Developments in Retailing at Global Level : An update for Indian Retailers

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Abstract

The paper is an analysis of development of trends in the retail industry and is based on various secondary reports, studies and information. The paper explains why development of modern retail depends upon economic development of the country, nature of demographic profile such as participation of women in the work force, working hours, level of per capita income etc. Large retailers are able to use technology for merchandising, managing supply chains and sourcing directly from producers. Modern large scale retailers are using various measures through adoptation of technology to reduce costs and benefits of cost reduction are passed on the customer. Due to other efficient management skills, some of the retail sectors are able to survive and grow even during recession.

Introduction

The socio- demographic characteristic of a country is reflected by the structure of the retail sector. The size and density of retail outlets depends on demand related phenomena such as population density, level of urbanization, participation rate of women in the labor force, access to cars, taste, personal consumption expenditure etc. The structure of retailing also depends upon the level of development of the country and speed with which new technology is adopted the use of credit cards. In the early stages of development, the retail enterprises were a single shop or sole proprietorships. As the economy diversifies and per capita income increases, these traditional small shops are gradually replaced by larger enterprises. This, in turn results in consolidation. Currently more than 50 Fortune 500 companies and around 25 Asian top companies are retailers.

Need of the study

Indian Government has decided to allow FDI in retail sector organised retailing in India which is still almost in a nascent stage. Hence, this study becomes quite relevant as it would enable Indian retailers to understand what is happening in retail sector globally so that they can upgrade functionalities.

Objectives of the study

The present study has been carried out with a view to attain the following objectives-

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i) To apprise Indian retailers about the global development in retailing.
ii) To analyse the influence of organized retailing in creation of employment and contribution to GDP globally.
iii) To assess changes in distribution/supply channels brought about by the organized retailers around the world.

Research Methodology

Researchers have used secondary data for the current study such as conference papers, websites and reports prepared by consultancy firms.

Trends in Retailing at Global Level

a) Change in Supply Chain - With increased sophistications of products, many small shops have re-emerged as a part of a larger chain of shops through franchising agreements with some big retailers which are often oriented towards a more specialized segment of the market. With economic development, there has been greater vertical integration of distribution chains. Large retail chains are increasingly by-passing the wholesalers and dealing directly with the manufacturers. This has reduced the role of traditional wholesalers. This is particularly true in the case of food retailing. Improvements in information technology have contributed towards this trend by allowing retailers to fine tune their inventory needs and reducing the warehousing role of traditional wholesalers. Furthermore, large retail groups are presently integrating the wholesale and retail functions.

b) Development and Growth of Private Labels- Many large retailers have developed in house product lines, brands and established their own regional distribution centers in order to improve the flow of goods. On the other hand, some wholesalers have moved away from traditional activities and diversified their operations by offering additional services and moving into specialized retailing markets.

c) Application of Technology in retail sector- Development in information technology has increased the operational efficiency of this sector. Technological development has allowed more efficient links between manufacturers, retailers and wholesalers particularly in inventory management. Technological innovations have increased labor efficiency and enabled enterprises to know more about consumer demand patterns. Large enterprises are pioneers in adopting new technology; they are able to benefit from these technology more compared to smaller enterprises. Reductions in prices are driven by cost reduction through adoptation of technology and this benefit is passed on to the consumer. However, such technology require huge investment and are often beyond the ability of small retailers. Studies have shown that smaller stores have been relatively slow in adopting new technology as they find it difficult to finance large initial investments. With the adaption of new technology, larger stores are able to implement some facilities to the consumer such as timeliness and catering to individual tastes and needs. All these improve shopping experiences of the consumer.

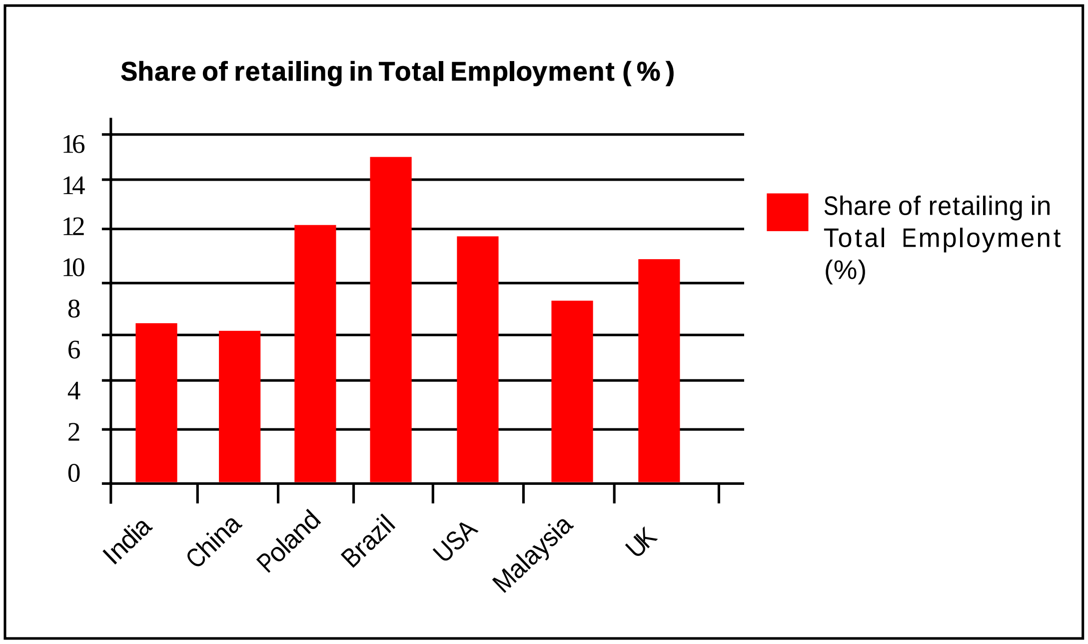
d) Growth of a multitude of new formats - Another trend which is being observed in global retailing during the past decade and a half has been the development of a multitude of new formats. These include mass merchandisers, hypermarkets, warehouse clubs, category killers, convenience stores, etc. These different formats provide a wide range of choices to consumers in a competitive environment. Large retailers are now playing an important role in designing and branding new products. Further, technological development has led to the growth of different non-store formats such as direct selling and mail ordering. The advent of electronic commerce has brought about significant changes in the distribution sector and broadened the scope of operation of large retailers.

e) Consolidation of small retailers-With the growth of organized retailing at the global level, the average size of shops is increasing both in terms of turnover and employment and the density of retail outlets is declining. Moreover, many retailers have entered into joint ventures, strategic alliances and cooperation agreements. For instance, Wal–Mart purchased ASDA, a British supermarket chain in June, 1999. Concentration is also visible in the wholesaling sector. In US, for example, there has been an increase in the overall number of wholesaling firms, 50% of the wholesaling revenue is earned by only 1% of the wholesaling companies. This process of consolidation has raised several competition policy related concerns. Some have argued that consolidation would improve internal efficiency and reduce costs while on the other side it could lead to anti-competitive behavior.

Statistical Information

As per **Deloitte (2004),** retailing has emerged as one of the biggest private industries in the world with total sales exceeding US$8 trillion in 2002. It is estimated that this sector accounts for more than 10% of GDP in the western economies. Among developing economies, the sector accounts for around 10% of GDP of India and 8% of GDP of China **(Bajpai and Dasgupta, 2004).** This sector is labor intensive and contributes significantly to employment. Contribution of retailing to employment of selected countries is presented in Figure No.-1.1. According to report by U.S. Department of Labor, in the US, retail represents around 11.7% of all employment and of about 12.9% of all establishments**.** Retailing is the UK's top service industry, employing around 2.8 million people (around 11% of UK's total workforce) as of March 2004.

Figure No-1.1



Source: Share of Retailing In Total Employment in Selected Countries
for US, from US department of Labor, bureau of Labor statistics; for UK from http://www.dti.gov.uk; for India, china, Poland and Brazil from Modernizing retail in India, KSA – CII study, 2003; for Malaysia from presentation by Malaysia Retailers Association, 19 May 2003.

In developed countries, more than three-fourths of the total retail trade is being handled by the organized sector **(Bajpai and Dasgupta, 2004).** The share of organized sector is also increasing in many developing countries (Fig No.-1.2) but it is still very low in the case of India (only 6%). It is with the increase in share of organized retailing, best management practices are being implemented, supply chains are getting integrated, labor productivity is increasing and profits are rising. According to **McKinsey (2000),** between 1994-99, retailing has generated average shareholder returns of 18% which is more than that of banks (9%), insurance (15.2%) and consumer goods (11.2%).

Retail Penetration Across Countries (2010-11)

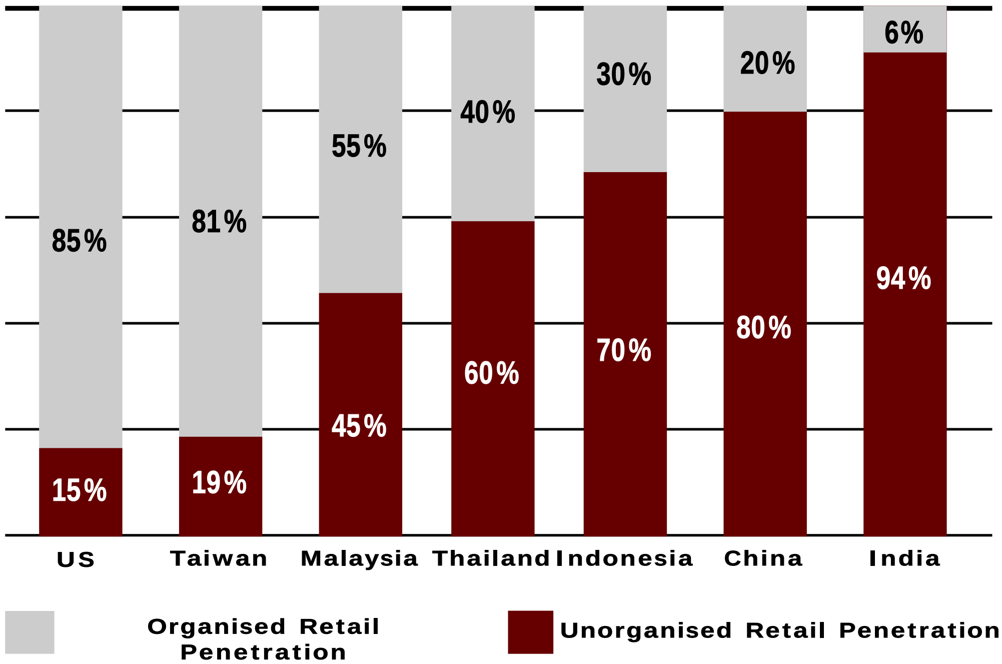


Figure No-1.2 Organized Retailing as a Percentage of Total Retailing in Selected Countries
Source: E&Y report (accessed from www.ibef.org on 01.05.2012)

As per the analysis carried out by the **Deloitte (2011),** the primary retail product sector includes fast moving consumer goods, fashion goods, hard lines & leisure goods and diversified retail goods out of which the food and other FMCG gained ground among the top 250 global powers. Food retailers relative resilience in recessionary times allowed the FMCG sector to increase both its share of companies and its share of sales. This fact is evident from the Fig No-1.3.

Share of Top 250 retailers by product sector, 2009

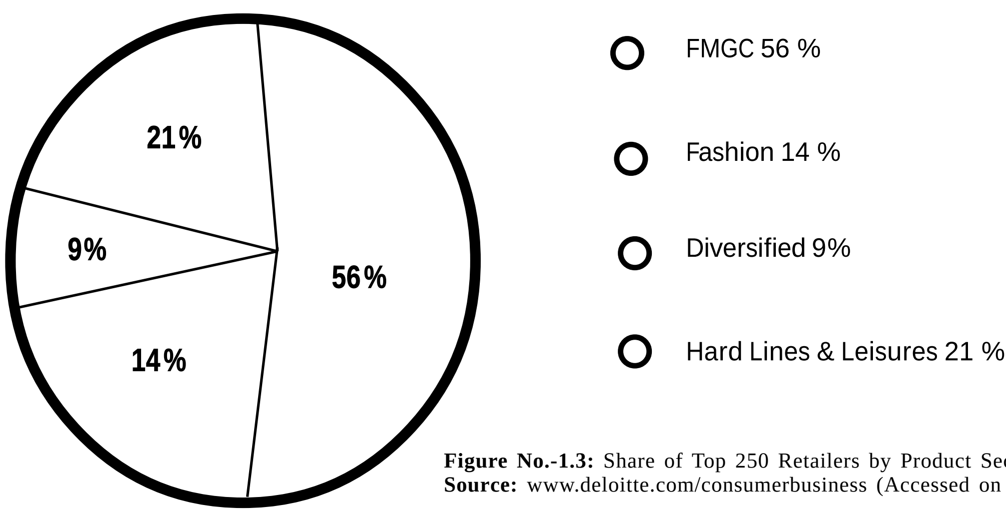


Figure No.-1.3: Share of Top 250 Retailers by Product Sector, 2009.
Source: www.deloitte.com/consumerbusiness (Accessed on 01.05.2012)

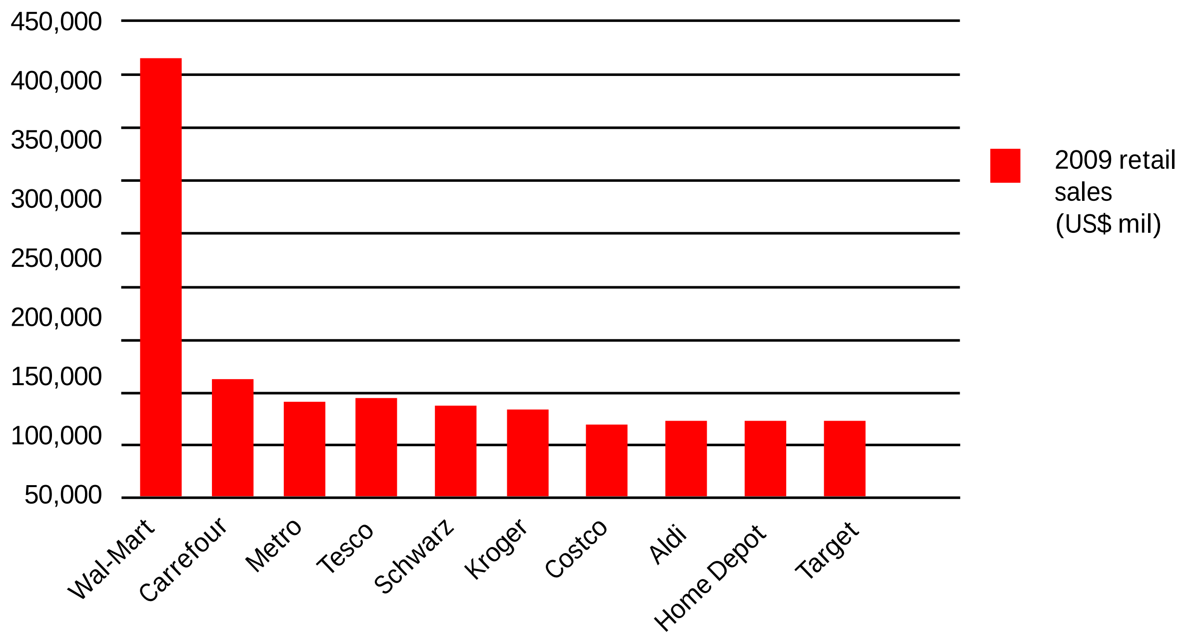
FMCG retailers are, by far, the largest company as well as the most numerous with average sales of $18.4 bn in 2009. Despite sluggish composite retail sales growth in 2009 this sector outperformed the other sector. Frugal consumers put the squeeze on fashion retailers. Sales were essentially flat but the bottom lines were improved. The collapse of housing market in the USA and Europe took its toll on hardlines and leisure goods sector. But here also the majority of the retailers in this sector enjoyed healthier profits. The Diversified group was the only sector to experience declining sales in 2009. However, even in this sector the overall profitability has improved.

In 2009, most of the retailers worldwide suffered the decline in sales (See Table No. 2.1). But it is interesting to note that profitability shows a marked improvement in the same year as retailers tighten their belts in anticipation of slowing sales. To push the earnings up, many companies cut cost substantially and adjusted their inventory level in response to the reluctant customer (example Shoppers Stop Ltd. in India).

Table No.2.1: Economic Concentration of Top 10 Retailers, 2009.

Rank	Name of company	Country of origin	2009 retail sales (US$ mil)	2009 retail sales growth (in %)
1	Wal-Mart	U.S.	405,046	0.9
2	Carrefour	France	119,887	-1.2
3	Metro	Germany	90,850	-3.2
4	Tesco	U.K.	90,435	4.8
5	Schwarz	Germany	77,221	1.4
6	Kroger	U.S.	76,733	1.0
7	Costco	U.S.	69,889	-1.5
8	Aldi	Germany	67,709	3.8
9	Home Depot	U.S.	66,176	-7.2
10	**Target**	**U.S.**	**63,435**	**0.9**

Source: Published Company Data and Planet Retail.



Graph No.2.2: Economic Concentration of Top 10 Retailers, 2009.

Reasons for Globalization of Retailing

Various reasons can be attributed to the globalization of retailing like -

1. Saturation in domestic market
2. Convergence of taste
3. High competition in domestic market leading to lower profits
4. Need to set up global sourcing networks and supply chain
5. Removal of FDI and other trade barriers in developing countries-
6. Rapid urbanization
7. Improvement in infrastructure
8. Increase in per capita income and purchasing power
9. Entry of women into workforce etc.

Conclusion

On the basis of the present study, it is concluded that retailing has emerged as the biggest private industry and one of the biggest employers. The phenomenal growth of this sector has led to the change in shape and size of small shops which is evident by the fact that new formats are coming up and consolidation of small players are taking place. The distribution chain has got vertically integrated and as a consequence of which the role of traditional wholesalers has reduced. Further, the retailers are coming up with their own private labels thus curbing the powers that the marketing companies used to enjoy which is an indication that there is a change in power equation between retailers and marketers. Besides all these, technological development has improved the effectiveness and the efficiency of the retailers which has enabled them to provide maximum value-for-money (VFM) to the customer. Thus, Indian retailers need to be aware about these developments so that they are able to compete, sustain and flourish in the business.

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