Case Studies on

Retailing Industry – Vol. I

Edited by

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Though global retail industry began humbly, it went onto become a business worth billions. Trade was more of a barter system once, where the surplus produce was swapped for another. Cretans were the earlier traders, who carried on the trade in the Mediterranean region. Then came the Phoenicians, who not only traded but also distributed the goods across various regions. Romans followed and they developed a sophisticated form of retailing. Many small shops came up and it is said that the Romans built the first department store. It is these people who developed the retailing methods we know today. But with the fall of Roman Empire, retailing disintegrated. The only retailers left were the peddlers, who traveled across various places selling their wares. Inefficiency of the earlier distribution system led to a new concept of selling – department stores, which rose in the mid-19th century. Then a century later, various retail formats arrived – chain stores, convenience stores, supermarkets and mail order business. With this, the retail industry began to expand.

Nothing has remained the same since 1990s; the only exception is that Wal-Mart was the leader then and now also (Exhibit I). Drastic changes have been witnessed in the retail landscape since then. Changes can be seen in the global economy, consumer preferences and the retail operating system.

Exhibit I
Global top 10 retail leaders

Company	Country of Origin	Rank 2005	Rank 2004	Rank 2003	Rank 2002	Rank 2001	Rank 2000	Rank 1996
Wal-Mart	US	1	1	1	1	1	1	1
Carrefour	Fr	2	2	2	2	2	2	8
Home Depot	US	3	3	3	3	4	4	24
Metro	Ger	4	4	4	5	6	5	4
Tesco	UK	5	5	6	8	13	13	18
Kroger	US	6	6	5	4	5	3	13
Target	US	7	8	7	6	7	10	12
Costco	US	8	7	9	9	12	14	23
Sears Holdings*	US	9	33	29	17	9	7	7
Schwarz	Ger	10	11	16	24	27	29	33

*Ranking prior to 2005 represent predecessor company. KMart.

Source: "2007 Global Powers of Retailing", http://dtti.com/dtt/cda/doc/content/Global%20Powers%20of%20Retailing_07(3).pdf

Alternative formats rolled in that helped capture significant market share. Though traditional retail formats like mom-and-pop stores and department stores are around even today, the more popular ones are mass merchandisers (Wal-Mart, Target), discount clubs (Costco, Sam's club), category killers and, specialty and online retailers (Amazon.com). Today's successful retailers are continuously reinventing their stores to stand apart from their competitors, especially Wal-Mart. More number of retailers are now turning towards multi-channel retailing.

Another key trend is that retailers, particularly grocery retailers, have diversified from their core business into new areas such as consumer electronics, mobiles and fashion. For their saturated home markets, the players acknowledge that the only way to grow here is through innovation – new offerings, new store concepts and new locations. Focus of retailers has now shifted, emphasising more on information technology and particularly supply chain functions. Especially technology has been the real enabler for the retailers. It facilitated product scanning, led to sophisticated marketing techniques and online retailing. To increase their market share, players are also increasingly leveraging their presence across channels – catalogue, web and kiosks. With new formats and offerings, the players have expanded their reach, along with community involvement and innovative promotions. By serving the customer needs, retailers are trying to become sophisticated marketers.

Though markets have saturated in certain regions, it is through the global economy – and its reasonable performance – that retailers had good sales and profitability. Sustaining their growth is, however, becoming difficult – in the context of exacting and sophisticated customers, fierce competition and other factors. In spite of these challenges in the retail environment, few retailers like Wal-Mart are outperforming the market. Wal-Mart is the dominant retailer and is bigger than the second, third, fourth and fifth largest retailers combined. Their growth strategies are special in the sense that they involve the ways to respond to both current and future issues.

Globalisation is one of the growth strategies adopted by the players. Saturated home markets, increasing competition and restrictive legislation in their domestic market have insistently pushed retailers into the globalisation mode. It became a key theme, with retailers from developed countries moving to emerging markets. For retail players, robust economic growth and relaxation of regulations are fuelling the expansion into the emerging consumer markets. Everyone is talking about emerging markets and more particularly, about India and China. India continues to remain as the most attractive investment destination for the retailers followed by Russia and China. Recently, even Singapore, Hong Kong, Taiwan and South Korea are stirring the retailing circuit.

Players can no longer ignore the benefits of increased sales and economies of scale, through globalisation. It is also seen as a way to overcome the political, social and economic risks. Even Wal-Mart, which until 1991 based its entire operations in its home market, has now got its stores in various countries. One interesting point is that Wal-Mart has less international presence than its rivals.

But with globalisation, comes various risks that include currency fluctuation, government regulation, poor infrastructure, political instability and uneven economic growth. Retailers have to face other risks also that they cannot tackle immediately. The nature of global commerce requires retailers to seriously consider issues that did not exist earlier. The role of a company as a global citizen – minimising company's impact on environment and maximising benefits to the community where it operates – is becoming a serious topic on the corporate management agenda.

To thrive in this crowded and competitive retail industry, thinking needs to change – a shift from striving to be the best retailer to coming out with innovative and far greater growth opportunities. Retailers have to remember that creating a distinct brand identity, ability to quickly adapt to the changing needs, flexible and efficient supply chains, vertical integration, focusing on customer service and introducing new concepts at regular times make up for a recipe of retail success. This helps players take advantage of global expansion opportunities. The other way is to offer differentiated and branded customer experience. Retailers need to prepare for a future, formed by slower growth, more discerning consumers and timely exit strategies. Bottom line is that retailers need to differentiate themselves on things other than price and offer strong value propositions.

This book mainly discusses the strategies (positioning, growth and restructuring) and challenges to retailers like Aldi, Target, Best Buy, Daiei and Aeon. Retail formats are also in there. Wal-Mart makes up most of the cases. One case presents its policy of offering low prices, because of which it was denounced and for which it chalked out strategies. While another covers Wal-Mart's strategy in Germany. One more case discusses opportunities and challenges to Wal-Mart in entering India. Its attempt at an image makeover decks up another case. A comparison of its image with Starbucks paints another case.