But when you look around, you will see that many businesses actually thrive even in so-called "secondary sites". In fact, most businesses could only afford secondary locations.

Lack of brand recognition

Even if an entrepreneur had sufficient capital, a new business does not have the same pulling power as a well-known brand. We had a terrible experience with this problem. Around two decades ago, there was a wonderful site vacated by a large drugstore chain. During that time, our family had a small drugstore chain and we excitedly took over the place. Except for a fresh coat of paint and a new signage, we were a virtual clone of the previous store. We knew their past sales history and we decided not to tamper with what was successful.

To our great surprise, our sales did not even reach a third of the revenue of the previous tenant. Things did not improve, and we were forced to close the shop after several months. Most people just do not trust an unknown company. Even if you get a prime site, it is highly unlikely that you could make as much sales as a well-known company. One of the very few exceptions to this rule is if you could get a location where there are no competitors around. The worst situation is if you are in a destination site like Boracay and there is a multinational chain competing with you. In this case, since the market is mostly tourists, they would patronize the familiar brand unless you are selling local food that they wish to try.

Personal circumstances

A major consideration rarely factored in by large companies is the suitability of the location to the owner's personal circumstances. This is because in chain stores, the store manager is rarely the owner.

If the owner is also the manager, you may have different priorities. The proximity of the store site from your home becomes more important. It is also critical that you are not easily cut off by flooding. You would probably be more sensitive to the peace and order situation in the neighborhood and the need for a nearby bank. The need for acceptable food establishments in the vicinity cannot be ignored, too. There are many more factors that are not even mentioned or just treated as minor issues if it were a chain store looking for a site, but if it is you who will be staying there, it is inevitable that they become a big deal.

There are a lot of books on how to find the best location for your business. Most of them contain excellent advice that is extremely useful. Unfortunately, some of the suggestions are from the point of view of a large organization, which may not be practical for small entrepreneurs looking to start their own store. It is up to the business owner to adopt the strategies applicable to his situation.

12.6 INDEX OF RETAIL SATURATION

Index of retail saturation is the ratio of demand for a product (households in the geographic area multiplied by annual retail expenditures for a particular line of trade per household) divided by available supply (the square footage of retail facilities of a particular line of trade in a geographic area).

IRS= (HxRE)/RF

Where **IRS** is the index of retail saturation for and area

H is the number of households in the area

RE is the annual retail expenditures for a particular line of trade per household in the area;

RF is the square footage of retail facilities of a particular line of trade in the area.

A technique normally used in larger areas to aid retailer's choice among possibilities for location of new outlets. It offers better insight into location possibilities than a simple descriptive analysis of market potential because it reflects both the demand side and the supply side; i.e., the number of existing outlets in the area and the number and/or income of consumers.

12.7 NOTES

12.8 SUMMARY

In this unit we have discussed about retail layout/ Design. We have tried to analyze retail layout Strategy. We have examined various factors affecting retail layout. Several factors have bearing on Retail Location. We have also made attempt to calculate Index of Retail Saturation

12.9 KEY WORDS

- Retail Location
- Retail Layout
- Retail Strategy
- Layout Design

12.10 SELF ASSESSMENT QUESTIONS

1. What is retail layout?
2. Explain the factors of retail layout strategy
3. Discuss the factors affecting retail layout
4. Define retail location. Explain the factors affecting retail location

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MODULE - 4
SUPPLY CHAIN

UNIT - 13: FUNDAMENTALS OF SUPPLY CHAIN

Structure:

13.0. OBJECTIVES

After studying this unit, you should be able to:

- Identify four fundamental elements of supply chain.
- Evaluate evolution of supply chain.
- Explain decision phases in supply chain
- Identify Enablers of supply chain.
- Indentify drivers of supply chain.

13.1. INTRODUCTION

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 finished products to customers. Supply chains exist in both service and manufacturing organizations, although the complexity of the chain may vary greatly from industry to industry and firm to firm.

Below is an example of a very simple supply chain for a single product, where raw material is procured from vendors, transformed into finished goods in a single step, and then transported to distribution centers, and ultimately, customers. Realistic supply chains have multiple end products with shared components, facilities and capacities. The flow of materials is not always along an arborescent network, various modes of transportation may be considered, and the bill of materials for the end items may be both deep and large.

Traditionally, marketing, distribution, planning, manufacturing, and the purchasing organizations along the supply chain operated independently. These organizations have their own objectives and these are often conflicting. Marketing's objective of high customer service and maximum sales dollars conflict with manufacturing and distribution goals. Many manufacturing operations are designed to maximize throughput and lower costs with little consideration for the impact on inventory levels and distribution capabilities. Purchasing contracts are often negotiated with very little information beyond historical buying patterns. The result of these factors is that there is not a single, integrated plan for the organization— there were as many plans as businesses. Clearly, there is a need for a mechanism through which these different functions can be integrated together. Supply chain management is a strategy through which such integration can be achieved.

Supply chain management is typically viewed to lie between fully vertically integrated firms, where the entire material flow is owned by a single firm and those where each channel member operates independently. Therefore coordination between the various players in the chain is key in its effective management. Cooper and Ellram [1993] compare supply chain management to a well-balanced and well-practiced relay team. Such a team is more competitive when each player knows how to be positioned for the hand-off. The relationships are the strongest between players who directly pass the baton, but the entire team needs to make a coordinated effort to win the race.

In this unit let us try to understand fundamental issues related to Supply chain and its management.

13.2. MEANING AND DEFINITION OF SUPPLY CHAIN MANAGEMENT

If you go to a Supermarket and pick up a few items off the shelf from electronics and white goods or even clothes and look at the labels, the chances are that you will find them having been manufactured in China or Mexico. The coffee pods you buy to use for your everyday use comes from Africa. Computers have been shipped out of South American Factories and Soft furnishings on the shelves are from India and Hong Kong.

Global markets are expanding beyond borders and re-defining the way demand and supplies are managed. Global companies are driven by markets across continents. To keep the cost of manufacturing down, they are forced to keep looking to set up production centers where the cost of raw materials and labor is cheap. Sourcing of raw materials and vendors to supply the right quality, quantity and at right price calls for dynamic procurement strategy spanning across countries.

With the above scenario you find companies procuring materials globally from various vendors to supply raw materials to their factories situated in different continents. The finished goods out of these different factory locations then pass through various chains of distribution network involving warehouses, exports to different countries or local markets, distributors, retailers and finally to the end customer.

In simple language, managing all of the above activities in tandem to manage demand and supply on a global scale is Supply Chain Management.

As per definition SCM is the management of a network of all business processes and activities involving procurement of raw materials, manufacturing and distribution management of Finished Goods.

SCM is also called the art of management of providing the Right Product, At the Right Time, Right Place and at the Right Cost to the Customer.

13.3 FUNDAMENTALS OF SUPPLY CHAIN

The *Four Fundamentals* represents an attempt to concisely yet comprehensively define the essence of SCM. It is aimed primarily at a practitioner audience and aims to bring clarity and understanding to the issue. The avoidance of jargon and complex language is an element of this. It seeks to describe the main constituent elements of SCM, as well as positioning SCM in the overall corporate strategic framework. Furthermore, its aims to provide a definition which is intelligible irrespective of the functional background, business sector or geographical location of the practitioner. Finally, the *Four Fundamentals* needs to be relevant to supply chain professionals irrespective of their level of experience and/or seniority in industry.

1. SCM Objectives

Firstly, the objectives of SCM are to meet or exceed the required or demanded customer service level in targeted markets/segments and to optimize total supply chain investment and cost. This service/cost approach has long been regarded as central to supply chain management. This approach requires companies to have a clear understanding of both issues. Customer service requirements, dictated by the market place, "sets the spec" for the supply chain. Achieving this level of service at the optimal cost focuses attention on the elimination of "non value adding activities" (NVAs) throughout the supply chain.

2. SCM Philosophy

Secondly, every product or service is delivered to the final consumer (the only source of "real" money in the chain) through a series of often complex movements between companies which comprise the complete chain. Inefficiency anywhere in the chain will result in the chain as a whole failing to achieve its true competitive potential. In other words, supply chains are increasingly competing with other supply chains rather than, in the more traditional axiom, companies simply competing with other companies. The phrase "supply chain" is used to indicate that the chain is only as strong as its weakest link.

The representation in Figure 1 (below) of a "macro" supply chain shows materials flowing from the raw material source through the various stages in the chain to the final consumer. Money then flows back down the chain. The point is that every link matters and that value is added, and profit generated, at each link along the way.

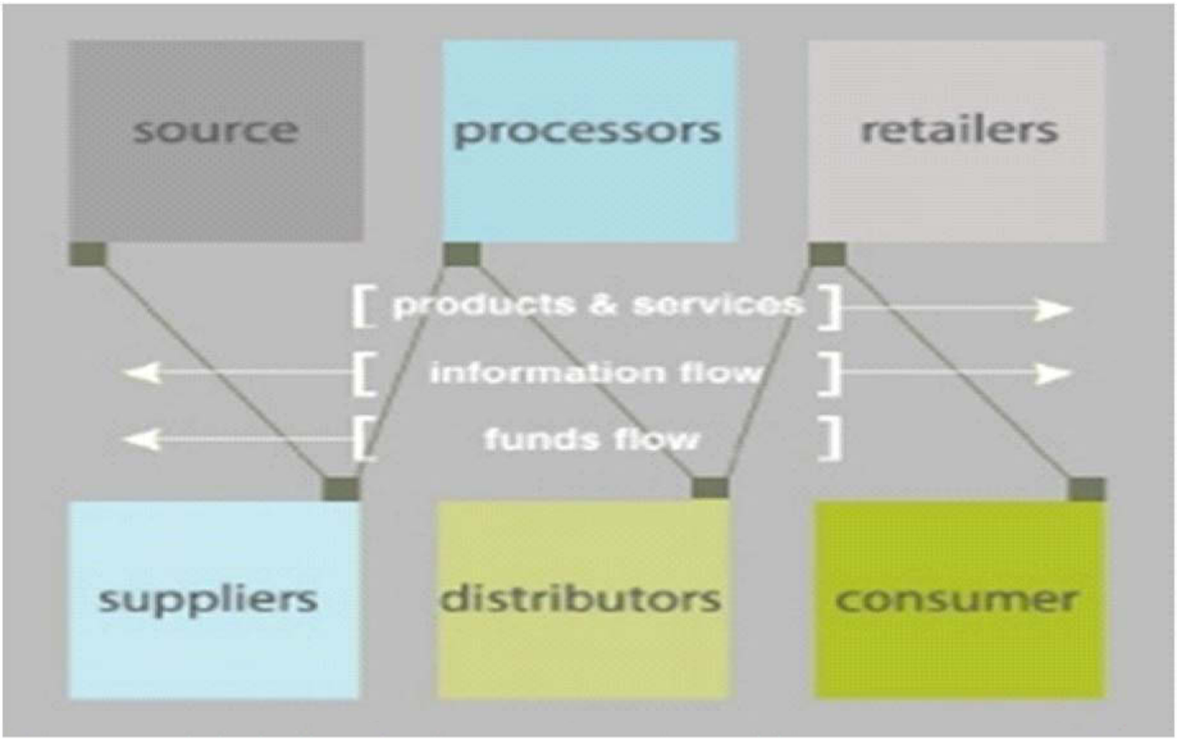

Figure 13.1 - The External Supply Chain

Most businesses can be described in terms of the five functions: buy; make; store; move; and, sell. This is known as the "micro" or internal supply chain as shown in Figure 2.

Figure 13.2 - The Internal Supply Chain

Traditionally these functions have been managed in isolation, often working at cross purposes. SCM means thinking beyond the established boundaries, strengthening the linkages between the functions, and finding ways for them to pull together. A recognition that the whole is greater than the sum of the parts calls for more effective integration between purchasing and procurement (buy), production planning and control (make), warehouse management (store), transport management (move) and customer relationship management (sell), as illustrated in above Figure .

3. Managing the Flows

For a supply chain to achieve its maximum level of effectiveness and efficiency, material flows, money flows and information flows throughout the entire chain must be managed in an integrated and holistic manner, driven by the overall service and cost objectives. The view of a macro chain shown in Figure 1 (above) indicates the way in which material, money (funds) and information flow between the companies which participate in the chain. Similar logic can be applied to the functions which comprise the micro chain. It can be argued that managing the information flows is the most critical of these activities. This is because the flow or movement of materials or money is usually triggered by an associated information movement. Effective management of material and financial flows is, therefore, predicated upon the effective management of the related information flows. For this reason, information and communications technology (ICT) is becoming an increasingly important SCM enabler.

4. Supply Chain Relationships

Finally, this holistic approach requires a reappraisal of the way in which both internal and external customer/supplier relationships are created and managed. SCM is not a "zero-sum" game based on adversarial relationships. Rather, it needs to be a "win-win" game based on partnership approaches. This point is relevant to the interactions between the key "internal" supply chain functions of buy, make, store, move and sell, as well as to relationships between an organisation and its external customers and suppliers. One of the biggest manifestations of the application of supply chain philosophy in recent years has involved the move away from adversarial relationships with key external suppliers towards relationships which are based on mutual trust and benefits, openness and shared goals and objectives.

13.4. EVOLUTION OF SUPPLY CHAIN

Over the last 100 plus years of the history of supply chain management has evolved from an initial focus on improving relatively simple, but very labor-intensive processes to the present day engineering and managing of extraordinarily complex global networks. We will take you through the last 60 plus years below and end the post with an amazing infographic

History of Supply Chain Management: Roots

Both industrial engineering and operations research have their roots in logistics. Fredrick Taylor, who wrote ***The Principles of Scientific Management*** in 1911 and is considered the father of industrial engineering, focused his early research on how to improve manual loading processes. Operations Research began when scientists demonstrated the value of analytics in the study of military logistics problems in the 1940s as a result of the complex requirements of World War II. While Industrial Engineering and Operations Research have each tried to maintain separate identities, many of their biggest successes have occurred when used in an integrated framework to address supply chain and logistics issues. Increasingly this is referred to by industry as "Supply Chain Engineering."

History of Supply Chain Management: The Early Years

In the 1940s and 1950s, the focus of logistics research was on how to use mechanization (e.g., **pallets** and pallet lifts) to improve the very labor intensive processes of material handling and how to take better advantage of space using racking and better warehouse design and layout. The "unit load" concept gained popularity and the use of pallets became widespread. In the mid 1950s, this concept was extended to **transportation management** with the development of intermodal containers together with ships, trains, and trucks to handle these containers. This was a prerequisite for the supply chain globalization that was to come much later. Although the terms "warehousing" and "materials handling" were used to describe many of these efforts, this work could be viewed as fundamental applications of industrial engineering rather than as a discipline of it own.

By the 1960s, a clear trend had developed in shifting more time-dependent **freight transportation to truck** rather than rail. This led to the need for joint consideration of warehousing, material handling, and freight transportation, which emerged under the label of "Physical Distribution." The **National Council of Physical Distribution Management** was formed in 1963 to focus industry attention on this area and quickly became the predominant organization in the field. Academic research and education followed this trend to satisfy the growing industry recognition of the needs in this area. This area gained much wider recognition in both industry and academia due in large part to the fundamental paradigm change that occurred during the 1960s and 1970s with regard to computers. Prior to the 1960s, virtually all transactions and record keeping were done manually. The computerization of this data opened the door to a huge opportunity for innovations in logistics planning, from randomized storage in warehouses to **optimization of inventory** and truck routing. The technologies, particularly those from Operations Research, that researchers had to this point only been able to examine in theoretical models had now become much closer to reality. However, there were still many difficult research issues to resolve in the transition from theory to practice. In the late 1970s and early 1980s, this led to the creation at Georgia Tech of the Production and Distribution Research Center, the Material Handling Research Center, and the Computational Optimization Center. Each of these centers was focused on a different aspect of what this new computer technology made possible.

History of Supply Chain Management: Logistics Comes of Age

The 1980s marked the beginning of a sea-change in logistics in the history of supply chain management. The emergence of personal computers in the early 1980s provided tremendously better computer access to planners and a new graphical environment for planning. This spawned a flood of new technology including flexible spreadsheets and map-based interfaces which enabled huge improvements in logistics planning and execution technology. The Production and Distribution Research Center was the early innovation leader in combining map interfaces with optimization models for supply chain design and distribution planning. The Material Handling Research Center provided leadership in developing new control technology for material handling automation. The Computational Optimization Center developed new large scale optimization algorithms that enabled solution of previously intractable airline scheduling problems. Much of the methodology developed in these centers rapidly began to find its way into commercial technology.

Perhaps the most important trend for logistics in the 1980s was that it had begun to get tremendous recognition in industry as being very expensive, very important, and very complex. Company executives became aware of logistics as an area where they had the opportunity to significantly improve the bottom line if they were willing to invest in trained professionals and new technology. In 1985, the National Council of Physical Distribution Management changed its name to the **Council of Logistics Management** (CLM). The reason given for the name change by the new CLM was "to reflect the evolving discipline that included the integration of **inbound**, outbound and reverse flows of products, services, and related information." Prior to this, logistics was a term that had been used almost exclusively to describe the support of military movements.

History of Supply Chain Management: The Technology Revolution

The logistics boom was fueled further in the 1990s by the emergence of **Enterprise Resource Planning (ERP) systems**. These systems were motivated in part by the successes achieved by Material Requirements Planning systems developed in the 1970s and 1980s, in part by the desire to integrate the multiple databases that existed in almost all companies and seldom talked to each other, and in part by concerns that existing systems might have catastrophic failures as a result of not being able to handle the year 2000 date. In spite of some significant problems in getting the ERP systems installed and working, by 2000 most large companies had installed ERP systems. The result of this change to ERP systems was a tremendous improvement in data availability and accuracy. The new ERP software also dramatically increased recognition of the need for better planning and integration among logistics components. The result was a new generation of "Advanced Planning and Scheduling (APS)" software.

History of Supply Chain Management: Globalization and Supply Chains

The widespread recognition of the term "supply chain" has come primarily as a result of the globalization of manufacturing since the mid 1990s, particularly the **growth of manufacturing in China**. U.S. imports from China grew from about $45 billion per year in 1995 to more than $280 billion per year in 2006. The focus on globalization accented the need for logistics strategies to deal with complex networks including multiple entities spanning multiple countries with diverse control. There has been an increasing trend to use the term supply chain management to refer to strategic issues and logistics to refer to tactical and operational issues. This growing association of supply chain management with strategy is reflected in the **Council of Logistics Management's changing its name to the Council of Supply Chain Management Professionals in 2005**. They make the distinction that "Logistics is that part of the supply chain process that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customers' requirements" while "Supply Chain Management is the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole."

History of Supply Chain Management: The Future of Supply Chain and Logistics

Since the 1980s, computer technology has advanced at such a phenomenal rate that it is currently far ahead of the ability of the supply and logistics field to adequately utilize the new technologies. Given the extent of Internet usage today, it is hard to believe that Microsoft's Internet Explorer 1.0 was released in 1995. The communication capabilities have fundamentally changed the way we think about communications and information sharing. However, supply chain and logistics planning is still primarily based on the distributed models that came as the result of personal computers. There is no question that academic research can enable a new generation of supply chain and logistics planning technology based on centralized planning with distributed collaboration. These technology advances can provide tremendous value in addressing traditional supply chain and logistics areas such as warehousing and distribution, transportation, and manufacturing logistics. However, there are also many non-traditional areas such as health care logistics and humanitarian logistics which can get great value from building on the concepts and technologies that have already proven successful in the traditional supply chain and logistics areas. Finally, there are extremely valuable insights to be gained by systematically studying the supply chain and logistics performance of companies across multiple industries and countries.

13.5. DECISION PHASES IN SUPPLY CHAIN MANAGEMENT

Decision phases can be defined as the different stages involved in supply chain management for taking an action or decision related to some product or services. Successful supply chain management requires decisions on the flow of information, product, and funds that fall into three decision phases.

Here we will be discussing the three main decision phases involved in the entire process of supply chain. The three phases are described below

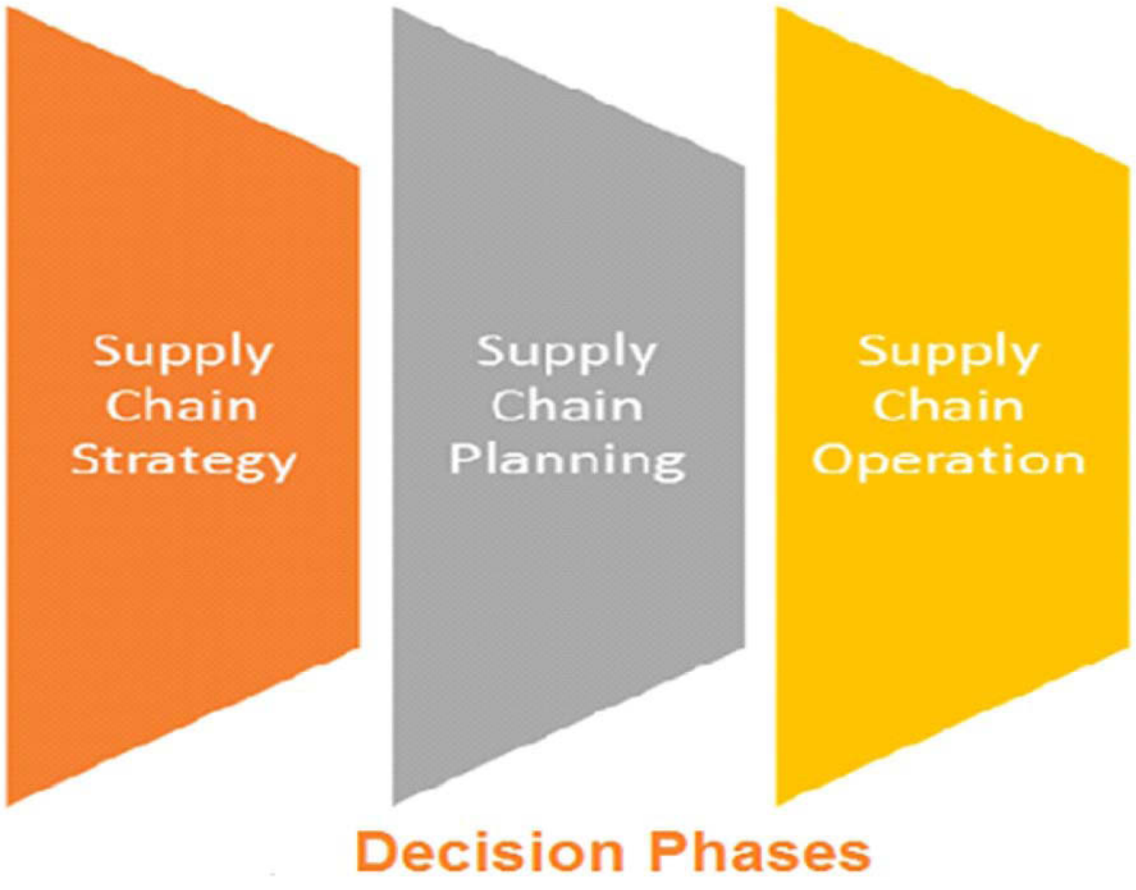

Fig 13.4 Decision Phases

Supply Chain Strategy

In this phase, decision is taken by the management mostly. The decision to be made considers the sections like long term prediction and involves price of goods that are very expensive if it goes wrong. It is very important to study the market conditions at this stage.

These decisions consider the prevailing and future conditions of the market. They comprise the structural layout of supply chain. After the layout is prepared, the tasks and duties of each is laid out.

All the strategic decisions are taken by the higher authority or the senior management. These decisions include deciding manufacturing the material, factory location, which should be easy for transporters to load material and to dispatch at their mentioned location, location of warehouses for storage of completed product or goods and many more.

Supply Chain Planning

Supply chain planning should be done according to the demand and supply view. In order to understand customers' demands, a market research should be done. The second thing to consider is awareness and updated information about the competitors and strategies used by them to satisfy their customer demands and requirements. As we know, different markets have different demands and should be dealt with a different approach.

This phase includes it all, starting from predicting the market demand to which market will be provided the finished goods to which plant is planned in this stage. All the participants or employees involved with the company should make efforts to make the entire process as flexible as they can. A supply chain design phase is considered successful if it performs well in short-term planning.

Supply Chain Operations

The third and last decision phase consists of the various functional decisions that are to be made instantly within minutes, hours or days. The objective behind this decisional phase is minimizing uncertainty and performance optimization. Starting from handling the customer order to supplying the customer with that product, everything is included in this phase.

For example, imagine a customer demanding an item manufactured by your company. Initially, the marketing department is responsible for taking the order and forwarding it to production department and inventory department. The production department then responds to the customer demand by sending the demanded item to the warehouse through a proper medium and the distributor sends it to the customer within a time frame. All the departments engaged in this process need to work with an aim of improving the performance and minimizing uncertainty.

13.6. KEY ENABLERS OF SUPPLY CHAIN MANAGEMENT

The Four Key Enablers of supply chain for any organisation are:

Organizational infrastructure: how business units and functional areas are organized; how change-management programs are led and coordinated within the existing organizational structure.

Technology: how technology (not just information technology but also the "physical" materials-management technologies for material design, operations, and materials handling) affects a company's operational and strategic supply chain processes.

Strategic alliances: how external companies (customers, suppliers, and logistics-services providers) are selected as business allies; how intercompany relationships are built and managed.

Human resources management: how job descriptions are designed', how positions are filled, how people are recognized and compensated, and how career paths are directed.

13.7. DRIVERS OF SUPPLY CHAIN

As you simulate how your supply chain works, you learn about the demands it faces and the capabilities it needs to be successful. Develop your supply chain to meet these needs. Supply chain development is guided by the decisions you make about the five supply chain drivers. Each of these drivers can be developed and managed to emphasize responsiveness or efficiency depending on the business requirements.

These five drivers provide a useful framework in which to think about the supply chain capabilities you need. They are illustrated in this diagram:

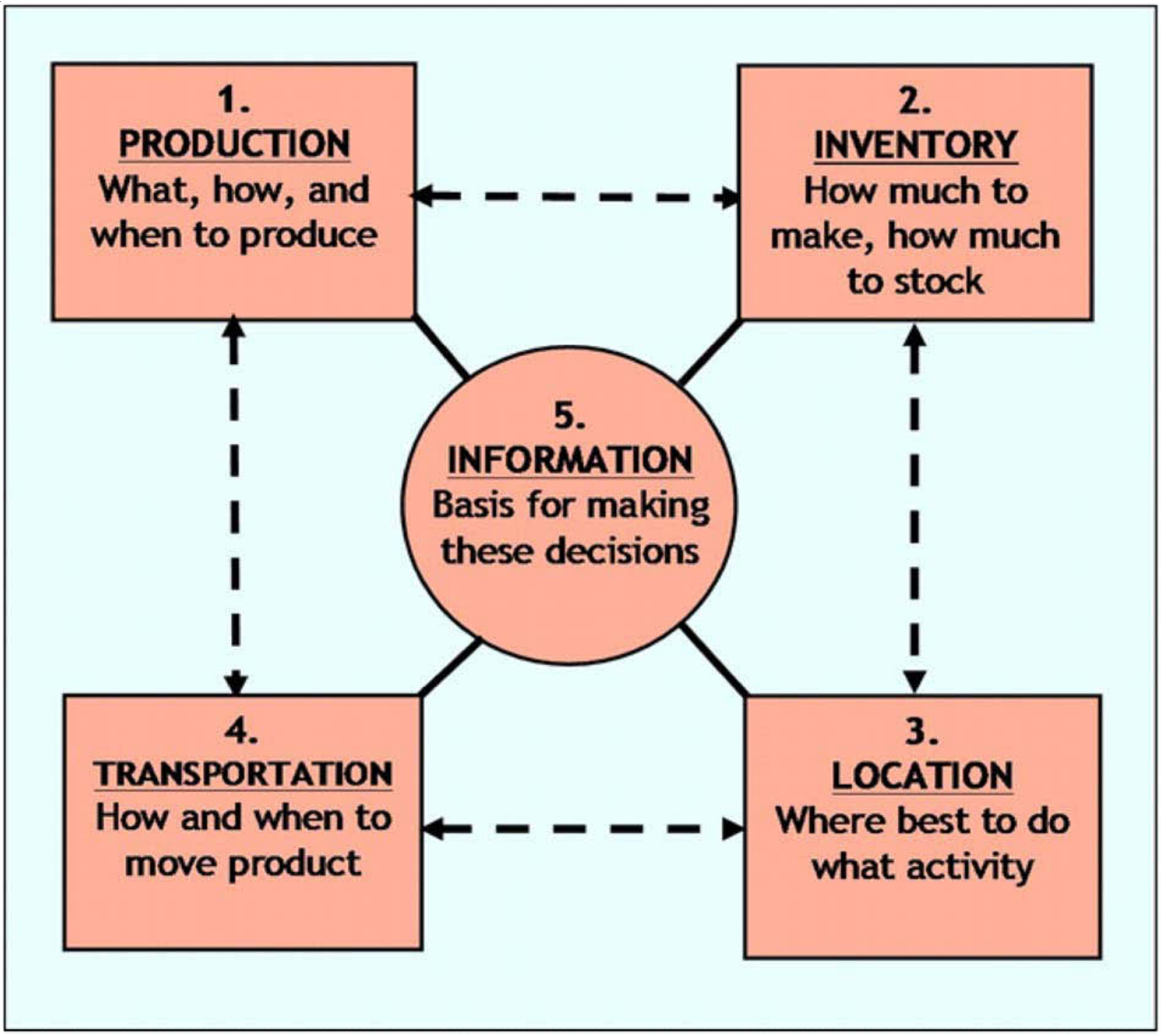

Fig. 13.5 Drivers of Supply Chain

Production

This driver can be made very responsive by building factories that have a lot of excess capacity and that use flexible manufacturing techniques to produce a wide range of items. To be even more responsive, a company could do their production in many smaller plants that are close to major groups of customers so that delivery times would be shorter. If efficiency is desirable, then a company can build factories with very little excess capacity and have the factories optimized for producing a limited range of items. Further efficiency could be gained by centralizing production in large central plants to get better economies of scale.

Simulate your decisions about production in SCM Globe by the products you define and the facilities you create to make these products.

Inventory

Responsiveness can be had by stocking high levels of inventory for a wide range of products. Additional responsiveness can be gained by stocking products at many locations so as to have the inventory close to customers and available to them immediately. Efficiency in inventory management would call for reducing inventory levels of all items and especially of items that do not sell as frequently. Also, economies of scale and cost savings could be gotten by stocking inventory in only a few central locations.

Simulate your decisions about inventory with SCM Globe by setting production levels at factories and defining on-hand amounts for different products at different facilities.

Location

A location approach that emphasizes responsiveness would be one where a company opens up many locations so as to be physically close to its customer base. For example, McDonald's has used location to be very responsive to its customers by opening up lots of stores in its high volume markets. Efficiency can be achieved by operating from only a few locations and centralizing activities in common locations. An example of this is the way Dell serves large geographical markets from only a few central locations that perform a wide range of activities.

Simulate this decision in SCM Globe by the method you use to select locations for your facilities (factories, warehouses and stores) and the storage capacities and operating expenses you define for these facilities.

Transportation

Responsiveness can be achieved by a transportation mode that is fast and flexible. Many companies that sell products through catalogs or over the Internet are able to provide high levels of responsiveness by using transportation to deliver their products often within 24 hours. FedEx and UPS are two companies who can provide very responsive transportation services. Efficiency can be emphasized by transporting products in larger batches and doing it less often. The use of transportation modes such as ship, rail, and pipelines can be very efficient. Transportation can be made more efficient if it is originated out of a central hub facility instead of from many branch locations.

Simulate transportation decisions in SCM Globe by the modes of transportation you select to move products between facilities and the frequencies of those deliveries to different facilities.

Information

The power of this driver grows stronger each year as the technology for collecting and sharing information becomes more wide spread, easier to use, and less expensive. Information, much like money, is a very useful commodity because it can be applied directly to enhance the performance of the other four supply chain drivers. High levels of responsiveness can be achieved when companies collect and share accurate and timely data generated by the operations of the other four drivers. The supply chains that serve the electronics markets are some of the most responsive in the world. Companies in these supply chains from manufacturers, to distributors, to the big retail stores collect and share data about customer demand, production schedules, and inventory levels.

SCM Globe simulates real-time information sharing between all participants in a supply chain by making data about operating costs and on-hand inventory available for all the facilities in the supply chain. As you run a simulation you can see what is happening from end to end across your supply chain. At present in the real world, most companies are not able to see much about the overall status of the supply chains they participate in. So in that sense the information available from the SCM Globe simulations is not that readily available to companies in actual supply chain practice.

Please note however that the cost of information continues to drop and the cost of the other four drivers mostly continues to rise. Over the long run, those companies and supply chains that learn how to maximize the use of information sharing to increase their coordination and get optimal performance from the other drivers will gain the most market share and be the most profitable.

13.8 NOTES

13.8. SUMMARY

The goal of a supply chain should be to maximize overall supply chain profitability. Supply chain profitability is the difference between the revenue generated from the customer and the total cost incurred across all stages of the supply chain. Supply chain decisions have a large impact on the success or failure of each firm because they significantly influence both the revenue generated and the cost incurred. Successful supply chains manage flows of product, information, and funds to provide a high level of product availability to the customer while keeping costs low.

Supply chain decisions may be characterized as strategic (design), planning, or operational, depending on the time period during which they apply. Strategic decisions relate to supply chain configuration. These decisions have a long-term impact lasting several years. Planning decisions cover a period of a few months to a year and include decisions such as production plans, subcontracting, and promotions over that period. Operational decisions span from minutes to days and include sequencing production and filling specific orders. Strategic decisions define the constraints for planning decisions, and planning decisions define the constraints for operational decisions.

13.9. KEY WORDS

Supply chain

Supply chain Objectives

Supply chain Philosophy

Managing the flows

Supply chain relationship

Supply chain engineering

Evolution of supply chain

ERP

Supply chain strategy

Supply chain planning

Supply chain operation

Organisational Infrastructure

Strategic Alliances

Drivers of supply chain

13.10. SELF ASSESSMENT QUESTIONS

1. What do you mean by supply chain management?
2. Discuss the four fundamentals of supply chain management.
3. Write a brief note on evolution of supply chain management.
4. Explain the decision phases in supply chain management.
5. Discuss the key enablers of supply chain management.

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UNIT 14: STRATEGIC SOURCING

Structure:

14.0. Objectives

14.1. Introduction- strategic sourcing

14.2. Outsourcing- An introduction

14.3. Outsourcing- Make versus Buy

14.4. Supplier Development

14.5 Notes

14.6. Summary

14.7. Key words

14.8. Self Assessment Questions

14.9. References

14.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain process of strategic sourcing
- Define outsourcing and reasons for outsourcing.
- Identify factors influencing successful outsourcing
- Describe process of outsourcing.
- Evaluate concept of supplier development.

14.1. INTRODUCTION

In today's competitive business scenario, the market decides the price of the product and hence the profit of any organization depends on controlling the cost of operations. In most of the manufacturing organization, 60% to 70% of the cost is spending on the procurement function. Hence, there is a significant opportunity in improving the bottom line through Strategic Sourcing

"Strategic Sourcing is a comprehensive process aimed at obtaining maximum advantage on cost, technology, process and quality, by leveraging the company's buying power"

"Strategic Sourcing is a comprehensive process designed to pursue all value levers by leveraging a company's buying power with select suppliers, conducting best price evaluations, sourcing globally and conducting company/supplier joint process improvements"

The strategy is to shift the company's focus from the current "transaction" oriented independent buying of goods and services to a "product" oriented strategic approach.

We cannot build up the significance of operating in a collaborative manner. Several decades have witnessed a major transformation in the profession of supply chain, from the purchasing agent comprehension, where staying in repository was the criterion, to emerging into a supply chain management surrounding, where working with cross functional and cross location teams is important, to achieve success.

14.1.1. Definition- strategic sourcing

Strategic sourcing can be defined as a collective and organized approach to supply chain management that defines the way information is gathered and used so that an organization can leverage its consolidated purchasing power to find the best possible values in the marketplace.

14.1.2. Process of Strategic Sourcing

Strategic sourcing is organized because of the necessity of some methodology or process. It is collective because one of the most essential necessities for any successful strategic sourcing attempt is of receiving operational components, apart from the procurement, engaged in the decision-making and assessment process.

The process of strategic processing is a step by step approach. There are seven distinct steps engaged in the process of strategic processing. These steps are explained below in brief.

1. Understanding the Spend Category

The first three steps involved in the strategic sourcing are carried out by the sourcing team. In this first stage, the team needs to do a complete survey on the total expenditure. The team ensures that it acknowledges every aspect regarding the spend category itself.

The five major regions that are analyzed in the first stage are as follows "

- ♦ Complete previous expenditure records and volumes.
- ♦ Expenditures divided by items and sub items.
- ♦ Expenditures by division, department or user.
- ♦ Expenditures by the supplier.
- ♦ Future demand projections or budgets.

For example, if the classification is grooved packaging at a customer goods company, the team has to acknowledge the description of the classification, application patterns and the reason behind specification of particular types and grades specified.

Stakeholders at all functioning units and physical locations are to be determined. The logistics, for instance, needs an updated report regarding the transportation specifications and marketing requirements to acknowledge some quality or environmentally applicable features.

2. Supplier Market Assessment

The second step includes frequent assessment of the supplier market for pursuing substitute suppliers to present incumbents. A thorough study of the supplier marketplace dynamics and current trends is done. The major element of the key products design is **should-cost**. Along with it, an analysis on the major suppliers' sub-tier marketplace and examination for any risks or new opportunities are also important.

Now, it is not recommended to analyze the should-cost for every item. There are many instances where conservative strategic sourcing techniques tend to work better. But in the instances where the application of strategic sourcing is not applicable, the should-cost analysis supplies a valuable tool that drives minimizing of cost and regular progress efforts of the supplier.

3. Supplier Survey

The third step is developing a supplier analysis for both incumbent and potential substitute suppliers. This analysis assists in examining the skills and abilities of a supplier. In the meanwhile, data collected from incumbent suppliers is used for verifying spend information that suppliers have from their sales systems.

The survey team considers the above-mentioned areas for gathering information. The areas are as follows "

- Feasibility
- Capability
- Maturity
- Capacity

The analysis is done to examine the potential and skills of the market to satisfy the customer demands. This analysis helps in the examination done at the initial stage to find out if the proposed project is feasible and can be delivered by the identified supply base.

This analysis also supplies an initial caution of the customer demands to the market and enables suppliers to think about how they would react to and fulfill the demand. Here the motto is to motivate the appropriate suppliers with the right structural layout to respond to the demands.

4. Building the Strategy

The fourth step comprises constructing the sourcing strategy. The merger of the first three steps supports the necessary elements for the sourcing strategy. For every region or category, the strategy depends on answering the questions given below.

- How willing is the marketplace to oppose the supplier?
- How supportive are the clients of a firm for testing incumbent supplier relationships?
- What are the substitutes to the competitive assessment?

Generally, these substitutes are opted when a purchasing firm has little leverage over its supply base. They will depend on the belief that the suppliers will share the profits of a new strategy. Thus, we say that the sourcing strategy is an accumulation of all the drivers thus far mentioned.

5. RFX Request

Mostly, the competitive approach is applied in general cases. In this approach, a request for proposal or bid needs to be prepared (e.g., RFP, RFQ, eRFQ, ITT) for most spend classifications or groups.

This defines and clarifies all the needs for all prequalified suppliers. The request should comprise product or service specifications, delivery and service requirements, assessment criteria, pricing structure and financial terms and conditions.

In the fifth stage, an interaction plan needs to be executed to allure maximum supplier interest. It must be ensured that each and every supplier is aware that they are competing on a level playing field. After sending the RFP to all suppliers, it is to be confirmed that they are given enough time to respond. In order to motivate greater response, follow-up messages should also be sent.

6. Selection

This step is all about selecting and negotiating with suppliers. The sourcing team is advised to apply its assessment constraints to the responses generated by the suppliers.

If information across the limitation of RFP response is required, it can be simply asked for. If done correctly, the settlement process is conducted first with a larger set of suppliers and then shortlisted to a few finalists. If the sourcing team utilizes an electronic negotiation tool, large number of suppliers can sustain in the process for longer duration, giving more wide suppliers a better opportunity at winning the enterprise.

7. Communication with New Suppliers

After informing the winning supplier(s), they should be invited to take part in executing recommendations. The execution plans vary according to the scale of switches the supplier makes.

For obligatory purposes, a communication plan will be set up, including any modification in specifications and improvements in delivery, service or pricing models. These tend to be communicated to users as well.

As we know, the company gains immensely from this entire process of creating a communication plan, making some modifications according to the customer demand and further forwarding this to the customer. It’s essential that this process should be acknowledged by both the company and the supplier.

For new suppliers, we need to construct a communication plan that copes with the alteration from old to new at every point in the process engaged by the spend category. The sections that have an impact of this change are the department, finance and customer service.

In addition, the risk antennae will be particularly sensitive during this period. It is essential to gauge closely the new supplier's performance during the first weeks of performance.

Another essential task is to grasp the intellectual capital of the sourcing team, which has been developed within the seven-step process; so that it can be used the next time that category is sourced.

14.2 OUTSOURCING- AN INTRODUCTION

Since the Industrial Revolution, companies have grappled with how they can exploit their competitive advantage to increase their markets and their profits. The model for most of the 20th century was a large integrated company that can "own, manage, and directly control" its assets. In the 1950s and 1960s, the rallying cry was diversification to broaden corporate bases and take advantage of economies of scale. By diversifying, companies expected to protect profits, even though expansion required multiple layers of management. Subsequently, organizations attempting to compete globally in the 1970s and 1980s were handicapped by a lack of agility that resulted from bloated management structures. To increase their flexibility and creativity, many large companies developed a new strategy of focusing on their core business, which required identifying critical processes and deciding which could be outsourced.

Initial stages of evolution

Outsourcing was not formally identified as a business strategy until 1989 (Mullin, 1996). However, most organizations were not totally self-sufficient; they outsourced those functions for which they had no competency internally. Publishers, for example, have often purchased composition, printing, and fulfillment services. The use of external suppliers for these essential but ancillary services might be termed the baseline stage in the evolution of outsourcing. Outsourcing support services is the next stage. In the 1990s, as organizations began to focus more on cost-saving measures, they started to outsource those functions necessary to run a company but not related specifically to the core business. Managers contracted with emerging service companies to deliver accounting, human resources, data processing, internal mail distribution, security, plant maintenance, and the like as a matter of "good housekeeping". Outsourcing components to affect cost savings in key functions is yet another stage as managers seek to improve their finances.

Strategic partnerships

The current stage in the evolution of outsourcing is the development of strategic partnerships. Until recently it had been axiomatic that no organization would outsource core competencies, those functions that give the company a strategic advantage or make it unique. Often a core competency is also defined as any function that gets close to customers. In the 1990s, outsourcing some core functions may be good strategy, not anathema. For example, some organizations outsource customer service, precisely because it is so important.

Eastman Kodak's decision to outsource the information technology systems that undergird its business was considered revolutionary in 1989, but it was actually the result of rethinking what their business was about. They were quickly followed by dozens of major corporations whose managers had determined it was not necessary to own the technology to get access to information they needed. The focus today is less on ownership and more on developing strategic partnerships to bring about enhanced results. Consequently, organizations are likely to select outsourcing more on the basis of who can deliver more effective results for a specific function than on whether the function is core or commodity.

14.2.1. Outsourcing

Outsourcing can be defined as "the strategic use of outside resources to perform activities traditionally handled by internal staff and resources". Sometimes known also as "facilities management", outsourcing is a strategy by which an organization contracts out major functions to specialized and efficient service providers, who become valued business partners. Companies have always hired contractors for particular types of work, or to level-off peaks and troughs in their workload, and have formed long-term relationships with firms whose capabilities complement or supplement their own. However, the difference between simply supplementing resources by "subcontracting" and actual outsourcing is that the latter involves substantial restructuring of particular business activities including, often, the transfer of staff from a host company to a specialist, usually smaller, company with the required core competencies.

14.2.2 Reasons for outsourcing

Here are some common reasons:

- Reduce and control operating costs
- Improve host company focus
- Gain access to world-class capabilities
- Free internal resources for other purposes
- A function is time-consuming to manage or is out of control
- Insufficient resources are available internally

- Share risks with a partner company

In earlier periods, cost or headcount reductions were the most common reasons to outsource. In today's world the drivers are often more strategic, and focus on carrying out core value-adding activities in-house where an organization can best utilize its own core competencies.

14.2.3. Main factors influencing successful outsourcing

The critical areas for a successful outsourcing program as identified are:

- Understanding company goals and objectives
- A strategic vision and plan
- Selecting the right vendor
- Ongoing management of the relationships
- A properly structured contract
- Open communication with affected individual/groups
- Senior executive support and involvement
- Careful attention to personnel issues
- Short-term financial justification

14.2.4. Outsourcing process

There are four main aspects to a typical outsourcing program:

- Program Initiation
- Service Implementation
- Final Agreement
- Program closure

Program Initiation

At the start of any outsourcing program, there are a variety of ideas and opinions about the purpose and scope of the program, what the final result of the program will be, and how the program will be carried out. The Program Initiation Stage is concerned with taking these ideas and intentions and documenting them to form the basis of a draft contract

Service Implementation

Service Implementation covers the activities required to take these ideas and intentions and develop them into a formal, planned outsourcing program and to make the transition to the outsourced service. Specifically these activities are:

- Defining the transition project
- Transferring staff
- Defining the Service Level Agreement (SLA)
- Defining service reporting
- Implementing and handing over the service
- Implementing service management procedures

During the hand–over phase it is imperative that continuity of service is maintained at all times, that there is no reduction in the quality of the delivery and that timescales and deadlines are not compromised.

Final Agreement

The draft contract produced at the Initiation stage is generally amended during negotiations and the final Contract is produced on completion of the negotiation cycle.

Program Closure

In order to gain maximum benefit, the program should go through a formal close down. There is no point in continuing to argue lost causes once irrevocable decisions have been taken. Staff and companies alike need to accept the new situation and move forward. However, there will be a lot of information generated during the life of the program, and this will have been stored with varying degrees of formality by the team members. This information needs to be formally filed away for future reference.

14.2.5. Procedure to decide whether to outsource

There are no simple criteria to conduct an outsourcing versus in-house analysis. The benefits associated with outsourcing are numerous, and one should consider each project on its individual merits. Ongoing operational costs that may be avoided by outsourcing are also a consideration. In a nut shell, outsourcing allows organizations to be more efficient, flexible, and effective, while often reducing costs.

Some of the top advantages brought by outsourcing include the following:

- Staffing flexibility
- Acceleration of projects and quicker time to market
- High caliber professionals that hit the ground running
- Ability to tap into best practices
- Knowledge transfer to permanent staff

- Cost-effective and predictable expenditures
- Access to the flexibility and creativity of experienced problem solvers
- Resource and core competency focus

14.3. OUTSOURCING- MAKE VERSUS BUY

Production units are identified mostly with their decision to make or buy. In other words, do they wish to produce the desired product on their own or do they want to purchase it from the foreign market.

This decision is critical because the third-party suppliers especially in countries like Eastern Europe, China, and other low-cost parts of the world hold out the promise of essential beneficiaries, which the developed nations fail to offer.

However, the developed countries can easily overcome the expenses cost in the imported material through activities like human resources, information technology, maintenance and customer relations.

If properly utilized and taken care of, these activities may yield profit rather than leading the nation to suffer more loss. All the expense of outsourcing can be regained through these activities and thus they should not be neglected when the options are considered.

The Make Vs Buy decision of a nation depends on three pillars. These pillars are "

- Business strategy
- Risks
- Economic factors

Business Strategy

The first pillar in the Make Vs Buy decision is the business strategy adopted by a nation. **Business strategy** strategically engages the importance of the company whose product or service is being considered for outsourcing, in addition to the process, technologies or skills needed to design the product or deliver that particular service.

These factors should be carefully considered, not just on the basis of current competitive environment but also by anticipating the changing competitive environment in future.

So, as a rule, it's advisable to select the in-house skills and abilities when a product or a function plays a very important role in improving the company's performance or is considered a core operation.

Perhaps, if we consider a time-sensitive product or a product, which is prone to consequent design changes, third-party producing would likely be a mistake. In simple worlds, companies must opt for outsourcing in the following scenarios "

- Remove the processes, which are intensive on the balance sheet, e.g., capital or labor.
- Minimize the costs.
- Achieve flexibility for adjusting output in comeback to changing demand.
- Phase out management of paperwork, documents or training.
- Monitor fewer workers.
- Have access to new process or network tools and technologies.
- Leverage external expertise.

In fact, if a product relies on proprietary technology or intellectual property or if a product or an operation is critical for the company's performance, it is recommended to select in-house skills & abilities rather than outsourcing.

Obviously, outsourcing is worth considering under some situations. If a product or function has essentially become a commodity or is derived from factors other than unique or differentiating capabilities and as such, moving production or management to a third party does not give rise to significant risk to the company's strategy, outsourcing would be the perfect solution.

Risks

The **second pillar** under the Make Vs Buy strategy is **risks** involved with any decision. The major risk factors involved in making a product in the home country or purchasing it from foreign countries are quality, reliability, and predictability of outsourced solutions or services. Along with these, there are risks inherent in the process of labeling and selecting the right supplier and structuring a workable ongoing relationship.

When we have numerous suppliers, a single failure in the supply chain may not be deadly. Even when the suppliers are making parts of an item instead of that completely furnished item, there will be errors in manufacturing. These errors should be identified before the products are assembled so that the faulty item cannot be delivered to the consumer directly.

We know outsourcing opens up a broad array of new risks. We need to be attentive of any potential pitfalls with producers and examine outsourcing partners on the basis of their importance to the company.

Operations in outsourcing that lead to failure of service could be overwhelming, for example, an IT network, a payroll processing system or element manufacturing, as compared to risks or problems like a glitch in a training program or a long-term product development plan, which is much lesser.

It is very important to acknowledge the risks that are related to the location of an external supplier. Apart from judging the source country's political stability, companies require to examine the safety and lead times of shipment schedule. Along with this, they have to label and examine potential secondary carriers or routes or search for other producers as a backup in a different area that supplies incremental volume during peaks in demand or disruptions of the primary source of supply.

When we merge the outsourced manufacturing of products or outsourced processes that demand distinct skills or assets, making it difficult or expensive to re-source, the supply chain management becomes a highly complex function. In fact, these risks through which a producer may exploit a customer's highly reliable relationship by increasing prices or charging better terms (referred as hold up risks) can be easily handled with some external solutions.

This is a very important decision to make. One has to go through all the available options and select the best one out of them before making any commitments to the supplier because outsourcing agreements can be difficult to amend or break.

Economic Factors

The **third pillar** in the Make Vs Buy strategy is the **economic factors** residing in the country that needs to decide if to buy a product or make it on its own. The various economic factors comprise the effect of outsourcing on capital expenditures, return on invested capital and return on assets, along with the probable savings gained by outsourcing.

To study the importance of pricing mechanisms, let's consider those companies that base their decision on if they need to outsource solely on approximate calculations of the in-house as compared to the external costs related to the outsourced function, for example, the cost of each item produced or the price of running an HR department or an IT network instead on the total costs. The net prices that need to be taken care of comprise the layouts for handling the outsource supplier, exclusively as the outsourced process changes. These changes prove to be very essential.

For example, customizing some software on a third-party information technology network can compute a large surcharge to the outsourcing deal. Tackling the customization in-house, i.e., within the home country, where the IT department can work closely, their work can be easily monitored and more productively with end-users to satisfy their demands can be obtained, tend to be less costly.

Along with this, the home country needs to choose the outsourcing partners very cautiously. In case the outsourcing partners are not selected properly, the companies often attempt to protect themselves from failures or delays by replicating in-house some of the effort that was originally farmed out. This leads to multiple prices for the same project and potential costs are mostly neglected when the outsourcing deal is made.

The **costs that are often neglected in outsourcing manufacturing operations** are as follows "

- Transportation and handling charges.
- Expanded, extended inventories.
- Administrative bills like the supplier management and quality control rates.
- Casted complexity and its effect on lean flows.
- Minimal return on invested capital.
- Production dependability and quality control.

Taking all these costs into consideration, depending on a one-time quote to measure the competitiveness of an external producer is mostly not enough. Enterprises can be saved from this mistake by factoring into the outsourcing equation the economic effects of comparative wage prices, labor productivity, tools and staff utilization, the biasness of both the labor base and functional processes, the potential for process and product innovation and relative purchasing power.

Finally, we can say that for a successful outsourcing relationship, the basic factors include the sharing of savings from productivity progress, so that both sides have an inducement to merge.

After establishing a sober formal relationship, it is very essential to search for the right balance between fully transparent supplier functions and micromanagement or the perception of it. After the outsourcing decisions are made and suppliers have been chosen, it is crucial to be on the same front on a fair and balanced pricing mechanism, productivity progress and cost minimization expectations and the necessary scale of responsiveness to design, service or delivery changes.

14.4. SUPPLIER DEVELOPMENT

Definition

Supplier development is the process of working with certain suppliers on a one-to-one basis to improve their performance for the benefit of the buying organisation. It is closely associated with supplier relationship management and partnering.

Reasons for Supplier Development

It is recommended that purchasing and supply management professionals should be able to identify sound reasons for embarking on supplier development process such as:

- improving supplier performance
- reducing costs
- resolving serious quality issues
- developing new routes to supply
- improving business alignment between the supplier and the buying organisation
- developing a product or service not currently available in the marketplace
- generating competition for a high price product or service dominating the marketplace

Supplier development should lead to improvements in the total added value from the supplier in question in terms of product or service offering, business processes and performance, improvements in lead times and delivery for instance.

Components of Supplier Development

There is no single approach to supplier development. Purchasing and supply management professionals must select the most appropriate approach to suit their relationship with the supplier that they have selected for development. There are different types of, and approaches to, supplier development that are appropriate for different supply markets.

Supplier development involves embracing supplier expertise and aligning it to the buying organization's business need, and, where appropriate, vice versa. The objectives for development can be relatively minor such as slight adjustments in staffing levels or very substantial such as the appraisal and re-launch of an entire range of critical products.

A supplier development project might involve developing a supplier's business such as helping the supplier to evaluate and redesign their corporate strategy. The purpose of this might be to align the supplier very closely and on a long-term basis with the buying organisation in a strategic alliance or joint venture. Equally, there may be circumstances where it is more appropriate for the buying organisation to align its corporate strategy to that of the supplier. Whatever the form of the alignment, this process may be a highly resource intensive exercise and involve for example, a steering group and various action teams each with action plans for allocated projects and formal reporting procedures against time-scales. Both organisations must share a mutual understanding, appreciation and desire to achieve the objectives of the supplier development project.

Such a project would involve the principles of change management and require visible commitment from both parties' top management teams with identifiable sponsors and champions of change. It is critical to involve people with vision, imagination and commitment; to keep these involved and to ensure the project is not damaged by a change in personnel. It is also important to ensure that there is a smooth decision-making process and that, where appropriate, those involved in the supplier development project from both organisations are empowered to make decisions.

Value management, in particular value analysis, is a key part of supplier development. Value analysis can be used to reduce the cost of a product or service without diminishing the operational value; other objectives might include reducing time to market, improving environmental performance or improving quality. Value engineering is another aspect of value management used in supplier development projects and is similar to value analysis but it takes place before a new product is finalized.

Another approach to supplier development is 'Reverse Marketing'; one example of which is where a buying organisation encourages a supplier(s) to enter a new market. This might, for instance, involve the supplier developing its operation or introducing a new range of products.

Pre-Requisites to Supplier Development

Fundamental pre-requisite to supplier development, and indeed the development of any purchasing and supply management strategy, is that purchasing and supply management professionals analyze, evaluate and appreciate their own organization's corporate objectives and business needs. The supplier development projects which are undertaken must be in support of the purchasing and supply management strategy which, in turn, supports the organizational strategy.

Supplier development requires key technical purchasing skills as well as contract management and project management skills. It also demands excellent interpersonal skills as it is an effective way of opening up communication between the buying organisation and the supplier.

Interpersonal skills are necessary in order to "sell" the idea behind the development project both internally with colleagues and to the supplier, and then to work effectively with all those involved irrespective of their status in either organisation. Influencing skills are therefore of fundamental importance.

One of the key interpersonal skills required is empathy i.e. the ability to appreciate others' perspectives. For example, the buying organisation must appreciate the supplier's position and the impact on their business of this development. In some cases, their other customers might perceive that they are being neglected as a consequence of so much resource being channeled into a supplier development programme of another customer, which may also be one of their competitors.

Selecting Suppliers for Development

Studying the supply base and evaluating the extent to which it meets the needs of the organisation. Suppliers of key supplies and services should be rated according to their current performance and their ideal, or preferred, performance as well as compared to other suppliers. This evaluation should also cover the relationship between the two parties e.g. the style of relationship and how this compares to the preferred type of relationship. It is believed that these processes will encourage competition between suppliers especially if it leads to a supplier accreditation such as 'Best of Breed'. It would be ideal if the relationship between these suppliers and the buying organisation was managed on a key account basis i.e. an individual is given responsibility to manage a number of contracts. These suppliers being developed should be encouraged and supported to 'rate' their relationship with the buying organisation and to develop it appropriately.

Before selecting suppliers for development, the purchasing and supply management professional must first have identified a reason and an understanding of why supplier development should be undertaken and what it involves. The selection of suppliers for development should be dependent on:

- Category strategy
- Scale of value/improvement opportunity
- Cost, complexity and duration of value attainment
- Supplier co-operation

There are a number of methodologies for prioritizing which suppliers are most suitable for development including a range of portfolio analysis techniques. I would suggest that a reasonable way to begin would be to identify those products, goods and services which are procured from critical and strategic suppliers and to decide how these should be improved. It may simply be a case of re-sourcing or re-tendering a new contract or moving those goods into another market.

Selecting the best supplier for development may not always be the automatic choice; frequently it is the 'less than best' suppliers which are most appropriate for development. Supplier development is normally undertaken with existing suppliers that can be, and agree to being, improved. The supplier's performance against agreed criteria must be measured in order to identify the scope for development at the outset and, once the development process has started, to monitor and manage improvement.

As supplier development can be a resource-intensive process, it should be undertaken only with selected suppliers. It should only be undertaken with those suppliers from which real business benefit can be derived.

Supplier development can be a one-off project as well as ongoing activity that may take some years to come to fruition. Suppliers can be categorized in respect of supplier development in three ways; they are:

- Being developed
- On hold as a potential for development or
- identified as not being worth the investment of development

Supplier development is a two-way process in that it should be thought of as joint buyer/ supplier development activity.

Supplier Positioning

Some suppliers may be resistant to being developed; this is usually a function of their position in the marketplace and the way in which they perceive, and therefore 'position', the buying organisation. This is why purchasing and supply management professionals embarking on supplier development require excellent interpersonal skills e.g. influencing skills.

Purchasing and supply management professionals should always be aware of the way in which a key supplier positions their buying organisation. Incentives need to be given to suppliers to encourage their commitment to supplier development, such as a reward of shared benefits or 'preferred supplier' status.

In many cases, the development of the supplier will be of benefit to the supplier's other customers, some of which may be the buying organization's competition. This in itself may be an incentive for the supplier to participate in a supplier development project i.e. they can improve relationships with all their customers as a consequence. This may not matter if the development is in terms of improved service, greater quality, value add and management information for instance. However, where for example, the supplier's product has been developed to meet a particular competitive advantage of the buying organisation, the purchasing and supply management professional should consider the implications of this at the outset.

The purchasing and supply management professional should develop a chart along the lines illustrated below which can be used by the buying organisation and the supplier selected for development in order to identify the extent of the development project.

The chart could be as simple or as complex as required; the purpose is to identify what has been agreed in terms of outputs or deliverables; which party is responsible for doing what (ideally with an accountable person identified) and when; and an appropriate apportionment of effort, risk and reward. It is useful to identify the risks in advance and allocate these appropriately. The chart could then be used to monitor progress and manage the project. Equally, a chart could be developed to assist the buying organisation in deciding whether or not a particular supplier should be developed and might comprise a simple yes/no checklist or list of facts to be completed. For example: such a chart might include the level of expenditure (top 20% of expenditure yes/no); level of risk (high/ medium/low) and so on, as deemed appropriate.

14.6 NOTES

14.6. SUMMARY

Strategic Sourcing is a comprehensive process designed to pursue all value levers by leveraging a company's buying power with select suppliers, conducting best price evaluations, sourcing globally and conducting company/supplier joint process improvements.

Outsourcing is a strategy by which an organization contracts out major functions to specialized and efficient service providers, who become valued business partners. Companies have always hired contractors for particular types of work, or to level-off peaks and troughs in thei, workload, and have formed long-term relationships with firms whose capabilities complement or supplement their own.

Supplier development is the process of working with certain suppliers on a one-to-one basis to improve their performance for the benefit of the buying organisation. It is closely associated with supplier relationship management and partnering.

14.7. KEY WORDS

Strategic Sourcing

Process of strategic sourcing

Supplier Market Assessment

Supplier survey

Building the strategy

RFx Request

Outsourcing

Strategic partnership

Outsourcing process

Make Vs Buy

Business Strategy

Supplier Development

Supplier Positioning

14.8. SELF ASSESSMENT QUESTIONS

1. What do you mean by strategic sourcing?

2. Explain the process of strategic sourcing.

3. What is outsourcing? Write a note on why do companies outsource?

4. Discuss the main factors influencing successful outsourcing.

5. Explain the process of outsourcing.

6. Discuss the process of supplier development.

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UNIT 15: SUPPLY CHAIN NETWORK AND DESIGN, DISTRIBUTION STRATEGY

Structure:

15.0 OBJECTIVES

After studying this unit, you should be able to:

- ♦ Explain the meaning of supply chain network
- ♦ Identify four fundamental elements of supply chain network and its design
- ♦ Evaluate the importance of distribution strategy and its elements in network design.

15.1 INTRODUCTION

All organisations have or can purchase the components to build a supply chain network, it is the collection of physical locations, transportation vehicles and supporting systems through which the products and services firm markets are managed and ultimately delivered.

Physical locations included in a supply chain network can be manufacturing plants, storage warehouses, carrier crossdocks, major distribution centres, ports, intermodal terminals whether owned by a company, suppliers, a transport carrier, a third-party logistics provider, a retail store or an end customer. Transportation modes that operate within a supply chain network can include the many different types of trucks, trains for boxcar or intermodal unit movement, container ships or cargo planes.

There are many systems which can be utilised to manage and improve a supply chain network include Order Management Systems, Warehouse Management System, Transportation Management Systems, Strategic Logistics Modeling, Inventory Management Systems, Replenishment Systems, Supply Chain Visibility, Optimization Tools and more. Emerging technologies and standards such as the RFID and the GS1 Global Standards are now making it possible to automate these Supply Chain Networks in a real time manner making them more efficient than the simple supply chain of the past.

15.2 MEANING OF SUPPLY CHAIN NETWORK

A **Supply Chain Network (SCN)** is an evolution of the basic supply chain. Due to rapid technological advancement, organisations with a basic supply chain can develop this chain into a more complex structure involving a higher level of interdependence and connectivity between more organisations, this constitutes a supply chain network.

Businesses are often part of a larger network of organisations, a supply chain networks can be used to highlight interactions between organisations; they can also be used to show the flow of information and materials across organisations. Supply chain networks are now more global than ever and are typically structured with five key areas: external suppliers, production centres, distribution centres (DCs), demand zones, and transportation assets.

A typical Supply chain network for any organisation looks like

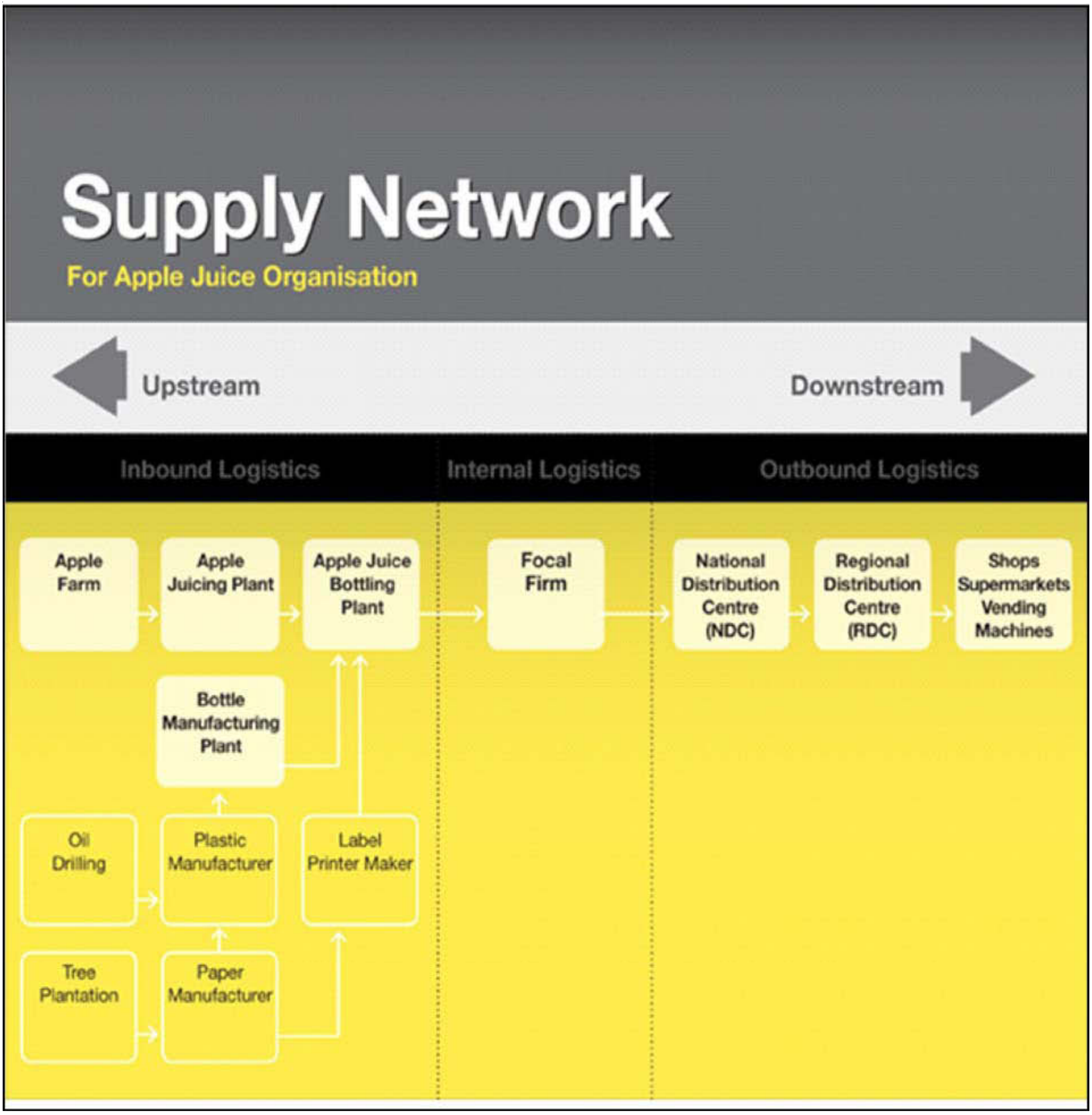

Fig 15.1 Supply Chain Network

15.3 SUPPLY CHAIN NETWORK DESIGN

Designing Supply Chain Network for each industry or business involves arriving at a satisfactory design framework taking into all elements like product, market, process, technology, costs, external environment and factors and their impact besides evaluating alternate scenarios suiting your specific business requirements. No two supply chain designs can be the same. The network design will vary depending upon many factors including location and whether you are looking at national, regional or global business models.

A firm's supply chain allows it to move product from the source to the final point of consumption. Leading firms around the world, from large retailers to high-tech electronics manufacturers, have learned to use their supply chain as a strategic weapon. A supply chain is defined by the suppliers, plants, warehouses, and flows of products from each product's origin to the final customer. The number and locations of these facilities is a critical factor in the success of any supply chain. In fact, some experts suggest that 80% of the costs of the supply chain are locked in with the location of the facilities and the determination of optimal flows of product between them. (This is similar to the notion from manufacturing that you lock in 80% of the cost to make a product with its design.) The most successful companies recognize this and place significant emphasis on strategic planning by determining the best facility locations and product flows.

The discipline used to determine the optimal location and size of facilities and the flow through the facilities is called supply chain network design.

Example 1: often, we hear about firms acquiring or merging with another firm in the same industry to reduce the overall costs to operate both firms. That is, they justify the new combined company by determining that they can deliver the same or more products to the market at an overall lower cost. In firms that make or ship a lot of products, a large portion of the savings comes from the merger of the two supply chains. In such mergers, the savings often come from closing redundant plant and warehouse locations, opening new plants and warehouses, or deciding to use existing facilities to make or distribute different mixes of product. We have heard firms claim resultant supply chain savings from $40 million to $350 million over a period of a couple of years. With these kinds of savings, you can only imagine the pressure placed on the supply chain team to determine the new optimal supply chain structure after an acquisition or merger is announced.

Example 2: Often, a large firm will find that its supply chain no longer serves its business needs. In situations like this, the firm will have to transform its supply chain. It may have to close many facilities, open many new ones, and use facilities in a completely different way. For example, a retail firm may have to redesign their supply chain to serve their stores as well as their new online customer base in a more integrated approach. Or a large retailer may find that some of their product lines have grown significantly and the retailer needs new warehouses to manage this growth. If done right, this type of supply chain transformation can help reduce logistics and inventory costs, better respond to different competitive landscapes, and increase sales and profitability. We have even seen firms highlight this work in their annual reports, therefore showing the importance of this analysis to the firm as a whole.

Example 3: consider a project for a global chemical company to help develop their long-term plan for their supply chain. This study was analyzing where they should locate new plants to serve a global customer base. The long-term project suddenly became extremely short-term when the CEO called the project team to inform them that within six hours they were closing their plant in Egypt due to political unrest. He also indicated there was no timeline for reopening the plant. The CEO immediately needed to know which of the existing plants should produce the products that were currently being manufactured in Egypt and how customer demand was going to be impacted. The team was quickly able to deliver the answers and minimize this supply chain disruption. As seen in this example, supply chain network design models can also be a great tool for identifying risks and creating contingency plans in both the short and long term.

Example 4: As consumer behavior and buying patterns change, firms often want to bring their product to the market through different channels. For example, we worked with a consumer products company that wanted to analyze different channels such as selling through big-box retailers, selling through smaller retailers, selling direct online, and selling through distributors. This firm wanted to analyze different ways to bring their product to market and understand what the supply chain would need to look like for each of these cases. That is, they wanted to determine the optimal number and location of plants and warehouses. This would then be a key piece of information to help them determine their overall strategy.

As you would expect, a network design can answer many types of questions such as:

% How many warehouses should we have, where should they be, how large should they be, what products will they distribute and how will we serve our different types of customers?

% How many plants or manufacturing sites should we have, where should they be, how large should they be, how many production lines should we have and what products should they make, and which warehouses should they service?

% Which products should we make internally and which should we source from outside firms?

% If we source from outside firms, which suppliers should we use?

% What is the trade-off between the number of facilities and overall costs?

% What is the trade-off between the number of facilities and the service level? How much does it cost to improve the service level?

% What is the impact of changes in demand, labor cost, and commodity pricing on the network?

% When should we make product to best manage and plan for seasonality in the business?

% How do we ensure the proper capacity and flexibility within the network? To meet demand growth, do we need to expand our existing plants or build new plants? When do we need to add this capacity?

% How can we reduce the overall supply chain costs?

15.4. FACTORS TO BE CONSIDERED IN NETWORK DESIGN

1. Supply Chain Network in Simple and basic Terms Involves determining following process design:

Procurement

- Where are your suppliers
- How will you procure raw materials and components

Manufacturing

- Where will you locate the factories for manufacturing/assembly
- Manufacturing Methodology

Finished Good

- Where will you hold inventories, Number of Warehouses, Location of warehouses etc.
- How will you distribute to markets - Transportation and Distribution logistics

All above decisions are influenced and driven by Key Driver which is the Customer Fulfillment.

2. Designing Supply Chain Network involves determining and defining following Elements:

- Market Structure
- Demand Plotting or Estimation
- Market Segment
- Procurement Cost

- Product /Conversion Costs
- Logistics Costs including Inventory holding costs
- Over heads
- Cost of Sales

3. Network Design aims to define:

♦ **Best fit Procurement model -** Buying decision and processes- VMI, JIT, Kanban, procurement cost models etc.

♦ **Production processes -** One or more number of plants, plant capacity design, Building to order, build to stock etc, in-house manufacturing or outsource manufacturing and related decisions including technology for production.

♦ **Manufacturing Facility design -** Location, Number of factories, size of unit, time frames for the plant setup project etc.

♦ **Finished Goods Supply Chain network -** Number of warehouses, location & size of warehouses, inventory flow and volume decisions, transportation.

♦ **Sales and Marketing Decisions -** Sales Channel and network strategy, Sales pricing and promotions, order management and fulfillment process, service delivery process definitions.

4. Network Design also examines:

♦ Derives cost estimates for every network element

♦ Examines ways to optimize costs and reduce costs

♦ Extrapolates cost impact over various product lines and all possible permutations and combinations to project profitability

5. Some of the key factors that affect the supply chain network modeling are:

♦ Government Policies of the Country where plants are to be located.

♦ Political climate

♦ Local culture, availability of skilled / unskilled human resources, industrial relations environment, infrastructural support, energy availability etc.

♦ Taxation policies, Incentives, Subsidies etc across proposed plant location as well as tax structures in different market locations.

- Technology infrastructure status.
- Foreign investment policy, Foreign Exchange and repatriation Policy and regulations.

Supply Chain Network designs not only provide an operating framework of the entire business to guide the managements, they also examine the structure from strategic view point taking into account external influences, interdependencies of all processes and critically evaluate opportunities to maximize profitability.

Supply Chain Design consultants use various design softwares and optimization techniques coupled with inputs from industry consultants and experts.

15.5. ROLE OF NETWORK DESIGN IN SUPPLY CHAIN

Supply chain *network design decisions* include the assignment of facility role, location of manufacturing, storage, or transportation-related facilities, and the allocation of capacity and markets to each facility. Supply chain network design decisions are classified as follows.

1. *Facility role:* What role should each facility play? What processes are performed at each facility?

2. *Facility location:* Where should facilities be located?

3. *Capacity allocation:* How much capacity should be allocated to each facility?

4. *Market and supply allocation:* What markets should each facility serve? Which supply sources should feed each facility?

Network design decisions have a significant impact on performance because they determine the supply chain configuration and set constraints within which the other supply chain drivers can be used either to decrease supply chain cost or to increase responsiveness. All network design decisions affect each other and must be made taking this fact into consideration. Decisions concerning the role of each facility are significant because they determine the amount of flexibility the supply chain has in changing the way it meets demand. For example, Toyota has plants located worldwide in each market that it serves. Before 1997, each plant was capable of serving only its local market. This hurt Toyota when the Asian economy went into a recession in the late 1990s. The local plants in Asia had idle capacity that could not be used to serve other markets that were experiencing excess demand. Toyota has added flexibility to each plant to be able to serve markets other than the local one. This additional flexibility helps Toyota deal more effectively with changing global market conditions.

Facility location decisions have a long-term impact on a supply chain's performance because it is very expensive to shut down a facility or move it to a different location. A good location decision can help a supply chain be responsive while keeping its costs low. Toyota, for example, built its first U.S. assembly plant in Lexington, Kentucky, in 1988 and has used the plant since then. The Lexington plant proved very profitable for Toyota when the yen strengthened and cars produced in Japan were too expensive to be cost competitive with cars produced in the United States. The Lexington plant allowed Toyota to be responsive to the U.S. market while keeping costs low.

In contrast, a poorly located facility makes it very difficult for a supply chain to perform close to the efficient frontier. For example,Amazon.com found it very difficult to be cost effective in supplying books throughout the United States when it had a single warehouse in Seattle. As a result, the company has added warehouses in other parts of the country.

Capacity allocation decisions also have a significant impact on supply chain performance. Whereas capacity allocation can be altered more easily than location, capacity decisions do tend to stay in place for several years. Allocating too much capacity to a location results in poor utilization, and as a result, higher costs. Allocating too little capacity results in poor responsiveness if demand is not satisfied or high cost if demand is filled from a distant facility.

The allocation of supply sources and markets to facilities has a significant impact on performance because it affects total production, inventory, and transportation costs incurred by the supply chain to satisfy customer demand. This decision should be reconsidered on a regular basis so that the allocation can be changed as market conditions or plant capacities change. Of course, the allocation of markets and supply sources can only be changed if the facilities are flexible enough to serve different markets and receive supply from different sources. As we mentioned earlier, Amazon.com has built new warehouses and changed the markets supplied by each warehouse as its customer base has grown. As a result, it has lowered costs and improved responsiveness.

Network design decisions must be revisited as a firm grows or when two companies merge. Because of the redundancies and differences in markets served by either of the two separate firms, consolidating some facilities and changing the location and role of others can often help reduce cost and improve responsiveness.

We focus on developing a framework as well as methodologies that can be used for network design in a supply chain. In the next section, we identify various factors that influence network design decisions.

15.6. FRAMEWORK FOR NETWORK DESIGN DECISIONS

The goal when designing a supply chain network is to maximize the firm's profits while satisfying customer needs in terms of demand and responsiveness. To design an effective network a manager must consider all the factors as well as Global network design decisions and are made in four phases.

PHASE 1: Define a Supply Chain Strategy / Design

The objective of the first phase of network design is to define a firm's broad supply chain design. This includes determining the stages in the supply chain, and whether each supply chain function will be performed in-house or outsourced.

Phase I

Starts with a clear definition of the firm's competitive strategy as the set of customer needs that the supply chain aims to satisfy. The supply chain strategy then specifies what capabilities the supply chain network must have to support the competitive strategy. Next, managers must forecast the likely evolution of global competition and whether competitors in each market will be local or global players. Managers must also identify constraints on available capital and whether growth will be accomplished by acquiring existing facilities, building new facilities, or partnering.

PHASE II: Define the Regional Facility ConfigurationS

The objective of the second phase of network design is to identify regions where facilities will be located, their potential roles, and their approximate capacity.

An analysis of Phase II starts with a forecast of the demand by country. Such a forecast must include a measure of the size of the demand as well as a determination of whether the customer requirements are homogenous or variable across different countries. Homogenous requirements favor large consolidated facilities, whereas requirements that vary across countries favor smaller, localized facilities.

The next step is for managers to identify whether economies of scale or scope can play a significant role in reducing costs, given available production technologies. If economies of scale or scope are significant, it may be better to have a few facilities serving many markets. For example, semiconductor manufacturers such as Advanced Micro Devices have very few plants for their global markets, given the economies of scale in production. If economies of scale or scope are not significant, it may be better for each market to have its own facility.

Next, managers must identify demand risk, exchange-rate risk, and political risk associated with different regional markets. They must also identify regional tariffs, any requirements for local production, tax incentives, and any export or import restrictions for each market. The tax and tariff information is used to identify the best location to extract a major share of the profits. In general, it is best to obtain the major share of profits at the location with the lowest tax rate.

Managers must identify competitors in each region and make a case for whether a facility needs to be located close to or far from a competitor's facility. The desired response time for each market and logistics costs at an aggregate level in each region must also be identified.

Based on all this information, managers identify the regional facility configuration for the supply chain network using network design models discussed in the next section. The regional configuration defines the approximate number of facilities in the network, regions where facilities will be set up, and whether a facility will produce all products for a given market or a few products for all markets in the network.

PHASE Ill: Select a Set of Desirable Potential Sites

The objective of Phase III is to select a set of desirable potential sites within each region where facilities are to be located. Sites should be selected based on an analysis of infrastructure availability to support the desired production methodologies. *Hard infrastructure requirements* include the availability of suppliers, transportation services, communication, utilities, and warehousing infrastructure. *Soft infrastructure requirements* include the availability of skilled workforce, workforce turnover, and the community receptivity to business and industry.

PHASE IV: Location Choices

The objective of Phase IV is to select a precise location and capacity allocation for each facility. Attention is restricted to the desirable potential sites selected in Phase III. The network is designed to maximize total profits taking into account the expected margin and demand in each market, various logistics and facility costs, and the taxes and tariffs at each location.

15.7. DISTRIBUTION STRATEGY

Distribution refers to the steps taken to move and store a product from the supplier stage to a customer stage in the supply chain. Distribution occurs between every pair of stages in the supply chain. Raw materials and components are moved from suppliers to manufacturers, whereas finished products are moved from the manufacturer to the end consumer. Distribution is a key driver of the overall profitability of a firm because it affects both the supply chain cost and the customer experience directly.

15.7.1. Factors influencing Distribution Network design

At the highest level, performance of a distribution network should be evaluated along two dimensions:

1. Customer needs that are met

2. Cost of meeting customer needs

Customer Needs

Thus, a firm must evaluate the impact on customer service and cost as it compares different distribution network options. The customer needs that are met influence the company's revenues, which along with cost decide the profitability of the delivery network.

Although customer service consists of many components, we focus on those measures that are influenced by the structure of the distribution network. These include:

- Response time
- Product variety
- Product availability
- Customer experience
- Time to market
- Order visibility
- Return ability

Response time is the amount of time it takes for a customer to receive an order.

Product variety is the number of different products/configurations that are offered by the distribution network.

Product availability is the probability of having a product in stock when a customer order arrives.

Customer experience includes the ease with which customers can place and receive orders as well as the extent to which this experience is customized. It also includes purely experiential aspects, such as the possibility of getting a cup of coffee and the value that the sales staff provides.

Time to market is the time it takes to bring a new product to the market.

Order visibility is the ability of customers to track their orders from placement to delivery.

Return ability is the ease with which a customer can return unsatisfactory merchandise and the ability of the network to handle such returns.

Cost of meeting customer needs

Changing the distribution network design affects the following supply chain costs (notice that these are four of the six supply chain drivers we discussed earlier):

- Inventories
- Transportation
- Facilities and handling
- Information
- Sourcing
- Pricing

To decrease inventory costs, firms try to consolidate and limit the number of facilities in their supply chain network. For example, with fewer facilities, Amazon is able to turn its inventory about 12 times a year, whereas Borders, with about 400 facilities, achieves only about two turns per year.

Inbound transportation costs are the costs incurred in bringing material into a facility. *Outbound transportation costs* are the costs of sending material out of a facility. Outbound transportation costs per unit tend to be higher than inbound costs because inbound lot sizes are typically larger. For example, the Amazon warehouse receives full truckload shipments of books on the inbound side, but ships out small packages with only a few books per customer on the outbound side. Increasing the number of warehouse locations decreases the average outbound distance to the customer and makes outbound transportation distance a smaller fraction of the total distance traveled by the product. Thus, as long as inbound transportation economies of scale are maintained, increasing the number of facilities decreases total transportation cost. If the number of facilities is increased to a point where inbound lot sizes are also very small and result in a significant loss of economies of scale in inbound transportation, increasing the number of facilities increases total transportation cost.

Facility costs decrease as the number of facilities is reduced, because a consolidation of facilities allows a firm to exploit economies of scale. Total logistics costs are the sum of inventory, transportation, and facility costs for a supply chain network. As the number of facilities increases, total logistics costs first decrease and then increase. Each firm should have *at least* the number of facilities that minimize total logistics costs. For example, Amazon has more than one warehouse primarily to reduce its logistics costs (and improve response time).

As a firm wants to reduce the response time to its customers further, it may have to increase the number of facilities beyond the point that minimizes logistics costs. A firm should add facilities beyond the cost-minimizing point only if managers are confident that the increase in revenues because of better responsiveness is greater than the increase in costs because of the additional facilities.

The customer service and cost components listed earlier are the primary measures used to evaluate different delivery network designs. In general, no distribution network will outperform others along all dimensions. Thus, it is important to ensure that the strengths of the distribution network fit with the strategic position of the firm.

15.8. DESIGN OPTIONS FOR A DISTRIBUTION NETWORK

In this section, we discuss distribution network choices from the manufacturer to the end consumer. When considering distribution between any other pair of stages, such as supplier to manufacturer or even a service company serving its customers through a distribution network, many of the same options still apply. Managers must make two key decisions when designing a distribution network.

1. Will product be delivered to the customer location or picked up from a preordained site?
2. Will product flow through an intermediary (or intermediate location)?

Based on the firm's industry and the answers to these two questions, one of six distinct distribution network designs may be used to move products from factory to customer, which are classified as follows:

1. Manufacturer storage with direct shipping
2. Manufacturer storage with direct shipping and in-transit merge
3. Distributor storage with package carrier delivery
4. Distributor storage with last-mile delivery
5. Manufacturer/distributor storage with costumer pickup
6. Retail storage with customer pickup

Next we describe each distribution option and discuss its strengths and weaknesses.

15.8.1. Manufacturer Storage With Direct Shipping

In this option, product is shipped directly from the manufacturer to the end customer, bypassing the retailer (who takes the order and initiates the delivery request). This option is also referred to as drop-shipping, with product delivered directly from the manufacturer to the customer. The retailer, if independent of the manufacturer, carries no inventories. Information flows from the customer, via the retailer, to the manufacturer, and product is shipped directly from the manufacturer to customers. Online retailers such as eBags and Nordstrom.com use drop-shipping to deliver goods to the end consumer. eBags holds few bags in inventory. Nordstrom carries some products in inventory and uses the drop-ship model for slow-moving footwear. W.W. Grainger also uses drop-shipping to deliver slow-moving items to customers.

The biggest advantage of drop-shipping is the ability to centralize inventories at the manufacturer. A manufacturer can aggregate demand across all retailers that it supplies. As a result, the supply chain is able to provide a high level of product availability with lower levels of inventory. A key issue with regard to drop-shipping is the ownership structure of the inventory at the manufacturer. If specified portions of inventory at the manufacturer are allocated to individual retailers, there is little benefit of aggregation even though the inventory is physically aggregated. Benefit of aggregation is achieved only if the manufacturer can allocate at least a portion of the available inventory across retailers on an as-needed basis. The benefits from centralization are highest for highvalue, low-demand items with unpredictable demand. The decision of Nordstrom to drop-ship low-demand shoes satisfies these criteria. Similarly, bags sold by eBags tend to have high value and relatively low demand per SKU. The inventory benefits of aggregation are small for items with predictable demand and low value. Thus, drop-shipping does not offer a significant inventory advantage to an online grocer selling a staple item such as detergent. For slow-moving items, inventory turns can increase by a factor of 6 or higher if drop-shipping is used instead of storage at retail stores.

Drop-shipping also offers the manufacturer the opportunity to postpone customization until after a customer has placed an order. Postponement, if implemented, further lowers inventories by aggregating to the component level. Build-to-order companies such as Dell hold inventories as common components and postpone product customization, thus lowering the level of inventory carried. Although inventory costs are typically low with drop-shipping, transportation costs are high because the average outbound distance to the end consumer is large, and package carriers are used to ship the product. Package carriers have high shipping costs per unit compared to truckload or less-than-truckload carriers. With dropshipping, a customer order including items from several manufacturers will involve multiple shipments to the customer. This loss in aggregation of outbound transportation increases cost.

Supply chains save on the fixed cost of facilities when using drop-shipping because all inventories are centralized at the manufacturer. This eliminates the need for other warehousing space in the supply chain. There can be some savings of handling costs as well, because the transfer from manufacturer to retailer no longer occurs. Handling cost savings must be evaluated carefully, however, because the manufacturer is now required to transfer items to the factory warehouse in full cases and then ship out from the warehouse in single units. The inability of a manufacturer to develop single-unit delivery capabilities can have a significant negative effect on handling cost and response time. Handling costs can be reduced significantly if the manufacturer has the capability to ship orders directly from the production line.

A good information infrastructure is needed between the retailers and the manufacturer so that the retailer can provide product availability information to the customer, even though the inventory is located at the manufacturer. The customer should also have visibility into order processing at the manufacturer, even with the order being placed with the retailer. Drop-shipping generally requires significant investment in information infrastructure. The information infrastructure requirement is somewhat simpler for direct sellers like Dell because two stages (retailer and manufacturer) do not need to be integrated.

Response times tend to be long when drop-shipping is used because the order has to be transmitted from the retailer to the manufacturer and shipping distances are generally longer from the manufacturer's centralized site. eBags, for example, states that order processing may take from one to five days and ground transportation after that may take from three to 11 business days. This implies that customer response time at eBags will be four to 16 days using ground transportation and drop-shipping.

Another issue is that the response time need not be identical for every manufacturer that is part of a customer order. Given an order containing products from several sources, the customer will receive multiple partial shipments over time, making receiving more complicated for the customer.

Manufacturer storage allows a high level of product variety to be available to the customer. With a drop-shipping model, every product at the manufacturer can be made available to the customer without any limits imposed by shelf space. W.W. Grainger is able to offer hundreds of thousands of slow-moving items from thousands of manufacturers using drop-shipping. This would be impossible if each product had to be stored by W.W. Grainger. Drop-shipping allows a new product to be available to the market the day the first unit is produced.

Drop-shipping provides a good customer experience in the form of delivery to the customer location. The experience, however, suffers when a single order containing products from several manufacturers is delivered in partial shipments. Order visibility is very important in the context of manufacturer storage, because two stages in the supply chain are involved in every customer order. Failure to provide this capability is likely to have a significant negative effect on customer satisfaction.

Order tracking, however, becomes harder to implement in a drop-ship system because it requires complete integration of information systems at both the retailer and the manufacturer. For direct sellers such as Dell, order visibility is simpler to provide.

A manufacturer storage network is likely to have difficulty handling returns, hurting customer satisfaction. The handling of returns is more expensive under drop-shipping because each order may involve shipments from more than one manufacturer. There are two ways that returns can be handled. One is for the customer to return the product directly to the manufacturer. The second approach is for the retailer to set up a separate facility (across all manufacturers) to handle returns. The first approach incurs high transportation and coordination costs, whereas the second approach requires investment in a facility to handle returns.

15.8.2. Manufacturer Storage With Direct Shipping and In- transit Merge

Unlike pure drop-shipping, under which each product in the order is sent directly from its manufacturer to the end customer, in-transit merge combines pieces of the order coming from different locations so that the customer gets a single delivery. In-transit merge has been used by direct sellers such as Dell and can be used by companies implementing drop-shipping. When a customer orders a PC from Dell along with a Sony monitor, the package carrier picks up the PC from the Dell factory and the monitor from the Sony factory; it then merges the two together at a hub before making a single delivery to the customer.

As with drop-shipping, the ability to aggregate inventories and postpone product customization is a significant advantage of in-transit merge. In-transit merge allows Dell and Sony to hold all their inventories at the factory. This approach has the greatest benefits for products with high value whose demand is difficult to forecast, particularly if product customization can be postponed. In most cases, transportation costs are lower than with drop-shipping because of the merge that takes place at the carrier hub before delivery to the customer, although an increase in coordination is required. An order with products from three manufacturers thus requires only one delivery to the customer, compared to three that would be required with drop-shipping. Fewer deliveries save transportation cost and simplify receiving.

Facility and processing costs for the manufacturer and the retailer are similar to those for drop-shipping. The party performing the in-transit merge has higher facility costs because of the merge capability required. Receiving costs at the customer are lower because a single delivery is received. Overall supply chain facility and handling costs are somewhat higher than with drop-shipping.

A very sophisticated information infrastructure is needed to allow in-transit merge. In addition to information, operations at the retailer, manufacturers, and the carrier must be coordinated. The investment in information infrastructure is higher than for drop-shipping. Response times, product variety, availability, and time to market are similar to drop-shipping. Response times may be marginally higher because of the need to perform the merge. Customer experience is likely to be better than with drop-shipping, because the customer receives only one delivery for an order instead of many partial shipments. Order visibility is a very important requirement. Although the initial setup is difficult because it requires integration of manufacturer, carrier, and retailer, tracking itself becomes easier given the merge that occurs at the carrier hub. Up to the point of merge, the order from each manufacturer is tracked separately. After that, the order can be tracked as a single unit.

Returnability is similar to that with drop-shipping. Problems in handling returns are very likely, and the reverse supply chain will continue to be expensive and difficult to implement, as with drop-shipping.

The main advantages of in-transit merge over dropshipping are lower transportation cost and improved customer experience.

The major disadvantage is the additional effort during the merge itself. Given its performance characteristics, manufacturer storage with in-transit merge is best suited for low- to medium-demand, high-value items the retailer is sourcing from a limited number of manufacturers. Compared to drop-shipping, in-transit merge requires a higher demand from each manufacturer (not necessarily each product) in order to be effective. When there are too many sources, in-transit merge can be very difficult to coordinate and implement. In-transit merge is best implemented if there are no more than four or five sourcing locations. The in-transit merge of a Dell PC with a Sony monitor is appropriate because product variety is high but there are few sourcing locations with relatively large total demand from each sourcing location.

15.8.3. Distributor Storage with Carrier Delivery

Under this option, inventory is not held by manufacturers at the factories but is held by distributors/retailers in intermediate warehouses, and package carriers are used to transport products from the intermediate location to the final customer. Amazon, as well as industr1al distributors such as W.W. Grainger and McMaster-Carr, has used this approach combined with drop-shipping from a manufacturer (or distributor).

Relative to manufacturer storage, distributor storage requires a higher level of inventory, as the distributor/retailer warehouse generally aggregates demand uncertainty at a lower level than the manufacturer that is able to aggregate demand across all distributors/ retailers. From an inventory perspective, distributor storage makes sense for products with somewhat higher demand. This is seen in the operations of both Amazon and W.W. Grainger. They stock only the medium- to fast-moving items at their warehouses, with slower-moving items stocked farther upstream. In some instances, postponement can be implemented with distributor storage, but it does require that the warehouse develop some assembly capability. Distributor storage, however, requires much less inventory than a retail network. Amazon achieves about 12 turns of inventory annually using warehouse storage, whereas Borders achieves about two turns using retail stores.

Transportation costs are somewhat lower for distributor storage compared to manufacturer storage because an economic mode of transportation (e.g., truckloads) can be employed for inbound shipments to the warehouse, which is closer to the customer.

Unlike manufacturer storage, under which multiple shipments may need to go out for a single customer order with multiple items, distributor storage allows outbound orders to the customer to be bundled into a single shipment, further reducing transportation cost. Distributor storage provides savings on the transportation of faster-moving items relative to manufacturer storage.

Compared to manufacturer storage, facility costs (of warehousing) are somewhat higher with distributor storage because of a loss of aggregation. Processing and handling costs are comparable to manufacturer storage unless the factory is able to ship to the end customer directly from the production line. In that case, distributor storage has higher processing costs. From a facility cost perspective, distributor storage is not appropriate for extremely slow-moving items.

The information infrastructure needed with distributor storage is significantly less complex than that needed with manufacturer storage. The distributor warehouse serves as a buffer between the customer and the manufacturer, decreasing the need to coordinate the two completely. Real-time visibility between customers and the warehouse is needed, whereas real-time visibility between the customer and the manufacturer is not. Visibility between the distributor warehouse and manufacturer can be achieved at a much lower cost than real-time visibility between the customer and manufacturer.

Response time under distributor storage is better than under manufacturer storage because distributor warehouses are, on average, closer to customers and the entire order is aggregated at the warehouse before being shipped. Amazon, for example, processes most warehouse-stored items within a day and then it takes three to seven business days using ground transportation for the order to reach the customer. W.W. Grainger processes customer orders on the same day and has enough warehouses to deliver most orders the next day using ground transport. Warehouse storage limits to some extent the variety of products that can be offered.

W.W. Grainger does notstore very-low-demand items at its warehouse, relying on manufacturers to drop-ship those products to the customer. Customer convenience is high with distributor storage because a single shipment reaches the customer in response to an order. Time to market under distributor storage is somewhat higher than under manufacturer storage because of the need to stock another stage in the supply chain. Order visibility becomes easier than with manufacturer storage because there is a single shipment from the warehouse to the customer and only one stage of the supply chain is involved directly in filling the customer order. Returnability is better than with manufacturer storage because all returns can be processed at the warehouse itself. The customer also has to return only one package, even if the items are from several manufacturers.

15.8.4. Distributor Storage with Last - Mile Delivery

Last-mile delivery refers to the distributor/retailer delivering the product to the customer's home instead of using a package carrier. Webvan, Peapod, and Albertsons have used last-mile delivery in the grocery industry. Companies such as Kozma and Urbanfetch tried to set up home-delivery networks for a variety of products but failed to survive. Unlike package carrier delivery, last-mile delivery requires the distributor warehouse to be much closer to the customer. Given the limited radius that can be served with last-mile delivery, more warehouses are required compared to the case when package delivery is used.

Distributor storage with last-mile delivery requires higher levels of inventory than the other options (except for retail stores) because it has a lower level of aggregation. From an inventory perspective, warehouse storage with last-mile delivery is suitable for relatively fast-moving items for which disaggregation does not lead to a significant increase of inventory. Staple items in the grocery industry fit this description.

Among all the distribution networks, transportation costs are highest for last-mile delivery. This is because package carriers aggregate delivery across many retailers and are able to obtain better economies of scale than are available to a distributor/retailer attempting last-mile delivery. Delivery costs (including transportation and processing) can be about \$30 to \$40 per home delivery in the grocery industry. Last-mile delivery may be somewhat less expensive in large, dense cities. Transportation costs may also be justifiable for bulky products for which the customer is willing to pay for home delivery. Home delivery of water and large bags of rice has proved quite successful in China, where the high population density has helped decrease delivery costs.

Facility and processing costs are very high using this option, given the large number of facilities required. Facility costs are somewhat lower than for a network with retail stores but much higher than for either manufacturer storage or distributor storage with package carrier delivery. Processing costs, however, are much higher than for a network of retail stores because all customer participation is eliminated. A grocery store using last-mile delivery performs all the processing until the product is delivered to the customer's home, unlike a supermarket, where there is much more customer participation.

The information infrastructure with last-mile delivery is similar to that for distributor storage with package carrier delivery. However, it requires the additional capability of scheduling deliveries. Response times are faster than using package carriers. Kozma and Urbanfetch tried to provide same-day delivery, whereas online grocers typically provide next day delivery. Product variety is generally lower than for distributor storage with carrier delivery. The cost of providing product availability is higher than for every option other than retail stores. The customer experience can be very good using this option, particularly for bulky, hard-to-carry items. Time to market is even higher than for distributor storage with package carrier delivery because the new product has to penetrate deeper before it is available to the customer. Order visibility is less of an issue given that deliveries are made within 24 hours. The order-tracking feature does become important to handle exceptions in case of incomplete or undelivered orders. Of all the options discussed, returnability is best with last-mile delivery, because trucks making deliveries can also pick up returns from customers. Returns are still more expensive to handle than at a retail store, where a customer can bring the product back.

15.8.5. Manufacturer or Distributor Storage with Customer Pickup

In this approach, inventory is stored at the manufacturer or distributor warehouse but customers place their orders online or on the phone and then travel to designated pickup points to collect their merchandise. Orders are shipped from the storage site to the pickup points as needed. Examples include 7dream.com, operated by Seven Eleven Japan, which allows customers to pick up online orders at a designated store. A business-to-business (B2B) example is W.W. Grainger, whose customers can pick up their orders at one of the W.W. Grainger retail outlets. In the case of 7dream.com, the order is delivered from a manufacturer or distributor warehouse to the pickup location. In the case of W.W. Grainger, some items are stored at the pickup location, whereas others may come from a central location.

Seven-Eleven has distribution centers where product from manufacturers is cross docked and sent to retail outlets on a daily basis. A retailer delivering an online order can be treated as one of the manufacturers, with deliveries cross-docked and sent to the appropriate Seven-Eleven outlet. Serving as an outlet for online orders allows Seven-Eleven to improve utilization of its exl.sting logistical assets.

Inventory costs using this approach can be kept low, with either manufacturer or distributor storage to exploit aggregation. W.W. Grainger keeps its inventory of fast moving items at pickup locations, whereas slow-moving items are stocked at a central warehouse, or in some cases at the manufacturer.

Transportation cost is lower than for any solution using package carriers because significant aggregation is possible when delivering orders to a pickup site. This allows the use of truckload or less-than-truckload carriers to transport orders to the pickup site. For a company such as Seven-Eleven Japan, the marginal increase in transportation cost is small because trucks are already making deliveries to the stores and their utilization can be improved by including online orders.

Facility costs are high if new pickup sites have to be built. A solution using existing sites can lower the additional facility costs. This, for example, is the case with 7dream.com and W.W. Grainger, for which the stores already exist. Processing costs at the manufacturer or the warehouse are comparable to those of other solutions. Processing costs at the pickup site are high because each order must be matched with a specific customer when he or she arrives. Creating this capability can increase processing costs significantly if appropriate storage and information systems are not provided. Increased processing cost at the pickup site is the biggest hurdle to the success of this approach.

A significant information infrastructure is needed to provide visibility of the order until the customer picks it up. Very good coordination is needed among the retailer, the storage location, and the pickup location.

15.8.6. Retail Storage with Customer Pickup

In this option, often viewed as the most traditional type of supply chain, inventory is stored locally at retail stores. Customers walk into the retail store or place an order online or by phone and pick it up at the retail store. Examples of companies that offer multiple options of order placement include Albertsons, which uses part of the facility as a grocery store and part of the facility as an online fulfillment center. Customers can walk into the store or order online. A B2B example is W.W. Grainger: Customers can order online, by phone, or in person and pick up their order at one of W.W. Grainger's retail outlets. Albertsons keeps its inventory at the pickup location itself. W.W. Grainger stores some items at the pickup locations whereas others may come from a central location.

Local storage increases inventory costs because of the lack of aggregation. For very fast-moving items, however, there is marginal increase in inventory even with local storage. Albertsons uses local storage because most of its products are relatively fast moving and are stocked at the supermarket in any case. Similarly, W.W. Grainger keeps its inventory of fast-moving items at pickup locations, whereas slow-moving items are stocked at a central warehouse.

Transportation cost is much lower than with other solutions because inexpensive modes of transport can be used to replenish product at the retail store. Facility costs are high because many local facilities are required. A minimal information infrastructure is needed if customers walk into the store and place orders. For online orders, however, a significant information infrastructure is needed to provide visibility of the order until the customer picks it up.

Very good response times can be achieved with this system because of local storage. For example, both Albertsons and W.W. Grainger offer same-day pickup from their retail locations. Product variety stored locally is lower than under other options. It is more expensive than with all other options to provide a high level of product availability.

Customer experience depends on whether the customer likes to shop or not. Time to market is the highest with this option because the new product has to penetrate through the entire supply chain before it is available to customers. Order visibility is extremely important for customer pickups when orders are placed online or by phone. Returns can be handled at the pickup site. Overall, returnability is fairly good using this option.

15.9 NOTES

15.10. SUMMARY

Network design decisions include identifying facility roles, locations, and capacities as well as allocating markets to be served by different facilities. These decisions define the physical constraints within which the network must be operated as market conditions change. Good network design decisions increases supply chain profits, whereas poor network design hurts profits.

Broadly speaking, network design decisions are influenced by strategic, technological, macroeconomic, political, infrastructure, competitive, and operational factors.

The goal of network design is to maximize the supply chain's long-term profitability. The process starts by defining the supply chain strategy, which must be aligned with the competitive strategy of the firm. The supply chain strategy, regional demand, costs, infrastructure, and the competitive environment are used to define a regional facility configuration. For regions where facilities are to be located, potentially attractive sites are then selected based on available infrastructure. The optimal configuration is determined from the potential sites using demand, logistics cost, factor costs, and margins in different markets.

A manager must consider the customer needs to be met and the cost of meeting these needs when designing the distribution network. Some key customer needs to be considered include response time, product variety/availability, convenience, order visibility, and returnability. Important costs that managers must consider include inventories, transportation, facilities and handling, and information. Increasing the number of facilities decreases the response time and transportation cost but increases inventory and facility cost.

Distribution networks that ship directly to the customer are better suited for a large variety of high-value products that have low and uncertain demand. These networks carry low levels of inventory but incur high transportation cost and provide a slow response time. Distribution networks that carry local inventory are suitable for products with high demand, especially if transportation is a large fraction of total cost. These networks incur higher inventory cost but lower transportation cost and provide a faster response time.

15.11. KEY WORDS

Supply chain network

Supply chain network design

Market Structure

Demand Plotting or Estimation

Market Segment

Procurement Cost

Product /Conversion Costs

Logistics Costs including Inventory holding costs

Over heads

Cost of Sales

Response time

Product variety

Product availability

Customer experience

Time to market

Order visibility

Returnability

Inventories

Transportation

Facilities and handling

Information

Sourcing

Inbound transportation

Outbound Transportation

15.12. SELF ASSESSMENT QUESTIONS

1. What is the meaning of Supply chain network? Write a note on Supply chain network design
2. Discuss Factors to be considered in network design.
3. Explain the Role of Network Design in Supply Chain. Add a note on Framework for network design decisions

4. What do you mean by Distribution Strategy?

5. Explain the Factors influencing Distribution Network design

6. Discuss the Design options for a distribution Network.

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UNIT - 16 : PLANNING DEMAND, INVENTORY AND SUPPLY IN SUPPLY CHAIN

Structure:

16.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain the meaning of demand planning
- Identify steps in demand planning.
- Evaluate characteristics of demand forecasting.
- Understand components and methods of demand forecasting.
- Understand basic approach to demand forecasting..
- Manage supply and required inventory and its importance in supply chain.

16.1 INTRODUCTION

Imagine a world in which manufacturing, transportation, warehousing, and even information capacity are all limitless and free. Imagine lead times of zero, allowing goods to be produced and delivered instantaneously. In this world, there would be no need to plan anticipation of demand, because whenever a customer demands a product, the demand would be instantly satisfied. In this world, aggregate planning plays no role.

In the real world, however, capacity has a cost, and lead times are often long. Therefore, companies must make decisions regarding capacity levels, production levels, outsourcing, and promotions well before demand is known. A company must anticipate demand and determine, in advance of that demand, how to meet it. Should a company invest in a plant with large capacity that is able to produce enough to satisfy demand even in the busiest months? Or should a company build a smaller plant but incur the costs of holding inventory built during slow periods in anticipation of demand in later months?

These are the types of questions that aggregate planning helps companies answer. *Aggregate planning* is a process by which a company determines ideal levels of capacity, production, subcontracting, inventory, stock outs, and even pricing over a specified time horizon. The goal of aggregate planning is to satisfy demand while maximizing profit. Aggregate planning, as the name suggests, solves problems involving aggregate decisions rather than stock-keeping unit (SKU)-level decisions. For example, aggregate planning determines the total production level in a plant for a given month, but it does so without determining the quantity of each individual SKU that will be produced. This level of detail makes aggregate planning a useful tool for thinking about decisions with an intermediate time frame of between roughly 3 and 18 months. In this time frame, it is too early to determine production levels by SKU, but it is also generally too late to arrange for additional capacity.

Therefore, aggregate planning answers the question, "How should a firm best utilize the facilities that it currently has?"

Demand forecasts form the basis of all supply chain planning. Consider the push/pull view of the supply chain. All push processes in the supply chain are performed in anticipation of customer demand, whereas all pull processes are performed in response to customer demand. For push processes, a manager must plan the level of activity, be it production, transportation, or any other planned activity. For pull processes, manager must plan the level of available capacity and inventory but not - the actual amount to be executed. In both instances, the first step a manager must take is to forecast what customer demand will be.

16.2 MEANING OF DEMAND PLANNING

Demand planning is a multi-step operational supply chain management (SCM) process used to create reliable forecasts. Effective demand planning can guide users to improve the accuracy of revenue forecasts, align inventory levels with peaks and troughs in demand, and enhance profitability for a given channel or product.

16.3 STEPS IN DEMAND PLANNING

The approach begins with a statistical forecast. Data sources for the forecast include planned sales orders, customer contracts and intercompany standing orders. The final forecast is shared with key stakeholders, such as suppliers.

Key steps in demand planning include:

- Importing historical sales data
- Creating statistical forecasts
- Importing customer forecasts
- Collaborating with customers
- Managing forecasts
- Building consensus forecasts
- Supply and demand collaboration
- Securing constrained forecasts
- Confirmation with customers
- Reexamining data and adjusting planning accordingly.

16.4 CHARACTERISTICS OF DEMAND FORECASTING

Companies and supply chain managers should be aware of the following characteristics of forecasts.

1. Forecasts are always wrong and should thus include both the expected value of the forecast and a measure of forecast error. To understand the importance of forecast error, consider two car dealers. One of them expects sales to range between 100 and 1,900 units, whereas the other expects sales to range between 900 and 1,100 units. Even though both dealers anticipate average sales of 1,000, the sourcing policies for each dealer should be very different given the difference in forecast accuracy. Thus, the forecast error (or demand uncertainty) must be a key input into most supply chain decisions. Unfortunately, most firms do not maintain any estimate of forecast error.

2. Long-term forecasts are usually less accurate than short-term forecasts; that is, long term forecasts have a larger standard deviation of error relative to the mean than short-term forecasts. Seven-Eleven Japan has exploited this key property to improve its performance. The company has instituted a replenishment process that enables it to respond to an order within hours. For example, if a store manager places an order by 10 A.M., the order is delivered by 7 P.M. the same day. Therefore, the manager only has to forecast what will sell that night less than 12 hours before the actual sale. The short lead time allows a manager to take into account current information, such as the weather, which could affect product sales. This forecast is likely to be more accurate than if the store manager had to forecast demand one week in advance.

3. Aggregate forecasts are usually more accurate than disaggregate forecasts, as they tend to have a smaller standard deviation of error relative to the mean. For example, it is easy to forecast the Gross Domestic Product (GDP) of the United States for a given year with less than a 2 percent error. However, it is much more difficult to forecast yearly revenue for a company with less than a 2 percent error, and it is eve harder to forecast revenue for a given product with the same degree of accuracy. The key difference among the three forecasts is the degree of aggregation. The GDP is an aggregation across many companies and the earnings of a company are an aggregation across several product lines. The greater the aggregation, the more accurate is the forecast.

4. In general, the farther up the supply chain a company is (or the farther it is from the consumer), the greater is the distortion of information it receives. One classic example of this is the bullwhip effect, in which order variation is amplified as orders move farther from the end customer. As a result, the farther up the supply chain an enterprise is, the larger is the

forecast error. Collaborative forecasting based on sales to the end customer helps upstream enterprises reduce forecast error.

16.5. COMPONENTS OF DEMAND FORECASTING

A company must be knowledgeable about numerous factors that are related to the demand forecast. Some of these factors are listed here.

- Past demand
- Lead time of product
- Planned advertising or marketing efforts
- State of the economy
- Planned price discounts
- Actions that competitors have taken

A company must understand such factors before it can select an appropriate forecasting methodology. For example, historically a firm may have experienced low demand for chicken noodle soup in July and high demand in December and January. If the firm decides to discount the product in July, the situation is likely to change, with some of the future demand shifting to the month of July. The firm should make its forecast taking this factor into consideration.

16.6. DEMAND FORECASTING METHODS

Forecasting methods are classified according to the following four types.

1. *Qualitative:* Qualitative forecasting methods are primarily subjective and rely on human judgment. They are most appropriate when little historical data is available or when experts have market intelligence that may affect the forecast. Such methods may also be necessary to forecast demand several years into the future in a new industry.

2. *Time series:* Time-series forecasting methods use historical demand to make a forecast. They are based on the assumption that past demand history is a good indicator of future demand. These methods are most appropriate when the basic demand pattern does not vary significantly from one year to the next. These are the simplest methods to implement and can serve as a good starting point for a demand forecast.

3. *Causal:* Causal forecasting methods assume that the demand forecast is highly correlated with certain factors in the environment (the state of the economy, interest rates, etc.). Causal forecasting methods find this correlation between demand and environmental factors and use estimates of what environmental factors will be to forecast future demand. For example, product pricing is strongly correlated with demand. Companies can thus use causal methods to determine the impact of price promotions on demand.

4. ***Simulation:*** Simulation forecasting methods imitate the consumer choices that give rise to demand to arrive at a forecast. Using simulation, a firm can combine time-series and causal methods to answer such questions as: What will be the impact of a price promotion? What will be the impact of a competitor opening a store nearby Airlines simulate customer buying behavior to forecast demand for higher-fare seats when there are no seats available at the lower fares.

A company may find it difficult to decide which method is most appropriate for forecasting. In fact, several studies have indicated that using multiple forecasting methods to create a combined forecast is more effective than using any one method alone.

16.7. BASIC APPROACH TO DEMAND FORECASTING

The following basic, six-step approach helps an organization perform effective forecasting.

1. Understand the objective of forecasting.
2. Integrate demand planning and forecasting throughout the supply chain.
3. Understand and identify customer segments.
4. Identify the major factors that influence the demand forecast.
5. Determine the appropriate forecasting technique.
6. Establish performance and error measures for the forecast.

Understanding the Objective of Forecasting

Every forecast supports decisions that are based on the forecast, so an important first step is to identify these decisions clearly. Examples of such decisions include how much of a particular product to make, how much to inventory, and how much to order. All parties affected by a supply chain decision should be aware of the link between the decision and the forecast. For example, Wal-Mart's plans to discount detergent during the month of July must be shared with the manufacturer, the transporter, and others involved in filling demand, as they all must make decisions that are affected by the forecast of demand. All parties should come up with a common forecast for the promotion and a shared plan of action based on the forecast. Failure to make these decisions jointly may result in either too much or too little product in various stages of the supply chain.

Intergrate Demand Planning and Forecasting Throughout the Supply Chain

A company should link its forecast to all planning activities throughout the supply chain. These include capacity planning, production planning, promotion planning, and purchasing, among others. This link should exist at both the information system and the human resources management level. As a variety of functions are affected by the outcomes of the planning process, it is important that all of them are integrated into the forecasting process. In one unfortunately common scenario, a retailer develops forecasts based on promotional activities, whereas a manufacturer, unaware of these promotions, develops a different forecast for its production planning based on historical orders. This leads to a mismatch between supply and demand, resulting in poor customer service.

To accomplish this integration, it is a good idea for a firm to have a cross-functional team, with members from each affected function responsible for forecasting demand and an even better idea is to have members of different companies in the supply chain working together to create a forecast.

Understand and Identify Customer Segments

A firm must identify the customer segments the supply chain serves. Customers may be grouped by similarities in service requirements, demand volumes, order frequency, demand volatility, seasonality, and so forth. In general, companies may use different forecasting methods for different segments. A clear understanding of the customer segments facilitates an accurate and simplified approach to forecasting.

Identify Major Factors that influence the Demand Forecast

Next, a firm must identify demand, supply, and product-related phenomena that influence the demand forecast. On the demand side, a company must ascertain whether demand is growing, declining, or has a seasonal pattern. These estimates must be based on demand-not sales data. For example, a supermarket promoted a certain brand of cereal in July 2005. As a result, the demand for this cereal was high while the demand for other, comparable cereal brands was low in July. The supermarket should not use the sales data from 2005 to estimate that demand for this brand will be high in July 2006, because this will occur only if the same brand is promoted again in July 2006 and other brands respond as they did the previous year. When making the demand forecast, the supermarket must understand what the demand would have been in the absence of promotion activity and how demand is affected by promotions and competitor actions. A combination of these pieces of information will allow the supermarket to forecast demand for July 2006 given the promotion activity planned for that year.

On the supply side, a company must consider the available supply sources to decide on the accuracy of the forecast desired. If alternate supply sources with short lead times are available, a highly accurate forecast may not be especially important. However, if only a single supplier with a long lead time is available, an accurate forecast will have great value.

On the product side, a firm must know the number of variants of a product being sold and whether these variants substitute for or complement each other. If demand for a product influences or is influenced by demand for another product, the two forecasts are best made jointly. For example, when a firm introduces an improved version of an existing product, it is likely that the demand for the existing product will decline because new customers will buy the improved version. Although the decline in demand for the original product is not indicated by historical data, the historical demand is still useful in that it allows the firm to estimate the combined total demand for the two versions clearly; demand for the two products should be forecast jointly.

Determine the Appropriate Forecasting Technique

In selecting an appropriate forecasting technique, a company should first understand the dimensions that are relevant to the forecast. These dimensions include geographic area, product groups, and customer groups. The company should understand the differences in demand along each dimension and will likely want different forecasts and techniques for each dimension. At this stage, a firm selects an appropriate forecasting method from among the four methods discussed earlier—qualitative, time-series, causal, or simulation. As mentioned earlier, using a combination of these methods is often most effective.

Establish Performance and Error Measures for the Forecast

Companies should establish clear performance measures to evaluate the accuracy and timeliness of the forecast. These measures should be highly correlated with the objectives of the business decisions based on these forecasts. For example, consider a mail-order company that uses a forecast to place orders with its suppliers up the supply chain. Suppliers take two months to send in the orders. The mail-order company must ensure that the forecast is created at least two months before the start of the sales season because of the two-month lead time for replenishment. At the end of the sales season, the company must compare actual demand to forecasted demand to estimate the accuracy of the forecast. Then plans for decreasing future forecast errors or responding to the observed forecast errors can be put into place.

16.8. MANAGING SUPPLY

Often companies divide the task of supply and demand management into different functions. Marketing typically manages demand, while Operations manages supply. At a higher level, supply chains suffer from this phenomenon as well, with retailers managing demand independently and manufacturers managing supply independently. Lack of coordination hurts supply chain profits when supply and demand management decisions are made independently. Therefore, supply chain partners must work together across enterprises to coordinate these decisions and maximize profitability. First, we focus on actions that a supply chain can take to improve profitability by managing supply.

A firm can vary supply of product by controlling a combination of the following two factors:

1. Production capacity

2. Inventory

The objective is to maximize profit, which, for our discussion, is the difference between revenue generated from sales and the total cost associated with material, capacity, and inventory. In general, companies use a combination of varying capacity and inventory to manage supply. In the following, we list some specific approaches to managing capacity and inventory with the goal of maximizing profits.

16.8.1 Managing Capacity

In managing capacity to meet predictable variability, firms use a combination of the following approaches.

• *Time flexibility from workforce:* In this approach, a firm uses flexible work hours by the workforce to manage capacity to better meet demand. In many instances, plants do not operate continually and are left idle during portions of the day or week. Therefore, spare plant capacity exists in the form of hours when the plant is not operational. For example, many plants do not run three shifts, so the existing workforce could work overtime during peak periods to produce more to meet demand. The overtime is varied to match the fluctuation in demand. This system allows production from the plant to match demand from customers more closely. If demand fluctuates by day of the week or week of the month and the workforce is willing to be flexible, a firm may schedule the workforce so that the available capacity matches demand better. In such settings, use of a part-time workforce may further increase capacity flexibility by enabling the firm to put more people to work during peak periods. Telemarketing centers and banks use part-time workers extensively to match supply and demand better.

• *Use of seasonal workforce:* In this approach, a firm uses a temporary workforce during the peak season to increase capacity to match demand. The tourism industry often uses seasonal workers. A base of full-time employees exists, and more are hired only for the peak season. Toyota regularly uses seasonal workforce in Japan to match supply and demand better. This approach, however, may be hard to sustain if the labor market is tight.

• *Use of subcontracting:* In this approach, a firm subcontracts peak production so that internal production remains level and can be done cheaply. With the subcontractor handling the peaks, the company is able to build a relatively inflexible but low-cost facility in which production rates are kept relatively constant (other than variations from the use of overtime). Peaks are subcontracted out to facilities that are more flexible. A key here is the availability of relatively flexible subcontractor capacity. The subcontractor can often provide flexibility at a lower cost by pooling the fluctuations in demand across different manufacturers. Thus the flexible subcontractor capacity must have both volume (fluctuating demand from a manufacturer) as well as variety flexibility (demand from several manufacturers) to be sustainable. For example, most power companies do not have the capacity to supply their customers with all the electricity demanded on peak days. They instead rely on being able to purchase power from suppliers and subcontractors who have excess electricity. This allows the power companies to maintain a level supply and, consequently, a lower cost.

• *Use of dual facilities-specialized and flexible:* In this approach, a firm builds both specialized and flexible facilities. Specialized facilities produce a relatively stable output of products over time in a very efficient manner. Flexible facilities produce a widely varying volume and variety of products but at a higher unit cost. For instance, a PC components manufacturer might have specialized facilities for each type of circuit board as well as a flexible facility that can manufacture all types of circuit boards. Each specialized facility can produce at a relatively steady rate, with fluctuations being absorbed by the flexible facility.

• *Designing product flexibility into the production processes:* In this approach, a firm has flexible production lines whose production rate can easily be varied. Production is then changed to match demand. Hino Trucks in Japan has several production lines for different product families. The production lines are designed so that changing the number of workers on a line can vary the production rate. As long as variation of demand across different product lines is complementary (i.e., when one goes up, the other tends to go down), the capacity on each line can be varied by moving the workforce from one line to another. Of course, this requires that the workforce be multi skilled and adapt easily to being moved from line to line. Production flexibility can also be achieved if the production machinery is flexible and can be changed easily from producing one product to producing another. This approach is effective only if the overall demand across all the products is relatively constant. Several firms that produce products with seasonal demand try to exploit this approach by carrying a portfolio of products that have peak demand seasons distributed over the year. A classic example is that of a lawn mower manufacturer that also manufactures snow blowers to maintain a steady demand on its factory throughout the year. In the services field, an example comes from strategy consulting firms, which often offer a balanced product portfolio, with growth strategies emphasized when economic times are good and cost-cutting projects emphasized when times are bad.

16.9 MANAGING INVENTORY

When managing inventory to meet predictable variability, firms use a combination of the following approaches.

• ***Using common components across multiple products:*** In this approach, a firm designs common components to be used in multiple products. The total demand of these components is relatively stable, even though each product displays predictable variability.

For example, the use of a common engine for both lawn mowers and snow blowers allows for engine demand to be relatively stable even though lawn mower and snow blower demand fluctuates over the year. Therefore, the part of the supply chain that produces components can easily synchronize supply with demand, and a relatively low inventory of parts has to be built up. Similarly, in a consulting firm, many of the same consultants produce growth strategies when they are in demand and produce cost reduction strategies when these are in demand.

• ***Build inventory of high-demand or predictable-demand products:*** When most of the products a firm produces have the same peak demand season, the previous approach is not feasible. In such an environment, it is best for the firm to build products that have more predictable demand during the off-season, because there is less to be learned about their demand by waiting. Production of more uncertain items should ta ke place closer to the selling season, when demand is more predictable. As an example, consider a manufacturer of winter jackets that produces jackets both for retail sale and for the Boston Police and Fire Departments. Demand for the Boston Police and Fire jackets is more predictable, and these jackets can be made in the off-season and stocked up until winter. The retail jacket's demand, however, will likely be better known closer to the time when it is sold, because fashion trends can change quickly. Therefore, the manufacturer should produce the retail jackets close to the peak season, when demand is easier to predict. This strategy helps the supply chain synchronize supply and demand better.

16.10 NOTES

16.11 SUMMARY

Demand planning is best used to determine capacity, production, and inventory decisions for each period of time over a range of three to 18 months. It is most important to perform aggregate planning when capacity is limited and lead times are long.

Demand planning has a significant impact on supply chain performance and must be viewed as an activity that involves all supply chain partners. An aggregate plan prepared by an enterprise in isolation is not very useful because it does not take into account all requirements of the customer stage and constraints from the supplier stage. Localized aggregate planning cannot do a good job of matching supply and demand. Good aggregate planning is done in collaboration with both customers and suppliers because accurate input is required from both stages. The quality of these inputs, in terms of both the demand forecast to be met and the constraints to be dealt with, determines the quality of the aggregate plan. The results of the aggregate plan must also be shared across the supply chain because they influence activities at both customers and suppliers. For suppliers, the aggregate plan determines anticipated orders; whereas for customers, the aggregate plan determines planned supply.

To manage supply with the goal of maximizing profit, companies must manage their capacity through the use of workforce flexibility, subcontracting, dual facilities, and product flexibility. Companies must also manage supply through the use of inventory by emphasizing common parts and building and holding products with predictable demand ahead of time. These methodologies, combined with aggregate planning, enable a company to manage supply effectively.

Cycle inventory generally equals half the lot size. Therefore, as the lot size grows, so does the cycle inventory. In deciding on the optimal amount of cycle inventory, the supply chain goal is to minimize the total cost-the order cost, holding cost, and material cost. As cycle inventory increases, so does the holding cost. However, the order cost and, in some instances, the material cost decrease with an increase in lot size and cycle inventory. The EOQ balances the three costs to obtain the optimal lot size. The higher the order and transportation cost, the higher the lot size and cycle inventory.

16.12 KEY WORDS

Stock Keeping Units (SKU)

Demand Planning

Historical Sales Data

Demand forecasting

Aggregate forecasts

Past demand

Lead time of product

Time-series forecasting

Qualitative forecasting

Causal Forecasting

Simulation forecasting

Managing Supply

Managing Capacity

Managing Inventory

16.13 SELF ASSESSMENT QUESTIONS

1. What is the Meaning of Demand planning?
2. Explain the Steps in demand Planning
3. Discuss the Characteristics of demand forecasting
4. What are the Components of demand forecasting?
5. Explain Demand Forecasting Methods with suitable examples.
6. Discuss the steps involved in Basic Approach to Demand Forecasting
7. Write brief note on Managing Supply
8. What do you mean by Managing inventory? Add a note on its importance in supply chain.

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MODULE-V
SUPPLY CHAIN MANAGEMENT

UNIT 17: SUPPLY CHAIN INTEGRATION & SUPPLY CHAIN PROCESS

Structure:

17.0 OBJECTIVES

After studying this unit, you will be able to:

- Define SCM integration & describe strategies involved in SCM integration
- Evaluate the concept of Building partnership and trust in Supply chain.
- Have a knowledge of Supply chain restructuring.
- Have knowledge of Supply chain process.

17.1 INTRODUCTION

The main objective of the supply chain concept is to integrate and synchronize the service requirements of the consumer/customer with the flow of materials from suppliers in such a way that any conflicting or contradictory situation rising can be balanced out. These conflicts could be like, high customer service, low inventory investment and low operating cost. These have to be balanced or optimized, and therefore, various models have been proposed over the years in order to integrate the SCM systems, for example Stevens Model (1989), which proposes a balance in the supply chain involving functional trade-off. Supply chain management revolves around efficient integration of suppliers, manufacturers, warehouses and stores. The main challenge being coordination of the activities within the chain and across it for improved performance, reduced costs, increased service level, reduced bullwhip effect, resource utilization, and effective response to market changes. Companies have realized over a period of time that integrating the front-end of supply chain, customer requirements/demands, to the back-end of the supply chain, the production and manufacturing portions requires management of material and information flows to be viewed from three perspectives:

- Strategic
- Tactical
- Operational.

At each of these levels, there has to be utmost coordination and harmonization between the finance, information, material, facilities, people and the system as a whole.

17.2 SUPPLY CHAIN INTEGRATION

Supply chain integration can be defined as collaboration within a supply chain, mostly with the application of shared management information systems. A supply chain is made from all parties that participate in the completion of a purchase, like the resources, raw materials, manufacturing of the product, shipping of completed products and facilitating services.

There are different levels of supply chain integration. We will understand this with the help of an example of a computer manufacturing company. The initial step in integration shall include choosing precise merchants to supply certain inputs and ensuring compliance for them for supplying certain amount of inputs within the year at a set cost.

This assures that the company has the appropriate materials required to produce the expected output of computers during the year. In the meanwhile, this computer company may sign a bond with a large supplier of circuit boards; the bond expects it to deliver a precise quantity at precise times within a year and fix a price that will be effective during the bond year.

If we move to a higher level, the next step would be to integrate the companies more closely. The circuit board supplier may construct a plant close to the assembly plant and may also share production software. Hence, the circuit board company would be able to see how many boards are required in the upcoming month and can construct them in time, as the company requires them in order to meet its sales demand.

Further higher level is referred as vertical integration. This level starts when the supply chain of a company is actually owned by the company itself. Here, a computer company may buy the circuit board company just to ensure a devoted supply of elements.

Push System

In a push-based supply chain, the goods are pushed with the help of a medium, from the source point, e.g., the production site, to the retailer, e.g., the destination site. The production level is set in accordance with the previous ordering patterns by the manufacturer.

A push-based supply chain is time consuming when it has to respond to fluctuations in demand, which can result in overstocking or bottlenecks and delays, unacceptable service levels and product obsolescence.

This system is based on the deliberation of customer's demand. It tries to push as many products into the market as possible. As a result, the production is time consuming because the producer and the retailer struggle to react to the changes in the market. Forecast or prediction plays an important role in the push system.

Optimum level of products can be produced through long term prediction. This deliberative nature of the push system leads to high production cost, high inventory cost as well as high shipment cost due to the company's desire to halt products at every stage.

Thus, in the push view of supply chain integration, the manager of a firm may sometimes fail to satisfy or cope with the fluctuating demand pattern. This system leads to high inventory and high size of batches.

Here, the companies focus more on minimizing the cost of supply chain and neglect the responsiveness. This system models challenges along with demand management and transportation management.

Pull System

The pull-based supply chain is based on demand-driven techniques; the procurement, production and distribution are demand-driven rather than predicting. This system doesn't always follow the make-to-order production. For example, Toyota Motors Manufacturing produces products yet do not religiously produce to order. They follow the supermarket model.

According to this model, limited inventory is kept and piled up as it is consumed. Talking about Toyota, Kanban cards are used to hint at the requirement of piling up inventory.

In this system, the demand is real and the company responds to the customer demands. It assists the company in producing the exact amount of products demanded by the clients.

The major drawback in this system is that in case the demand exceeds than the amount of products manufactured, then the company fails to meet the customer demand, which in turn leads to loss of opportunity cost.

Basically in the pull system, the total time allotted for manufacturing of products is not sufficient. The production unit and distribution unit of the company rely on the demand. From this point of view, we can say that the company has a reactive supply chain.

Thus, it has less inventories as well as variability. It minimizes the lead time in the complete process. The biggest drawback in pull based supply chain integration is that it can't minimize the price by ranking up the production and operations.

Push & Pull System

Mostly we find a supply chain as merger of both push and pull systems, where the medium between the stages of the push-based and the pull-based systems is referred as the push–pull boundary.

The terms push and pull were framed in logistics and supply chain management, but these terms are broadly used in the field of marketing as well as in the hotel distribution business.

Fig 17.1 PushVs Pull

To present an example, Wal-Mart implements the push vs. pull strategy. A push and pull system in business represents the shipment of a product or information between two subjects. Generally, the consumers use pull system in the markets for the goods or information they demand for their requirements whereas the merchants or suppliers use the push system towards the consumers.

In supply chains, all the levels or stages function actively for the push and the pull system. The production in push system depends on the demand predicted and production in pull system depends on absolute or consumed demand.

The medium between these two levels is referred as the push–pull boundary or decoupling point. Generally, this strategy is recommended for products where uncertainty in demand is high. Further, economies of scale play a crucial role in minimizing production and/or delivery costs.

For example, the furniture industries use the push and pull strategy. Here the production unit uses the pull-based strategy because it is impossible to make production decisions on the basis on long term prediction. Meanwhile, the distribution unit needs to enjoy the benefits of economy of scale so that the shipment cost can be reduced; thus it uses a push-based strategy.

17.3 BUILDING PARTNERSHIP AND TRUST IN SUPPLY CHAIN

Two stages of a supply chain have a trust based relationship when there exists dependability of the two stages and the ability of each stage to make a leap of faith**.** Trust means a belief that each stage is interested in the welfare of the other stage and would not take any actions without considering their impact on the other stage. Cooperation and trust within a supply chain can help improve supply chain performance for the following reasons.

i. A better alignment of incentives and objectives is achieved. Supply chain stages having mutual trust are more likely to keep in mind the other party's objectives when taking decisions.

ii. It would be easier to implement action oriented levels to achieve coordination. Parties that trust each other share information without any problem. Also, improvements in operations can be easily implemented and pricing strategies can be designed easily when both parties focus on common good.

iii. Productivity of supply chain would increase due to elimination of duplication of efforts or by allocation of effort to the appropriate stage.

iv. A greater share of detailed sales and production information results and this sharing allow the supply chain to coordinate production and distribution decisions. As a result, the supply chain is better able to match supply and demand resulting in better coordination.

Historically, supply chain relationships have been based either on power or mutual trust. In a power-based relationship the stronger participant dictates its view to others. Exploiting power may seem to be beneficial in the short-term, but has negative consequences in the long-term. The reasons are:

i. When power is exploited by one stage of the supply chain, it usually uses power to minimize its profits at the expense of other stages resulting in decreased total supply chain profits.

ii. One firm in the supply chain may extract unfair concessions from the other firm and this may prove disadvantages to the firm once the balance of power changes.

iii. When a firm exploits its power advantage, other stages in the supply chain may resist the same. For example, if retailers try to exploit their power by seeking more concessions from manufacturers, then manufactures may ignore the retailers and directly access the customer to sell their products (e.g., selling through internet or setting up company showrooms and sales offices for direct selling). This results in a reduction in supply chain profits because different stages compete with each other rather than cooperating.

Two views regarding how cooperation and trust can be built into any supply chain relationship are;

i. **View Based on Deterrence**: In this view, a variety of formal contracts are used by the parties involved to ensure cooperation. In such cases, parties honor the contract and behave in a trusting manner for their own interest.

ii. **View Based on Process**: In this view, trust and cooperation are built over a period of time as a result of a series of interactions between the parties involved. The belief in the cooperation of the other party is strengthened by positive interactions between the parties.

In practice, neither view can hold exclusively because

(i) It is impossible to design a contract which will take into account every contingency that may arise in the future,

(ii) Parties that trust each other and have a long relationship still rely on legal contracts.

Hence in most effective supply chain partnerships a combination of the two approaches is used. In the initial period of supply chain relationships, both parties rely more on deterrence-based view and over a period of time, the relationship may evolve toward a greater reliance on process-based view.

Co- identification in which each party considers the other party's objective as its own is the ideal goal from the perspective of supply chain. Co-identification ensures maximization of total supply chain profits while making decisions.

Achieving Coordination in Practice

The following ideas should be considered by supply chain managers to focus attention on coordination and to facilitate the use of a managerial level to achieve coordination;

i. Quantify the bullwhip effect

ii. Obtain top management commitment for coordination

iii. Devote resources to coordination

iv. Focus on communication with other stages

v. Try to achieve coordination in the entire supply chain network

vi. Use technology to improve connectivity in the supply chain

vii. Share the benefits of coordination equitably

17.4 SUPPLY CHAIN RESTRUCTURING

Restructuring of the supply chain needs to be viewed as a process of fundamental rejuvenation throughout the company. The fundamental proposition is that doing things better is necessary, but not sufficient. It is essential to do better things! Successful restructuring requires a critical understanding of

1. The forces and constraints for change - the WHY?
2. The paradigm shift required - the WHAT?
3. The implementation process - the HOW?
4. The problems awaiting solution - WHAT IS NEXT?

Forces and Constraints for Change (Why?)

Forces, both internal to the organization and external, mandate fundamental changes in business operations. Constraints, on the other hand, act to either prohibit or limit the restructuring that is undertaken. Together, the forces and constraints constitute the WHY for supply chain restructuring. From all fronts, the forces for change are expected to increase, not decrease, in intensity in the future. Companies need to understand the dynamic forces precipitating change, as well as how constraints are transformed over time, -for forces and constraints both external and internal to the organization.

1. *External forces and constraints* stem from the environment specific to an entire industry, or to a particular firm within an industry. They include economic, social, and political forces and constraints as well as technological thrusts which impact on all players in an industry. Also included are these same forces as they uniquely impact on a particular firm with its individual set of strengths and weaknesses, both human and physical. For example, economic forces and constraints include actions by competitors, market place dictates for shorter product life cycles, world-wide competition, requirements for improved product features and prices, the demand for smaller lot sizes, the dictates imposed by the trade in consumer products and the competitive might of other firms who have undergone successful restructuring.

2. *Internal forces* for change include any mismatch between the strengths required to compete successfully and the existing inventory of company strengths, a restatement of the overall mission and concomitant strategy for a business unit, or an initiative stimulated by some perceived need for performance improvement. To illustrate, cost structure can be a primary internal force for restructuring. Many firms have great dissatisfaction with their cost structures.

3. *Internal constraints* include all the forms of resistance to change that include behavior, cultural, technical, financial, etc. Inertia is a major internal constraint against restructuring. Overcoming inertia -that is, surmounting the inherent mismatch between the present deployment of the enterprise resources and the issues of most importance - is a significant constraint in most companies.

The Paradigm Shift (What?)

Successful restructuring requires a well thought out set of objectives. That is, WHAT is the purpose of restructuring and how will the company be different as a result? The paradigm shift can be conceptualized as encompassing three distinct (but related) dimensions:

1. *Culture* includes the broadest, most enduring (and most difficult to change) aspects of business. Existing culture directs and constrains restructuring efforts. Changes in culture are major shifts in the driving forces of a manufacturing company. Included are changes in strategy, mission, fundamental objectives, values held, philosophy and basic policies. Examples encompass shifting from a cost-driven company to one where high quality, time-based competition, shorter product life cycles, partnerships, etc.

2. *Configuration* relates to both organizational designs and relationships, and to physical/geographical distributions of people, capital and equipment. Configuration change also includes transforming the definition of the basic tasks or charters of each of the supply chain activity. Inside the factory, configuration changes include regrouping of machines into cells, significant new methods of manufacturing, and major redeployments of overhead personnel. Restructuring typically results in new designs and arrangements with partners.

3. *Coordination* refers to management and control within the business system itself. Restructuring normally requires new flows of information and materials -as well as new sets of managerial responsibilities (Oliff, Arpan and DuBois, 1989).

The foundation for restructuring rests on three fundamental resources: people, technology, and information. Restructuring the supply chain can then be defined as:

The process of changing significantly anyone or more of the three dimensions (culture, configuration, coordination), through the deployment (or redeployment) of any of the three resources (people, technology, information).

In most cases, restructuring involves all three. People perform different jobs, utilizing new technology, coordinated with new information systems.

1. *People deployment* is at the heart of most restructuring projects, with the nature of jobs and responsibilities changing fundamentally. Examples include the elimination of managerial layers, replacement of pyramid organizations with flat or network organizations, mobilizing people to undertake new initiatives, and the continuing absorption of what has traditionally been 'staff' work into the basic supply chain infrastructure.

2. *Technology deployment* for restructuring often involves a major shift in fundamental supply chain methods and equipment. Examples include flexible machining systems (FMS), e-procurement options, and the transfer of technology from one firm to another. Introduction and successful implementation of these major advances in technology require significant change in the culture of the company.

3. *Information deployment* includes both the development/introduction of new management information systems (MIS) and the obsolescence of existing systems. For example, enterprise resource planning (ERP) systems mandate increase integration among key corporate activities, including order entry, manufacturing and distribution within the firm. External linkages using electronic data interchange (EDI) systems and/or the Internet have required firms to determine what business channels will need to be supported.

Thus, there is a very close interlinking relationship between the six elements and numerous forces, as depicted in following picture.

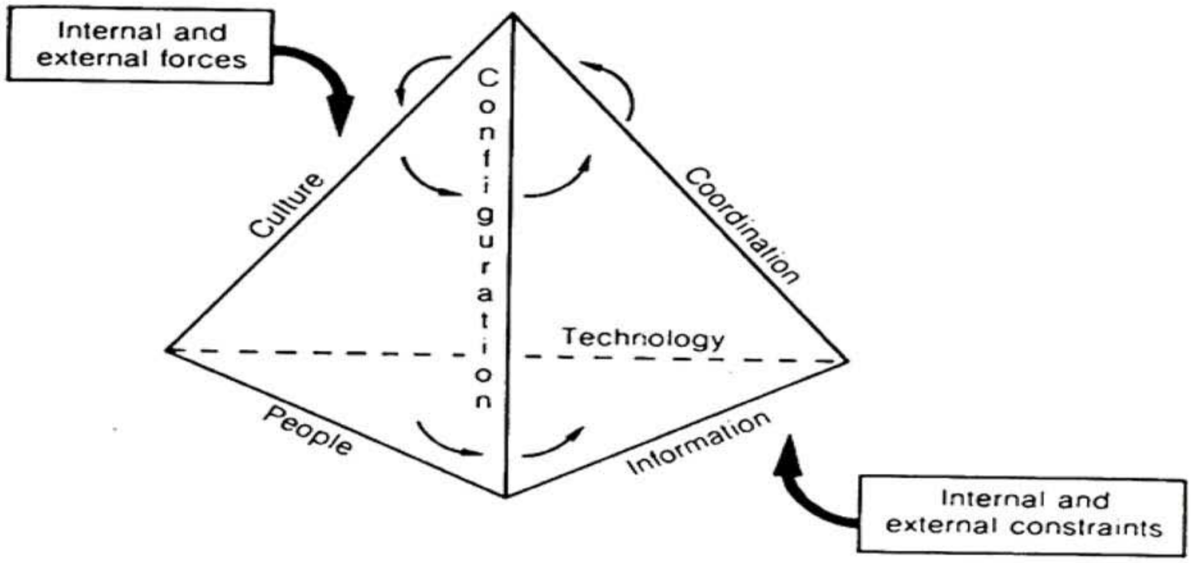

Fig 17.2 Restructuring Elements

The Implementation Process (How?)

Fundamental changes must be achieved in culture, configuration, and/or coordination by the redeployment of the three resources: people, technology and information. Defining the desired new configuration and the new coordination to be achieved in restructuring is more straightforward than defining the new culture that is to be achieved. But what is fundamentally more difficult is determining the set of steps required to achieve the desired result, i.e. the HOW of responding to the forces, recognizing the genuine constraints, and achieving the desired paradigm shift.

1. *Top-down* implementation efforts are typically directed by senior management. Included are: the decision to restructure, usually based on a careful analysis of the forces and constraints; the overall objectives and approach for the restructuring, perhaps based on scenarios of various actions and competitive responses; an inclusive plan which is *not* simply an overall goal statement or wish list without adequate attention given to the detailed action steps required; and personal leadership to achieve the desired results and timing.

2. *Bottom-up* implementation energies are typically required from a large number of people, in most cases the more the better. Also required is a set of key managers who will lead the implementation process. The changes required in restructuring are usually fundamental. If cultural change is necessary, the new culture can be adopted more quickly if everyone is a part of the implementation process.

Approaches to restructuring vary widely. Some firms utilize consultants essentially to serve as 'hatchet men'. Others do the entire job internally. More frequently, some middle ground is found where advice is give by consultants based on seeing other companies undertake similar responses to similar forces.

It is important not to frame the restructuring project minimally. To often this is the case -the project is defined to have the smallest possible impact on the labor force, culture, configuration and coordination. The frequent result is that it becomes necessary to undertake still another major restructuring project, with a combined impact that is far more serious for morale and culture. The approach needs to be based on the long-term competitive posture required, and the changes required to make it a reality.

Invariably, restructuring will require the learning of new values, skill and practices, and the unlearning of old beliefs. For this reason, virtually every restructuring project has to include education and training. In many successful restructuring projects, education and training has, played a major role for the company in the adoption of the new culture. The emphasis is often formally on the issues of configuration and coordination, but the bottom line is culture.

Project teams play a key role in most restructuring undertakings when formal organizational barriers are broken. Education on the fundamental forces and constraints, as well as the paradigm shift (in clearly understandable terminology) is required in order to create a bandwagon effect. It is critical that the organization both understands and *believes* in its definition of the forces and constraints and its paradigm shift. Too often the paradigm shift is stated as some lofty goal associated with 'getting closer to the customer', but the organization sees it as only cost-reduction and head-count reduction.

Evaluation of a restructuring program is a major challenge. The measures of effectiveness for restructuring are often not focused on what is truly important: the ability of the new business entity to compete. All too frequently, the goal is to shed *X* people or Y dollars of cost by the end of some period Z, or to create a better set of financial statements by next year. While recognizing the primacy of financial measures under certain conditions, the short-run orientation of many companies comes at their long-run expense.

It is difficult to tell whether the results achieved are truly successful, mediocre, or poor, or if short-term results are being achieved at the expense of long- run health. Moreover, it is necessary to take into account the continuing impact of changing forces. Frequently, restructuring requires a new system for performance measurement in the company (Dixon, Nanni and Vollmann, 1990).

A View to the Future (What is Next?)

Restructuring activities need to be clearly bounded to be tractable. What is to be included or accomplished? It also needs to have a definition of what is and is not to be included. But the what is next question must also be asked. Too often restructuring is viewed as a one-time adjustment rather than a continuing process. As a particular restructuring effort is taking place, it is important always to be evaluating the next steps. To the extent that this viewpoint can be proactive, it may well help avoid the painful reactive mode of restructuring.

17.5 SUPPLY CHAIN PROCESS

Supply chain management is a process used by companies to ensure that their supply chain is efficient and cost-effective. A supply chain is the collection of steps that a company takes to transform raw materials into a final product. The five basic components of supply chain management are discussed below "

Plan

The initial stage of the supply chain process is the planning stage. We need to develop a plan or strategy in order to address how the products and services will satisfy the demands and necessities of the customers. In this stage, the planning should mainly focus on designing a strategy that yields maximum profit.

For managing all the resources required for designing products and providing services, a strategy has to be designed by the companies. Supply chain management mainly focuses on planning and developing a set of metrics.

Develop(Source)

After planning, the next step involves developing or sourcing. In this stage, we mainly concentrate on building a strong relationship with suppliers of the raw materials required for production. This involves not only identifying dependable suppliers but also determining different planning methods for shipping, delivery, and payment of the product.

Companies need to select suppliers to deliver the items and services they require to develop their product. So in this stage, the supply chain managers need to construct a set of pricing, delivery and payment processes with suppliers and also create the metrics for controlling and improving the relationships.

Finally, the supply chain managers can combine all these processes for handling their goods and services inventory. This handling comprises receiving and examining shipments, transferring them to the manufacturing facilities and authorizing supplier payments.

Make

The third step in the supply chain management process is the manufacturing or making of products that were demanded by the customer. In this stage, the products are designed, produced, tested, packaged, and synchronized for delivery.

Here, the task of the supply chain manager is to schedule all the activities required for manufacturing, testing, packaging and preparation for delivery. This stage is considered as the most metric-intensive unit of the supply chain, where firms can gauge the quality levels, production output and worker productivity.

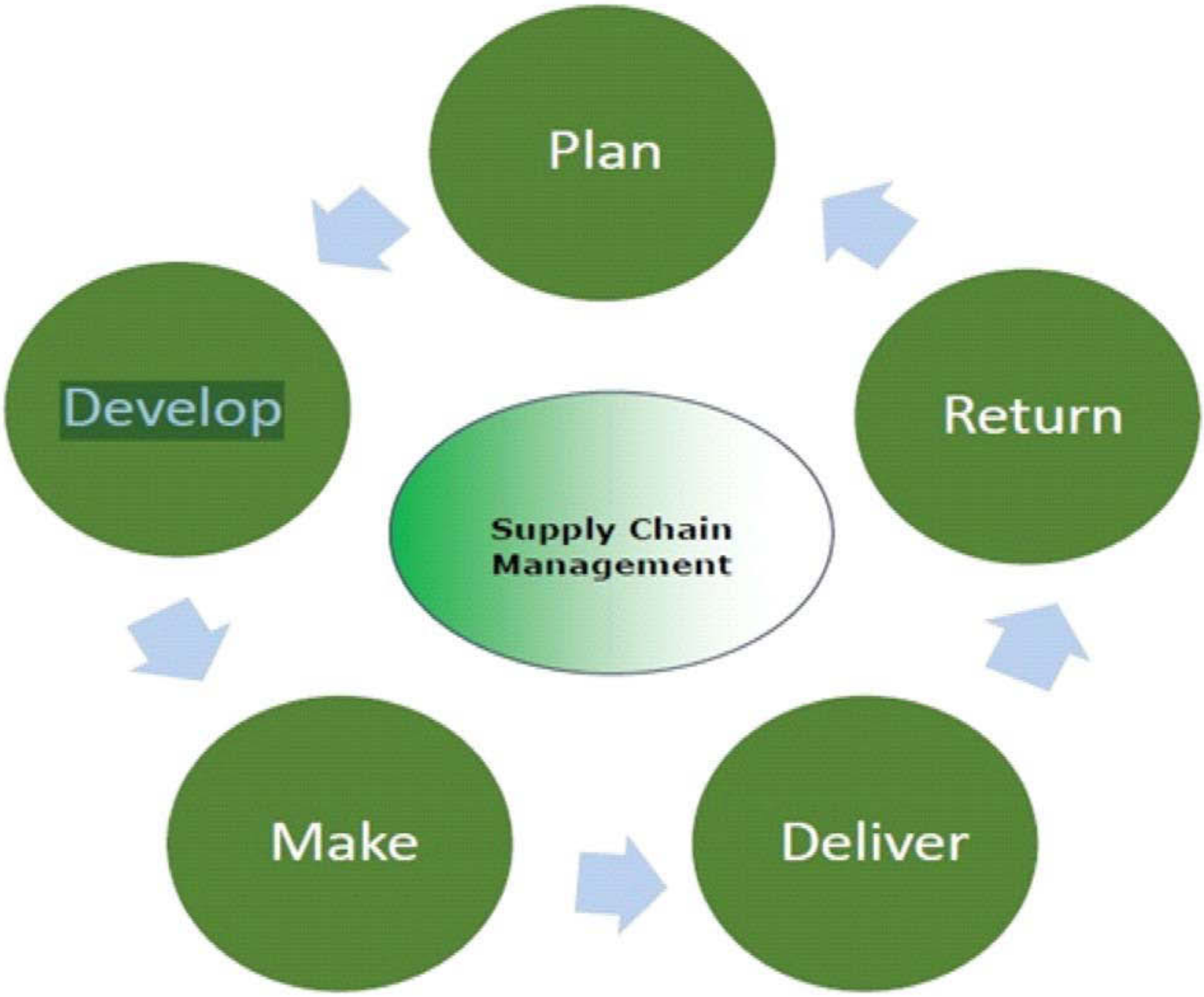

Fig 17.3 Supply Chain Process

Deliver

The fourth stage is the delivery stage. Here the products are delivered to the customer at the destined location by the supplier. This stage is basically the logistics phase, where customer orders are accepted and delivery of the goods is planned. The delivery stage is often referred as logistics, where firms collaborate for the receipt of orders from customers, establish a network of warehouses, pick carriers to deliver products to customers and set up an invoicing system to receive payments.

Return

The last and final stage of supply chain management is referred as the return. In the stage, defective or damaged goods are returned to the supplier by the customer. Here, the companies need to deal with customer queries and respond to their complaints etc.

This stage often tends to be a problematic section of the supply chain for many companies. The planners of supply chain need to discover a responsive and flexible network for accepting damaged, defective and extra products back from their customers and facilitating the return process for customers who have issues with delivered products.

Supply Chain Management - Process Flow

Types

There are three different types of flow in supply chain management "

- Material/Goods flow
- Information/Data flow
- Cash/Money flow

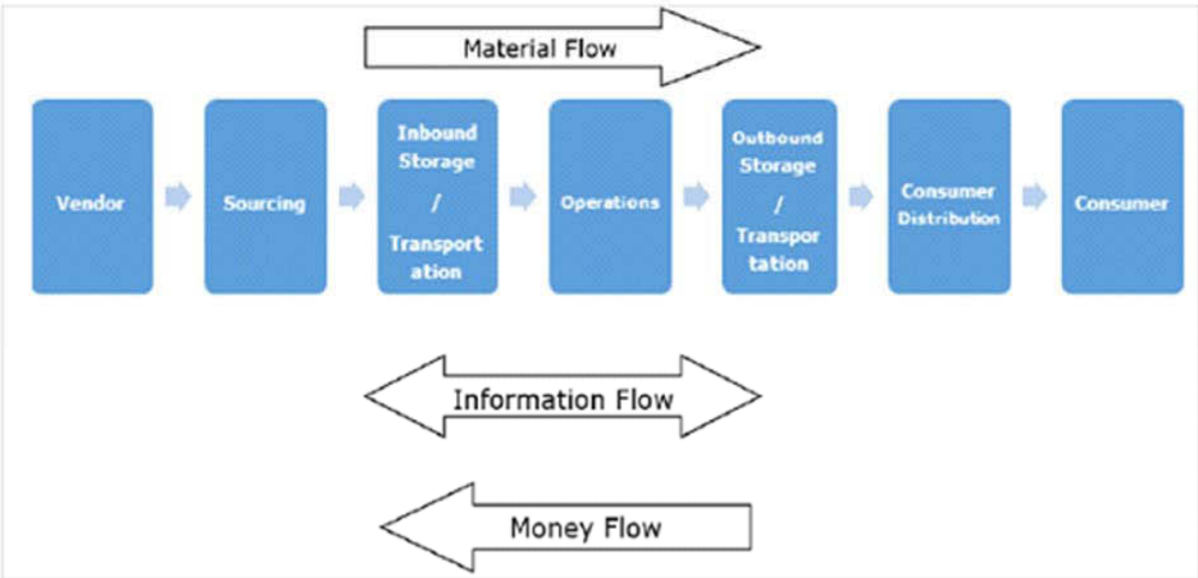

Fig 17.4 SCM FLOW

Let us consider each of these flows in detail and also see how effectively they are applicable to Indian companies.

Material /Goods Flow

Material flow includes a smooth flow of an item from the producer to the consumer. This is possible through various warehouses among distributors, dealers and retailers.

The main challenge we face is in ensuring that the material flows as inventory quickly without any stoppage through different points in the chain. The quicker it moves, the better it is for the enterprise, as it minimizes the cash cycle.

The item can also flow from the consumer to the producer for any kind of repairs, or exchange for an end of life material. Finally, completed goods flow from customers to their consumers through different agencies. A process known as 3PL is in place in this scenario. There is also an internal flow within the customer company.

Information/Data Flow

Information/data flow comprises the request for quotation, purchase order, monthly schedules, engineering change requests, quality complaints and reports on supplier performance from customer side to the supplier.

From the producer's side to the consumer's side, the information flow consists of the presentation of the company, offer, confirmation of purchase order, reports on action taken on deviation, dispatch details, report on inventory, invoices, etc.

For a successful supply chain, regular interaction is necessary between the producer and the consumer. In many instances, we can see that other partners like distributors, dealers, retailers, logistic service providers participate in the information network.

In addition to this, several departments at the producer and consumer side are also a part of the information loop. Here we need to note that the internal information flow with the customer for in-house manufacture is different.

Money/Cash Flow

On the basis of the invoice raised by the producer, the clients examine the order for correctness. If the claims are correct, money flows from the clients to the respective producer. Flow of money is also observed from the producer side to the clients in the form of debit notes.

In short, to achieve an efficient and effective supply chain, it is essential to manage all three flows properly with minimal efforts. It is a difficult task for a supply chain manager to identify which information is critical for decision-making. Therefore, he or she would prefer to have the visibility of all flows on the click of a button.

After understanding the basic flows involved in the supply chain management, we need to consider the different elements present in this flow. Thus, the different components of the flow of supply chain are described below.

17.6 NOTES

17.7 SUMMARY

In this unit we have focused on the concepts like supply chain integration. You have learnt about building partnership and trust in supply chain. You have discussed the supply chain restructuring and concepts of Goods flow, information and cash flow in Supply chain process.

17.8 KEY WORDS

1. Supply chain Integration
2. Supply chain restructuring
3. Supply chain management process
4. Goods flow
5. Information flow
6. Money flow

17.9 SELF-ASSESSMENT QUESTIONS

1. Explain the concept of supply chain integration
2. Explain push-pull model with relevant examples.
3. How to Build Strategic Partnership and trust within a supply Chain?
4. How do you link goods flow, information flow and cash flow in SC integration?

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UNIT 18: INFORMATION TECHNOLOGY IN SUPPLY CHAIN

Structure:

18.0 OBJECTIVES

After studying this unit, you will be able :

- To appreciate the role of IT in supply chain.
- To explain information and technology in integrated supply chain .
- To familiarize with the Information Technology and their applications in Supply Chain Management.

18.1 INTRODUCTION

One has to manage the future. Managing the future means managing information. In order to deliver quality information to the decision-maker at the right time and in order to automate the process of data collection, collation and refinement, organizations have to make Information Technology an ally, harness its full potential and use it in the best possible way.

Information technology is revolutionizing the way, in which we live and work. It is changing all aspects of our life style. The digital revolution has given mankind the ability to treat information with mathematical precision, to transmit it with high accuracy and to manipulate it at will. These capabilities are bringing into being, a whole world within and around the physical world. The amount of calculation power that is available to mankind is increasing at an exceptional rate. Computers and communication are becoming integral parts of our lives.

IT has a major role to play in any organization. All organizations have certain objectives and goals to achieve. For any organization to succeed, all business units should work towards this common goal. But each department or business function in the organization will have its own goals and procedures. The success of an organization rests in resolving the conflicts between the various business functions and making them do what is good for the organization as a whole. For this, information is critical. Everybody should know what is happening in other parts of the organization.

IT has a major role to play both at the organizational level and at the departmental level. At the organizational level, IT should assist in specifying the objectives and strategies of the organization. IT should also aid in developing and supporting, and procedures to achieve them. At the departmental level, IT must ensure a smooth flow of information across departments, and should guide organization to adopt the most viable business practices. At this level, IT ensures seamless flow of information across the different departments and develops and maintains an enterprise – wide database. This database will eliminate the need of the isolated data islands that existed and in each department and make the organization's data accessible across the departmental boundaries. This enterprise– wide sharing has many benefits likes automation of procedures, availability of high quality information for better decision-making and faster response times.

18.2 INFORMATION AND TECHNOLOGY IN INTEGRATED SUPPLY CHAIN

The supply chain management is concerned with the flow of products and information between the supply chain members that encompasses all of those organizations such as suppliers, producers, service providers and customers. These organizations linked together to acquire, purchase, convert/manufacture, assemble, and distribute goods and

services, from suppliers to the ultimate and users.

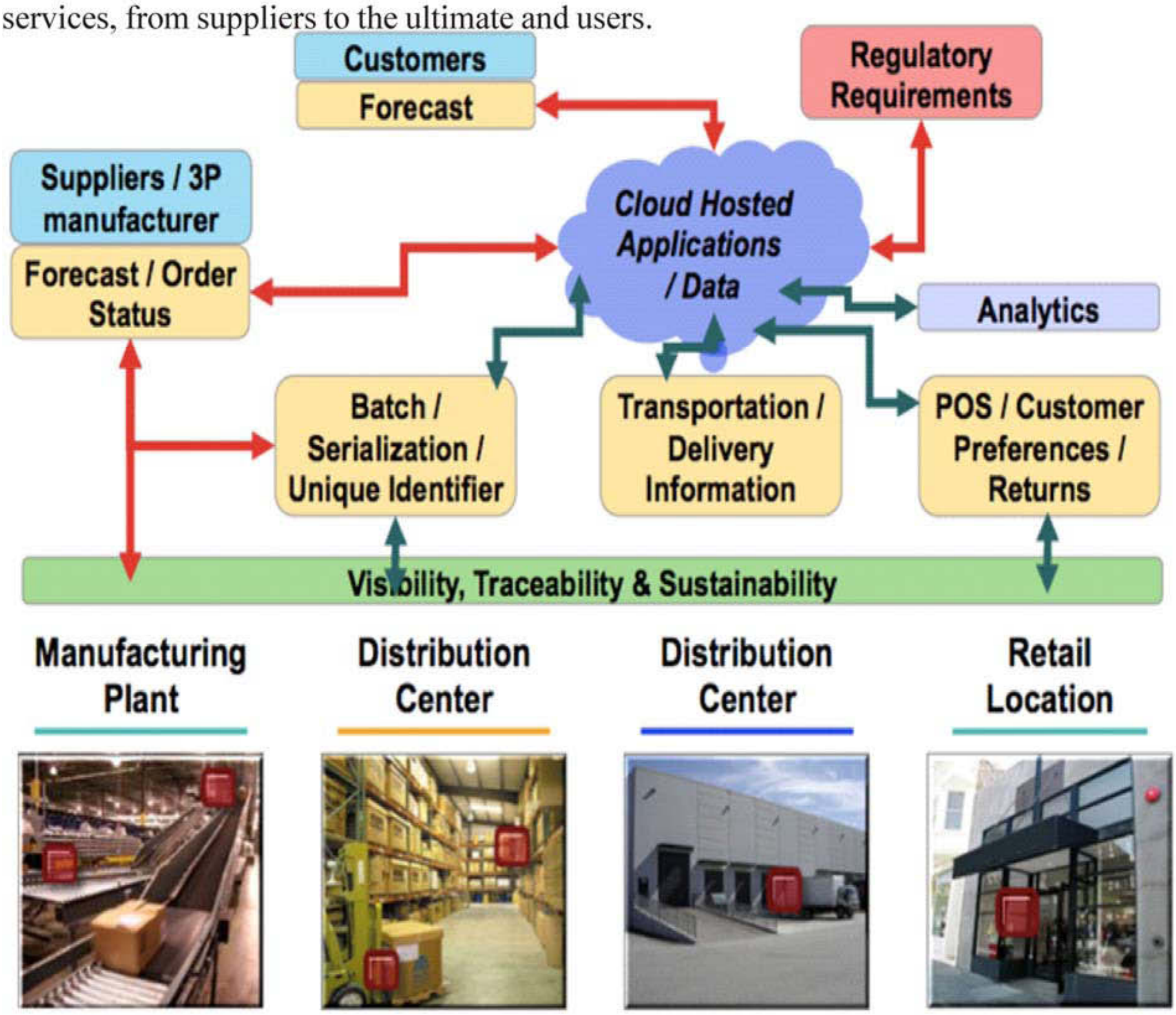

Fig 18.1 Information and Technology in integrated Supply Chain

By 1980, the information revolution was well accepted in the world's advanced economics. During this period, many standard business processes and functions such as customer order processing, inventory management, and purchasing were altered through the use of computer technology. These technologies and capabilities began to grow exponentially since 1985, providing means for multiple organizations to coordinate their activities in an effort to truly manage a supply chain.

Today, information and technology must be conceived of broadly to encompass the information that businesses create and use as well as a wide spectrum of increasingly convergent and linked technologies that process the information with the emergence of the personal computer, optical fiber networks, the explosion of the Internet and the world wide web. The cost and availability of information resources allow easy linkages and eliminate information-related time delays in any supply chain network. This means that organizations are moving toward a concept known as Electronic Commerce, where transactions are completed via a variety of electronic media, including electronic data interchange (EDI), electronic funds transfer (EFT), bar codes, fax, automated voice mail, CD-ROM catalogs, and a variety of others. The old "paper" type transactions are becoming increasingly obsolete. Leading-edge organizations no longer require paper purchase requisitions; purchase orders, invoices, receiving forms, and manual accounts payable "matching" process. All required information is recorded electronically, and associated transactions are performed with the minimum amount of human intervention. Recent developments in database structures allowed part numbers to be accumulated, coded, and stored in databases, and electronically ordered. With the application of the appropriate information systems, the need to constantly monitor inventory levels, place orders, and expedite orders will soon become a thing of the past.

18.3 ROLE OF IT SUPPLY CHAIN MANAGEMENT

Companies that opt to participate in supply chain management initiatives accept a specific role to enact. They have a mutual feeling that they, along with all other supply chain participants, will be better off because of this collaborative effort. The fundamental issue here is power. The last two decades have seen the shifting of power from manufacturers to retailers.

When we talk about information access for the supply chain, retailers have an essential designation. They emerge to the position of prominence with the help of technologies. The advancement of inter organizational information system for the supply chain has three distinct benefits. These are "

♦ **Cost reduction** ” The advancement of technology has further led to ready availability of all the products with different offers and discounts. This leads to reduction of costs of products.

♦ **Productivity** ” The growth of information technology has improved productivity because of inventions of new tools and software. That makes productivity much easier and less time consuming.

♦ **Improvement and product/market strategies** ” Recent years have seen a huge growth in not only the technologies but the market itself. New strategies are made to allure customers and new ideas are being experimented for improving the product.

` It would be appropriate to say that information technology is a vital organ of supply chain management. With the advancement of technologies, new products are being introduced within fraction of seconds increasing their demand in the market. Let us study the role of information technology in supply chain management briefly.

18.4 INFORMATION AND TECHNOLOGY APPLICATIONS FOR SCM

Many innovations on technology-based approaches are well suited to the enhancement of supply chain management, including Just-in-Time, Quick Response, Efficient Consumer Response, and Continuous Replenishment – all rely heavily on the information made available through the latest technological advances. In the development and maintenance of the supply chain's information systems, both hardware and software must be addressed. Hardware includes computers, input/output devices, and storage media. Software includes all of the system and application programs used for processing transactions, management control, decision-making, and strategic planning. A few examples of software titles that address some aspect of supply chain management are presented below:

1) Base Rate, Carrier Select, and Match Pay (Version 2.0) developed by Distribution Sciences, Inc., with which users can compute freight costs, compare transportation mode rates, analyze cost and service effectiveness of carriers, and audit and pay freight bills;

2) A new software program developed by Ross Systems, Inc., called Supply Chain Planning is an integrated suite of constraint-based planning tools that provide demand, replenishment, and manufacturing tools for accurate planning and scheduling of those activities. This software provides an end-to end enterprise-resource planning solution incorporating the most advanced supply chain planning capabilities available.

3) A technology partnership between Procter & Gamble Distributing Co. and Sabre Decision Technologies resulted in a software system called Transportation Network optimization, which allows shippers to give bidding, in twin streamlining the bidding and award process.

4) Logistility Planning Solutions was recently introduced to provide a program capable of managing the entire supply chain from demand to supply by synchronizing customer demand and supply constraints through the provision of Internet enabled communications about forecasts, inventory, and replenishments for all members of the chain.

Several technologies have gained popularity recently, due to their ability to facilitate the flow of information across the supply chain. Electronic commerce, Electronic Data Interchange, Bar coding and Scanning, Data Warehouse, Internet, Intranet/Extranet, World wide Web, Decision Support systems are a relatively recent phenomenon for supply chain management applications. These are discussed in the following sections.

a. Electronic Commerce

Electronic Commerce is the term used to describe the wide range of tools and techniques utilized to conduct business in a paperless environment. Electronic commerce therefore includes electronic data interchange (EDI), e-mail, electronic founds transfers, electronic publishing, image processing, electronic bulletin boards, shared databases, and magnetic/optical data capture (such as bar coding), the Internet, and Web sites. Electronic commerce is having a significant effect on how organizations conduct business. Companies are able to automate the process of moving documents electronically between suppliers and customers in such a manner that the entire process is handled electronically; no paperwork is involved.

With the rise of the Internet and the ability to transfer information cheaply and effectively over the whole world, electronic commerce is becoming a major focus for many organizations and represents a significant opportunity for integrated supply chain management efforts.

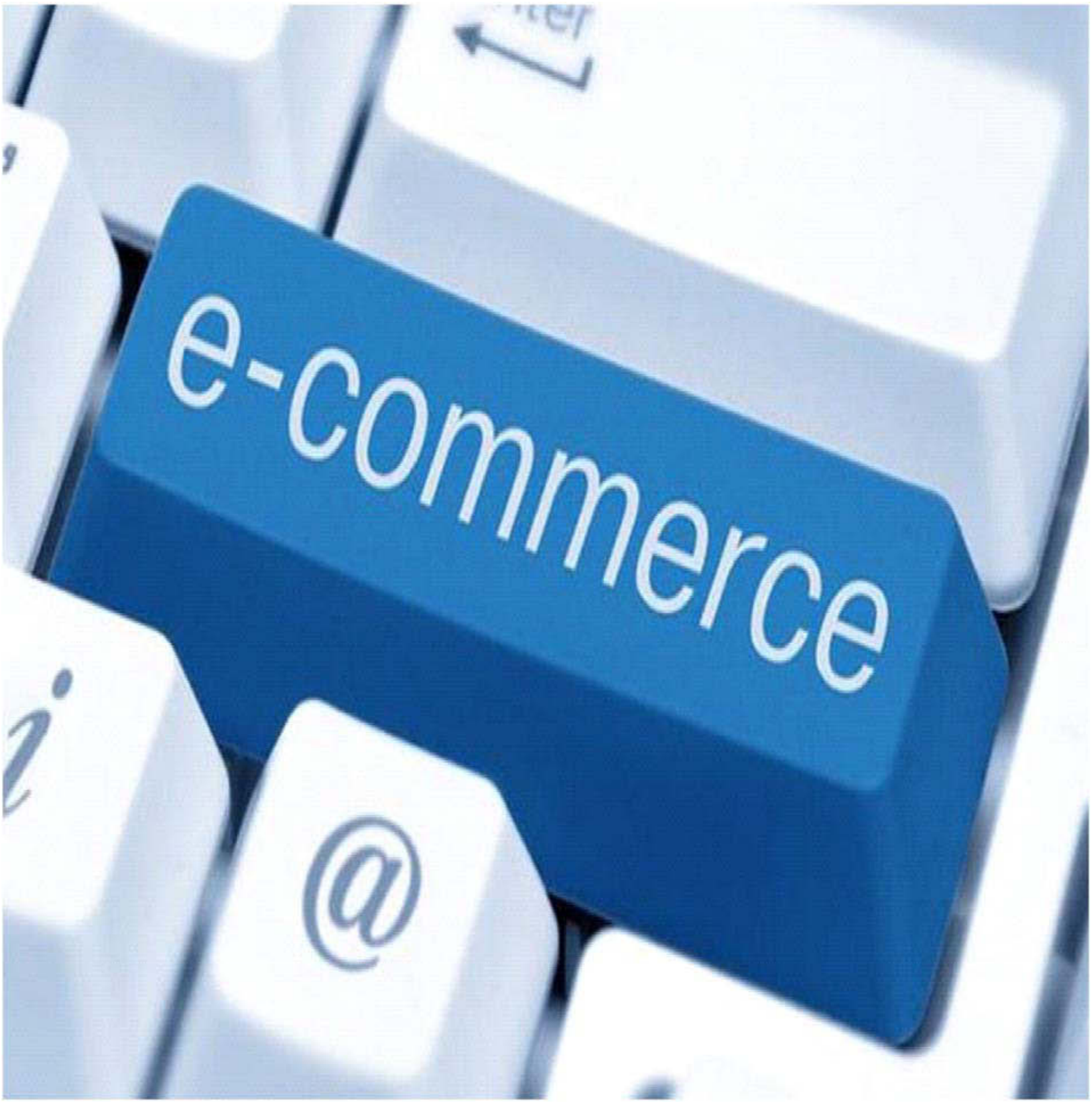

Fig. 18.2 E - Commerce

Electronic commerce helps enterprises to automate the process of transferring records, documents, data and information electronically between suppliers and customers, thus making the communication process a lot easier, cheaper and less time consuming.

b. Electronic Data Interchange

Electronic data interchange, commonly referred to "EDI", is the computer to computer interchange of business documents and/or information between trading partners in standard data format. Where, trading partners means, cooperation between companies is required to get the EDI systems running properly.

Computer-to-computer and standard data format mean information must be precisely formated so that a computer can process the information without human assistance. EDI replaces the traditional forms of mail, courier, or fax. It is being utilized to link supply chain members together in terms of order processing, production, inventory, accounting, and transportation. It allows members of the supply chain to reduce paperworks and share information on invoices, orders, payments, inquiries, and scheduling among all channel members. The benefits of EDI are numerous: quick access to information, better customer service, reduced paperwork, better communications, increased productivity, improved tracing and expediting, cost efficiency, competitive advantage, and improved billing.

EDI improves productivity through faster information transmission as well as reduced information entry redundancy. Accuracy is improved by reducing the number of times an individual is involved in data entry. The use of EDI results in reduced costs on several levels, including:

1) Reduced labour and material cost associated with printing, mailing, and handling paper-based transactions;

2) Reduced telephone and fax transmissions; and

3) Reduced clerical costs.

EDI is also tremendously beneficial in counteracting the bull whip effect described earlier in this unit. Through the use of EDI, supply chain partners can overcome the distortions and exaggerations in supply and demand information by using technology to facilitate real-time sharing of actual demand and supply information. Although about 20 percent of all retailer orders for consumer products were placed via EDI in 1990, that percentage had grown to well over 60 percent by the end of 1995. Clearly, firms are realizing that the use of EDI to facilitate information sharing throughout the supply chain is beneficial.

In general, EDI is used for communication of business information such as purchase orders, invoices, bills of lading, shipping instructions, production sequences, inventory or order status, fund remittances, and point-of-sale information (in the case of retailers). EDI cuts down time delays, labor costs, errors, inventory and uncertainty.

Business with EDI reduces the paper work, which is about 4 to 7% of the value of the goods traded. The EDI activities are the following:

1) Sales return could be analyzed and fed into the ordering process

2) Orders could be raised to reflect both demand and known stock availability

3) Instruction could be sent to distributors in parallel with the orders to ensure fast delivery;

4) Carriage by road, rail, sea, or air could be booked simultaneously.

5) Customs clearance documents could be available in advance of goods arriving, avoiding hold ups

6) Payment instructions could be issued to banks to ensure prompt payment.

c. Barcode and Scanning

At its most basic level, bar coding refers to the placement of computer readable codes on items, cartons, containers, and even railcars. This particular technology application drastically influenced the flows of product and information within the supply chain. As noted throughout this unit, information exchange is critical to the success of supply chain management. In the past, this exchange was conducted manually, with error-prone and time-consuming paper-based procedures. Bar coding and electronic scanning are identification technologies that facilitate information collection and exchange, allowing supply chain members to track and communicate movement details quickly with a greatly reduced probability of error.

The critical point-of-sale data that organizations such as Wal-Mart provide to their supply chain partners is made possible through the use of bar coding and scanning technology. This same technology is critical to transportation companies, such as FedEx, by enabling them to provide their customers with detailed tracking information in a matter of seconds.

Bar code scanners are most visible in the checkout counters of the supermarket.

They scan the black-and-white bars of the Universal Product Code (UPC). This code specifies the name of the product and its manufacturer. Bar codes are used in hundreds of situations, ranging from airline stickers on luggage to blood samples in laboratories. They are especially useful in high-volume tracking where keyboard entry is too slow and/or inaccurate. Other applications are the tracking of moving items, such as components in PC assembly operations, railroad cars at various locations, and automobile in assembly plants. The general benefits of Bar Code technology in the supply chain environment are: Speeds data entry, Enhances data accuracy, Reduces material-handling labour, Minimizes on-hand inventory, Monitors labour efficiency, Improves customer service, Reduces product recall, Verifies orders at receiving and shipping, Reduces work-in-process idle time, Monitors and controls shop floor activity, Improves shop floor scheduling, Optimizes floor space, and Improves product yield/reduces scrap.

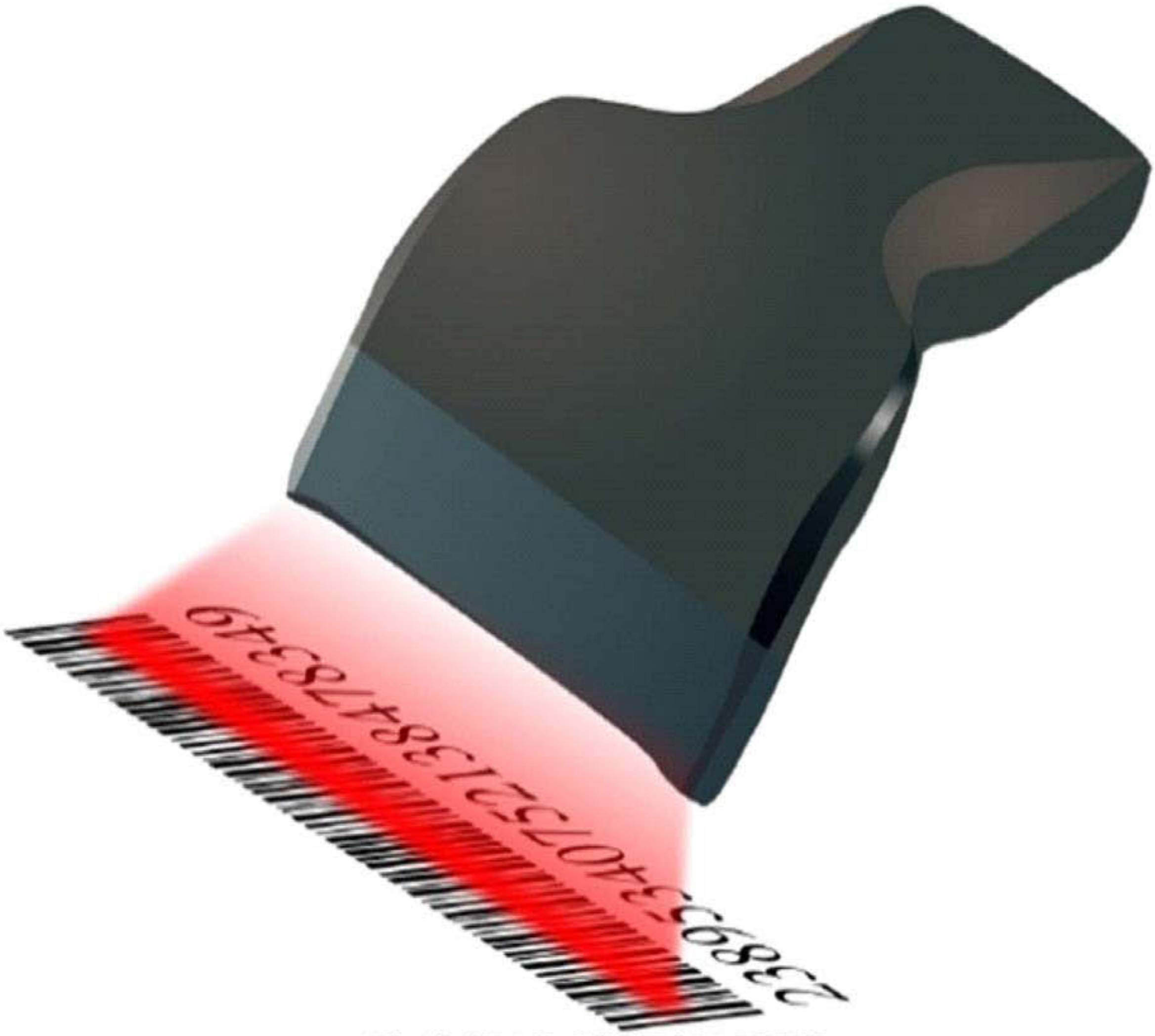

Fig 18.3 BAR CODE SCANNER

d. Data Warehouse

Generally, a data warehouse is a decision support tool for collecting information from multiple sources and making these information available to end users in a consolidated, consistent manner. The concept originated in the 1970s, when corporations realized they had many isolated information systems “islands” that could neither share information nor provide an enterprise-wide picture of corporate activities. Recently, there has been a renewed interest in this concept, as organizations adopt distributed computing architectures while they leverage their isolated legacy systems. Rather than trying to develop one unified system or linking all systems in terms of processing, a data warehouse provides a means to combine the data in one place and make it available to all of the systems. In most cases, a data warehouse is a consolidated database maintained separately from an organization’s production system databases. It is significantly differentfrom a design standpoint. Production databases are organized around business functions or processes such as payroll and order processing. Many organizations have multiple databases, often containing duplicate data. A data warehouse, in contrast, is organized around informational subjects rather than specific business processes.

The data warehouse, then, is used to store data fed to it from multiple production databases in a format that is readily accessible by end users. Data held in data warehouses are time-dependent, historical data and may also be aggregated.

For example, separate production systems may track sales and coupon mailings. Combining data from these different systems may yield insights into the effectiveness of coupon sales promotions that would not be immediately evident from the output data of either system alone. Integrated within a data warehouse, however, such information could be easily extracted.

One immediate benefit of data warehousing is the one previously described in the example about sales and marketing data. Providing a consolidated view of corporate data is better than many smaller (and differently formatted) views. Another benefit, however, is that data warehousing allows information processing to be off-loaded from individual (legacy) systems onto lower-cost servers. Once done, a significant number of end-user information requests can be handled by the end users themselves, using graphical interfaces and easy-to-use query and analysis tools. Accessing data from an updated information warehouse should be much easier than doing the same thing with older, separate systems. Furthermore, some production system reporting requirements can be moved to decision support systems – thus freeing up production processing.

e. Internet

In terms of advancement in technology and communications capabilities, perhaps the most influential development over the past decade has been the adaptation of the Internet from strictly government and research applications into the areas of commerce and mass communications. At the most basic level, a network of networks, the Internet provides instant and global access to an amazing number of organizations, individuals, and information sources. Through systems like the popular World Wide Web (the web), Internet users are able to conduct organized searches on specific topics as well as browse various web sites to discover the vast resources available to them through their computer.

The Internet offers tremendous potential for supply chain members to share information in a timely and cost-effective manner, with relative case. Many organizations are now exploring the numerous opportunities provided by the Internet. For example, the Internet provides opportunities for the development of EDI systems. It also provides an incredible source of information about potential suppliers of products and services. A few examples of the type of information available on the Internet are provided under the World Wide Web heading.

Although the potential benefits of supply chain applications on the Internet are substantial, as with any emergent technology, certain issues must be resolved. A key Internet concern is the issue of privacy, the level of security for information Privacy of information transmitted on the Internet is an issue for all users, particularly in the use of credit-card members and other sensitive information. For supply chain members already struggling with the challenge of freely sharing information, these issues only add to their concerns.

These issues may soon be resolved. Currently, web software called 'merchant' server is in advanced stages of development. Although present applications are being developed to assist with consumer transactions, such as providing secure conduits for payment information and transactions, other applications are not far behind. One approach for such security problems is the development of the supply chain's own Internet.

f. Intranet/Extranet

Intranets are networks internal to an organization that use the same technology that is the foundation of the global Internet. Many industry analysts expect such corporate networks to provide most of the revenue for computer hardware and software vendors over the next few years as an increasing number of business expand their internal networks to improve efficiency.

By using Web browsers and server software with their own internal systems, organizations can improve internal information systems and link otherwise incompatible groups of computers. Internal networks often start out as ways to link employees to company information, such as lists, product prices, or benefits.

Because internal networks use the same language and seamlessly connect to the public Internet, they can easily be extended to include customers and suppliers, forming a supply chain "Extranet" at far less cost than a proprietary network.

g. World Wide Web

The World Wide Web is the Internet system for hypertext linking of multimedia documents, allowing users to move from one Internet site to another and to inspect the information available without having to use complicated commands and protocols. The implications of the Web for business applications are obvious and far reaching.

Web-based technology and tools have been developed in virtually every industry and forms of commerce. Supply chain functions are no exception. For instance, Enterprise Transportation management was recently launched by Metasys Inc. through the Oracle Web Applications Server; this system deploys a variety of critical information about transportation and distribution applications throughout the supply chain. Further, the system can be accessed with any Javaenabled browser. Access may be controlled through a corporate network, via the Internet or an Intranet Web site.

The number of Web sites relevant to supply chain management is growing at a rapid pace. From specific sites providing information about the capabilities and fees of potential supply chain partners to educational sites developed primarily on reference tools, the number of sites and variety of information available on the Web is impressive.

h. Enterprise Resource Planning(ERP) Tools

The ERP system has now become the base of many IT infrastructures. Some of the ERP tools are Baan, SAP, PeopleSoft. ERP system has now become the processing tool of many companies. They grab the data and minimize the manual activities and tasks related to processing financial, inventory and customer order information.

ERP system holds a high level of integration that is achieved through the proper application of a single data model, improving mutual understanding of what the shared data represents and constructing a set of rules for accessing data.

With the advancement of technology, we can say that world is shrinking day by day. Similarly, customers' expectations are increasing. Also companies are being more prone to uncertain environment. In this running market, a company can only sustain if it accepts the fact that their conventional supply chain integration needs to be expanded beyond their peripheries.

Fig 18.4 ERP

The strategic and technological interventions in supply chain have a huge effect in predicting the buy and sell features of a company. A company should try to use the potential of the internet to the maximum level through clear vision, strong planning and technical insight. This is essential for better supply chain management and also for improved competitiveness.

We can see how Internet technology, World Wide Web, electronic commerce etc. has changed the way in which a company does business. These companies must acknowledge the power of technology to work together with their business partners.

We can in fact say that IT has launched a new breed of SCM application. The Internet and other networking links learn from the performance in the past and observe the historical trends in order to identify how much product should be made along with the best and cost effective methods for warehousing it or shipping it to retailer.

18.5 NOTES

18.6 SUMMARY

The sharing of information among supply chain members is a fundamental requirement for effective supply chain management. At the ultimate level of integration, decision makers at all levels within the supply chain members organizations are provided with the information they need, in the desired format, when they need it, regardless of where within the supply chain this information originates. Providing the decision-makers within the supply chain with the 'right' information, in the necessary format, and in a timely manner is a major challenge.

The information requirements determination approaches presented in this unit have been effective in ensuring that these information requirements are met. The information systems and the technologies utilized in these systems represent one of the fundamental elements that "link" the organizations of a supply chain.

The range of technologies available to support supply chain management efforts is vast and ever changing. Unfortunately, there is not a single "right" IT solution to supply chain management. Organizations need to explore various options to arrive at a solution that provides the functionality required for their specific supply chain management initiative. Towards this end, benchmarking integrated supply chain efforts to identify "best practices" is essential.

Supply Chain Management initiatives are unlikely to succeed without the appropriate information systems and the technology required to support them. These important decisions should be made by a cross-functional, inter organizational management group that can afford to manage the constraints related to the time and resources required to develop a supply chain information systems strategy. The team should implement the strategy, and ever see its ongoing performance.

18.7 KEY WORDS

1. Electronic Commerce (E-Commerce)
2. Electronic Data Interchange (EDI).
3. ERP
4. Bar Code
5. Intranet/Extranet
6. Data warehouse

18.8 SELF-ASSESSMENT QUESTIONS

1. What role has information technology in supply chain management?
2. What are the advantages and disadvantages of using Bar Code and Scanning System in the Manufacturing Organizations?
3. Give a list of potential benefits of using Electronic Data Interchange (EDI).
4. Compare and contrast EDI, Internet, and Intranet/Extranet. How are they applied in SCM?

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UNIT 19: REVERSE SUPPLY CHAIN AND AGRO SUPPLY CHAIN

Structure:

19.0 OBJECTIVES

After going through this unit, you will be able to

- ♦ Describe the need and importance of Reverse supply chain management (RSCM).
- ♦ Explain the Processes in RSCM.
- ♦ Appreciate Time as a crucial factor affecting product value.
- ♦ Assess the impact of RSCM on profitability.

19.1 INTRODUCTION

Reverse supply chain mainly refers to the more commonly used term of "Reverse Logistics". These terms are used inter changeably in this lecture notes. As we are aware, in all supply chain activities, the flow of goods is from manufacturer to the consumer. In reverse supply chain/reverse logistics we look at the flow/movement of goods from consumer to the manufacturer. Sounds surprising? This has been happening since time immemorial in the form of "Goods returned". Some of the recent activities of "exchange offers" and "green standards requirements" have added to the importance and growth of the issue of reverse supply chain.

19.2 MEANING

There has been a process of collection of unwanted, unsatisfactory goods, returned by buyers since long. This was only seen as a customer support service by the manufacturer/ supplier. This was seen as providing the customer with convenience. It was also seen as being nice and accommodating to the customer. This can be seen as the response from the marketing/ sales side. The focus was, therefore on the front end of the process. This gave the organizations an additional selling point. Others who did not follow this practice would lose out. This forced everyone in business to follow the practice of accepting returns. There can be innumerable examples on this count.

Let us recall the bottled soft drink market about 15 years ago. Has it changed over time?

At that time the packing was in glass bottles. The retailer was accountable for the number of bottles delivered. Any shortages, he had to pay for the same.

As each crate contained a fixed number of bottles, it was easy to account for the bottles, both by the supplier at the time of delivery of crates and at the time of collecting the empties.

The bottles, being made of glass, were prone to damages and breakages despite all the care, along the route to the customer. This would mean a loss to the manufacturer/distributor/ retailer/customer

a. The process of reverse logistics: The process of logistics, at that time, would be somewhat as detailed below:

The manufacturer would, based on the requirement would produce say 100,000 bottles per day. The production was also represented in number of crates. Each crate carried a fixed number of bottles as per the manufacturer's standards.

These crates would be loaded on to trucks. Each truck had a pre determined route to follow. On its onward journey, it would make delivery of the crates with filled bottles. On the return journey, the same truck would collect the crates containing the empties.

Let us try to understand this process a little more in detail. There has been a movement of goods from the manufacturer to the consumer on one hand. On the other hand, there is a return movement of goods from the consumer to the manufacturer. This movement of goods from the consumer to the manufacturer is now known as "Return supply chain management".

Reverse supply chain management started drawing greater attention because this has its own impact on return of unsatisfactory products by customer, service, spares and many such processes in the operations of the organization.

19.3. REVERSE SCM/REVERSE LOGISTICS:

"Reverse logistics can be seen as covering all those activities connected with efficient movement of goods from the consumer end/ consumption and to the manufacturers end for recovering value and or correct disposal*"*.

Thus it may be defined as "the process of planning, implementing, and controlling the efficient, cost effective flow of raw materials, for all operations related to the reuse of products and materials, in-process inventory, finished goods and related information from the point of consumption to the point of origin for the purpose of recapturing value or proper disposal. Reverse logistics provides an environmentally-friendly method of recovering and reusing parts and materials after a product's life cycle has ended". (Source unknown).

As can be seen, Reverse supply chain involves the following processes:

1. Efficient flow of returns.
2. Evaluation and Classification.
3. Refurbishing.

4. Repairs and re-manufacture.
5. Spares recovery.
6. Classification of scrap.
7. Planning.
8. Orginising and Implementing.
9. Controlling all processes connected with the above
10. Cost control.

It must be understood here that in the current SCM context, RSCM is seen as a value

Addition process to the supply chain. It is also seen to make the organization a socially responsible individual.

Let us study, in detail each of the above.

19.4 EFFICIENT FLOW OF RETURNED GOODS

Even before we look at the efficient flow of returned goods, we must look at the process of flow. This has to be from the consumer to the collecting point. This involves planning for such collection points/collection centres. These collection centres become the nodes for planning of the flow of goods.

Depending on the amount/number of goods returned/delivered the number of nodes gets defined. This is also dependent on the volume of sales, quality of product and other factors.

These goods can be moved from each of these nodal points to a central collection hub. This would generally represent the evaluation hub for the organization. This can be represented as below:

1. Customer ——→ collection centres——— centralized collection& evaluation.

2 .Centralised evaluation —— classification of goods—— concerned operating unit.

3. Classification of returns will be in to–

a. Refurbishable products.

b. Repairs and re-manufacture process involving products.

c. Products for reclaiming spares.

d. Products with only scrap value.

The goods will have to be moved into the concerned operating/process units for further action

Collection centre decision: This involves an analysis of customer convenience against costs. Customer convenience would require multiple hubs as they provide easy access to customers. But each hub will have a cost associated with it.

Cost elements could be under various categories. The other option is to have a centralized collection hub which has easy access. Here the cost could be lower.

An experimental analysis and cost comparison between multiple local hubs and single consolidated returns centers would give the necessary direction for decision. Other

factors to be considered also are incorporated into the financial analysis, including volume of returns etc.

Once the decision is taken on the collection centre(s) one has to work on the evaluation centre.

This will need a detailed planning and process for analysis and implementation of all the activities connected with dealing in "returned goods". These will be discussed later.

19.5 EVALUATION AND CLASSIFICATION

It is this particular activity which needs a high degree of attention by the manager and the management of the organization. This is the unit that maximizes value for the organization.

As the title indicates there are two component activities in this. They are

1. Evaluation
2. Classification.

19.5.a. Evaluation: This is one of the important part of the process of reverse supply chain management process. This is where the value addition to the entire supply chain begins.

Let us try to understand the process. RSCM was defined as below:

"The process of planning, implementing, and controlling the efficient, cost effective flow of raw materials, for all operations related to the reuse of products and materials, in-process inventory, finished goods and related information from the point of consumption to the point of origin for the purpose of recapturing value or proper disposal. Reverse logistics provides an environmentally-friendly method of recovering and reusing parts and materials after a product's life cycle has ended".

It covers all managerial activities connected with movement of goods from the point of consumption to the point of origin for the purpose of recapturing value or proper disposal.

The process begins at the consumption end and ends at the point of origin. It is this reversal of the origin and end that makes the process "Reverse supply chain management or reverse logistics"

We all are aware that the goods/products originate from the manufacturer and ends at the consumption point which is the buyer/end user. The reversal referred to can now be understood.

As stated earlier the process begins at the consumer. Now we are at the classification center. The returned goods, based on various quality parameters of the organisation, needs to be classified and moved to the respective processing centres.

The classification is into four major groups. This process will be discussed later.

The returned goods mainly fall into two categories.

1. Returns due to product problems
2. returns due to customer dislike of the product

Whatever the reason, the product has to be returned to either one of the multiple hubs or to the central collection and evaluation hub.

In order to evaluate the product, there must be a process for evaluation. This can be as below:

19.5.b. Assessing Value of The Product for Classification:

As this is the value addition point in the RSCM, it is important to have people with very good product knowledge to man this division. These professionals provide a proper classification of the products returned. This is the beginning of the process of evaluation.

The starting point for the process is in trying to understand the value of the components that make up the complete product. This is available in the Bill Of Material (BOM) of the manufacturer. The earlier reference to knowledgeable people can be easily be understood and appreciated now. It is necessary to have (wo)man power which knows and understands the BOM of each and every product of the organization.

19.5. b.1. What is Bill of Materials (BOM)?

1. A detailed list of materials and components that make up an assembly. The BOM is a building block of the manufacturing information system and is often used in cost accounting.

2.Bill of materials (BOM) is a list of the raw materials, sub-assemblies, intermediate assemblies, sub-components, components, parts and the quantities of each needed to manufacture an end item (final product)

As can be seen from the above, the bill of materials covers all the sub assemblies, intermediate assemblies, sub components, and parts as also the quantities of each needed for the product. The unit price of each of them and the number of units together give the cost of materials of the product. It is not just sufficient to know about the BOM. It is also necessary to know and understand the value of each of the component in the

BOM. Thus the need for a high level of knowledge in the employees at this unit can be now appreciated.

The BOM is also frequently referred to forecast and plan for spares for the organization. Based on these forecasts the spare part requirements are ordered and procured. The inventory management process is also dependent on the BOM. The forecast also includes requirement of spares for repairs of the products sold. This forecasting

Generally takes into account, the population of the product, the spare part life expectancy and such other factors.

There are, besides some other factors to be considered in the process of evaluation. Some times the combined cost of individual components of BOM could be more than the selling price of the product. It is also possible that, in countries like USA, Europe, Japan etc. the cost of repairs to a product is more than the cost of replacing with a new product/spare.

19.5.b.2: Need for fast evaluation of returns

Thus it is necessary for the manufacturer to assess fast, the expected financial gains on refurbishing/repair or replace a returned product. The valuer becomes important for the organisation.

It can be now seen that the manufacturer has to, before the introduction of the product, thoroughly understand and forecast accurately the product failure rate and the rate of repairs. Otherwise, there is bound to be serious problems with the goods return. It could even kill the organisation.

A clear and accurate failure analysis and forecast enables the manufacturer to make a realistic forecast of the spare part requirement and cost of inventory for repairs and maintenance. This is a part of the managerial function in SCM. This is, at a later stage supported by data from RSCM and customer care records available with the organization. This analysis is helpful in arriving at the forecasts.

19.5 b.3: The pre requisite for evaluation: The product is received at the evaluation centre from the customer. The centre is manned by qualified professionals with wide ranging experience and product knowledge.

They are trained to assess the residual life of the product. A support facility is to have a good computer programme developed, which can assess the "current condition" of the product. This information can help the people arrive at the estimate the life of the product received here. This will aid the valuation of the product. The programme can also provide the details of refurbishment/ repair needed along with spare part requirements.

19.5. c. Analysis of product returns

As stated earlier the product returns could be due to:

1. Returns due to product performance.

2. Returns due to customer dislike of the product

The above information in detail, aids in assessing the value of the product. The format to be used accompanying the returns will capture the information on customer feedback.

19.5. c.1. **Returns due to product performance:** This is one of the major reasons for new product returns. There could be some hitch in the product supplied and the product does not perform as per expectations.

There could, besides, be other visible defects which the trained and skilled employee at the evaluation centre may be able to locate.

All these need to be corrected and if correction is not possible in a short time the customer has to be provided with a free replacement. The returned product becomes now a refurbish able product, if there are no other repairs to be done.

In case of possible correction, the cost of the same has to be estimated, as this has to be absorbed by the organization

It is also possible that the product has a problem in that the new product needs repairs. The repairs could be major. These instances would lead to the product to get repaired or even re-manufactured. These are the possibilities in connection with a new product

There is, besides, a new dimension to the returns now a days.

As competition becomes high, manufacturers tend to give a no questions asked return, as long as the product is not used.

With new products having additional features hitting the markets almost on a daily basis, customers get tempted to return the product, if they feel attracted to the newly launched product. This could be a major component in the return of products to the evaluation centre. Even in such cases, the product needs to be evaluated.

As it happens generally, the products will, in such cases, need minor refurbishment before it is sent into the sales cycle.

19.6 PRODUCT RECALL BY MANUFACTURER

This is another factor influencing the return of new products. This is common in the case of consumer durables, pharmaceutical products, chemicals etc. This is termed a product recall.

Let us take the case of a pharmaceutical formulation. This has to meet the IP(Indian Pharmacopeia's) specifications.

Due to some error in judgement at Quality management end, some batches which do not meet the IP specs get sent to the market. Well known Pharma companies do a re- check of the sample kept at quality control department. This re check could reveal that the quality is not upto the standard. The company will have to recall the goods.

This can also happen in the case of chemicals.

The organization has the option to re process the goods and send it as a fresh batch or, if reprocess is not possible, reject the entire lot. Then the entire lot will have to be destroyed. This will be a total loss

A recent instance of call back of a product was "Tata Indica car" This had, at the time of launch, problems with suspension system and transmission. Some of the cars had a problem in terms of performance. Tata Automobiles ltd recalled such cars and repaired the car "free of charge" thereby winning a lot of market goodwill.

19.7 RETURN OF PRODUCTS FOR REPAIRS

This is one of the most common ways by which goods get returned to the manufacturer/ producer from the consumer. All technological/engineering products having a reasonable life will need repairs and servicing. Manufacturers also provide, as a part of marketing support, servicing and repair facility to their customers. Thus repair of goods is a normal practice in a large number of societies. However it is not easily available in developed countries. Even if available, it is difficult to afford. The receiving/collection centres will be the nodal points referred to before. This product is assessed by the professionals at the collection centre and the customer is provided with an estimate for repair of the product.

It is estimated that in 10% to 15% of these cases the customers feel that the cost of repair is far higher compared to the cost of a new product. So the customer may not even bother to collect the old product. The collection centre is left with such products.

In the remaining cases, the repaired product is collected by the customer. Thus it is a source of revenue and value addition to the manufacturer.

The revenue comes from two streams. They are:

1. From the spares provided
2. From the service and repair charges.

These contribute to the additional revenues and can, when managed effectively the collection centres can become independent profit centers.

19.8. EXCHANGE OF OLD FOR NEW PRODUCTS

This has been a recent phenomenon where in the old used products, preferably the manufacturers brand is exchanged for a new product. A value is assessed for the old product and is reduced from the new product cost. This product is evaluated and properly classified by the professional at evaluation centre. The product then takes the defined path in each of the processing unit to which it is assigned.

The important factor in these offers is its influence in increasing the sales. It is difficult for the buyer to find a customer for the old product. Besides, the price recoverable is low. The exchange offers simplify the job for the customer

19.9 CLASSIFICATION OF PRODUCTS

As stated before the products after evaluation at the centre get classified into the following groups

1. Refurbishable products after minor repairs
2. Repairs and resale products
3. Products for spares
4. Products to be sold as scrap

Refurbishable products after minor repairs: This category comprises of products which need minor repairs but have reached the customer by mistake. The customer has returned such product to the evaluation centre/hub.

The evaluation centre if equipped, takes up the repairs and makes it as good as new. But these goods cannot be sold as new. They are generally sold as "Factory Seconds" at a substantially low price. The taxation system permits this happening. This becomes a revenue stream for the evaluation centre and to the manufacturer.

Products to be repaired and sold: It is possible that during transport and handling, due to poor handling tools and/or practices there could be damages to the products. This could be at the customer end also and could be products not collected by customer after repairs. Whatever the reason, there will be a number of products at the repaired and sold processing centre of the manufacturer. These are, in principle second hand products. There is a market for such repaired and reconditioned products in to days market place. There are innumerable examples, like online exchanges, used car outlets including “Tru value outlets” of Maruti and others.This is another source of revenue for a well run collection centre.

Product for spares and scrap centre: It is possible that some of the products are in such a shape that the cost of repairs is higher then the resale value of the product. In such a case the value of the product is what is extractable out of it. It will only be the spares.

The spares which in many instances will have a long residual life is of value in the service and repairs process centre. The spares are extracted from the products brought in to the product for spares process centre. There are besides other sources providing spares for this unit.

Once the valuable spares are extracted from the product, the remnants have no commercial value. These get moved to the scrap processing centre.

The scrap processing centre is also known as the scrap yard. All wastages etc. get dumped here. The scrap items have their own values.

It can thus be seen that each of the processing centre to which products are allocated from the evaluation hub can become a revenue generation centre and can contribute to making the hub a profit centre.

19.10 AGRO SUPPLY CHAIN

Supply chains are principally concerned with the flow of products and information between supply chain member organizations—procurement of materials, transformation of materials into finished products, and distribution of those products to end customers. Today’s information-driven, integrated supply chains are enabling organizations to reduce inventory and costs, add product value, extend resources, accelerate time to market, and retain customers.

The real measure of supply chain success is how well activities coordinate across the supply chain to create value for consumers, while increasing the profitability of every link in the supply chain. In other words, supply chain management is the integrated process of producing value for the end user or ultimate consumer.

The supply chains of different agricultural commodities in India, however, confront with challenges stemming from the inherent problems of the agriculture sector. The agri supply chain system of the country is determined by different sartorial issues like dominance of small/ marginal farmers, fragmented supply chains, absence of scale economies, low level of processing/value addition, inadequacy of marketing infrastructure etc.

Early processing-based supply chain management success included improved relationships between warehousing and transportation within companies as a result of reduced inventory and better response time to customer requests for products and services.

Supply chain management then entered a logistics stage where other functional areas within companies joined forces to incorporate manufacturing, procurement, transportation, distribution, and marketing to effectively compete in the marketplace. This stage was aided by the use of telecommunications, electronic data interface, and other technological advances that made the transfer of information more transparent across the functional areas between companies.

Components of an Agri supply chain

Agribusiness, supply chain management (SCM) implies managing the relationships between the businesses responsible for the efficient production and supply of products from the farm level to the consumers to meet consumers' requirements reliably in terms of quantity, quality and price. In practice, this often includes the management of both horizontal and vertical alliances and the relationships and processes between firms . Agri-supply chains are economic systems which distribute benefits and apportion risks among participants. Thus, supply chains enforce internal mechanisms and develop chain wide incentives for assuring the timely performance of production and delivery commitments. They are linked and interconnected by virtue of shared information and reciprocal scheduling, product quality assurances and transaction volume commitments.

Process linkages add value to agricultural products and require individual participants to coordinate their activities as a continuous improvement process. Costs incurred in one link in the chain are determined in significant measure by actions taken or not taken at other links in the chain. Extensive pre-planning and co-ordination are required up and down the entire chain to affect key control processes such as forecasting, purchase scheduling, production and processing programming, sales promotion, and new market and product launches etc.

Following are the components of an organised agri- supply chain:

1. Procurement or sourcing

2. Logistic management

a. Transportation

b. Material management

c. On the premise of supplying mostly from production not stock

d. Warehousing

e. Logistics Network modeling

3. Organizational management

a. Contracting

b. Strategic alliances and partnerships

c. Vertical integration

i. Long term storage

ii. Packaging technology

iii. Cold chain management

iv. Energy efficient transport

v. Quality and safety

4. Application of Efficient Consumer Response (ECR) System

a. Electronic scanning of price and product at the point of sale

b. Streamline the entire distribution chain

19.11 NOTES

19.12 SUMMARY

In this topic we began with our attempt to understand “Reverse Supply Chain Management (RSCM)/Reverse logistics. We understood this as a process where in the product moves from the consumption end to the production or manufacturing end. This is the reverse of the normal supply chain. We also saw as to how it covers all the processes in efficiently achieving the smooth flow of goods from consumer to producer.

We studied in detail the process as to how the flow of goods is facilitated and as to why it is a balance between customer convenience and costs. This balance aids the decision making regarding multiple collection hubs or a centralized collection hub.

We understood the processes of evaluation of these products at the hub. We also realized that these products, after analysis and classification move on to different processing centers and get ready to be sold/used as Refurbished products, repaired products, and product for spares. The refurbished and repaired products get sold while the other category gets used as source for spares. Finally what is left out is moved to the scrap yard and is sold as scrap.

This process, when managed efficiently, can be the source for direct income as a separate profit centers as also an image building support service for the manufacturer. Either way it contributes to the value addition and profitability of the organization. The study of supply chain in agriculture is called as agricultural supply chain.

19.13 KEY WORDS

1. Reverse supply chain
2. Bill of Materials (BOM)
3. Refurbished products
4. Profit center
5. Agro supply chain/Agricultural supply chain

19.14 SELF-ASSESSMENT QUESTIONS

1. What do you understand by reverse supply chain?
2. Explain the Processes in RSCM.
3. Explain the need for fast evaluation of returns.
4. Explain the impact of RSCM on profitability.
5. Write a note on agro supply chain.

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UNIT 20: CUSTOMER RELATIONSHIP MANAGEMENT

Structure :

20.0 Objectives

20.1 Introduction

20.2 Radio Frequency Identification

20.3 Customer Value and Its dimensions

20.4 Customer relationship management

20.5 Case study

20.6 Notes

20.7 Summary

20.8 Key Words

20.9 Self-Assessment Questions

20.10 References

20.0 OBJECTIVES

After studying through this unit, you will be able to

- ♦ Explain the concept of RFID
- ♦ Discuss the concept of Customer value
- ♦ Appreciate have a knowledge of Customer relationship management

20.1 INTRODUCTION

Customer relationship management is the integration of sales, marketing, service and support strategies, process, people, product development, packaging, promotional channels and technology to optimize customer acquisition, value, relationships, retention, loyalty and satisfaction. The core objective of CRM is to form, strengthen and reinforce 'bonds' between a company and its customers. CRM focuses on the approach of identifying, establishing, maintaining, and enhancing lasting relationships with customers. Customer relationship management is the most exciting and popular buzz word in global business today.

The concept of CRM involves developing a personal as well as a professional profile about each customer of a company. Such profiles shall comprise basic and historical information about the customers, their personal references, buying behavior, decision making, attitudes and motivations, trends and habits, and demographical information. The emergence of service as well as market economy, globalised business operatives and ageing population of the economically advanced conglomerations have been identified as the growth drivers for CRM. The main reasons identified for the adoption of CRM concepts and practices are increase in customer expectations and demand and affordable technological developments. The initial adopters of CRM in the business to consumer markets were financial services, retailing, telecommunication, tourism, transport and hospitality, automobile manufacturers, and utilities. The past two decades witnessed an explosion of CRM in marketing and IT. A combination of demand and supply led factors is expected to accelerate the adoption of CRM by various range of businesses globally, in the coming years.

The reduced costs of information and communication technology will remove the barrierst o adoption of technology led CRM initiatives. The technological developments are also proving to be a win-win for businesses as well as customers. Therefore, it is not surprising that e-commerce and internet trading is experiencing remarkable growth. The off-shoots of developments in information technology, viz, data warehousing and data mining have now made it possible for companies to maintain one-to-one relationships with their key customers.

20.2 RADIO FREQUENCY IDENTIFICATION (RFID)

One of the IT tools very commonly used in business is RFID. This stands for Radio frequency identification. The term RFID is used to describe various technologies that use radio waves to automatically identify people or objects. RFID technology is similar to the bar code identification systems we see in retail stores everyday; however one big difference between RFID and bar code technology is that RFID does not rely on the line-of-sight reading that bar code scanning requires to work.

Radio-frequency identification (RFID) uses electromagnetic fields to automatically identify and track tags attached to objects. The tags contain electronically stored information. Passive tags collect energy from a nearby RFID reader's interrogating radio waves. Active tags have a local power source such as a battery and may operate at hundreds of meters from the RFID reader. Unlike a barcode, the tag need not be within the line of sight of the reader, so it may be embedded in the tracked object. RFID is one method for Automatic Identification and Data Capture (AIDC).

RFID tags are used in many industries, for example, an RFID tag attached to an automobile during production can be used to track its progress through the assembly line; RFID-tagged pharmaceuticals can be tracked through warehouses; and implanting RFID microchips in livestock and pets allows positive identification of animals.

Since RFID tags can be attached to cash, clothing, and possessions, or implanted in animals and people, the possibility of reading personally-linked information without consent has raised serious privacy concerns. These concerns resulted in standard specifications development addressing privacy and security issues. ISO/IEC 18000 and ISO/IEC 29167 use on-chip cryptography methods for intractability, tag and reader authentication, and over-the-air privacy. ISO/IEC 20248 specifies a digital signature data structure for RFID and barcodes providing data, source and read method authenticity. This work is done within ISO/IEC JTC 1/SC 31 Automatic identification and data capture techniques.

In 2014, the world RFID market is worth US$8.89 billion, up from US$7.77 billion in 2013 and US$6.96 billion in 2012. This includes tags, readers, and software/services for RFID cards, labels, fobs, and all other form factors. The market value is expected to rise to US$18.68 billion by 2026.

In 1945, Léon Theremin invented an espionage tool for the Soviet Union which retransmitted incident radio waves with audio information. Sound waves vibrated a diaphragm which slightly altered the shape of the resonator, which modulated the reflected radio frequency. Even though this device was a covert listening device, not an identification tag, it is considered to be a predecessor of RFID, because it was likewise passive, being energized and activated by waves from an outside source.

Similar technology, such as the IFF transponder, was routinely used by the allies and Germany in World War II to identify aircraft as friend or foe. Transponders are still used by most powered aircraft to this day. Another early work exploring RFID is the landmark 1948 paper by Harry Stockman. Stockman predicted that "... considerable research and development work has to be done before the remaining basic problems in reflected-power communication are solved, and before the field of useful applications is explored."

Mario Cardullo's device, patented on January 23, 1973, was the first true ancestor of modern RFID, as it was a passive radio transponder with memory. The initial device was passive, powered by the interrogating signal, and was demonstrated in 1971 to the New York Port Authority and other potential users and consisted of a transponder with 16 bit memory for use as a toll device. The basic Cardullo patent covers the use of RF, sound and light as transmission media. The original business plan presented to investors in 1969 showed uses in transportation (automotive vehicle identification, automatic toll system, electronic license plate, electronic manifest, vehicle routing, vehicle performance monitoring), banking (electronic check book, electronic credit card), security (personnel identification, automatic gates, surveillance) and medical (identification, patient history).

An early demonstration of reflected power (modulated backscatter) RFID tags, both passive and semi-passive, was performed by Steven Depp, Alfred Koelle, and Robert Frayman at the Los Alamos National Laboratory in 1973. The portable system operated at 915 MHz and used 12-bit tags. This technique is used by the majority of today's UHFID and microwave RFID tags.

The first patent to be associated with the abbreviation RFID was granted to Charles Walton in 1983.

A radio-frequency identification system uses tags, or labels attached to the objects to be identified. Two-way radio transmitter-receivers called interrogators or readers send a signal to the tag and read its response.

RFID tags can be either passive, active or battery-assisted passive. An active tag has an on-board battery and periodically transmits its ID signal. A battery-assisted passive (BAP) has a small battery on board and is activated when in the presence of an RFID reader. A passive tag is cheaper and smaller because it has no battery; instead, the tag uses the radio energy transmitted by the reader. However, to operate a passive tag, it must be illuminated with a power level roughly a thousand times stronger than for signal transmission. That makes a difference in interference and in exposure to radiation.

Tags may either be read-only, having a factory-assigned serial number that is used as a key into a database, or may be read/write, where object-specific data can be written into the tag by the system user. Field programmable tags may be write-once, read-multiple; "blank" tags may be written with an electronic product code by the user.

RFID tags contain at least two parts: an integrated circuit for storing and processing information, modulating and demodulating a radio-frequency (RF) signal, collecting DC power from the incident reader signal, and other specialized functions; and an antenna for receiving and transmitting the signal. The tag information is stored in a non-volatile memory. The RFID tag includes either fixed or programmable logic for processing the transmission and sensor data, respectively.

An RFID reader transmits an encoded radio signal to interrogate the tag. The RFID tag receives the message and then responds with its identification and other information. This may be only a unique tag serial number, or may be product-related information such as a stock number, lot or batch number, production date, or other specific information. Since tags have individual serial numbers, the RFID system design can discriminate among several tags that might be within the range of the RFID reader and read them simultaneously.

Uses of RFID

The RFID tag can be affixed to an object and used to track and manage inventory, assets, people, etc. For example, it can be affixed to cars, computer equipment, books, mobile phones, etc.

RFID offers advantages over manual systems or use of bar codes. The tag can be read if passed near a reader, even if it is covered by the object or not visible. The tag can be read inside a case, carton, box or other container, and unlike barcodes, RFID tags can be read hundreds at a time. Bar codes can only be read one at a time using current devices.

In 2011, the cost of passive tags started at US$0.09 each; special tags, meant to be mounted on metal or withstand gamma sterilization, can go up to US$5. Active tags for tracking containers, medical assets, or monitoring environmental conditions in data centers start at US$50 and can go up over US$100 each. Battery-Assisted Passive (BAP) tags are in the US$3–10 range and also have sensor capability like temperature and humidity.[citation needed]

RFID can be used in a variety of applications, such as:

- Electronic Lock with RFID Card System, ANSI
- Electronic key for RFID based lock system

- Access management
- Tracking of goods
- Tracking of persons and animals
- Toll collection and contactless payment
- Machine readable travel documents
- Smartdust (for massively distributed sensor networks)
- Tracking sports memorabilia to verify authenticity
- Airport baggage tracking logistics
- Timing sporting events

In 2010 three factors drove a significant increase in RFID usage: decreased cost of equipment and tags, increased performance to a reliability of 99.9% and a stable international standard around UHF passive RFID. The adoption of these standards were driven by EPCglobal, a joint venture between GS1 and GS1 US, which were responsible for driving global adoption of the barcode in the 1970s and 1980s. The EPCglobal Network was developed by the Auto-ID Center.

20.3 CUSTOMER VALUE AND ITS DIMENSIONS

Delivering value to customers is important to managers, leaders, and entrepreneurs alike. To be willing to pay, a customer must derive value from a market offer.

There are various interpretations of what is meant by customer value. The term may mean low price, receiving what is desired, receiving quality for what is paid, or receiving something in return for what is given (Zeithaml, 1988). Woodruff's (1997) definition of customer value is widely cited and encompasses most interpretations of customer value. Woodruff defines customer value as: "a customer perceived preference for and evaluation of those products attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations".

The definition above suggests that there are two aspects to customer value: desired value and perceived value. Desired value refers to what customers desire in a product or service. Perceived value is the benefit that a customer believes he or she received from a product after it was purchased.

Customer value can be examined at different levels. At a low level, customer value can be viewed as the attributes of a product that a customer perceives to receive value from. At a higher level, customer value can be viewed as the emotional payoff and achievement of a goal or desire. When customers derive value from a product, they derive value from the attributes of the product as well as from the attribute performance and the consequence of achieving desired goals from the use of the product (Woodruff, 1997).

An entrepreneurial firm must deliver value along the dimensions that matter most to its customers. For example, from a customer's perspective, the value of a cup of coffee enjoyed with a friend at a coffee shop might be greater than the value of a take-out cup of coffee. While the monetary cost of the cup of coffee in both cases might be the same, the value the customer extracts is different.

To develop compelling customer value propositions, a supplier needs to keep in mind the following:

1. There are two stages at which customers assess value: before and after they purchase a product or service.
2. Value is perceived at various levels; therefore, value needs be delivered at various levels.
3. Understanding what customers value is the first step in delivering customer value.

For a complete view on the customer value creation strategies that managers, entrepreneurs, and leaders can implement to help distinguish themselves from competitors, Smith and Colgate (2007) provide a comprehensive framework. However, the challenge for suppliers is not just recognizing what value to create or what the benefits are, but to operationalize customer-facing processes to deliver value to customers. Table 1 synthesizes views from the extant literature pool on customer value creation and delivery; it shows how entrepreneurs can use their understanding of customer value to their advantage.

Understanding of customer value concept	Actions that entrepreneurs can take	The entrepreneur's advantage
Points of value that matter to customers (Anderson et al.,2006)	Develop market offer based on points of value that matter to customers	Create customer value proposition with a resonating focus (Anderson et al., 2006)
Dimensions along which value is perceived (Woodruff, 1997)	Identify opportunities for new value creation propositions (Smith and Colgate, 2007)	Compete based on points of value other than just cost
Customer's desired needs change over time (Flint et al.,2002)	Observe customer environment to better understand changes in customer requirements	Deliver value proactively by anticipating changes in customer's desired needs (Flint et al., 2002)
Customer feedback (Woodruff,1997)	Combine existing organizational capabilities (market orientation, knowledge management, customer relationship management) (Landroguez et al., 2011)	Improve value proposition of existing products and services

As an example application of the concepts in Table 1, consider an entrepreneur that has developed a new user interface for a point-of-sales system that can be used in a coffee shop. Although the entrepreneur might think that the software solution provides value to the customer (i.e., the coffee shop owner) in terms of cost or ease of use, the customer might consider the greatest point of value to be 24/7 technical support because the coffee shop is open overnight during examination periods on a university campus. In this particular case, processes relating to the first and second row of Table 1 could be implemented by an entrepreneur and they could showcase the technical support plan as a point of value that would resonate with the customer; instead of focusing on advantages that other competitors could also potentially deliver. Similarly, the third and fourth row of Table 1 could be used by entrepreneurs as a guideline to process customer value knowledge and anticipate changes in customer needs and improve existing value propositions.

Dimensions of Customer Value

Most companies assume *customer value* is directly measured by the amount of revenue generated by a customer. While a company's accounting department should think in terms of revenue, profit, and loss, the intrinsic worth of a customer is multidimensional, and should be viewed as such. Depending on your business model, your financial state, and the maturity of your company, choosing the right dimension on which to measure customer value can mean the difference between success and failure.

So what are the dimensions? We define customer value in four parts: revenue, loyalty, sentiment, and engagement. Read below to understand how each dimension affects your company's sales strategy.

Revenue

The more money a customer spends, the higher the revenue for your company. Though not tied to profit, there should a correlation between the two. This is the most direct measure of value, as it ties every customer to clear, measurable financial metrics that have already been observed.

Loyalty

Loyalty is a measure of likelihood of future revenue. Would you choose a customer that spends $1,000 today and never again, or one that spends $100 today and likely will return every month for the coming years? Generally speaking, loyal customers are preferred as they tend to spend more in the long run. They are the ones who return to your brand, spending money regularly and providing much-needed cash infusions into your business. In this case, long-term benefits win at the cost of short-term revenue.

Sentiment

Another estimate of future revenue is sentiment: happy customers tend to be loyal, and likely will spend money in the future. Happy customers tell their friends, colleagues, and acquaintances about your company, which also drives increases in expected future revenue. Note that such customers need not be loyal or drive revenue: a customer who tells their friends about you might drive several referrals, regardless of whether they purchased your products or services.

Engagement

Engagement is your final customer lifeline — an indicator of whether a potential customer even thinks about you when considering their options. Take the worst case scenario:

you have a potential customer (no revenue, no loyalty) who is unhappy. The saving grace for your company is if this individual is, at the very least, engaged with your company or brand. If they reach out to you for technical support, Tweet about you, or call your sales team for help, you have an engaged lead that can be converted into a sale. In this way, engagement is a last hope for companies struggling to find revenue generating opportunities.

All Four, Together

Together, these four dimensions provide a framework you can use to categorize every lead and every customer. In the worst case scenario, you have an individual that is not loyal, not engaged, has not spent money, and is unhappy. The best — and opposite — scenario is a happy, loyal customer, engaged with your brand and spending money regularly.

The power of this framework is two-fold: it allows you to rank customers based on different dimensions, and also provides different solutions for increasing the value of your customers depending on the dimensions they underperform. For example, an unhappy-yet-loyal customer should be a priority for any sales team: this is someone who has consistently supported the company, but whose experience is now lacking. Such customers likely need personalized support but have shown an affinity for the products in the past, so discounting or upselling them is likely a bad idea. Alternatively, an engaged-yet-unvaluable customer is a further opportunity for investing in a longer-term relationship. This is someone who has not made many (if any) purchases, and thus should be enticed with discounts or product bundles.

Using this four-dimensional framework helps prioritize customers and clarifies opportunities; simply treating customer value as a metric based on profit or revenue is short-sighted and incomplete.

20.4 CUSTOMER RELATIONSHIP MANAGEMENT

The client is generally the main source of income for enterprises. However, as business is changing, in particularly as a result of the integration of new technologies in client-enterprise relations, competition is becoming increasingly stiffer, and clients may therefore chose their suppliers or change them with a simple click. Client's criteria of choice are, in particular, financial criteria, responsiveness of the enterprise, but also purely affective criteria (need for recognition, need to be heard, etc.) In an increasingly competitive world, enterprises who wish to increase their profits therefore have several alternatives:

- Increase the margin for each client,
- Increase the number of clients,
- Increase the life cycle of the client, i.e. increase client loyalty.

New technologies allow enterprises to better know their clientele and to gain their loyalty by using pertinent information in such a manner as to better gage their needs and therefore better respond to them. It has been found that turning a client into a loyal client costs five times less than recruiting new clients. For that reason, a large number of enterprises design their strategy around services proposed to their clients.

Customer relationship management is a process of targeting, acquiring, servicing, retaining and building long-term relationships with customers.

CRM (Customer Relationship Management) intends to provide technological solutions which make it possible to strengthen the communication between the company and its clients in order to improve the relationship with the clientele through atomization of the different components of the client relationship:

♦ **Pre-sales:** Refers to marketing, consisting in studying the market, i.e. the needs of clients and identifying prospects. Analyzing the client information collected allow the enterprise to revise its product selection to more closely match expectations. Enterprise Marketing Automation (EMA) consists in automating marketing campaigns.

♦ **Sales**: Sales forces automation (SFA), consists in providing piloting tools to businesses to assist them in their prospecting measures (contact management, sales meeting management, relaunch management, but also assistance with the preparation of business proposals, etc).

♦ **Client service management**: clients loved to feel known to and acknowledged by the enterprise and cannot stand having to recount, upon every contact, the history of its relationship with the enterprise.

♦ **After-sales**, consisting in providing assistance to the client, in particular through the implementation of call centers (also Help Desk or Hot-Line) and the online provision of technical support information.

The purpose of CRM is improved proximity to clients to respond to their needs and turn them into loyal customers. A CRM project therefore includes providing each sector of the company with access to the information system to get to know the client better and provide him with products and services which meet his expectations in the best possible way.

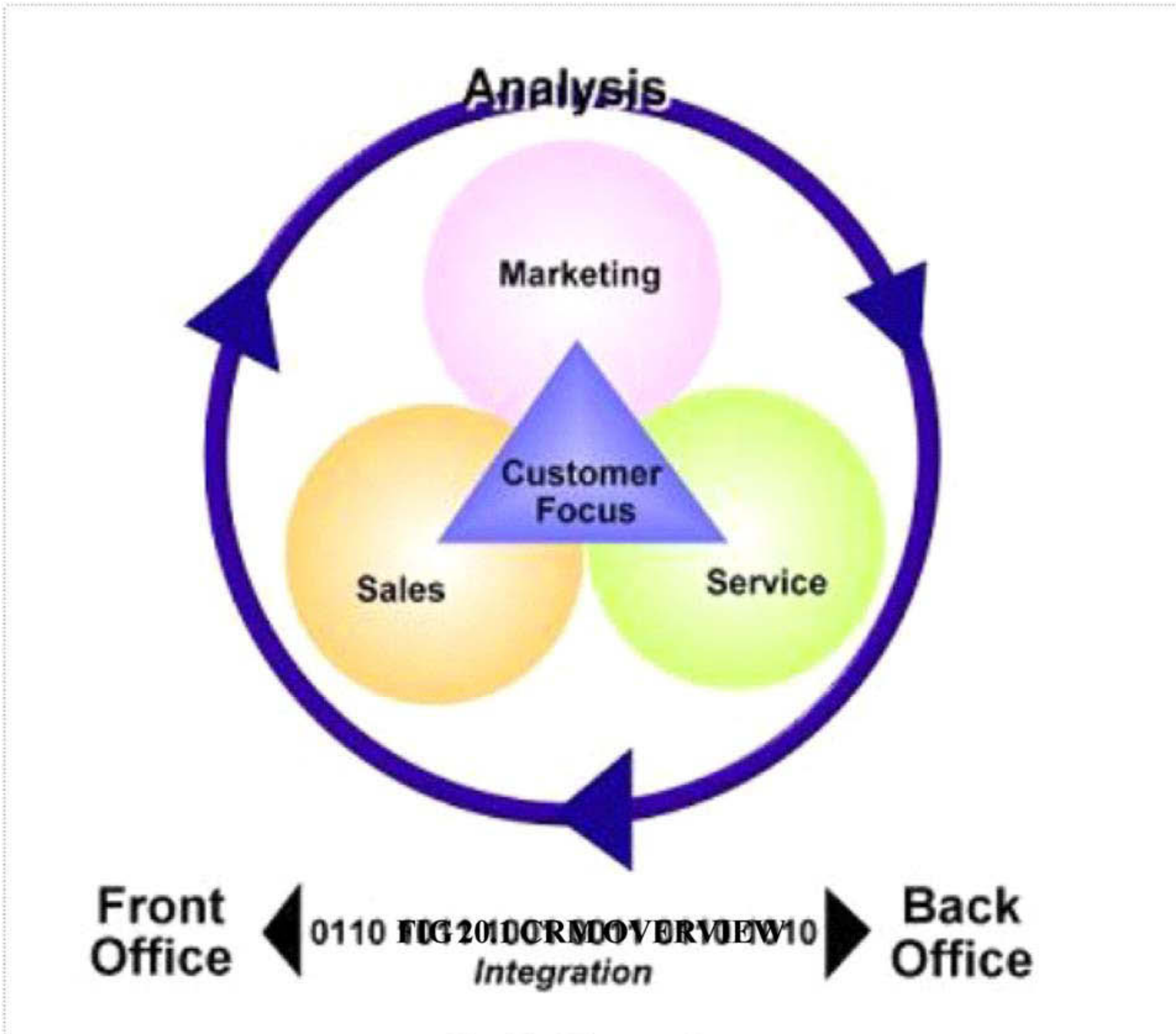

Fig 20.1 Integration

Integration of CRM in the Company

Implementation of CRM solutions in an enterprise not only consists in ad-hoc installation of software, but rather in modifying the organization of the enterprise as a whole, which involves the necessary implementation of a behavioural change project. As a matter of fact, implementation of a CRM strategy requires structural, competitive, and behavioural changes.

20.5 CASE STUDY

"Li and Fung of Hong Kong has been very successful in a complex and competitive business environment by way adopting dispersed manufacturing, dissected value chain and effective management of chain relationship" - do you agree with the statement. How do you implement a similar system for an international book publisher based in Delhi? What are the technological advances that can be useful for this business situation?

20.6 NOTES

20.7 SUMMARY

The term RFID is used to describe various technologies that use radio waves to automatically identify people or objects.

Customer value can be viewed as the attributes of a product that a customer perceives to receive value from. At a higher level, customer value can be viewed as the emotional payoff and achievement of a goal or desire.

Customer relationship management is a process of targeting, acquiring, servicing, retaining and building long-term relationships with customers.

20.8 KEY WORDS

1. RFID
2. Customer Value
3. Customer relationship management
4. Pre-sales
5. Client service management

20.9 SELF-ASSESSMENT QUESTIONS

1. What is RFID? Explain the uses of RFID.
2. What is customer value and how do you deliver it?
3. What is Customer relationship management?
4. Explain the components of the client relationship.
5. Write a note on Integration of CRM.

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